NEW YORK MORTGAGE TRUST INC
Form 10-K
March 18, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2012

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

For the Transition Period From ____________ to ____________

Commission File Number 001-32216
NEW YORK MORTGAGE TRUST, INC .
(Exact name of registrant as specified in its charter)

Maryland	47-0934168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

52 Vanderbilt Avenue, New York, NY 10017
(Address of principal executive office) (Zip Code)
(212) 792-0107
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated Filer o	Accelerated Filer x	Non-Accelerated Filer o	Smaller Reporting Company o

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2012 was $121,149,921.

The number of shares of the registrant’s common stock, par value $.01 per share, outstanding on March 1, 2013 was 49,575,331.

2

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
1. Portions of the Registrant's Definitive Proxy Statement relating to its 2013 Annual Meeting of Stockholders scheduled for May 2013 to be filed with the Securities and Exchange Commission by no later than April 30, 2013.	Part III, Items 10-14

NEW YORK MORTGAGE TRUST, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2012

TABLE OF CONTENTS

PART I

PART I

Item 1. BUSINESS

In this Annual Report on Form 10-K we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as “we,” “us,” “Company,” or “our,” unless we specifically state otherwise or the context indicates otherwise. We refer to our wholly-owned taxable REIT subsidiaries as “TRSs” and our wholly-owned qualified REIT subsidiaries as “QRSs.” In addition, the following defines certain of the commonly used terms in this report: “RMBS” refers to residential mortgage-backed securities comprised of adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only, and principal only securities; “Agency RMBS” refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “Agency ARMs” refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS; “non-Agency RMBS” refers to RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) mortgage loans; “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; “Agency IOs” refers to IOs that represent the right to the interest components of the cash flow from a pool of mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government, “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; “ARMs” refers to adjustable-rate residential mortgage loans; “prime ARM loans” refers to prime credit quality residential ARM loans (“prime ARM loans”) held in securitization trusts; “distressed residential loans” refers to a pool of performing and re-performing, fixed-rate and adjustable-rate, fully amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties; “CMBS” refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; "multi-family CMBS" refers to CMBS backed by commercial mortgage loans on multi-family properties; and “CLO” refers to collateralized loan obligations.

General

We are a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes certain credit sensitive assets and investments sourced from distressed markets in recent years that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

We were formed in 2003 and commenced operations as a vertically integrated mortgage origination and portfolio investment manager in 2004 upon the completion of our initial public offering. Having exited the mortgage origination business in early 2007, we have endeavored to build in recent years a diversified investment portfolio that includes elements of interest rate and credit risk, as we believe a portfolio diversified among interest rate and credit risks are best suited to delivering stable cash flows over various economic cycles. Since December 31, 2008, we have grown our book value per common share by 54% from $4.21 at December 31, 2008 to $6.50 at December 31, 2012.

Under our investment strategy, our targeted assets currently include Agency ARMs, Agency fixed-rate RMBS, Agency IOs, multi-family CMBS, direct lending to owners of multi-family properties through mezzanine and preferred equity investments, and residential mortgage loans, including loans sourced from distressed markets. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related assets and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations. In addition, we will continue to seek new areas of opportunity in the residential space, including mortgage servicing rights which may complement our Agency IO strategy.

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To this end, we rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days, and longer term structured financings, such as securitization and resecuritization transactions, with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, Agency fixed-rate RMBS, non-Agency RMBS, CLOs and certain residential mortgage loans held in securitization trusts. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with The Midway Group, L.P. ("Midway"), RiverBanc, LLC ("RiverBanc") and Headlands Asset Management LLC ("Headlands"), with Midway providing investment management services with respect to our investments in Agency IOs, RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related debt investments, and Headlands providing investment management services with respect to our investments in certain distressed residential mortgage loans. Prior to 2012, we were also a party to an advisory agreement with Harvest Capital Strategies LLC ("HCS"), pursuant to which HCS advised us with respect to our investments in alternative assets, such as CLOs. Our advisory agreement with HCS was terminated effective December 31, 2011.

We completed four public equity offerings in 2012, generating net proceeds to us of approximately $231.6 million, expanding our stockholders' equity from $85.3 million at December 31, 2011 to $322.0 million at December 31, 2012. The expansion of our equity capital base has increased our scale and, we believe, our access to larger and more attractive investment and financing opportunities.

We have elected to be taxed as a REIT and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we expect to be subject to some federal, state and local taxes on our income generated in our TRSs.

The financial information requirements required under this Item 1 may be found in our consolidated financial statements beginning on page F-1 of this Annual Report.

Our Investment Strategy

We intend to continue our strategy of building a residential portfolio that includes elements of both interest rate and credit risk by focusing our investments on (i) “credit residential” assets, which we define as multi-family CMBS and other commercial real estate-related debt investments, such as preferred equity and mezzanine loans, and residential mortgage loans, including loans sourced from distressed markets, and (ii) leveraged Agency RMBS, which we expect will include Agency ARMs, Agency fixed-rate RMBS and Agency IOs, while also remaining open to new areas of investment opportunity. At the same time we pursue these targeted assets, we will continue to actively manage our other existing assets, which includes CLOs, residential mortgage loans held in securitization trusts and non-Agency RMBS. Prior to deploying capital to any of our targeted asset classes, our management team will consider, among other things, the amount and nature of anticipated cash flows from the asset, our ability to finance or borrow against the asset and the terms of such financing, the related capital requirements, the credit risk related to the asset or the underlying collateral, liquidity, the costs of financing, hedging, and managing the asset, relative value, expected future interest rate volatility and future expected changes to credit spreads.

Our investment strategy does not, subject to our continued compliance with applicable REIT tax requirements and the maintenance of our exemption from the Investment Company Act of 1940, as amended (the “Investment Company Act”), limit the amount of our capital that may be invested in any of these investments or in any particular class or type of assets. Thus, our future investments may include asset types different from the targeted or other assets described in this report. The investment and capital allocation decisions of our company and our external managers depend on prevailing market conditions and other factors and may change over time in response to opportunities available in different economic and capital market environments. As a result, we cannot predict the percentage of our capital that will be invested in any particular investment at any given time.

For more information regarding our portfolio as of December 31, 2012, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

Investments in Agency RMBS

We intend to achieve more stable cash flows on our collective investments in Agency RMBS across various market cycles, including, various interest rate, yield curve and prepayment cycles, primarily through investments in Agency ARMs, Agency fixed-rate RMBS and Agency IOs. Our Agency ARMs consist of whole pool pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae or Freddie Mac, which are backed by ARMs or hybrid ARMs. Our current portfolio of Agency ARMs has interest reset periods ranging from 10 years to less than three months.

Our Agency RMBS also consist of fixed-rate whole pool pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae or Freddie Mac, which are primarily backed by 15-year residential fixed rate mortgage loans with lesser amounts invested in 20-year residential fixed-rate mortgage loans. The majority of these securities are newly originated with coupons ranging from 2.5% to 3.5%. In connection with our investments in Agency RMBS, we attempt to identify securities with characteristics that we believe will exhibit better prepayment profiles in the current low interest rate environment, such as loan size, type of originator, credit scores and geographic area.

Agency IOs are securities that represent the right to receive the interest portion of the cash flow from a pool of mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Agency IOs allow us to make a direct investment in borrower prepayment trends in the current market environment. However, Agency IOs also introduce increased risk as these securities have no underlying principal cash flows, which will cause them to underperform in high prepayment environments as future interest payments will be reduced as a direct result of prepayments. However, in a rising interest rate environment, IO values generally increase as their expected average life increases as CPRs decrease. Our investments in Agency IOs and related hedging and borrowing activities are managed by Midway, which serves as one of our external managers pursuant to a management agreement. We sometimes refer to these investments and related hedging and borrowing activities as our Agency IO strategy or our Agency IO portfolio. For information regarding Midway's management of certain of our assets, see " Our External Managers The Midway Group, L.P." below.

It should be noted that the guarantee provided by the GSEs on Agency RMBS issued by them does not protect us from prepayment risk and that the payments on Agency IOs are not guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Moreover all of our Agency RMBS (including Agency IOs) are at risk to new or modified government-sponsored homeowner stimulus programs that may induce unpredictable and excessively high prepayment speeds resulting in accelerated premium amortization and reduced net interest margin, both of which could materially adversely affect our business, financial condition and results of operations.

Investments in Multi-Family CMBS and Other Credit Residential Assets

During 2012, most of our investments in credit residential assets focused on expanding our portfolio of multi-family CMBS comprised of first loss fixed rate PO securities, a first loss floating-rate security and certain IO securities issued by multi-family K-series securitizations sponsored by Freddie Mac. Our investments in the privately placed first loss PO securities generally represent approximately 7.5% of the overall securitization which typically totals approximately $1.0 billion in multi-family residential loans consisting of 70 – 100 individual properties diversified across a wide geographic footprint. These first loss PO securities are typically backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically seven to ten years. Moreover, each first loss multi-family CMBS PO security in our portfolio is, in most cases, the most junior tranche of security issued by the securitization, meaning it will absorb all losses in the securitization prior to other more senior tranches being exposed to loss. As a result, each of the first loss PO securities in our portfolio has been purchased, upon completion of a credit analysis and due diligence by our external manager and after consultation with and approval of our senior management, at a significant discount to its then-current par value, which we believe provides us with adequate protection against projected losses. In addition, as the holder of the first loss security, the Company, through RiverBanc, has the right to participate in the workout of any distressed property in the securitization. We believe this right will allow the Company to mitigate or reduce possible losses associated with the distressed property. The Company also invests in IO securities from the same securitization of entities that issue our first loss PO investments. These IO investments are stripped off the entire deal allowing the Company to receive cashflows over the entirety of the deal. These investments range from 10 - 17 basis points and the underlying notional amount approximates $1.0 billion each. We may in the future invest in more senior tranches of multi-family CMBS which would include some form of leverage if we believe these risk-adjusted returns are attractive. In addition, we may acquire multi-family CMBS from private originators of, or investors in, mortgage loans, including non-financial institutions and other entities. All commercial mortgage loans backing these multi-family CMBS have been underwritten to Freddie Mac underwriting guidelines and standards, however, our securities are not guaranteed by Freddie Mac.

We also may invest in other commercial real estate-related investments, such as mezzanine loans and preferred equity investments in commercial properties. In the event we do pursue investments of this type in the future, we anticipate focusing such investments on conventional apartments, cooperative housing associations, student housing and other related property types in increments as low as $1 million secured by properties valued at $10 million or greater. We also may participate in structured investments such as the acquisition of seasoned or distressed commercial loan portfolios. Our multi-family CMBS and other commercial real estate-related debt assets are managed by RiverBanc, our external investment manager. For more information regarding RiverBanc, see " Our External Managers RiverBanc" below.

Our current portfolio also includes distressed residential mortgage loans and prime ARM loans held in securitization trusts. We currently own and have invested in the past in pools of distressed residential mortgage loans that are externally sourced and managed by Headlands. During the fourth quarter of 2012, we acquired a pool of distressed residential mortgage loans having a carrying value of approximately $60.5 million at December 31, 2012. These distressed residential mortgage loans consist of performing and re-performing, fixed- and adjustable-rate, fully-amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties. These loans were purchased at a discount to the aggregate principal amount outstanding, which we believe will provide us with adequate credit protection and an opportunity to modify and achieve an attractive yield. These distressed residential mortgage loans are managed by Headlands, another of our external managers. See "Our External Managers – Headlands" below.

The prime ARM loans held in securitization trusts are loans that primarily were originated by our discontinued mortgage lending business, and to a lesser extent purchased from third parties, that we securitized in 2005. These loans are substantially prime, full documentation, interest-only hybrid ARMs on residential properties and are all first lien mortgages. We maintain the ownership trust certificates, or equity, of these securitizations, which includes rights to excess interest, if any, and also take an active role in managing delinquencies and default risk related to the loans.

Our Financing Strategy

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To achieve this, we rely primarily on a combination of short-term borrowings under repurchase agreements, collateralized debt obligations ("CDO's"), structured financings, which we sometimes refer to as securitized debt, and long term subordinated debt. The Company's policy for leverage is based on the type of asset, underlying collateral and overall market conditions, with the intent of obtaining longer-term financing for our more illiquid assets, such as our credit sensitive first loss multi-family CMBS and distressed residential loans. Currently, the Company targets its callable or short term financings leverage ratios at an 8 to 1 maximum leverage ratio for Agency RMBS (other than Agency IOs) and a 2 to 1 maximum leverage ratio for Agency IOs. We may utilize short term financing on other asset classes with leverage ratios driven by the nature of the underlying asset as well as current market conditions. At December 31, 2012, the Company had a repurchase agreement outstanding backed by a CLO security with an advance rate of approximately 65% or a leverage ratio of less than 2 to 1. As of December 31, 2012, our overall leverage ratio, including both our short- and longer-term financing (and excluding the CDO's issued by the Consolidated K-Series and our residential collateralized debt obligations) divided by common stockholders' equity, was approximately 3.3 to 1. Our leverage ratio on our short term financings or callable debt was approximately 2.8 to 1. In each case, there may be occasional short-term increases or decreases in the amount of leverage used due to significant market events, and we may change our leverage strategy at any time. We monitor all at risk or short term borrowings to ensure that we have adequate liquidity to satisfy margin calls and have the ability to respond to other market disruptions.

We primarily rely on repurchase agreements to fund our Agency RMBS portfolio. Repurchase agreements provide us with short-term borrowings (typically 30 days) that bear interest rates that are linked to the London Interbank Offered Rate ("LIBOR"), a short term market interest rate used to determine short term loan rates. Pursuant to these repurchase agreements, the financial institution that serves as a counterparty will generally agree to provide us with financing based on the market value of the securities that we pledge as collateral, less a "haircut." Our repurchase agreements may require us to deposit additional collateral pursuant to a margin call if the market value of our pledged collateral declines as a result of market conditions or due to principal repayments on the mortgages underlying our pledged securities. Interest rates and haircuts will depend on the underlying collateral pledged.

With respect to our investments in multi-family CMBS, other commercial mortgage debt-related investments and distressed residential loans, we intend to finance our investment in these assets through working capital and, subject to market conditions, both short-term and long-term borrowings. Our financings may include repurchase agreement borrowings with terms of one year or less, or longer term structured debt financing, such as longer-term repurchase agreement financing and securitized debt where the assets we intend to finance are contributed to a special purpose entity and serve as collateral for the financing. During 2012, we completed two of these structured financings on our multi-family CMBS and one on our distressed residential mortgage loans, contributing multi-family CMBS and distressed residential loans with a carrying value at December 31, 2012 of $163.5 million and $60.5 million, respectively. These financings have terms between three and ten years and resulted in aggregate net proceeds to us of $114.7 million. Pursuant to the terms for these financings, our ability to access the cash flows generated by the assets serving as collateral may be significantly limited and we may be unable to sell or otherwise transfer or dispose of or modify such assets until the financing has matured. In addition, we may guarantee certain terms of the longer-term debt incurred by our subsidiaries.

At December 31, 2012, we finance our prime ARM loans held in securitization trusts with approximately $181.0 million of collateralized debt obligations ("CDOs") that were issued in securitization transactions we completed in 2005.

For more information regarding our outstanding borrowings and debt instruments at December 31, 2012, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

9

Our Hedging Strategy

We intend to use hedging instruments in conjunction with our investment portfolio to reduce or mitigate risks associated with changes in interest rates, mortgage spreads, yield curve shapes and market volatility. These hedging instruments may include interest rate swaps, interest rate swaptions, interest rate futures and options on interest rate futures, mortgage derivatives such as forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are “To-Be-Announced,” or TBAs, and U.S. Treasuries.

We use interest rate swaps and Euro-dollar futures to hedge interest rate repricing mismatches between certain of our investments and the related borrowings. For example, the interest coupon reset period of our Agency RMBS is typically greater than the repricing period for the related liabilities, which is usually 30 days. We typically would use interest rate swaps or Euro-dollar futures to extend the liability repricing date to more closely approximate the related asset.

We commonly use TBA transactions to hedge interest rate and market risks associated with our Agency IOs. Pursuant to our TBA transactions, we agree to purchase or sell, for future delivery, Agency RMBS with interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered or received, as applicable, is not identified until shortly before the TBA settlement date. We typically do not take delivery of TBAs, but rather, settle with our trading counterparties on a net basis. By utilizing TBA transactions, we expect to reduce changes in portfolio values due to changes in interest rates. Although TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS, the use of TBAs exposes us to increased market value risk. We typically conduct TBA and other interest rate futures hedging transactions through one of our TRSs.

In connection with our hedging strategy, we, together with our external managers, utilize a model based risk analysis system to assist in projecting portfolio performances over a variety of different interest rates and market scenarios, such as shifts in interest rates, changes in prepayments and other factors impacting the valuations of our assets and liabilities. However, given the uncertainties related to prepayment rates, it is not possible to perfectly lock-in a spread between the earnings asset yield and the related cost of borrowings. Moreover, the cash flows and market values of certain types of structured Agency RMBS, such as the IOs we invest in, are more sensitive to prepayment risks than other Agency RMBS. Nonetheless, through active management and the use of evaluative stress scenarios, we believe that we can mitigate a significant amount of both value and earnings volatility.

Our External Managers

The Midway Group, L.P.

A portion of our Agency RMBS portfolio comprised of Agency IOs is externally managed and advised by Midway pursuant to an investment management agreement between Midway and us (as amended, the "Midway Management Agreement"). Midway was founded in 2000 by Mr. Robert Sherak, a mortgage industry veteran with more than 25 years experience, to serve as investment manager to the Midway Market Neutral Fund LLC, a private investment fund. Midway has a greater than 11-year history of managing a hedged portfolio of mortgage-related securities.

Midway is responsible for administering the business activities and day-to-day operations of our investments in Agency IOs, which represent the right to receive the interest portion of the cash flow from a pool of mortgage loans, issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, and certain derivative instruments. These responsibilities include arranging and coordinating the purchase and sale of various investment assets and the financing and hedging associated with such assets, with direct oversight from our management team. Midway also may invest from time to time in, among other things, Agency RMBS consisting of pass-through certificates, CMOs, and POs and non-agency RMBS (which may include IOs and POs), although they have made no investments on our behalf in these assets since being engaged as an external manager. As part of its investment process, we expect that Midway will analyze significant amounts of data regarding the historical performance of mortgage-related securities transactions and collateral over various market cycles.

Midway has established portfolio management resources for the investment assets described above and an established infrastructure supporting those resources. We expect that we will benefit from Midway's highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community and operational expertise. Moreover, during its more than 11-year history of investing in this space, we believe Midway has developed strong relationships with a wide range of dealers and other market participants that provide Midway access to a broad range of trading opportunities and market information.

As of December 31, 2012, we had allocated approximately $62.8 million of capital to investments managed by Midway.

The Midway Management Agreement

We entered into the Midway Management Agreement on February 11, 2011, as amended on March 9, 2012. The Midway Management Agreement has a current term that expires on December 31, 2013, and will be automatically renewed for successive one-year terms thereafter unless a termination notice is delivered by either party to the other party at least six months prior to the end of the then current term. Pursuant to the Midway Management Agreement, Midway implements our Agency IO investment strategy and related hedging and borrowing activities and has complete discretion and authority to manage these assets and related hedging and borrowing activities, subject to compliance with the written investment guidelines included in the Midway Management Agreement and the other terms and conditions of the Midway Management Agreement, including our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. During the initial term of the Midway Management Agreement, Midway has agreed not to establish a separate account with any other publicly-listed residential or commercial mortgage REIT. Midway will provide performance reports to us on a monthly basis with respect to the performance of the assets under their management.

The following table summarizes the fees that we pay to Midway pursuant to the Midway Management Agreement. We will reimburse Midway for all transaction costs and expenses incurred in connection with the management and administration of the assets and liabilities managed on our behalf by Midway.

Type	Description
Base management fee	We pay a base management fee monthly in arrears in a cash amount equal to the product of (i) 1.50% per annum of our invested capital in the assets managed by Midway as of the last business day of the previous month, multiplied by (ii) 1/12th.
Incentive fee	In addition to the base management fee, Midway will be entitled to a quarterly incentive fee (the "Midway Incentive Fee") that is calculated quarterly and paid in cash in arrears. The Midway Incentive Fee is subject to a high water mark equal to an 11% return on our invested capital in assets managed by Midway (the "High Water Mark"), and shall be payable in an amount equal to the excess, if any, of (i) 35% of the dollar amount by which adjusted net income (as defined below) attributable to the assets managed by Midway, on a rolling 12-month basis and before accounting for the Midway Incentive Fee, exceeds an annual 12.5% rate of return on invested capital (the "Hurdle Rate") over (ii) the sum of the Midway Incentive Fees paid or accrued for each of the three immediately preceding fiscal quarters (or, in the case of the first three quarters of 2012 only, the sum of the Midway Incentive Fees for the one or two immediately preceding quarters commencing January 1, 2012). The return rate for each rolling 12-month period (the "Calculation Period") shall be determined by dividing (i) the adjusted net income for the Calculation Period by (ii) the weighted average of our invested capital in assets managed by Midway during the Calculation Period; provided, however, that with respect to the first three quarterly periods commencing on January 1, 2012, adjusted net income was calculated on the basis of each of the previously completed quarters on an annualized basis. From time to time in the future and upon mutual agreement of the parties to the Midway Management Agreement, a portion of each Midway Incentive Fee payable to Midway may be paid in shares of our common stock. The specific terms and conditions for any issuance of our common stock as payment of a portion of any Midway Incentive Fee will be determined and approved by the parties prior to any such issuance. Adjusted net income is defined as net income (loss) calculated in accordance with generally accepted accounting principles in the United States ("GAAP"), including any unrealized gains and losses, after giving effect to certain expenses. All securities managed for us by Midway will be valued in accordance with GAAP. Unlike the Hurdle Rate, which is calculated on a rolling 12 month basis, the High Water Mark is calculated on a calendar 12 month basis, and will reset every 24 months. The High Water Mark will be a static dollar figure that Midway will be required to recoup, to the extent there is a deficit in the prior High Water Mark calculation period before it is eligible again to receive a Midway Incentive Fee.
Equity Compensation	In addition to the base management and incentive fees provided for in the Midway Management Agreement, we issued 213,980 shares of restricted stock to Midway on or about March 9, 2012. The restricted shares vest annually in one-third increments beginning on December 31, 2012. In the event Midway terminates the Midway

Management Agreement for any reason prior to the end of the restricted period, Midway will forfeit those restricted shares that have not vested at the time of the termination. All of the restricted shares will vest if we terminate the agreement for any reason. The restricted shares have voting rights and are entitled to receive dividends.

Although the assets and invested capital managed by Midway are held in an account that is wholly owned by our Company, we may only redeem invested capital in an amount equal to the lesser of 10% of our invested capital managed by Midway or $10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. Pursuant to the terms of the Midway Management Agreement, we are only permitted to make one such redemption request in any 75-day period.

RiverBanc LLC

In April 2011, we formed a relationship with RiverBanc, a privately owned investment management and specialty finance company founded by Kevin Donlon, for the purpose of investing in multi-family CMBS, such as Freddie Mac Multifamily Loan Securitization K-Series' assets, and, to a lesser extent, other commercial real estate-related debt investments, such as mezzanine loans and preferred equity investments in commercial properties. Pursuant to an investment management agreement between RiverBanc and us (the "RiverBanc Management Agreement"), RiverBanc will source, structure and manage our investments in these asset classes.

RiverBanc Management Agreement

On March 13, 2013, we entered into an amended and restated management agreement with RB Commercial Mortgage LLC, our wholly-owned subsidiary, and RiverBanc (as amended, the "RiverBanc Management Agreement"). The RiverBanc Management Agreement, which replaces the prior management agreement between RiverBanc and RB Commercial Mortgage LLC, has a term that will expire on December 31, 2014, subject to automatic annual one-year renewals thereafter.

Pursuant to the terms of the RiverBanc Management Agreement, RiverBanc will receive a monthly base management fee in arrears in a cash amount equal to the product of (i) 1.50% per annum of "Equity" as of the last business day of the previous month, multiplied by (ii) 1/12th. For purposes of the RiverBanc Management Agreement, Equity is defined as "Assets" minus "Debt," where Assets is defined as the aggregate net carrying value (in accordance with GAAP) of those assets of our company managed by RiverBanc (specifically excluding (i) any unrealized gains or losses that have impacted net carrying value as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss or in net income, and (ii) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case, as mutually agreed between RiverBanc and us) and Debt is defined as the greater of (1) the net carrying value (in accordance with GAAP, excluding adjustments for unrealized gains or losses) of all third-party debt or liabilities secured by the Assets and (2) prior to termination of the RiverBanc Management Agreement, zero, or following termination of the RiverBanc Management Agreement, an amount equal to 50% of Assets. In addition, RiverBanc will be entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon the average Equity during the fiscal quarter, subject to a high water mark equal to a 9% return on Equity, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the RiverBanc Management Agreement) attributable to the Assets, before accounting for any incentive fees payable to RiverBanc, exceeds an annualized 12% rate of return on such average Equity (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 21% shall be reduced to 20% from 35%). Any incentive fee paid for the fourth fiscal quarter of each year under the agreement is calculated based on the incentive fee earned during the calendar twelve-month period less the aggregate incentive fees paid for the first three quarters during the period.

We may terminate the RiverBanc Management Agreement or elect not to renew the agreement, subject to certain conditions and subject, in certain cases, to paying a termination fee equal to the product of (A) 24 and (B) the monthly base management earned by RiverBanc during the month immediately preceding the month in which the termination occurs. In the event we terminate the RiverBanc Management Agreement for any reason (other than for "cause", as defined in the RiverBanc Management Agreement), RiverBanc has, subject to certain conditions, a right of first refusal to purchase from us the assets managed by them.

As part of this transaction, subject to our funding of investments at various times, we are eligible, through one of our TRSs, to receive an ownership interest in RiverBanc of up to 17.5%. As of December 31, 2012, we owned an approximately 15% ownership interest in RiverBanc.

13

Headlands Asset Management LLC

During the fourth quarter of 2012, we engaged Headlands to manage and advise us with respect to the pool of distressed residential mortgage loans acquired by us during the fourth quarter of 2012. These loans, which had a carrying value of approximately $60.5 million at December 31, 2012, were transferred by us to a special purpose entity, NYMT Residential 2012-RPI, LLC (“NYMT Residential 2012-RP1”), in connection with a securitization transaction. NYMT Residential 2012-RP1 was formed by us in connection with a securitization transaction to acquire and finance a pool of distressed residential mortgage loans. The loans are performing and re-performing, fixed- and adjustable-rate, fully-amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties. Headlands sourced and diligenced the pool of mortgage loans acquired by NYMT Residential 2012-RP1 and will manage the servicing, modification and final disposition or resolution of the loans, which can range from modifying a mortgage loan balance, interest rate or payment to selling the underlying real estate asset. See Note 13 in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for more information regarding this transaction.

Headlands was founded on May 2008 as an investment manager focused on purchasing, servicing and managing all aspects of a portfolio of residential mortgage loans. We had previously engaged Headlands to provide similar services to us in 2010 in connection with our investment at the time in a pool of residential mortgage loans.

Headlands Management Agreement

On December 28, 2012, NYMT Residential 2012-RP1 entered into a management agreement with Headlands, pursuant to which Headlands will serve as the asset manager of NYMT Residential 2012-RP1 (the “Headlands Management Agreement”). The Headlands Management Agreement has a term that will expire upon the sale or other liquidation of all mortgage loans purchased by NYMT Residential 2012-RP1.

Pursuant to the terms of the Headlands Management Agreement, Headlands will receive a monthly base management fee payable on the tenth business day of each month in a cash amount equal to the product of (i) 1.50% per annum of assets under management (“AUM”) as of the first day of each such month, multiplied by (ii) 1/12th, where AUM is defined as the net asset value of the mortgage loans being managed by Headlands plus the “subsequent collateral account balance” (as defined in the Headlands Management Agreement). In addition, Headlands will be entitled to an incentive fee that is calculated quarterly, but is not payable until the notes issued by NYMT Residential 2012-RP1 as part of the securitization transaction have been retired in full. The notes are scheduled to mature in December 2015. The incentive fee is based upon the weighted average AUM during the fiscal quarter and shall be payable in an amount equal to 35% of the dollar amount by which NYMT Residential 2012-RP1’s taxable income (before accounting for any incentive fees earned by Headlands and interest on the notes) exceeds an annualized 12% rate of return on such weighted average AUM (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 22% shall be reduced by the amount of any subordinate servicing fees). The parties will recalculate the annual incentive fee earned by Headlands after the fourth fiscal quarter of each year and will adjust any payments owed or required to be remitted based on such annual calculation.

Headlands may terminate the agreement at any time upon not less than 60 days notice; provided, however, that, subject to certain exceptions, it may not terminate the agreement or resign prior to the notes being retired. We may terminate the Headlands Management Agreement in the event of an uncured violation of the Headlands Management Agreement or any bankruptcy, insolvency or liquidation proceedings in respect of Headlands. Neither Headlands nor NYMT Residential 2012-RP1 will incur a termination fee upon termination of the Headlands Management Agreement. We have agreed to guarantee the payment by NYMT Residential 2012-RP1 of the base management fee and its expenses.

Termination of HCS Advisory Agreement

As previously noted, we terminated the HCS advisory agreement effective as of December 31, 2011. HCS had served as an external advisor to us and certain of our subsidiaries since January 2008. We paid a $2.2 million termination to HCS in connection with the termination of the advisory agreement.

Pursuant to the terms of the HCS advisory agreement, we will continue to pay incentive compensation to HCS with respect to all those assets of our company that were sourced or managed by HCS and were owned by us at December 31, 2011 (the “Incentive Tail Assets”) until such time as the Incentive Tail Assets are disposed of by the Company or mature. Prior to termination, at December 31, 2011, HCS managed approximately $34.0 million of assets under the terms of the HCS Advisory Agreement, which consists mainly of CLOs. As of December 31, 2012, we owned approximately $30.8 million of Incentive Tail Assets. Incentive compensation on the Incentive Tail Assets is payable in an amount equal to 25% of the GAAP net income of certain of our subsidiaries that is attributable to the Incentive Tail Assets that exceeds a hurdle rate equal to the greater of (a) 8.00% and (b) 2.00% plus the ten year treasury rate for such fiscal year. The incentive fee is payable in cash, quarterly in arrears.

Conflicts of Interest with Our External Managers; Equitable Allocation of Opportunities

Each of RiverBanc, Midway and Headlands manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. In addition, we have in the recent past engaged in certain co-investment opportunities with an external manager or one of its affiliates and we may participate in future co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company.

Each of RiverBanc and Midway has agreed that, when making investment allocation decisions between us and its other client accounts, it will, in the case of RiverBanc, allocate investments in a fair and equitable manner and, in the case of Midway, seek to allocate investment opportunities on an equitable basis and in a manner it believes is in the best interests of its relevant accounts. Since certain of our targeted assets are typically available only in specified quantities and since certain of these targeted assets will also be targeted assets for other accounts managed by or associated with these managers, these managers may not be able to buy as much of certain assets as required to satisfy the needs of all of its clients' or associated accounts. In these cases, we understand that the allocation procedures and policies of these managers would typically allocate such assets to multiple accounts in proportion to, among other things, the objectives, strategy, stage of development or needs of each account. Moreover, the investment allocation policies of Midway may permit departure from proportional allocation when the total allocation would result in an inefficiently small amount of the security being purchased for an account. Under the Headlands Management Agreement, Headlands has no obligation to allocate investment opportunities to us. This could result in Headlands showing us fewer or no additional loans in the future. Although we believe that each of our external managers will seek to allocate investment opportunities in a manner which it believes to be in the best interests of all accounts involved and will seek to allocate, on an equitable basis, investment opportunities believed to be appropriate for us and the other accounts it manages or is associated with, there can be no assurance that a particular investment opportunity will be allocated in any particular manner.

Midway is authorized to follow broad investment guidelines in determining which assets it will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to assets managed by Midway, we generally will not approve transactions in advance of execution of these transactions. As a result, because Midway has great latitude to determine the types of assets it may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful. RiverBanc, meanwhile, has complete discretion and authority to manage assets on our behalf subject to investment guidelines approved by our Board of Directors. However, our Board of Directors may elect to change the investment guidelines or waive them for various investments. In addition to conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Complicating matters further, our external managers may use complex investment strategies and transactions, which may be difficult or impossible to unwind.

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in assets managed by Midway or $10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act, and we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Because a reduction of invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions.

None of our external managers is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our external managers will dedicate to the management of our business. Moreover, each of our external managers has significant responsibilities for other investment vehicles and may not always be able to devote sufficient time to the management of our business. Consequently, we may not receive the level of support and assistance that we otherwise might receive if such services were provided internally by us.

Certain Federal Income Tax Considerations and Our Status as a REIT

We have elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code for federal income tax purposes, commencing with our taxable year ended December 31, 2004, and we believe that our current and proposed method of operation will enable us to continue to qualify as a REIT for our taxable year ending December 31, 2013 and thereafter. Accordingly, the net interest income we earn on our assets is generally not subject to federal income tax as long as we distribute at least 90% of our REIT taxable income in the form of a dividend to our stockholders each year and comply with various other requirements. Taxable income generated by TRSs are subject to regular corporate income tax.

The benefit of REIT qualifications is a tax treatment that avoids “double taxation,” or taxation at both the corporate and stockholder levels, that generally applies to distributions by a corporation to its stockholders. Failure to qualify as a REIT would subject us to federal income tax (including any applicable minimum tax) on our taxable income at regular corporate rates and distributions to its stockholders in any such year would not be deductible by us.

Summary Requirements for Qualification

Organizational Requirements

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

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

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

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

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

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

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

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

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

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

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

Taxable REIT Subsidiaries. A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 25% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs.

A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. We have elected for each of Hypotheca Capital, LLC, New York Mortgage Funding, LLC and NYMT Residential Tax, LLC to be treated as TRSs. Our TRSs are subject to corporate income tax on their taxable income.

Qualified REIT Assets. On the last day of each calendar quarter, at least 75% of the value of our assets (which includes any assets held through a QRS must consist of qualified REIT assets — primarily real estate, mortgage loans secured by real estate, and certain mortgage-backed securities (“Qualified REIT Assets”), government securities, cash, and cash items. We believe that substantially all of our assets are and will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% asset test, the value of securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of the voting power or value of any one issuer’s outstanding securities (with an exception for securities of a QRS or of a TRS). In addition, the aggregate value of our securities in TRSs cannot exceed 25% of our total assets. We monitor the purchase and holding of our assets for purposes of the above asset tests and seek to manage our portfolio to comply at all times with such tests.

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

Gross Income Tests

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

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

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

Distributions

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

Competition

Our success depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. When we invest in mortgage-backed securities, mortgage loans and other investment assets, we compete with a variety of institutional investors, including other REITs, insurance companies, mutual funds, hedge funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same types of assets. Many of these investors have greater financial resources and access to lower costs of capital than we do..

Corporate Offices and Personnel

We were formed as a Maryland corporation in 2003. Our corporate headquarters are located at 52 Vanderbilt Avenue, Suite 403, New York, New York, 10017 and our telephone number is (212) 792-0107. As of December 31, 2012, we employed four full-time employees.

Access to our Periodic SEC Reports and Other Corporate Information

Our internet website address is www.nymtrust.com. We make available free of charge, through our internet website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are also available on our website and are available in print to any stockholder upon request in writing to New York Mortgage Trust, Inc., c/o Secretary, 52 Vanderbilt Avenue, Suite 403, New York, New York, 10017. Information on our website is neither part of nor incorporated into this Annual Report on Form 10-K.

18

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

When used in this Annual Report on Form 10-K, in future filings with the SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “would,” “could,” “goal,” “objective,” “will expressions, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, may involve known and unknown risks, uncertainties and assumptions.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; changes in credit spreads; the impact of the downgrade of the long-term credit ratings of the U.S., Fannie Mae, Freddie Mac, and Ginnie Mae; market volatility; changes in the prepayment rates on the mortgage loans underlying our investment securities; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets; changes in government regulations affecting our business; our ability to maintain our qualification as a REIT for federal tax purposes; our ability to maintain our exemption from registration under the Investment Company Act; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described in Item 1A – “Risk Factors” and Item 7A – “Quantitative and Qualitative Disclosures About Market Risk”, of this Annual Report on Form 10-K, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1A. RISK FACTORS

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

Risks Related to Our Business and Our Company

Interest rate mismatches between the interest-earning assets held in our investment portfolio and the borrowings used to fund the purchases of those assets may reduce our net income or result in a loss during periods of changing interest rates.

Certain of the assets held in our investment portfolio have a fixed coupon rate, generally for a significant period, and in some cases, for the average maturity of the asset. At the same time, our repurchase agreements and other borrowings typically provide for a payment reset period of 30 days or less. In addition, the average maturity of our borrowings generally will be shorter than the average maturity of the securities and loans currently in our portfolio and certain other targeted assets in which we seek to invest. Historically, we have used swap agreements as a means for attempting to fix the cost of certain of our liabilities over a period of time; however, these agreements will generally not be sufficient to match the cost of all our liabilities against all of our investment securities. In the event we experience unexpectedly high or low prepayment rates on RMBS or other mortgage-related securities or loans, our strategy for matching our assets with our liabilities is more likely to be unsuccessful which may result in reduced earnings or losses and reduced cash available for distribution to our stockholders.

In addition, the RMBS we invest in may be backed by, and the loans we may invest in may be comprised of, ARMs that are subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase over the life of the security or loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps could limit the interest rates on ARMs in our portfolio or RMBS in our portfolio that are backed by ARMs. This problem is magnified for ARMs and RMBS backed by ARMs and hybrid ARMs that are not fully indexed. Further, some ARMs and RMBS backed by ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, the payments we receive on ARMs or RMBS backed by ARMs and hybrid ARMs may be lower than the related debt service costs. These factors could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Interest rate fluctuations will also cause variances in the yield curve, which may reduce our net income. The relationship between short-term and longer-term interest rates is often referred to as the “yield curve.” If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on the RMBS and other interest-earning assets in our investment portfolio. For example, because the RMBS in our investment portfolio typically bear interest based on longer-term rates while our borrowings typically bear interest based on short-term rates, a flattening of the yield curve would tend to decrease our net income and the market value of these securities. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields of the new investments and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur significant operating losses.

Declines in the market values of assets in our investment portfolio may adversely affect periodic reported results and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders.

The market value of the interest-bearing assets in which we invest, most notably RMBS, multi-family CMBS and purchased prime ARM loans and any related hedging instruments, may move inversely with changes in interest rates. We anticipate that increases in interest rates will generally tend to decrease our net income and the market value of our interest-bearing assets. A significant percentage of the securities within our investment portfolio are classified for accounting purposes as “available for sale.” Changes in the market values of trading securities will be reflected in earnings and changes in the market values of available for sale securities, such as CLOs, will be reflected in stockholders’ equity. As a result, a decline in market values of certain of our investment securities may reduce the book value of our assets. Moreover, if the decline in market value of an available for sale security is other than temporary, such decline will reduce earnings.

A decline in the market value of our interest-bearing assets may adversely affect us, particularly in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan, which would reduce our liquidity and limit our ability to leverage our assets. In addition, if we are, or anticipate being, unable to post the additional collateral, we would have to sell the assets at a time when we might not otherwise choose to do so. In the event that we do not have sufficient liquidity to meet such requirements, lending institutions may accelerate indebtedness, increase interest rates and terminate our ability to borrow, any of which could result in a rapid deterioration of our financial condition and cash available for distribution to our stockholders. Moreover, if we liquidate the assets at prices lower than the amortized cost of such assets, we will incur losses.

Market values of our investments may also decline without any general increase in interest rates for a number of reasons, such as increases in defaults, actual or perceived increases in voluntary prepayments for those investments that we have that are subject to prepayment risk, and widening of credit spreads. If the market values of our investments were to decline for any reason, the value of your investment could also decline.

A flat or inverted yield curve may adversely affect prepayment rates on and supply of RMBS in which we invest.

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

Prepayment rates can change, adversely affecting the performance of our assets.

The frequency at which prepayments (including both voluntary prepayments by the borrowers and liquidations due to defaults and foreclosures) occur on mortgage loans underlying RMBS is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, legislative and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. A significant percentage of the mortgage loans underlying our existing RMBS were originated in a relatively higher interest rate environment than currently in effect and, thus, could be prepaid if borrowers are eligible for refinancing.

In general, “premium” securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments because the above-market coupon that such premium securities carry will be earned for a shorter period of time. Generally, “discount” securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. Since many RMBS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these RMBS may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact us in various ways. First, particular investments, such as IOs, may experience outright losses in an environment of faster actual or anticipated prepayments. Second, particular investments may under-perform relative to any hedges that we may have constructed for these assets, resulting in a loss to us. In particular, prepayments (at par) may limit the potential upside of many RMBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates, our business, financial condition and results of operations and ability to make distributions to our stockholders could be materially adversely affected.

Our targeted assets and other asset classes we may pursue in the future include various forms of structured Agency RMBS, including IOs, POs and CMOs. Although these assets are generally subject to the same risks as other Agency RMBS in our portfolio, certain types of risks may be enhanced depending on the type of structured Agency RMBS in which we invest.

Our target assets and other asset classes we may pursue in the future include various forms of structured Agency RMBS, including IOs, POs and CMOs, which are securitizations (i) issued by Fannie Mae, Freddie Mac or Ginnie Mae, (ii) that are collateralized by Agency RMBS and (iii) that are divided into various tranches that have different characteristics (such as different maturities or different coupon payments). These securities may carry greater risk than an investment in other types of Agency RMBS. For example, the Agency IOs or POs we invest in, are more sensitive to prepayment risks than Agency ARMs. In addition, many support securities and securities purchased at a significant premium from certain CMO tranches are more sensitive to prepayment risk. Because a significant portion of our portfolio is invested in these assets, our overall portfolio and results of operations may be more sensitive to prepayment risk.

Increased levels of prepayments on the mortgages underlying our structured Agency RMBS, particularly Agency IOs, might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

When we acquire structured Agency RMBS, such as Agency IOs, we anticipate that the underlying mortgages will prepay at a projected rate, generating an expected yield. When the prepayment rates on the mortgages underlying our structured Agency RMBS are higher than expected, our returns on those securities may be materially adversely affected. For example, the value of our Agency IOs is extremely sensitive to prepayments because holders of these securities do not have the right to receive any principal payments on the underlying mortgages. Agency IOs currently comprise a large percentage of our interest earning assets. Therefore, if the mortgage loans underlying our Agency IOs are prepaid at a higher than anticipated rate, such securities would decline in value and provide less cash flow, which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, the Agency RMBS and other target assets in which we invest.

The U.S. Government, through, in some cases, the Federal Housing Authority ("FHA"), the Federal Deposit Insurance Corporation ("FDIC"), the U.S. Treasury and the Federal Housing Finance Authority ("FHFA"), have implemented or announced, and may in the future implement or announce, programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures or modifying or refinancing their mortgage loans. In November 2011, the FHFA announced changes to the Home Affordable Refinance Program ("HARP"), which, as modified, we sometimes refer to as HARP II. HARP II significantly expanded access to refinancing for qualified individuals and families. HARP II resulted generally in a significant increase in prepayment rates on Agency RMBS, which had an adverse effect on our portfolio and our results of operations. Mortgage loan modification programs, such as HARP II, and any future programs or legislative action designed for these purposes will create additional uncertainty in the markets in which we operate and may adversely affect the value of, and the returns on, the Agency RMBS and other target assets in which we invest.

Actions of the U.S. Government, including the U.S. Congress, Federal Reserve, U.S. Treasury and other governmental and regulatory bodies, including the SEC, to stabilize or reform the financial markets may not achieve the intended effect and may adversely affect our business.

In response to the financial issues affecting the banking system and financial markets and going concern threats to commercial banks, investment banks and other financial institutions, the Emergency Economic Stabilization Act (or EESA), was enacted by the U.S. Congress in 2008. Although this action and others implemented in response to the financial crisis appear to have stabilized the banking system and financial markets, there can be no assurance that the EESA or any other U.S. Government actions will have a long-term beneficial impact on the financial markets. To the extent such actions do not function as intended over the longer term, our business may not ultimately receive the anticipated positive impact from the legislation and such result may have broad adverse market implications.

In July 2010, the U.S. Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, in part to impose significant investment restrictions and capital requirements on banking entities and other organizations that are significant to U.S. financial markets. For instance, the Dodd-Frank Act seeks to reform the asset-backed securitization market (including the mortgage-backed securities market) by requiring the retention of a portion of the credit risk inherent in the pool of securitized assets and by imposing additional registration and disclosure requirements. Certain of the new requirements and restrictions exempt Agency RMBS, other government issued or guaranteed securities, or other securities. Nonetheless, the Dodd-Frank Act also imposes significant regulatory restrictions on the origination and securitization of residential mortgage loans. The Dodd-Frank Act also created a new regulator, the Consumer Financial Protection Bureau (or the CFPB), which oversees many of the core laws which regulate the mortgage industry, including among others the Real Estate Settlement Procedures Act and the Truth in Lending Act. While the full impact of the Dodd-Frank Act and the role of the CFPB cannot be assessed until all implementing regulations are released, the Dodd-Frank Act's extensive requirements may have a significant effect on the financial markets, and may affect the availability or terms of financing from our lender counterparties and the availability or terms of mortgage-backed securities, both of which may have an adverse effect on our financial condition and results of operations.

On September 13, 2012, the Federal Reserve announced a third round of quantitative easing (“QE3”), which is an open-ended program designed to expand the U.S. Federal Reserve's holdings of long-term securities by purchasing an additional $40 billion of Agency RMBS per month until key economic indicators, such as the unemployment rate, show signs of improvement. When combined with existing programs to extend the average maturity of the Federal Reserve's holdings of securities, and reinvest principal and interest payments from the Federal Reserve's holdings of agency debt and Agency RMBS into newly acquired Agency RMBS through the end of 2012, QE3 was projected to increase the Federal Reserve's holdings of long-term securities by $85 billion each month through the end of 2012. More recently, in December 2012, the Federal Reserve indicated that starting in January 2013 it would continue to purchase Agency RMBS at a pace of $40 billion per month and would initially begin buying $45 billion of long-term Treasury bonds each month and noted that such amount may increase in the future. This bond purchase program replaced the program known as "Operation Twist," which ended in December 2012. The Federal Reserve expects these measures to put downward pressure on long-term interest rates. While the Federal Reserve hopes that QE3 and related measures will expedite an economic recovery, stabilize prices, reduce unemployment and accelerate business and household spending, we cannot predict the impact of this program or any future actions by the Federal Reserve on the prices and liquidity of Agency RMBS or other assets in which we invest, although the Federal Reserve's action could increase the prices of our target assets and reduce the spread that we earn on our investments.

In addition, the U.S. Government, Federal Reserve, U.S. Treasury, the SEC and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis that began in 2007. We cannot predict whether or when such actions may occur or what effect, if any such actions could have on our business, results of operations and financial condition.

The downgrade of the U.S.'s and certain European countries' or certain European financial institutions' credit ratings, any future downgrades of the U.S.'s and certain European countries' or certain European financial institutions' credit ratings and the failure to resolve issues related to the "fiscal cliff" and the U.S. debt ceiling or to stem the European debt crisis may materially adversely affect our business, liquidity, financial condition and results of operations.

Recent U.S. debt ceiling and budget deficit concerns and the possibility that U.S. lawmakers may be unable to avoid the "fiscal cliff," together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns, or a recession in the U.S. Although U.S. lawmakers passed legislation to raise the federal debt ceiling in 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from "AAA" to "AA+" in August 2011. The impact of any further downgrades to the U.S. Government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. In addition, some economists predict the U.S. economy could fall into recession if the U.S. Government fails to achieve a plan to avoid the sequestration, which generally refers to certain tax increases and automatic spending cuts that were scheduled to become effective at the end of 2012. The U.S. Government adopted legislation in December 2012 to address the planned tax increases, but deferred many of the automatic spending cuts for two months. By May 2013, U.S. lawmakers will again be forced to address raising the federal debt ceiling. Further, Moody's and Fitch have each warned that they may downgrade the U.S. Government's rating if the federal debt is not stabilized. If the U.S.'s credit rating were downgraded it would likely impact the credit risk associated with Agency RMBS in our portfolio. A downgrade of the U.S. Government's credit rating or a default by the U.S. Government to satisfy its debt obligations likely would create broader financial turmoil and uncertainty, which would weigh heavily on the global banking system. Absent further quantitative easing by the Federal Reserve, these developments could cause interest rates and borrowing costs to rise and a reduction in the availability of credit, which may negatively impact the value of the assets in our portfolio, our net income, liquidity and our ability to finance our assets on favorable terms.

In addition, during the past several years, several large European financial institutions have experienced financial difficulty resulting in downgrades to their credit ratings and, in some cases, these financial institutions have required assistance from European sovereign governments or other large European banks. As the debt crisis and economic uncertainty in Europe continues, the financial condition and stability of many European financial institutions remains at risk. Some of these financial institutions have U.S. banking subsidiaries that serve as financing or hedging counterparties to us. Any future downgrade of the credit ratings of these European financial institutions could result of greater counterparty default risk and could materially adversely affect our business, liquidity, access to financing and results of operations.

Difficult conditions in the mortgage and residential and commercial real estate markets have caused and may cause us to experience losses and these conditions may persist for the foreseeable future.

Our business is materially affected by conditions in the residential mortgage market, the residential and commercial real estate market, the financial markets and the economy generally. Furthermore, because a significant portion of our current assets and our targeted assets are credit sensitive, we believe the risks associated with our investments will be more acute during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values and defaults. Concerns about the residential and commercial mortgage markets and a declining real estate market generally, as well as inflation, energy costs, sovereign debt and geopolitical issues and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. The residential and commercial mortgage markets have been adversely affected by changes in the lending landscape, the severity of which was largely unanticipated by the markets. There is no assurance that these markets will return to prior levels or that they will not worsen.

In addition, an economic slowdown, delayed recovery or general disruption in the mortgage markets may result in continued decreased demand for residential and commercial property, which would likely further compress homeownership rates and place additional pressure on home price performance, while forcing commercial property owners to lower rents on properties with excess supply. We believe there is a strong correlation between home price growth rates and mortgage loan delinquencies. Moreover, to the extent that a property owner has fewer tenants or receives lower rents, such property owners will generate less cash flow on their properties, which increases significantly the likelihood that such property owners will default on their debt service obligations. If the borrowers of our mortgage loans, or the loans underlying certain of our investment securities, default, we may incur losses on those loans or investment securities. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income and our ability to acquire our targeted assets in the future on favorable terms or at all. The further deterioration of the mortgage markets, the residential or commercial real estate markets, the financial markets and the economy generally may result in a decline in the market value of our investments or cause us to experience losses related to our assets, which may adversely affect our results of operations, the availability and cost of credit and our ability to make distributions to our stockholders.

Changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. government, may adversely affect our business.

Payments on the Agency RMBS (excluding Agency IOs) in which we invest are guaranteed by Fannie Mae and Freddie Mac. As broadly publicized, Fannie Mae and Freddie Mac have experienced significant losses in recent years, causing the U.S. Government to place Fannie Mae and Freddie Mac under federal conservatorship and to inject significant capital in these businesses. Questions regarding the continued viability of Fannie Mae and Freddie Mac, as currently structured, including the guarantees that back the RMBS issued by them, and the U.S. Government's participation in the U.S. residential mortgage market through the GSEs, continue to persist. In February 2011, the U.S. Department of the Treasury along with the U.S. Department Housing and Urban Development released a much-awaited report titled "Reforming America's Housing Finance Market", which outlines recommendations for reforming the U.S. housing system, specifically the roles of Fannie Mae and Freddie Mac and transforming the government's involvement in the housing market and its relationship to Fannie Mae and Freddie Mac. It is unclear how future legislation may impact the housing finance market and the investing environment for mortgage-related securities and more specifically, Agency RMBS and non-Agency RMBS, as the method of reform is undecided and has not yet been defined by the regulators. However, it appears increasingly probable that each of Fannie Mae and Freddie Mac will continue to shrink in size in the future. New regulations and programs related to Fannie Mae and Freddie Mac, including those affecting the relationship between the GSEs and the U.S. Government or the guarantees that back the RMBS issued by the GSEs, may adversely affect the pricing, supply, liquidity and value of Agency RMBS and otherwise materially harm our business and operations.

Our income could be negatively affected in a number of ways depending on the manner in which events related to Fannie Mae and Freddie Mac unfold. For example, the current credit support provided by the U.S. to Fannie Mae and Freddie Mac, and any additional credit support it may provide in the future, could have the effect of lowering the interest rates we expect to receive from Agency RMBS, thereby tightening the spread between the interest we earn on those assets and our cost of financing those assets. A reduction in the supply of Agency RMBS could also negatively affect the pricing of Agency RMBS by reducing the spread between the interest we earn on our Agency RMBS and our cost of financing those assets. In addition, any law affecting these government-sponsored enterprises may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, such laws could increase the risk of loss on investments in Agency RMBS issued by Fannie Mae or Freddie Mac.

Commercial mortgage loans that we may acquire or that back our CMBS are subject to risks of delinquency and foreclosure and risks of loss that may be greater than similar risks associated with residential mortgage loans.

We currently own and may acquire in the future CMBS backed by commercial mortgage loans or may directly acquire commercial mortgage loans. Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with residential mortgage loans. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. If we incur losses on CMBS, or commercial mortgage loans, our business, financial condition and results of operations and our ability to make distributions to our stockholders may be materially adversely affected.

We may invest in high yield or subordinated and lower rated securities that have greater risks of loss than other investments, which could adversely affect our business, financial condition and cash available for dividends.

We may invest in high yield or subordinated or lower rated securities, including subordinated tranches of CMBS or non-Agency RMBS, which involve a higher degree of risk than other investments. Numerous factors may affect a company's ability to repay its high yield or subordinated securities, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. These securities may not be secured by mortgages or liens on assets. Our right to payment and security interest with respect to such securities may be subordinated to the payment rights and security interests of the senior lender. Therefore, we may be limited in our ability to enforce our rights to collect these loans and to recover any of the loan balance through a foreclosure of collateral.

We invest in CMBS that are subordinate to more senior securities issued by the applicable securitization, which entails certain risks.

We currently own and intend to continue to purchase principal only multi-family CMBS that represent the first loss tranche of a multi-family mortgage loan securitization. These first loss principal only securities are subject to the first risk of loss if any losses are realized on the underlying mortgage loans in the securitization. We also own and intend to continue to purchase interest only securities issued by multi-family mortgage loan securitizations. However, these interest only CMBS typically only receive payments of interest to the extent that there are funds available in the securitization to make the payments. CMBS generally entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial or multi-family mortgage loans. Consequently, the CMBS, and in particular, first loss principal only CMBS, will be adversely affected by payment defaults, delinquencies and losses on the underlying mortgage loans, each of which could have a material adverse effect on our cash flows and results of operations.

If we underestimate the loss-adjusted yields of our CMBS investments, we may experience losses.

Our senior management team and RiverBanc expect to value our multi-family CMBS investments based on loss-adjusted yields, taking into account estimated future losses on the mortgage loans included in the securitization's pool of loans, and the estimated impact of these losses on expected future cash flows. Our loss estimates may not prove accurate, as actual results may vary from estimates. In the event that we underestimate the pool level losses relative to the price we pay for a particular CMBS investment, we may experience losses with respect to such investment.

Failure to procure adequate funding and capital would adversely affect our results and may, in turn, negatively affect the value of our common stock and our ability to distribute cash to our stockholders.

We depend upon the availability of adequate funding and capital for our operations. To maintain our status as a REIT, we are required to distribute at least 90% of our REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and therefore are not able to retain our earnings for new investments. We cannot assure you that any, or sufficient, funding or capital will be available to us in the future on terms that are acceptable to us. In the event that we cannot obtain sufficient funding and capital on acceptable terms, there may be a negative impact on the value of our common stock and our ability to make distributions to our stockholders, and you may lose part or all of your investment.

Competition may prevent us from acquiring assets on favorable terms or at all, which could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities. Our net income largely depends on our ability to acquire our targeted assets at favorable spreads over our borrowing costs. In acquiring our targeted assets, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-related assets, many of which have greater financial resources than us. Additionally, many of our potential competitors are not subject to REIT tax compliance or required to maintain an exemption from the Investment Company Act. As a result, we may not in the future be able to acquire sufficient quantities of our targeted assets at favorable spreads over our borrowing costs, which could have a material adverse effect on our business, financial condition and results of operations.

The lack of liquidity in certain of our assets may adversely affect our business.

A portion of the securities or loans we own or acquire may be subject to legal, contractual and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. For example, a portion of our multi-family CMBS is held by a securitization trust and may not be sold or transferred until the note issued by the securitization trust matures or is repaid. The illiquidity of certain of our assets may make it difficult for us to sell such assets if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our assets. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

Our portfolio investments are recorded at fair value based on market quotations from pricing services and broker/dealers. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

All of our current portfolio investments are, and some of our future portfolio investments will be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We currently value and will continue to value these investments on a quarterly-basis at fair value as determined by our management based on market quotations from pricing services and brokers/dealers. Because such quotations and valuations are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates, and our determinations of fair value may differ materially from the values that would have been used if a public market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Lack of diversification in the number of assets we acquire would increase our dependence on relatively few individual assets.

Our management objectives and policies do not place a limit on the size of the amount of capital used to support, or the exposure to (by any other measure), any individual asset or any group of assets with similar characteristics or risks. In addition, because we are a small company, we may be unable to sufficiently deploy capital into a number of assets or asset groups. As a result, our portfolio may be concentrated in a small number of assets or may be otherwise undiversified, increasing the risk of loss and the magnitude of potential losses to us and our stockholders if one or more of these assets perform poorly. For example, our portfolio may at times be concentrated in or consist of a substantial amount of Agency IOs that are more sensitive to prepayment risk, or we may invest in CMBS secured by properties concentrated in a limited number of geographic locations. Currently, a significant portion of our multi-family CMBS investment is comprised of first loss PO securities. To the extent that our portfolio is concentrated in any one region or type of security, downturns relating generally to such region or type of security may result in defaults on a number of our assets within a short time period, which may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may change our investment strategy, hedging strategy and asset allocation and operational and management policies without stockholder consent, which may result in the purchase of riskier assets and materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may change our investment strategy, hedging strategy and asset allocation and operational and management policies at any time without the consent of our stockholders, which could result in our purchasing assets or entering into hedging transactions that are different from, and possibly riskier than, the assets and hedging transactions described in this report. A change in our investment strategy or hedging strategy may increase our exposure to real estate values, interest rates, prepayment rates, credit risk and other factors. A change in our asset allocation could result in us purchasing assets in classes different from those described in this report. Our Board of Directors determines our operational policies and may amend or revise our policies, including those with respect to our acquisitions, growth, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies without a vote of, or notice to, our shareholders. In addition, certain of our external managers have great latitude in making investment and hedging decisions on our behalf. Changes in our investment strategy, hedging strategy and asset allocation and operational and management policies could materially adversely affect our business, financial condition and results of operations and ability to make distributions to our stockholders.

Residential whole mortgage loans, including subprime residential mortgage loans and non-performing and sub-performing residential mortgage loans, are subject to increased risks.

We may acquire and manage pools of residential whole mortgage loans. Residential whole mortgage loans, including subprime mortgage loans and non-performing and sub-performing mortgage loans, are subject to increased risks of loss. We currently own a pool of distressed residential mortgage loans that includes both performing and re-performing loans, which are subject to increased risks of loss. Unlike Agency RMBS, whole mortgage loans generally are not guaranteed by the U.S. Government or any GSE, though in some cases they may benefit from private mortgage insurance. Additionally, by directly acquiring whole mortgage loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly impact the value of such mortgage. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

Whole mortgage loans are also subject to “special hazard” risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower’s mortgage debt by a bankruptcy court). In addition, claims may be assessed against us on account of our position as mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be “recourse liabilities” or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

Loan delinquencies on our prime ARM loans held in securitization trusts may increase as a result of significantly increased monthly payments required from ARM borrowers after the initial fixed period.

The scheduled increase in monthly payments on certain ARM loans held in our securitization trusts may result in higher delinquency rates on those mortgage loans and could have a material adverse effect on our net income and results of operations. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with ARM loans, who in turn, may no longer be able to prepay the loan or refinance the loan at comparably low interest rates or at all. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance their loans or sell their homes

We have acquired and may acquire in the future non-Agency RMBS collateralized by subprime and Alt A mortgage loans, which are not guaranteed by any government-sponsored entity or agency and are subject to increased risks.

We have acquired and may acquire in the future non-Agency RMBS, which are backed by residential real estate property but, in contrast to Agency RMBS, their principal and interest are not guaranteed by a GSE such as Fannie Mae or Freddie Mac. We may acquire non-Agency RMBS backed by collateral pools of mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting “prime mortgage loans” and “Alt A mortgage loans.” These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions and other factors in recent years, many of the mortgage loans backing the non-Agency RMBS have experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with these mortgage loans, the performance of non-Agency RMBS could be adversely affected, which could materially and adversely impact our results of operations, financial condition and business.

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

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

The preferred equity investments or mezzanine loan assets that we may acquire or originate will involve greater risks of loss than senior loans secured by income-producing properties.

We may acquire or originate mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. We also may make preferred equity investments in the entity that owns the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured or our equity investment may be effectively extinguished as a result of foreclosure by the senior lender. In addition, mezzanine loans and preferred equity investments are often used to achieve a very high leverage on large commercial projects, resulting in less equity in the property and increasing the risk of loss of principal or investment. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan or preferred equity investment will be satisfied only after the senior debt, in case of a mezzanine loan, or all senior and subordinated debt, in case of a preferred equity investment, is paid in full. Where senior debt exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies or control decisions made in bankruptcy proceedings relating to borrowers or preferred equity investors. As a result, we may not recover some or all of our investment, which could result in losses. In addition, even if we are able to foreclose on the underlying collateral following a default on a mezzanine loan, we would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, may need to commit substantial additional capital to stabilize the property and prevent additional defaults to lenders with existing liens on the property. Significant losses related to mezzanine loans originated or acquired by us could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

To the extent that due diligence is conducted on potential assets, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.

Before acquiring certain assets, such as whole mortgage loans, CMBS or other mortgage-related or other fixed income assets, we or the external manager responsible for the acquisition and management of such asset may decide to conduct (either directly or using third parties) certain due diligence. Such due diligence may include (i) an assessment of the strengths and weaknesses of the asset’s credit profile, (ii) a review of all or merely a subset of the documentation related to the asset, or (iii) other reviews that we or the external manager may deem appropriate to conduct. There can be no assurance that we or the external manager will conduct any specific level of due diligence, or that, among other things, the due diligence process will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Our senior management and our external managers will utilize analytical models and data in connection with the valuation of certain of our assets, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks.

Given the complexity of certain of our target assets, such as Agency IOs and multi-family CMBS, our senior management team and our external managers must rely heavily on analytical models and information and data supplied by third parties. Models and data will be used to value potential target assets, potential credit risks and reserves and also in connection with hedging our acquisitions. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation models, we may be induced to buy certain target assets at prices that are too high, to sell certain other assets at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful.

Our real estate assets are subject to risks particular to real property.

We own assets secured by real estate and may own real estate directly in the future, either through direct acquisitions or upon a default of mortgage loans. Real estate assets are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions; and
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;

The occurrence of any of the foregoing or similar events may reduce our return from an affected property or asset and, consequently, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We are highly dependent on information systems and system failures could significantly disrupt our business, which may, in turn, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities, including RMBS trading activities, which could materially adversely affect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

A change in the Federal Reserve's intention to hold the Federal Funds Target Rate near zero through mid-2014 that would result in higher interest rates may adversely affect the market value of our interest earning assets and, therefore, also our book value.

In response to the 2008 financial and credit crisis, the Federal Reserve lowered the Federal Funds Target Rate to near zero in an effort to stabilize markets and improve liquidity. Most recently, the Federal Reserve announced that it intends to hold the Federal Funds Target Rate near zero until either the unemployment rate drops below 6.5% or certain projected inflation targets are exceeded. These actions have resulted in favorable borrowing terms under many of our repurchase agreements. However, a change in the Federal Reserve's stated intention to hold the Federal Funds Target Rate near zero would result in higher short-term interest rates, which may negatively affect the market value of our assets because in a period of rising interest rates, the relative value of the interest earning assets we own can be expected to fall and reduce our book value. In addition, our fixed-rate interest earning assets, generally, are more negatively affected by these increases because in a period of rising interest rates, our interest payments could increase while the interest we earn on our fixed-rate interest earning assets would not change.

Our Level 2 portfolio investments are recorded at fair value based on market quotations from pricing services and broker/dealers. Our Level 3 investments are recorded at fair value utilizing internal valuation models. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

All of our current portfolio investments are, and some of our future portfolio investments will be, in the form of securities or other investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We currently value and will continue to value these investments on a quarterly-basis at fair value as determined by our management based on market quotations from pricing services and brokers/dealers and/or internal valuation models. Because such quotations and valuations are inherently uncertain, they may fluctuate over short periods of time and are based on estimates, therefore our determinations of fair value may differ materially from the values that would have been used if a public market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Our adoption of fair value option accounting could result in income statement volatility, which in turn, could cause significant market price and trading volume fluctuations for our securities.

During the year ended December 31, 2012, we determined that certain securitization trusts that issued certain of our multi-family CMBS or securitized debt were variable interest entities, or VIEs, of which we are the primary beneficiary, and elected the fair value option on the assets and liabilities held within those securitization trusts. As a result, we are required to consolidate the underlying multi-family loan or securities, as applicable, related debt, interest income and interest expense of those securitization trusts in our financial statements, although our actual investments in these securitization trusts generally represent a small percentage of the total assets of the trusts. Prior to the year ended December 31, 2012, we historically accounted for the multi-family CMBS in our investment portfolio through accumulated other comprehensive income, pursuant to which unrealized gains and losses on those multi-family CMBS are reflected as an adjustment to stockholders’ equity. However, the fair value option requires that changes in valuations in the assets and liabilities of those VIEs of which we are the primary beneficiary, such as the Consolidated K-Series, be reflected through our earnings. As we acquire additional multi-family CMBS assets in the future that are similar in structure and form to the Consolidated K-Series’ assets or securitize investment securities owned by us, we may be required to consolidate the assets and liabilities of the issuing or securitization trust and would expect to elect the fair value option for those assets. Because of this, our earnings may experience greater volatility in the future as a decline in the fair value of the assets of any VIE that we consolidate in our financial statements could reduce both our earnings and stockholders' equity, which in turn, could cause significant market price and trading volume fluctuations for our securities.

Failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements and may result in fines and other penalties which could materially adversely affect our business, financial condition and results of operations.

The Dodd-Frank Act established a comprehensive new regulatory framework for derivative contracts commonly referred to as “swaps.” As a result, any investment fund that trades in swaps may be considered a “commodity pool,” which would cause its operators (and in some cases the fund's directors) to be regulated as “commodity pool operators” ("CPOs"). Under new rules adopted by the U.S. Commodity Futures Trading Commission (the “CFTC”) those funds that become commodity pools solely because of their use of swaps must register with the National Futures Association ("NFA"). Registration requires compliance with the CFTC's regulations and the NFA's rules with respect to capital raising, disclosure, reporting, recordkeeping and other business conduct. However, the CFTC's Division of Swap Dealer and Intermediary Oversight issued a no-action letter in December 2012 saying, although it believes that mortgage REITs are properly considered commodity pools, it would not recommend that the CFTC take enforcement action against the operator of a mortgage REIT who does not register as a CPO if, among other things, the mortgage REIT limits the initial margin and premiums required to establish its swaps, futures and other commodity interest positions to not more than five percent of its total assets, the mortgage REIT limits the net income derived annually from those commodity interest positions that are not qualifying hedging transactions to less than five percent of its gross income and interests in the mortgage REIT are not marketed to the public as or in a commodity pool or otherwise as or in a vehicle for trading in the commodity futures, commodity options or swaps markets.

We use hedging instruments in conjunction with our investment portfolio and related borrowings to reduce or mitigate risks associated with changes in interest rates, mortgage spreads, yield curve shapes and market volatility. These hedging instruments include interest rate swaps, interest rate futures and options on interest rate futures. We do not currently engage in any speculative derivatives activities or other non-hedging transactions using swaps, futures or options on futures. We do not use these instruments for the purpose of trading in commodity interests, and we do not consider our company or our operations to be a commodity pool as to which CPO registration or compliance is required. We have submitted the required filing to claim the no-action relief afforded by the above-described no-action letter. Consequently, we will be restricted to operating within the parameters discussed in the no-action letter and will not enter into hedging transactions covered by the no-action letter if they would cause us to exceed the limits set forth in the no-action letter. In the event that we fail to comply with statutory requirements relating to derivatives or with the CFTC's rules thereunder, including the no-action letter described above, we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could have a materially adverse effect on our business, financial condition and results of operations.

Risk Related to Our Debt Financing and Hedging

Our access to financing sources, which may not be available on favorable terms, or at all, especially in light of current market conditions, may be limited, and this may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We depend upon the availability of adequate capital and financing sources to fund our operations. However, as previously discussed, the capital and credit markets have experienced unprecedented levels of volatility and disruption in recent years, as most recently caused by the U.S. deficit and fiscal cliff debates and Eurozone sovereign debt concerns which exerted downward pressure on stock prices and credit capacity for lenders. If these levels of market volatility and disruption continue or worsen, it could materially adversely affect one or more of our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing, or to increase the costs of that financing, or to become insolvent. Moreover, we are currently party to repurchase agreements of a short duration and there can be no assurance that we will be able to roll over or re-set these borrowings on favorable terms, if at all. In the event we are unable to roll over or re-set our reverse repos, it may be more difficult for us to obtain debt financing on favorable terms or at all. In addition, if regulatory capital requirements imposed on our lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. Under current market conditions, securitizations are generally unavailable or limited, which has also limited borrowings under warehouse facilities and other credit facilities that are intended to be refinanced by such securitizations. Consequently, depending on market conditions at the relevant time, we may have to rely on additional equity issuances to meet our capital and financing needs, which may be dilutive to our stockholders, or we may have to rely on less efficient forms of debt financing that consume a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our stockholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our investment activities and/or dispose of assets, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

Currently, a significant portion of our borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these agreements increase at a rate higher than the increase in rates payable on our investments, our profitability would be adversely affected.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

· the movement of interest rates;

· the the availability of financing in the market; and

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

During 2008 and 2009, many repurchase agreement lenders required higher levels of collateral than they had required in the past to support repurchase agreements collateralized by Agency RMBS. Although these collateral requirements have been reduced to more appropriate levels, we cannot assure you that they will not again experience a dramatic increase. If the interest rates, lending margins or collateral requirements under these repurchase agreements increase, or if lenders impose other onerous terms to obtain this type of financing, our results of operations will be adversely affected.

The repurchase agreements that we use to finance our investments may require us to provide additional collateral, which could reduce our liquidity and harm our financial condition.

We intend to use repurchase agreements to finance certain of our investments, primarily RMBS. If the market value of the loans or securities pledged or sold by us to a funding source decline in value, we may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced, but we may not have the funds available to do so. Posting additional collateral to support our repurchase agreements will reduce our liquidity and limit our ability to leverage our assets. In the event we do not have sufficient liquidity to meet such requirements, lending institutions can accelerate our indebtedness, increase our borrowing rates, liquidate our collateral at inopportune times and terminate our ability to borrow. This could result in a rapid deterioration of our financial condition and possibly require us to file for protection under the U.S. Bankruptcy Code.

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

We intend to leverage our equity through borrowings, generally through the use of repurchase agreements and other short-term borrowings or through longer-term structured debt, such as CDOs and other forms of securitized debt. We may, in the future, utilize other forms of borrowing. The amount of leverage we incur varies depending on the asset type, our ability to obtain borrowings, the cost of the debt and our lenders' estimates of the value of our portfolio's cash flow. The return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets we hold in our investment portfolio. Further, the leverage on our equity may exacerbate any losses we incur.

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

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

If we are limited in our ability to leverage our assets to the extent we currently anticipate, the returns on these assets may be harmed. A key element of our strategy is our use of leverage to increase the size of our portfolio in an attempt to enhance our returns. Our repurchase agreements are not currently committed facilities, meaning that the counterparties to these agreements may at any time choose to restrict or eliminate our future access to the facilities and we have no other committed credit facilities through which we may leverage our equity. If we are unable to leverage our equity to the extent we currently anticipate, the returns on our portfolio could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

We directly or indirectly utilize non-recourse securitizations and recourse structured financings and such structures expose us to risks that could result in losses to us.

We sometimes utilize non-recourse securitizations of our investments in mortgage loans or CMBS to the extent consistent with the maintenance of our REIT qualification and exemption from the Investment Company Act, in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring loans or CMBS owned by us to a special purpose entity in exchange for cash and typically the ownership certificate or residual interest in the entity. In some sale transactions, we also retain a subordinated interest in the loans or CMBS sold, such as a B-note. The securitization or other structured financing of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans or CMBS sold would be subordinate to the senior interest in the loans or CMBS sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the owners of the senior interest experience any losses. Under the terms of these financings, which generally have terms of three to ten years, we may agree to receive no cash flows from the assets transferred to the special purpose entity, until the debt issued by the special purpose entity has matured or been repaid. We cannot be assured that we will be able to access the securitization markets in the future, or be able to do so at favorable rates. The inability to consummate longer term financing for the credit sensitive assets in our portfolio could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business.

In addition, under the terms of the securitization or structured financing, we may have limited or no ability to sell, transfer or replace the assets transferred to the special purpose entity, which could have a material adverse effect on our ability to sell the assets opportunistically or during periods when our liquidity is constrained or to refinance the assets. Finally, we have in the past and may in the future guarantee certain terms or conditions of these financings, including the payment of principal and interest on the debt issued by the special purpose entity, the cash flows for which are typically derived from the assets transferred to the entity. If a special purpose entity defaults on its obligations and we have guaranteed the satisfaction of that obligation, we may be materially adversely affected.

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

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

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

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

Our liquidity may be adversely affected by margin calls under our repurchase agreements because we are dependent in part on the lenders' valuation of the collateral securing the financing.

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

Hedging against credit events and interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Subject to compliance with the requirements to qualify as a REIT, we engage in certain hedging transactions to limit our exposure to changes in interest rates and therefore may expose ourselves to risks associated with such transactions. We may utilize instruments such as interest rate swaps, caps, collars and floors and Eurodollar and U.S. Treasury futures to seek to hedge the interest rate risk associated with our portfolio. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, we may establish other hedging positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, at any point in time we may choose not to hedge all or a portion of these risks, and we generally will not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

Even if we do choose to hedge certain risks, for a variety of reasons we generally will not seek to establish a perfect correlation between our hedging instruments and the risks being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Our hedging activity will vary in scope based on the composition of our portfolio, our market views, and changing market conditions, including the level and volatility of interest rates. When we do choose to hedge, hedging may fail to protect or could materially adversely affect us because, among other things:

- either we or our external managers may fail to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the assets in the portfolio being hedged;

- either we or our external managers may fail to recalculate, re-adjust and execute hedges in an efficient and timely manner;

- the hedging transactions may actually result in poorer over-all performance for us than if we had not engaged in the hedging transactions;

- credit hedging can be expensive, particularly when the market is forecasting future credit deterioration and when markets are more illiquid;

- interest rate hedging can be expensive, particularly during periods of volatile interest rates;

- available hedges may not correspond directly with the risks for which protection is sought;

- the durations of the hedges may not match the durations of the related assets or liabilities being hedged;

- many hedges are structured as over-the-counter contracts with counterparties whose creditworthiness is not guaranteed, raising the possibility that the hedging counterparty may default on their payment obligations; and

- to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty.

For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Hedging instruments and other derivatives historically have not, in many cases, been traded on regulated exchanges, or been guaranteed or regulated by any U.S. or foreign governmental authorities and involve risks and costs that could result in material losses.

Hedging instruments and other derivatives involve risk because they historically have not, in many cases, been traded on regulated exchanges and have not been guaranteed or regulated by any U.S. or foreign governmental authorities. Consequently, for these instruments there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. We are restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with one counterparty. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the hedging agreement. Default by a party with whom we enter into a hedging transaction may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty's insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could materially adversely affect our business, financial condition and results of operations.

The U.S. Commodity Futures Trading Commission and certain commodity exchanges have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could materially adversely affect our business, financial condition and results of operation and our ability to make distributions to our stockholders.

Our delayed delivery transactions, including TBAs, subject us to certain risks, including price risks and counterparty risks.

We purchase a significant portion of our Agency RMBS through delayed delivery transactions, including TBAs. In a delayed delivery transaction, we enter into a forward purchase agreement with a counterparty to purchase either (i) an identified Agency RMBS, or (ii) TBAs with certain terms. As with any forward purchase contract, the value of the underlying Agency RMBS may decrease between the contract date and the settlement date. Furthermore, a transaction counterparty may fail to deliver the underlying Agency RMBS at the settlement date. If any of the above risks were to occur, our financial condition and results of operations may be materially adversely affected.

Risks Related to Our Agreements with Our External Managers

We are dependent on certain of our external managers and certain of their key personnel and may not find a suitable replacement if they terminate their respective management agreements with us or such key personnel are no longer available to us.

We historically were organized as a self-advised company that acquired, originated, sold and managed its assets; however, as we modified our business strategy and the targeted assets we seek to acquire in response to changing market conditions, we began to outsource the management of certain targeted asset classes for which we had limited internal resources or experience. We presently utilize three that manage certain of our assets and investment strategies. Each of our external managers, in some manner, identifies, evaluates, negotiates, structures, closes and monitors certain investments on our behalf. In each case, we have engaged these third parties because of the expertise of certain key personnel of our external managers. The departure of any of the senior officers of our external managers, or of a significant number of investment professionals or principals of our external managers, could have a material adverse effect on our ability to achieve our investment objectives. We are subject to the risk that our external managers will terminate their respective management agreement with us or that we may deem it necessary to terminate such agreement or prevent certain individuals from performing services for us, and that no suitable replacement will be found to manage certain of our assets and investment strategies.

Pursuant to our management agreements, our external managers are entitled to receive a management fee that is payable regardless of the performance of the assets under their management.

We will pay each of our external managers substantial base management fees, based on our invested capital (as such term is defined in the respective management agreements), regardless of the performance of the assets under their management. The external managers’ entitlement in many cases to non-performance based compensation may reduce its incentive to devote the time and effort of its professionals to seeking profitable investment opportunities for our company, which could result in the under-performance of assets under their management and negatively affect our ability to pay distributions to our stockholders or to achieve capital appreciation.

Pursuant to the terms of our management agreements, our external managers are generally entitled to receive an incentive fee, which may induce them to make certain investments, including speculative or high risk investments.

In addition to the base management fees, payable to our external managers, our external managers are generally entitled to receive incentive compensation based, in part, upon the achievement of targeted levels of net income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead our external managers to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining liquidity and/or management of interest rate, credit or market risks, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. In addition, Midway has broad discretion regarding the types of investments it will make pursuant to its management agreement with us. This could result in increased risk to the value of our assets under the management of our external managers.

We compete with our external managers' other clients for access to them.

Each of our external managers manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. As a result, we will compete with these other accounts and interests for access to our external managers and the benefits derived from those relationships. For the same reasons, the personnel of our external managers may be unable to dedicate a substantial portion of their time managing our investments to the extent they manage or are associated with any future investment vehicles not related to us.

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

We may acquire or sell assets in which an external manager or its affiliates have or may have an interest, or we may participate in co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company. Similarly, our external managers or its affiliates may acquire or sell assets in which we have or may have an interest. Although such acquisitions or dispositions may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, we may engage in transactions directly with our external managers or their affiliates, including the purchase and sale of all or a portion of a targeted asset.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Our external managers may have economic interests in or other relationships with others in whose obligations or securities we may acquire. In particular, such persons may make and/or hold an investment in securities that we acquire that may be pari passu, senior or junior in ranking to our interest in the securities or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities and otherwise create conflicts of interest. In such instances, the external managers may, in their sole discretion, make recommendations and decisions regarding such securities for other entities that may be the same as or different from those made with respect to securities acquired by us and may take actions (or omit to take actions) in the context of these other economic interests or relationships, the consequences of which may be adverse to our interests.

The key personnel of our external managers and its affiliates devote as much time to us as our external managers deem appropriate, however, these individuals may have conflicts in allocating their time and services among us and their other accounts and investment vehicles. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when we will need focused support and assistance from our external managers, other entities for which our external managers serve as manager, or their accounts, will likewise require greater focus and attention, placing the resources of our external managers in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed.

We, directly or through our external managers, may obtain confidential information about the companies or securities in which we have invested or may invest. If we do possess confidential information about such companies or securities, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to the securities of such companies. Our external managers' management of other accounts could create a conflict of interest to the extent such external manager is aware of material non-public information concerning potential investment decisions and this in turn could impact our ability to make necessary investment decisions. Any limitations that develop as a result of our access to confidential information could therefore materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

There are limitations on our ability to withdraw invested capital from the account managed by Midway and our inability to withdraw our invested capital when necessary may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in the account managed by Midway or $10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. In addition, we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Moreover, because a reduction of invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions. If we are unable to withdraw invested capital as needed to meet our obligations in the future, our business and financial condition could be materially adversely affected.

Termination of our external management agreements may be difficult and costly.

Termination of the RiverBanc Management Agreement without cause is subject to several conditions which may make such a termination difficult and costly. The RiverBanc Management Agreement provides that we may only terminate the RiverBanc Management Agreement without cause and not be obligated to pay a termination fee unless we realize a negative 15% return on the assets managed for us by RiverBanc. Moreover, except as described in the preceding sentence, we cannot terminate RiverBanc without cause until expiration of the initial term in 2014, and then only upon providing 180 days' advance notice and subject to the payment of a termination fee equal to the product of (A) 24 and (B) the base management fee earned by RiverBanc during the one month period immediately preceding the termination date. Thus, in the event we elect not to renew the RiverBanc Management Agreement for any reason other than cause or as otherwise described in this paragraph, we will be required to pay this termination fee. In addition, the RiverBanc Management Agreement provides RiverBanc with an exclusive right of first refusal to purchase any of our assets managed by it subject to certain exceptions, in the event we terminate them for any reason. This provision could result in our loss of assets that our earnings are dependent upon or may cause us to sell assets prior to our recovery of lost value. These provisions may increase the effective cost to us of terminating the RiverBanc Management Agreement, thereby adversely affecting our ability to terminate RiverBanc without cause.

Pursuant to the Midway Management Agreement, we are not permitted to terminate our agreement with Midway prior to the end of the initial term, and while we have agreed with Midway that we could suspend additional capital contributions to Midway in the event we experience a 20% decline in cumulative return on our invested capital in assets managed by Midway during any calendar year in the initial term, we do not have the right to cause Midway to liquidate the assets in that account. In the event we determine to terminate the Midway Management Agreement at any time in the future following expiration of the initial term, Midway has the right to liquidate the assets it manages on our behalf in its sole discretion. Moreover, as discussed above, there are certain restrictions on our ability to redeem invested capital under the Midway Management Agreement. As a result, we may have little control over the liquidation of any of our assets that are managed by Midway or the timing of the full redemption of our invested capital, which may make it more difficult to terminate our agreement with Midway and could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to an Investment in Our Capital Stock

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

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

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

We intend to pay quarterly dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level for our common stockholders and our ability to pay dividends may be harmed by the risk factors described herein. From July 2007 until April 2008, our Board of Directors elected to suspend the payment of quarterly dividends on our common stock. Our Board’s decision reflected our focus on the elimination of operating losses through the sale of our mortgage lending business and the conservation of capital to build future earnings from our portfolio management operations. All distributions to our common stockholders will be made at the discretion of our Board of Directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future at the current rate or at all.

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

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

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

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Your interest in us may be diluted if we issue additional shares.

Current stockholders of our company do not have preemptive rights to any common stock issued by us in the future. Therefore, our stockholders may experience dilution of their equity investment if we sell additional common stock in the future, sell securities that are convertible into common stock or issue shares of common stock or options exercisable for shares of common stock. In addition, we could sell securities at a price less than our then-current book value per share.

Investing in our common stock may involve a high degree of risk.

The investments we make in accordance with our investment strategy may result in a high degree of risk, volatility or loss of principal than alternative investment options. Our investments may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for an investor with lower risk tolerance.

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

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

Our external managers are generally authorized to follow broad investment guidelines in determining which assets we will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to our investment strategies, we generally will not, with certain exceptions, approve transactions in advance of their execution by these managers. In addition, in conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Complicating matters further, our external managers may use complex investment strategies and transactions, which may be difficult or impossible to unwind. As a result, because our external managers have great latitude to determine the types of assets it may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful.

We are dependent on certain key personnel.

We are a small company with only four full-time employees and are substantially dependent upon the efforts of our Chief Executive Officer and President, Steven R. Mumma, and certain key individuals employed by our external managers. The loss of Mr. Mumma or any key personnel or their services could have an adverse effect on our operations.

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

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

- our charter provides that, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed with or without cause only by the affirmative vote of holders of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors;

- our bylaws provide that only our Board of Directors shall have the authority to amend our bylaws;

- under our charter, our Board of Directors has authority to issue preferred stock from time to time, in one or more series and to establish the terms, preferences and rights of any such series, all without the approval of our stockholders;

- the Maryland Business Combination Act; and

- the Maryland Control Share Acquisition Act.

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

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

We have conducted and intend to continue to conduct our operations so as not to become regulated as an investment company under the Investment Company Act. We believe that there are a number of exclusions under the Investment Company Act that are applicable to us. To maintain the exclusion, the assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release suggests that the SEC may modify the exemption relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. If the SEC acts to narrow the availability of, or if we otherwise fail to qualify for, our exclusion, we could, among other things, be required either (a) to change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have a material adverse effect on our operations and the market price of our common stock.

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

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of the issued and outstanding shares of our capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year (other than our first year as a REIT). This test is known as the “5/50 test.” Attribution rules in the Code apply to determine if any individual or entity actually or constructively owns our capital stock for purposes of this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of each taxable year (other than our first year as a REIT). To help ensure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provides that, unless exempted by our Board of Directors, no person may own more than 9.9% in value of the aggregate of the outstanding shares of our capital stock or more than 9.9% in value or in number of shares, whichever is more restrictive, of the aggregate of our outstanding shares of common stock. The ownership limits contained in our charter could delay or prevent a transaction or a change in control of our company under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then current market price for our common stock or would otherwise be in the best interests of our stockholders.

Tax Risks Related to Our Structure

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

We have operated and intend to continue to operate so to qualify as a REIT for federal income tax purposes. Our continued qualification as a REIT will depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income, and the amount of our distributions to our stockholders. In order to satisfy these requirements, we might have to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance. Moreover, while we intend to continue to operate so to qualify as a REIT for federal income tax purposes, given the highly complex nature of the rules governing REITs, there can be no assurance that we will so qualify in any taxable year.

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

REIT distribution requirements could adversely affect our liquidity.

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

We have made and intend to continue to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax.

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

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

Further, our lenders could require us to enter into negative covenants, including restrictions on our ability to distribute funds or to employ leverage, which could inhibit our ability to satisfy the 90% distribution requirement.

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

The maximum U.S. federal income tax rate for dividends payable to domestic shareholders that are individuals, trust and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rate applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge the RMBS in our investment portfolio. Our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. Any hedging income earned by a TRS would be subject to federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

45

A decline in the value of the real estate securing the mortgage loans that back RMBS could cause a portion of our income from such securities to be nonqualifying income for purposes of the REIT 75% gross income test, which could cause us to fail to qualify as a REIT.

Pools of mortgage loans back the RMBS that we hold in our investment portfolio and in which we invest. In general, the interest income from a mortgage loan is qualifying income for purposes of the 75% gross income test applicable to REITs to the extent that the mortgage loan is secured by real property. If a mortgage loan has a loan-to-value ratio greater than 100%, however, then only a proportionate part of the interest income is qualifying income for purposes of the 75% gross income test and only a proportionate part of the value of the loan is treated as a “real estate asset” for purposes of the 75% asset test applicable to REITs. This loan-to-value ratio is generally measured at the time that the REIT commits to acquire the loan. Although the IRS has ruled generally that the interest income from non-CMO RMBS is qualifying income for purposes of the 75% gross income test, it is not entirely clear how this guidance would apply if we purchase non-CMO RMBS in the secondary market at a time when the loan-to-value ratio of one or more of the mortgage loans backing the non-CMO RMBS is greater than 100%, and, accordingly, a portion of any income from such non-CMO RMBS may be treated as non-qualifying income for purposes of the 75% gross income test. In addition, that guidance does not apply to CMO RMBS. In the case of CMO RMBS, if less than 95% of the assets of the issuer of the CMO RMBS constitute “real estate assets,” then only a proportionate part of our income derived from the CMO RMBS will qualify for purposes of the 75% gross income test. Although the law is not clear, the IRS may take the position that the determination of the loan-to-value ratio for mortgage loans that back CMO RMBS is to be made on a quarterly basis. A decline in the value of the real estate securing the mortgage loans that back our CMO RMBS could cause a portion of the interest income from those RMBS to be treated as non-qualifying income for purposes of the 75% gross income test. If such non-qualifying income caused us to fail the 75% gross income test and we did not qualify for certain statutory relief provisions, we would fail to qualify as a REIT.

Our ability to invest in and dispose of “to be announced” securities could be limited by our REIT status, and we could lose our REIT status as a result of these investments.

In connection with our investment in Agency IOs, we may purchase Agency RMBS through TBAs, or dollar roll transactions. In certain instances, rather than take delivery of the Agency RMBS subject to a TBA, we will dispose of the TBA through a dollar roll transaction in which we agree to purchase similar securities in the future at a predetermined price or otherwise, which may result in the recognition of income or gains. We account for dollar roll transactions as purchases and sales. The law is unclear regarding whether TBAs will be qualifying assets for the 75% asset test and whether income and gains from dispositions of TBAs will be qualifying income for the 75% gross income test.

Until such time as we seek and receive a favorable private letter ruling from the IRS, or we are advised by counsel that TBAs should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in TBAs and any non-qualifying assets to no more than 25% of our assets at the end of any calendar quarter. Further, until such time as we seek and receive a favorable private letter ruling from the IRS or we are advised by counsel that income and gains from the disposition of TBAs should be treated as qualifying income for purposes of the 75% gross income test, we will limit our gains from dispositions of TBAs and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to purchase Agency RMBS through TBAs and to dispose of TBAs, through dollar roll transactions or otherwise, could be limited.

Moreover, even if we are advised by counsel that TBAs should be treated as qualifying assets or that income and gains from dispositions of TBAs should be treated as qualifying income, it is possible that the IRS could successfully take the position that such assets are not qualifying assets and such income is not qualifying income. In that event, we could be subject to a penalty tax or we could fail to qualify as a REIT if (i) the value of our TBAs, together with our non-qualifying assets for the 75% asset test, exceeded 25% of our gross assets at the end of any calendar quarter or

(ii) our income and gains from the disposition of TBAs, together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable year.

We may incur a significant tax liability as a result of selling assets that might be subject to the prohibited transactions tax if sold directly by us.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets held primarily for sale to customers in the ordinary course of business. There is a risk that certain loans that we are treating as owning for federal income tax purposes and property received upon foreclosure of these loans will be treated as held primarily for sale to customers in the ordinary course of business. Although we expect to avoid the prohibited transactions tax by contributing those assets to one of our TRS's and conducting the marketing and sale of those assets through that TRS, no assurance can be given that the IRS will respect the transaction by which those assets are contributed to our TRS. Even if those contribution transactions are respected, our TRS will be subject to federal, state and local corporate income tax and may incur a significant tax liability as a result of those sales.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Other than real estate owned, acquired through, or in lieu of, foreclosures on mortgage loans, the Company does not own any properties. As of December 31, 2012, our principal executive and administrative offices are located in leased space at 52 Vanderbilt Avenue, Suite 403, New York, New York 10017.

Item 3. LEGAL PROCEEDINGS

We are at times subject to various legal proceedings arising in the ordinary course of our business. As of the date of this report, we do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations, financial condition or cash flows.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the NASDAQ Capital Market under the trading symbol "NYMT". As of December 31, 2012, we had 49,575,331 shares of common stock outstanding and as of March 1, 2013, there were approximately 20 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

The following table sets forth, for the periods indicated, the high, low and quarter end closing sales prices per share of our common stock and the cash dividends paid or payable on our common stock on a per share basis.

	Common Stock Prices			Cash Dividends		
	High	Low	Close	Declared	Paid or Payable	Amount Per Share
Year Ended December 31, 2012						
Fourth quarter	$ 7.11	$ 5.63	$ 6.32	12/14/12	01/25/13	$ 0.27
Third quarter	7.63	6.67	7.05	9/18/12	10/25/12	0.27
Second quarter	7.13	6.44	7.05	6/15/12	7/25/12	0.27
First quarter	7.12	6.36	6.54	3/19/12	4/25/12	0.25

	Common Stock Prices			Cash Dividends		
	High	Low	Close	Declared	Paid or Payable	Amount Per Share
Year Ended December 31, 2011						
Fourth quarter	$ 7.36	$ 6.22	$ 7.21	12/15/11	01/25/12	$ 0.35
Third quarter	7.50	6.59	6.97	09/20/11	10/25/11	0.25
Second quarter	7.93	6.49	7.45	05/31/11	06/27/11	0.22
First quarter	7.43	6.88	7.07	03/18/11	04/26/11	0.18

We intend to continue to pay quarterly dividends to holders of shares of common stock. Future distributions will be at the discretion of the Board of Directors and will depend on our earnings and financial condition, maintenance of our REIT qualification, restrictions on making distributions under Maryland law and such other factors as our Board of Directors deems relevant. See "Item I. Business - Certain Federal Income Tax Considerations and our status as a REIT - Distributions."

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company has a share repurchase program, which it previously announced in November 2005. At management's discretion, the Company is authorized to repurchase shares of Company common stock in the open market or through privately negotiated transactions through December 31, 2015. The plan may be temporarily or permanently suspended or discontinued at any time. The Company has not repurchased any shares since March 2006 and currently has no intention to recommence repurchases in the near future.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2012 with respect to compensation plans under which equity securities of the Company are authorized for issuance. The Company has no such plans that were not approved by security holders.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders	—	—	1,094,414

Performance Graph

The following line graph sets forth, for the period from December 31, 2007 through December 31, 2012, a comparison of the percentage change in the cumulative total stockholder return on the Company's common stock compared to the cumulative total return of the Russell 2000 Index and the FTSE National Association of Real Estate Investment Trusts Mortgage REIT ("FTSE NAREIT Mortgage REITs") Index. The graph assumes that the value of the investment in the Company's common stock and each of the indices were $100 as of December 31, 2007.

The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent we specifically incorporate this information by reference, and shall not otherwise by deemed filed under those acts.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical operating and financial data. The selected historical operating and financial data for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 have been derived from our historical financial statements.

The information presented below is only a summary and does not provide all of the information contained in our historical financial statements, including the related notes. You should read the information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements, including the related notes, (dollar amounts in thousands, except per share data):

Selected Statement of Operations Data:

	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
Interest income	$ 137,527	$ 24,291	$ 19,899	$ 31,095	$ 44,123
Interest expense	105,926	4,837	9,611	14,235	36,260
Net interest income	31,601	19,454	10,288	16,860	7,863
Other income (expense)	8,924	(3,693)	3,332	901	(26,717)
General, administrative and other expenses	11,385	8,323	7,950	6,877	6,910
Termination of management contract	40	2,195	-	-	-
Net income (loss) attributable to common stockholders	$ 28,279	$ 4,776	$ 6,805	$ 11,670	$ (24,107)
Per share basic income (loss)	$ 1.08	$ 0.46	$ 0.72	$ 1.25	$ (2.91)
Per share diluted income (loss)	$ 1.08	$ 0.46	$ 0.72	$ 1.19	$ (2.91)
Dividends declared per common share	$ 1.06	$ 1.00	$ 0.79	$ 0.91	$ 0.54
Weighted average shares outstanding-basic	26,067	10,495	9,422	9,367	8,272
Weighted average shares outstanding-diluted	26,067	10,495	9,422	11,867	8,272

Selected Balance Sheet Data:

	As of December 31,				
	2012	2011	2010	2009	2008
Investment securities, available for sale, at fair value	$ 1,034,711	$ 200,342	$ 86,040	$ 176,691	$ 477,416
Investment securities, available for sale, at fair value held in securitization trusts	71,159	-	-	-	-
Residential mortgage loans held in securitization trusts (net)	187,229	206,920	228,185	276,176	346,972
Distressed residential mortgage loans held in securitization trust (net)	60,459	-	-	-	-
Multi-family loans held in securitization trusts, at fair value	5,442,906	-	-	-	-
Total assets	7,160,401	682,705	374,294	488,814	853,300
Financing arrangements, portfolio investments	889,134	112,674	35,632	85,106	402,329
Residential collateralized debt obligations	180,979	199,762	219,993	266,754	335,646
Multi-family collateralized debt obligations, at fair value	5,319,573	-	-	-	-
Securitized debt	117,591	-	-	-	-
Subordinated debentures (net)	45,000	45,000	45,000	44,892	44,618
Convertible preferred debentures (net)	-	-	-	19,851	19,702
Total liabilities	6,838,395	596,398	305,807	425,827	814,052
Total stockholders' equity	$ 322,006	$ 85,278	$ 68,487	$ 62,987	$ 39,248

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

We are a REIT, for federal income tax purposes, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes, among other things, certain credit sensitive assets and investments in mortgage-related and financial assets and Agency RMBS, consisting of fixed-rate, adjustable-rate and hybrid adjustable-rate RMBS, Agency IOs consisting of interest only and inverse interest only RMBS that represent the right to the interest component of the cash flow from a pool of mortgage loans, multi -family CMBS and residential mortgage loans, including loans sourced from distressed markets.

We have endeavored to build in recent years a diversified investment portfolio that includes elements of interest rate and credit risk, as we believe a portfolio diversified among interest rate and credit risks are best suited to delivering stable cash flows over various economic cycles. Under our investment strategy, our targeted assets currently include Agency ARMs, Agency fixed-rate RMBS, Agency IOs, multi-family CMBS and residential mortgage loans, including loans sourced from distressed markets. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related assets and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To this end, we rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days, and longer term structured financings, such as securitization and re-securitization transactions, with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, fixed-rate Agency RMBS, non-Agency RMBS, CLOs and certain residential mortgage loans held in securitization trusts. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with Midway, RiverBanc and Headlands, with Midway providing investment management services with respect to our investments in Agency IOs, RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related debt investments, and Headlands providing investment management services with respect to our investments in certain distressed residential mortgage loans. Prior to 2012, we were also a party to an advisory agreement with HCS, which was terminated effective December 31, 2011.

Significant 2012 Activity

- Issued an aggregate of 35,362,500 shares of common stock in four public offerings at a weighted average price to the public of $6.79 per share resulting in net proceeds to us of $231.6 million, after deducting underwriting discounts and commissions and offering expenses;

- Completed the acquisitions of $134.7 million of multi-family CMBS, resulting in the Company having a net investment of $194.5 million in multi-family CMBS at December 31, 2012;

-

Completed the acquisition of distressed residential mortgage loans having a carrying value of $60.5 million at December 31, 2012;

- Expanded holdings of Agency RMBS (Agency ARMs and fixed-rate Agency RMBS) and Agency IOs by $929.8 million and $58.5 million, respectively;

- Completed two term structured financings of multi-family CMBS and one structured financing of distressed residential mortgage loans, resulting in proceeds to the Company after expenses of $76.9 million and $37.8 million, respectively;

- Increased book value per share to $6.50 at December 31, 2012 from $6.12 at December 31, 2011; and

- Declared aggregate 2012 dividends of $1.06 per common share.

Key Fourth Quarter 2012 Activity

Completion of Distressed Residential Mortgage Loans Securitization Transaction

On December 28, 2012, through a wholly-owned subsidiary, we entered into a securitization transaction with a three-year term for the purpose of financing distressed residential mortgage loans owned by us. As part of the transaction, we transferred the distressed residential mortgage loans having a carrying value of $60.5 million at December 31, 2012 to a special purpose entity of which we own the equity certificate in exchange for net proceeds of approximately $37.8 million. The proceeds of the transaction were generated from the special purpose entity's concurrent private placement of $38.7 million of notes pursuant to an indenture.

The notes bear interest that is payable monthly at a per annum rate equal to 4.25% and are scheduled to mature in December 2015, at which time the distressed residential mortgage loans serving as collateral will be transferred back to the Company. (See Note 13 in the Notes to Consolidated Financial Statements). The distressed residential mortgage loans serving as collateral for the notes are performing and re-performing, fixed and adjustable-rate, fully-amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties.

Headlands has been engaged to serve as external manager of this investment and will receive a base management and incentive fees that will be calculated in a manner similar to the Company's other investment management agreements for its management of such assets.

Completion of Multi-Family CMBS Collateralized Recourse Financing Transaction

In November 2012, through a wholly-owned subsidiary, we entered into a master repurchase agreement (the "CMBS Master Repurchase Agreement") with a three-year term for the purpose of financing certain multi-family CMBS owned by us. Pursuant to the terms of the CMBS Master Repurchase Agreement, a wholly-owned subsidiary of the Company transferred multi-family CMBS having an estimated carrying value of approximately $111.8 million at December 31, 2012 to a trust in exchange for net proceeds to us of $51 million. The proceeds of the transaction to us were generated from the concurrent private placement of $52 million of notes by the trust pursuant to an indenture.

The notes bear interest that is payable monthly at a per annum rate equal to one-month LIBOR plus 6.50%. The notes and the financing under the CMBS Master Repurchase Agreement are scheduled to mature in November 2015. In connection with the transaction, we agreed to guarantee the due and punctual payment of our subsidiary's obligations under the CMBS Master Repurchase Agreement. See Note 13 in the Notes to Consolidated Financial Statements.

The multi-family CMBS serving as collateral under the CMBS Master Repurchase Agreement are comprised of securities issued from four separate Freddie Mac-sponsored multi-family K-Series CMBS securitizations, including the multi-family CMBS discussed below in "Multi-Family CMBS Investments."

Multi-Family CMBS Investments

On October 25, 2012, we completed the purchase of the first loss floating rate security issued by a Freddie Mac sponsored multi-family loan securitization for approximately $21.1 million. We used a portion of the net proceeds from our October 2012 public stock offering to fund the purchase price of this security.

In addition, during the quarter ended December 31, 2012, we purchased first loss PO securities and certain IO securities from two additional Freddie Mac sponsored multi-family loan securitizations for approximately $54.5 million. We financed our purchases of these multi-family CMBS with proceeds from working capital and/or available short-term or longer-term structured financings.

Fourth Quarter 2012 Common Stock Dividend

On December 14, 2012, our Board of Directors declared a regular quarterly cash dividend of $0.27 per common share for the quarter ended December 31, 2012. The dividend was paid on January 25, 2013 to our common stockholders of record as of December 24, 2012.

Public Offering of Common Stock

On October 3, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 15,525,000 shares of our common stock (including the 2,025,000 shares that were issuable pursuant to an over-allotment option) at a public offering price of $6.89 per share. On October 9, 2012, we closed on the issuance of 15,525,000 shares of common stock to the underwriter (including the 2,025,000 shares issuable pursuant to the over-allotment option), resulting in total net proceeds of approximately $104.1 million, after deducting underwriting discounts and commissions and offering expenses. We used the net proceeds from this offering to primarily purchase Agency RMBS, multi-family CMBS and distressed residential loans.

Subsequent Developments

On March 13, 2013, we entered into an amended and restated management agreement with RB Commercial Mortgage LLC, our wholly-owned subsidiary, and RiverBanc (as amended, the "RiverBanc Management Agreement"). The RiverBanc Management Agreement replaces the prior management agreement between RiverBanc and RB Commercial Mortgage LLC, dated as of April 5, 2011. The amended and restated agreement has an effective date of January 1, 2013 and has a term that will expire on December 31, 2014, subject to automatic annual one-year renewals thereof.

For more information regarding the RiverBanc Management Agreement, see "Item 1. Business Our External Managers RiverBanc Management Agreement" in this Annual Report on Form 10-K.

Current Market Conditions and Commentary

General. The U.S. economy showed modest signs of growth and improvements in labor markets in fiscal year 2012, with real gross domestic product ("GDP") expanding by 2.2% in the 2012 fiscal year and the unemployment rate declining to 7.8%. However, data for the fourth quarter of 2012 suggest that economic activity paused during the quarter with GDP actually contracting by 0.1%, due, in part, to weather-related disruptions and other transitory factors. Meanwhile, the labor markets remain substantially unchanged, with the unemployment rate declining slightly to 7.7% as of the end of February 2013.

In a statement released on January 30, 2013, the Federal Reserve commented that while household spending and business fixed investment have advanced some recently and the housing sector has exhibited further signs of improvement, employment continues to only expand moderately with the unemployment rate remaining at an elevated level. In the same announcement, the Federal Reserve also commented that it expects, with appropriate policy accommodation, economic growth will proceed at a moderate pace and unemployment should gradually decline, though cautioning that strains in global financial markets continue to pose significant downside risks to the economic outlook for the U.S. Recent data also suggest that inflation has been running somewhat below the Federal Reserve's longer run objective. In its January 30, 2013 statement, the Federal Reserve stated that "to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term U.S. Treasury securities at a pace of $45 billion per month" and that it is "maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction." The policy to purchase U.S. Treasury securities at a pace of $45 billion per month replaces "operation twist," which terminated at the end of 2012. In the Federal Reserve's view, these policy actions should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

Further, the Federal Reserve also announced a policy modification in December 2012 when it announced its determination to tie the end date of exceptionally low interest rates to specific macroeconomic targets. In doing so, the Federal Reserve stated its intent to keep the target range for the federal funds rate below 0.25% until either the unemployment rate drops below 6.5% or the projected inflation rate over the next one to two years increases above 2.5% and longer-term inflation outlook changes. Upon satisfaction of either of these macroeconomic targets, the Federal Reserve intends to return to monetary policy goals of maximum employment and long-term inflation of 2%, which is consistent with the previously announced target end date of mid-2015 for a target federal funds rate below 0.25%. On January 30, 2013, the Federal Reserve affirmed its intent to maintain the target range for the federal funds rate at these levels.

This environment coupled with the Federal Reserve's policy actions have fostered continued strong demand for Agency RMBS backed by ARMs and fixed-rate mortgages while also helping to keep the costs of financing and hedging at or near historical lows.

Finally, continued difficulties in European financial markets and a contracting European economy served as a drag on the U.S. and global economies in 2012 and, as noted above, continue to pose downside risks to the U.S. economic outlook. Although volatility and uncertainty relating to the solvency of certain European financial institutions and sovereign governments stabilized during the second half of 2012, we anticipate that economic news emanating from Europe will continue to show signs of difficult conditions in the region, and as a result, may continue to create volatility and uncertainty in global financial and credit markets.

Single-Family Homes and Residential Mortgage Market. The residential real estate and mortgage market have shown signs of further improvement in 2012. Data released by S&P Indices for its S&P/Case-Shiller Home Price Indices for November 2012 showed that, on average, home prices increased 4.5% for its 10-City Composite and by 5.5% for the 20-City Composite as compared to November 2011. In addition, data suggests that new and existing home sales in 2012 also improved as compared to 2011, although the figures are still well below the peak numbers from prior to the 2008 financial crisis.

Multi-family Housing. Apartments and other residential rental properties remain one of the better performing segments of the commercial real estate market. As a result, pricing on new issuances of multi-family CMBS has increased and is expected to continue to increase in the near future. In 2012, the GSEs have funded large numbers of new loans on multi-family properties. We believe this is due, in part, to low levels of new construction and increased demand from former homeowners, which has driven stronger rental income growth across the country. In turn, these two factors have led to recent valuation recovery for multi-family properties and negligible delinquencies on new multi-family loans originated by Freddie Mac and Fannie Mae.

Recent Government Actions. In recent years, the U.S. Government and the Federal Reserve and other governmental regulatory bodies have taken numerous actions to stabilize or improve market and economic conditions in the U.S. or to assist homeowners and may in the future take additional significant actions that may impact our portfolio and our business. However, markets continue to remain uncertain over the U.S. Government’s ability and will to address the country’s budget deficits and other fiscal issues. A description of recent government actions that we believe are most relevant to our operations and business is included below:

- On October 4, 2012, the Federal Housing Finance Authority (the “FHFA”) released a White Paper entitled “Building a New Infrastructure for the Secondary Mortgage Market.” The October 2012 White Paper describes a proposed framework for both a new securitization platform and a model Pooling and Servicing Agreement as set forth in an FHFA White Paper issued in February 2012. The framework described in the October 2012 White Paper sets forth three strategic goals for the next phase of the Fannie Mae and Freddie Mac conservatorships as follows: (i) to build a new infrastructure for the secondary mortgage market, (ii) to gradually contract Fannie Mae and Freddie Mac's presence in the marketplace while simplifying and shrinking their operations, and (iii) to maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. The October 2012 White Paper, which was intended to establish an open exchange of ideas within the mortgage industry that will foster the further development of the above-stated goals, is a proposed framework only. As a result, it is currently unclear whether the proposals set forth in the October 2012 White Paper will be enacted, or if enacted, what the effects of the enactment will be.

- The policies and actions of the Federal Reserve as described above under “ General,” including the implementation and expansion of operation twist and its successor policy. Pursuant to operation twist, the Federal Reserve sold more than $650 billion of shorter-term U.S. Treasury securities through the end of 2012 and used the proceeds to buy longer-term U.S. Treasury securities. Operation twist and its successor program are intended to extend the average maturity of the securities in the Federal Reserve’s portfolio. By reducing the supply of longer-term U.S. Treasury securities in the market, the action has created downward pressure on longer-term interest rates, including rates on financial assets that investors consider to be close substitutes for longer-term U.S. Treasury securities, like certain types of Agency RMBS. The reduction in longer-term interest rates, in turn, may contribute to a broad easing in financial market conditions that the Federal Reserve hopes will provide additional stimulus to support economic recovery. While longer-term interest rates have fallen significantly since operation twist was first implemented, the Federal Reserve’s ability to stimulate economic recovery through operation twist and its successor program remains uncertain.

- On October 24, 2011, the FHFA, along with Fannie Mae and Freddie Mac, announced several changes to be made to HARP. Among those changes to HARP, which as modified, we refer to as “HARP II”, are (1) the reduction or elimination in certain cases, of many risk based fees charged to borrowers when refinancing, (2) the expansion of the previous 125% loan-to-value ceiling to allow all underwater borrowers (those borrowers who owe more on their mortgages than the value of their homes) to participate in the program, regardless of the size of their loan versus the value of their home and (3) the removal of certain representations and warranties made on behalf of lenders for loans owned or guaranteed by Fannie Mae or Freddie Mac, among other changes. The provisions of HARP II are only available to borrowers with loans originated prior to June 1, 2009 that are owned or guaranteed by Fannie Mae or Freddie Mac. Aside from the expansion of HARP as described above, borrowers attempting to utilize the provisions of HARP II are subject to the restrictions originally put in place for HARP I. HARP II, which is expected to run through the end of 2013, presents the opportunity for many borrowers to take advantage of the ability to refinance their mortgages into lower interest rates, possibly resulting in higher prepayment speeds. According to the FHFA, Fannie Mae and Freddie Mac refinanced more loans in the first seven months of 2012 under HARP II than all HARP refinances in 2011. Not surprisingly, prepayment spreads have generally trended higher during 2012 as compared to 2011. HARP II may negatively impact our Agency RMBS, particularly the performance of our Agency IOs.

- On August 31, 2011, the SEC published a concept release (No. IC-29778; File No. SW7-34-11, Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments) pursuant to which it is reviewing whether certain companies that invest in mortgage-backed securities and rely on the exemption from registration under Section 3(c)(5)(C) of the Investment Company Act should continue to be allowed to rely on such exemption from registration. This release suggests that the SEC may modify the exemption relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. The comment period relating to the concept release concluded during the fourth quarter of 2011. The SEC has yet to provide additional information on its position relating to this exception and timing of any future changes to the exemption remains unknown.

Developments at Fannie Mae and Freddie Mac. Payments on the Agency ARMs and fixed-rate Agency RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. As broadly publicized, Fannie Mae and Freddie Mac have experienced significant losses in recent years, and are presently under federal conservatorship as the U.S. Government continues to evaluate the futures of these entities and what role the U.S. Government should continue to play in the housing markets in the future. While the exact scope and nature of the actions that the U.S. Government will ultimately undertake with respect to the future of Fannie Mae and Freddie Mac are unknown and will continue to evolve, it is probable that they each will continue to shrink in size. New regulations and programs related to Fannie Mae and Freddie Mac may adversely affect the pricing, supply, liquidity and value of RMBS and otherwise materially harm our business and operations. See “ Recent Government Actions” above.

Credit Spreads. Over the past few years, the credit markets generally experienced tightening credit spreads (specifically, spreads between U.S. Treasury securities and other securities). However, during the last six months of 2011, the credit markets experienced significant spread widening due to a series of factors, including concerns related to a possible global economic slowdown, the European sovereign debt crisis and continued concern with respect to certain U.S. domestic economic policies. Although credit spreads in the residential and commercial markets have generally tightened during 2012, they continued to experience significant fluctuations due, in part, to continued concerns noted in the immediately preceding sentence. Typically when credit spreads widen, credit-sensitive assets such as CLOs and multi-family CMBS, as well as Agency IOs are negatively impacted, while tightening credit spreads typically have a positive impact on the value of such assets.

Financing markets and liquidity. The availability of repurchase agreement financing for our Agency RMBS portfolio remains stable with interest rates between 0.35% and 0.46% for 30 day repurchase agreements for Agency ARMs and Agency fixed-rate RMBS. The 30-day London Interbank Offered Rate (“LIBOR”) was 0.30% at December 31, 2012, marking a decrease of approximately 1 basis point from September 28, 2012, and a decrease of 9 basis points from the previous year end. Longer term interest rates also decreased during the year ended December 31, 2012, with the 10-year U.S. Treasury Rate decreasing by 12 basis points to 1.88% at December 30, 2012. We expect interest rates to rise over the longer term as the U.S. and global economic outlook improves. However, given the global economic headwinds and expected modest economic growth, we believe that interest rates, and thus our short-term financing costs, are likely to remain at very low levels until such time as the economic data begin to confirm an acceleration of overall economic recovery. These lower interest rates may contribute to higher prepayment experience for our portfolio while the conditions persist.

While the financing markets for Agency RMBS remain favorable, financing and liquidity for commercial real estate securities and other credit sensitive assets have shown signs of improvement, as evidenced by the three longer-terms structured financings we completed in 2012.

Prepayment rates. As a result of various government initiatives, particularly HARP II, and relatively low intermediate and longer-term treasury yields, rates on conforming mortgages during 2012 touched and have remained near historical lows and that same trend has continued during the first quarter of 2013. This has resulted in elevated prepayment rates during 2012, as indicated in the table set forth under the caption “ Results of Operations Prepayment Experience.”

Significant Estimates and Critical Accounting Policies

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

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

Revenue Recognition. Interest income on our investment securities and on our mortgage loans is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities and mortgage loans at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our non-Agency RMBS and certain of our CMBS that were purchased at a discount to par value, is recognized based on the security's effective interest rate. The effective interest rate on these securities is based on management's estimate from each security of the projected cash flows, which are estimated based on the Company's assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

Based on the projected cash flows from the Company's first loss PO CMBS purchased at a discount to par value, a portion of the purchase discount is designated as non-accretable purchase discount or credit reserve, which partially mitigates the Company's risk of loss on the mortgages collateralizing such CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

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

Fair value. The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves. Such inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Company's IOs POs, multi-family loans held in securitization trusts and multi-family CDOs are considered to be the most significant of its fair value estimates.

The Company’s valuation methodologies are described in “Note 17 – Fair Value of Financial Instruments” included in Item 8 of this Annual Report on Form 10-K.

Mortgage Loans Held in Securitization Trusts – Impaired Loans (net). Impaired mortgage loans held in the securitization trusts are recorded at amortized cost less specific loan loss reserves. Impaired loan value is based on management's estimate of the net realizable value taking into consideration local market conditions of the distressed property, updated appraisal values of the property and estimated expenses required to remediate the impaired loan.

Variable Interest Entities – An entity is referred to as a variable interest entity ("VIE") if it meets at least one of the following criteria: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support of other parties; or (2) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (3) have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionally few voting rights.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations. As of December 31, 2012, we owned 100% of the first loss securities of the "Consolidated K-Series". The Consolidated K-Series, collectively represents four separate Freddie-Mac sponsored multi-family loan K-Series securitizations, of which we, or one of our special purpose entities, or SPEs, own the first loss PO securities and certain IO securities. We determined that the Consolidated K-Series were VIEs and that we are the primary beneficiary of the Consolidated K-Series. As a result, we are required to consolidate the Consolidated K-Series' underlying multi-family loans including their liabilities, interest income and expense in our consolidated financial statements. We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series will be reflected in our consolidated statement of operations.

Fair Value Option – The fair value option provides an election that allows companies to irrevocably elect fair value for financial assets and liabilities on an instrument-by-instrument basis at initial recognition. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur.

Recent Accounting Pronouncements

A discussion of recent accounting pronouncements and the possible effects on our financial statements is included in "Note 2 — Summary of Significant Accounting Policies" included in Item 8 of this Annual Report on Form 10-K.

Financial Condition

As of December 31, 2012, we had approximately $7.2 billion of total assets, as compared to approximately $682.7 million of total assets as of December 31, 2011. The increase is primarily due to the consolidation of multi-family loans held in securitization trusts on our balance sheet, which represents the assets comprising the Consolidated K-Series (amounting to $5.4 billion at December 31, 2012), and the purchase primarily of leveraged Agency RMBS with cash proceeds from our public equity offerings in 2012. See "Significant Estimates and Critical Accounting Policies - Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations."

Investment Allocation

The following tables set forth our allocated equity by investment type at December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

At December 31, 2012:

	Agency RMBS(1)	Agency IOs	Multi-Family CMBS(2)	Distressed Residential Loans	Residential Securitized Loans	Other(3)	Total
Carrying value	$ 901,867	$ 99,372	$ 194,492	$ 60,459	$ 187,229	$ 41,800	$ 1,485,219
Liabilities:							
Callable(4)	(806,477)	(74,707)	-	-	-	(7,950)	(889,134)
Non-callable	-	-	(78,891)	(38,700)	(180,979)	(45,000)	(343,570)
Hedges (Net)(5)	3,716	10,782	-	575	-	-	15,073
Cash	-	25,797	-	-	-	31,777	57,574
Other	3,126	1,575	1,763	2,337	732	(12,689)	(3,156)
Net equity allocated	$ 102,232	$ 62,819	$ 117,364	$ 24,671	$ 6,982	$ 7,938	$ 322,006

(1) Includes both Agency ARMs and Agency fixed rate RMBS.

(2) The Company determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. A reconciliation to our financial statements as of December 31, 2012 follows:

Multi-Family loans held in securitization trusts, at fair value	$5,442,906
Multi-Family CDOs, at fair value	(5,319,573)
Net carrying value	123,333
CMBS, at fair value (available for sale)	71,159
Total CMBS, at fair value	194,492
Securitized debt	(78,891)
Other	1,763
Net Equity in Multi-Family CMBS	$117,364

(3) Other includes CLOs having a carrying value of $30.8 million, non-Agency RMBS and loans held for investment. Other callable liabilities include an $8.0 million repurchase agreement on our CLO securities and other non-callable liabilities consist of $45.0 million in subordinated debentures.

(4) Includes repurchase agreements.

(5)

Includes derivative assets, derivative liabilities, payable for securities purchased and restricted cash posted as margin.

61

At December 31, 2011:

	Agency ARMs	Agency IOs	Multi-Family CMBS	Residential Securitized Loans	Other(1)	Total
Carrying value	$ 68,776	$ 63,681	$ 41,185	$ 206,920	$ 44,301	$ 424,863
Liabilities:						
Callable(2)	(56,913)	(49,226)	(21,531)	-	(6,535)	(134,205)
Non-callable	-	-	-	(199,762)	(45,000)	(244,762)
Hedges (Net)(3)	(304)	9,317	-	-	-	9,013
Cash	-	16,536	-	-	16,586	33,122
Other	616	1,314	278	455	(4,387)	(1,724)
Net equity allocated	$ 12,175	$ 41,622	$ 19,932	$ 7,613	$ 4,965	$ 86,307

(1) Other includes CLOs, investment in limited partnership, loans held for investment and non-Agency RMBS. Other callable liabilities include a $6.5 million repurchase agreement on our CLO securities and other non-callable liabilities consist of $45.0 million in subordinated debentures.

(2) Includes repurchase agreements and $21.5 million in payables for securities purchased related to our multi-family CMBS strategy.

(3) Includes derivative assets, receivable for securities sold, derivative liabilities, payable for securities purchased and restricted cash posted as margin.

Balance Sheet Analysis

Investment Securities Available for Sale. At December 31, 2012, our securities portfolio includes Agency RMBS, including Agency fixed-rate and ARM pass-through certificates, Agency IOs, non-Agency RMBS and CLOs, which are classified as investment securities available for sale. At December 31, 2012, we had no investment securities in a single issuer or entity, other than Fannie Mae, that had an aggregate book value in excess of 10% of our total assets. The increase in investment securities available for sale as of December 31, 2012 as compared to December 31, 2011 is primarily a result of increased purchases of leveraged Agency RMBS during the third and fourth quarters of 2012 with cash proceeds from public equity offerings during 2012. The following tables set forth the balances of our investment securities available for sale as of December 31, 2012 and December 31, 2011, respectively:

Balances of Our Investment Securities Available for Sale (dollar amounts in thousands):

December 31, 2012	Par Value	Carrying Value	% of Total Carrying Value
Agency RMBS:			
ARMs	$ 259,851	$ 273,923	26.5%
Fixed Rate	591,254	627,944	60.7%
IOs	645,937	99,372	9.6%
Non-Agency RMBS	3,868	2,687	0.2%
CLOs	35,550	30,785	3.0%
Total	$ 1,536,460	$ 1,034,711	100.0%

December 31, 2011	Par Value	Carrying Value	% of Total

			Carrying Value	
Agency RMBS:				
ARMs	$65,112	$68,775	34.3	%
IOs	537,032	63,682	31.8	%
CMBS:				
POs	138,386	34,927	17.5	%
IOs	850,821	6,258	3.1	%
Non-Agency RMBS	6,079	3,945	1.9	%
CLOs	35,550	22,755	11.4	%
Total	$1,632,980	$200,342	100.0	%

Investment Securities Available for Sale Held in Securitization Trusts. At December 31, 2012, our securities portfolio includes multi-family CMBS classified as investment securities available for sale held in securitization trusts, which are multi-family CMBS contributed to both RB Commercial Trust 2012-RS1 (the "2012-RS1 Trust") and New York Mortgage Securitization Trust 2012-1 (the "NYMST 2012-1 Trust"), both subsidiaries of the Company. The following table sets forth the balances of our investment securities available for sale held in securitization trusts as of December 31, 2012:

Balances of Our Investment Securities Available for Sale Held in Securitization Trusts (dollar amounts in thousands):

December 31, 2012	Par Value	Carrying Value	% of Total Carrying Value
CMBS:			
POs	$ 137,425	$ 37,448	52.6%
Floating rate	50,388	22,215	31.2%
IOs	1,825,203	11,496	16.2%
Total	$ 2,013,016	$ 71,159	100.0%

Detailed Composition of Loans Securitizing Our CLOs

The following tables summarize the loans securitizing our CLOs grouped by range of outstanding balance and industry as of December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

	As of December 31, 2012			As of December 31, 2011		
Range of Outstanding Balance	Number of Loans	Maturity Date	Total Principal	Number of Loans	Maturity Date	Total Principal
$0 - $500	32	8/2015 - 8/2019	$ 12,508	20	8/2015 - 11/2018	$ 8,583
$500 - $2,000	131	12/2013 - 12/2019	163,939	103	12/2012 - 12/2018	147,598
$2,000 - $5,000	74	4/2013 - 12/2019	210,991	84	4/2013 - 9/2019	250,010
$5,000 - $10,000	5	2/2013 - 5/2018	31,248	6	2/2013 - 3/2016	35,623
Total	242		$ 418,686	213		$ 441,814

63

December 31, 2012

Industry	Number of Loans	Outstanding Balance	% of Outstanding Balance	
Healthcare, Education & Childcare	23	$50,192	12.0	%
Retail Store	19	35,746	8.5	%
Diversified/Conglomerate Service	20	33,761	8.1	%
Chemicals, Plastics and Rubber	17	32,058	7.7	%
Electronics	15	25,544	6.1	%
Beverage, Food & Tobacco	11	20,983	5.0	%
Hotels, Motels, Inns and Gaming	7	20,554	4.9	%
Telecommunications	9	19,746	4.7	%
Leisure, Amusement, Motion Pictures & Entertainment	10	18,723	4.5	%
Personal, Food & Misc Services	13	17,691	4.2	%
Utilities	8	17,156	4.1	%
Personal & Non-Durable Consumer Products	10	16,943	4.0	%
Aerospace & Defense	10	15,271	3.7	%
Automobile	6	8,418	2.0	%
Banking	6	7,828	1.9	%
Diversified/Conglomerate Mfg	7	7,644	1.8	%
Insurance	3	6,742	1.6	%
Broadcasting & Entertainment	5	6,650	1.6	%
Finance	6	6,049	1.4	%
Ecological	5	5,903	1.4	%
Oil & Gas	3	5,436	1.3	%
Farming & Agriculture	3	5,141	1.2	%
Buildings and Real Estate	2	4,964	1.2	%
Printing & Publishing	3	4,592	1.1	%
Containers, Packaging and Glass	4	4,224	1.0	%
Personal Transportation	3	3,984	1.0	%
Grocery	2	3,968	0.9	%
Textiles & Leather	4	3,586	0.9	%
Machinery (Non-Agriculture, Non-Construction & Non-Electronic)	3	2,462	0.6	%
Mining, Steel, Iron and Non-Precious Metals	1	2,419	0.6	%
Cargo Transport	1	1,728	0.4	%
Home and Office Furnishings, Housewares and Durable Consumer Products	1	1,092	0.3	%
Diversified Natural Resources, Precious Metals and Minerals	1	993	0.2	%
Personal and Non-Durable Consumer Products (mfg only)	1	495	0.1	%
	242	$418,686	100.0	%

December 31, 2011

Industry	Number of Loans	Outstanding Balance	% of Outstanding Balance
Healthcare, Education & Childcare	24	$ 61,543	13.9%
Retail Store	14	35,704	8.1%
Electronics	13	31,721	7.2%
Telecommunications	13	27,638	6.3%
Chemicals, Plastics and Rubber	12	25,336	5.7%
Diversified/Conglomerate Service	15	22,320	5.1%
Beverage, Food & Tobacco	10	20,274	4.6%
Leisure, Amusement, Motion Pictures & Entertainment	8	18,904	4.3%
Personal & Non-Durable Consumer Products	8	18,203	4.1%
Aerospace & Defense	10	17,254	3.9%
Utilities	5	16,723	3.8%
Hotels, Motels, Inns and Gaming	5	15,914	3.6%
Personal, Food & Misc. Services	12	14,598	3.3%
Containers, Packaging and Glass	7	14,493	3.3%
Finance	8	11,471	2.6%
Printing & Publishing	4	11,404	2.6%
Automobile	7	9,829	2.2%
Diversified/Conglomerate Mfg.	6	9,643	2.2%
Banking	3	8,777	2.0%
Broadcasting & Entertainment	3	6,293	1.4%
Mining, Steel, Iron and Non-Precious Metals	3	6,242	1.4%
Machinery (Non-Agriculture, Non-Construction & Non-Electronic)	4	6,029	1.4%
Textiles & Leather	5	5,281	1.2%
Personal Transportation	2	4,969	1.1%
Grocery	3	4,911	1.1%
Buildings and Real Estate	2	4,887	1.1%
Insurance	2	4,352	1.0%
Diversified Natural Resources, Precious Metals and Minerals	1	2,227	0.5%
Ecological	2	1,984	0.4%
Farming & Agriculture	1	1,900	0.4%
Cargo Transport	1	990	0.2%
	213	$ 441,814	100.0%

Residential Mortgage Loans Held in Securitization Trusts (net). Included in our portfolio are prime ARM loans that we originated or purchased in bulk from third parties that met our investment criteria and portfolio requirements and that we subsequently securitized. We have completed four securitizations; three were completed in 2005 and were classified as financings and one completed in 2006, New York Mortgage Trust 2006-1, qualified as a sale, which resulted in the recording of residual assets and mortgage servicing rights.

At December 31, 2012, residential mortgage loans held in securitization trusts totaled approximately $187.2 million. The Company's net investment in the residential securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the ARM mortgage loans and real estate owned held in residential securitization trusts and the amount of Residential CDOs outstanding, was $7.0 million. Of the residential mortgage loans held in securitized trusts, 100% are traditional ARMs or hybrid ARMs, 81.8% of which are ARM loans that are interest only. With respect to the hybrid ARMs included in these securitizations, interest rate reset periods were predominately five years or less and the interest-only period is typically 10 years, which mitigates the "payment shock" at the time of interest rate reset. None of the residential mortgage loans held in securitization trusts are pay option-ARMs or ARMs with negative amortization.

The following table details our residential mortgage loans held in securitization trusts at December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

	Number of Loans	Par Value	Weighted Average Coupon	Carrying Value
December 31, 2012	474	$ 189,009	3.08%	$ 187,229
December 31, 2011	512	$ 208,934	2.82%	$ 206,920

Characteristics of Our Residential Mortgage Loans Held in Securitization Trusts:

The following table sets forth the composition of our residential mortgage loans held in securitization trusts as of December 31, 2012 (dollar amounts in thousands):

	Average	High	Low
General Loan Characteristics:			
Original Loan Balance (dollar amounts in thousands)	$ 440	$ 2,950	$ 48
Current Coupon Rate	3.08%	7.25%	2.50%
Gross Margin	2.37%	4.13%	1.13%
Lifetime Cap	11.29%	13.25%	9.13%
Original Term (Months)	360	360	360
Remaining Term (Months)	268	276	235
Average Months to Reset	3	11	1
Original Average FICO Score	728	818	593
Original Average LTV	70.47%	95.00%	13.94%

	% of Outstanding Loan Balance	Weighted Average Gross Margin (%)
Index Type/Gross Margin:		
One Month LIBOR	3.1%	1.69%
Six Month LIBOR	73.4%	2.41%

One Year LIBOR	15.7%	2.26%
One Year Constant Maturity Treasury	7.8%	2.64%
Total/Weighted Average	100.0%	2.39%

The following table sets forth the composition of our residential mortgage loans held in securitization trusts as of December 31, 2011 (dollar amounts in thousands):

	Average	High	Low
General Loan Characteristics:			
Original Loan Balance (dollar amounts in thousands)	$ 445	$ 2,950	$ 48
Current Coupon Rate	2.82%	7.25%	1.38%
Gross Margin	2.37%	4.13%	1.13%
Lifetime Cap	11.29%	13.25%	9.13%
Original Term (Months)	360	360	360
Remaining Term (Months)	280	288	247
Average Months to Reset	4	11	1
Original Average FICO Score	729	818	593
Original Average LTV	70.41%	95.00%	13.94%

	% of Outstanding Loan Balance	Weighted Average Gross Margin (%)
Index Type/Gross Margin:		
One Month LIBOR	2.8%	1.69%
Six Month LIBOR	72.9%	2.40%
One Year LIBOR	16.4%	2.26%
One Year Constant Maturity Treasury	7.9%	2.64%
Total/Weighted Average	100.0%	2.38%

The following tables detail activity for the residential mortgage loans held in securitization trusts (net) for the years ended December 31, 2012 and 2011, respectively (dollar amounts in thousands):

	Principal	Premium	Allowance for Loan Losses	Net Carrying Value
Balance, January 1, 2012	$ 208,934	$ 1,317	$ (3,331)	$ 206,920
Principal repayments	(17,571)	—	—	(17,571)
Provision for loan loss	—	—	(675)	(675)
Transfer to real estate owned	(2,467)	—	899	(1,568)
Charge-Offs	113	—	129	242
Amortization of premium	—	(119)	—	(119)
Balance, December 31, 2012	$ 189,009	$ 1,198	$ (2,978)	$ 187,229

	Principal	Premium	Allowance for Loan Losses	Net Carrying Value
Balance, January 1, 2011	$ 229,323	$ 1,451	$ (2,589)	$ 228,185
Principal repayments	(19,674)	—	—	(19,674)
Provision for loan loss	—	—	(1,380)	(1,380)
Transfer to real estate owned	(890)	—	192	(698)
Charge-Offs	175	—	446	621
Amortization of premium	—	(134)	—	(134)
Balance, December 31, 2011	$ 208,934	$ 1,317	$ (3,331)	$ 206,920

The following table details loan summary information for our residential mortgage loans held in securitization trusts at December 31, 2012 (dollar amounts in thousands):

Description			Interest Rate %			Final Maturity		Periodic Payment Term		Original Amount of	Current Amount of	Principal Amount of Loans Subject to Delinquent Principal or
Property Type	Balance	Loan Count	Max	Min	Avg	Min	Max	(months)	Prior Liens	Principal	Principal	Interest
Single	<= $100	14	3.38	2.38	3.06	12/01/34	11/01/35	360	NA	$ 1,858	$ 968	$ 120
FAMILY	<= $250	69	4.88	2.38	3.20	09/01/32	12/01/35	360	NA	15,298	12,630	854
	<= $500	81	4.13	2.38	3.11	07/01/33	01/01/36	360	NA	31,523	28,501	4,407
	<=$1,000	31	3.88	1.50	3.01	08/01/33	12/01/35	360	NA	25,208	23,295	1,481
	>$1,000	18	3.38	2.88	3.12	01/01/35	11/01/35	360	NA	32,352	32,366	9,048
	Summary	213	4.88	1.50	3.12	09/01/32	01/01/36	360	NA	$ 106,239	$ 97,760	$ 15,910
2-4	<= $100	2	4.00	3.38	3.69	02/01/35	07/01/35	360	NA	$ 212	$ 158	$ 75
FAMILY	<= $250	6	4.00	3.00	3.35	12/01/34	07/01/35	360	NA	1,283	1,072	-
	<= $500	15	7.25	2.13	3.26	09/01/34	01/01/36	360	NA	5,554	5,017	254
	<=$1,000	-	-	-	-	01/01/00	01/01/00	360	NA	-	-	-
	>$1,000	-	-	-	-	01/01/00	01/01/00	360	NA	-	-	-
	Summary	23	7.25	2.13	3.32	09/01/34	01/01/36	360	NA	$ 7,049	$ 6,247	$ 329
Condo	<= $100	15	3.88	3.00	3.22	12/01/34	12/01/35	360	NA	$ 2,157	$ 994	$ -
	<= $250	71	3.88	1.50	3.16	02/01/34	01/01/36	360	NA	14,590	12,401	465
	<= $500	52	4.13	2.38	3.12	09/01/32	12/01/35	360	NA	19,000	16,859	294
	<=$1,000	13	4.13	1.63	2.99	08/01/33	09/01/35	360	NA	10,329	9,495	742
	> $1,000	8	3.25	2.88	3.03	03/01/35	09/01/35	360	NA	12,544	12,534	-
	Summary	159	4.13	1.50	3.13	09/01/32	01/01/36	360	NA	$ 58,620	$ 52,283	$ 1,501
CO-OP	<= $100	4	3.25	2.38	2.91	10/01/34	08/01/35	360	NA	$ 443	$ 282	$ -
	<= $250	14	3.63	2.50	3.09	10/01/34	12/01/35	360	NA	2,907	2,422	212
	<= $500	17	3.63	1.38	3.09	08/01/34	12/01/35	360	NA	7,558	6,201	263
	<=$1,000	9	3.25	2.88	3.01	12/01/34	10/01/35	360	NA	7,239	7,002	-
	> $1,000	4	3.00	2.25	2.78	11/01/34	12/01/35	360	NA	5,659	5,125	-
	Summary	48	3.63	1.38	3.00	08/01/34	12/01/35	360	NA	$ 23,806	$ 21,032	$ 475
PUD	<= $100	1	3.00	3.00	3.00	07/01/35	07/01/35	360	NA	$ 100	$ 86	$ -
	<= $250	17	3.50	2.38	3.07	08/01/32	12/01/35	360	NA	3,785	3,423	-
	<= $500	8	3.38	2.88	3.05	06/01/33	12/01/35	360	NA	2,978	2,754	455
	<=$1,000	2	3.50	3.25	3.38	09/01/34	07/01/35	360	NA	1,662	1,453	843
	> $1,000	3	3.25	2.88	3.02	04/01/34	12/01/35	360	NA	4,148	3,971	-
	Summary	31	3.50	2.38	3.08	08/01/32	12/01/35	360	NA	$ 12,673	$ 11,687	$ 1,298
Summary	<= $100	36	4.00	2.38	3.14	10/01/34	12/01/35	360	NA	$ 4,770	$ 2,488	$ 195
	<= $250	177	4.88	1.50	3.17	08/01/32	01/01/36	360	NA	37,863	31,948	1,531
	<= $500	173	7.25	1.38	3.11	09/01/32	01/01/36	360	NA	66,613	59,332	5,673
	<=$1,000	55	4.13	1.50	3.02	08/01/33	12/01/35	360	NA	44,438	41,245	3,066
	> $1,000	33	3.38	2.25	3.05	04/01/34	12/01/35	360	NA	54,703	53,996	9,048
		474	7.25	1.38	3.08	08/01/32	01/01/36	360	NA	$ 208,387	$ 189,009	$ 19,513

Grand
Total/
Weighted
Average

68

The following table details loan summary information for our residential mortgage loans held in securitization trusts at December 31, 2011 (dollar amounts in thousands):

Property Type	Description Balance	Loan Count	Interest Rate % Max	Interest Rate % Min	Interest Rate % Avg	Final Maturity Min	Final Maturity Max	Periodic Payment Term (months)	Prior Liens	Original Amount of Principal	Current Amount of Principal	Principal Amount of Loans Subject to Delinquent Principal or Interest
Single FAMILY	<= $100	14	3.00	2.50	2.88	09/01/34	11/01/35	360	NA	$ 1,658	$ 1,055	$ -
	<= $250	71	4.50	2.50	2.96	06/01/32	12/01/35	360	NA	16,299	13,107	956
	<= $500	89	3.75	2.50	2.87	07/01/33	01/01/36	360	NA	33,896	31,056	6,135
	<=$1,000	34	3.50	1.50	2.77	08/01/31	12/01/35	360	NA	27,122	25,368	3,411
	>$1,000	21	3.25	2.63	2.81	01/01/35	11/01/35	360	NA	37,357	36,811	9,047
	Summary	229	4.50	1.50	2.89	08/01/32	01/01/36	360	NA	$ 116,332	$ 107,397	$ 19,549
2-4 FAMILY	<= $100	2	3.63	3.00	3.31	02/01/35	07/01/35	360	NA	$ 212	$ 168	$ 75
	<= $250	6	3.63	2.63	3.12	02/01/34	07/01/35	360	NA	1,283	1,094	-
	<= $500	15	7.25	2.13	3.19	09/01/34	01/01/36	360	NA	5,554	5,134	254
	<=$1,000	-	-	-	-	-	-	360	NA	-	-	-
	>$1,000	-	-	-	-	-	-	360	NA	-	-	-
	Summary	23	7.25	2.13	3.19	09/01/34	01/01/36	360	NA	$ 7,049	$ 6,396	$ 329
Condo	<= $100	13	3.25	2.63	2.81	01/01/35	12/01/35	360	NA	$ 1,640	$ 844	$ -
	<= $250	72	3.50	1.50	2.93	02/01/34	01/01/36	360	NA	14,297	12,415	468
	<= $500	58	3.75	2.38	2.89	04/01/32	12/01/35	360	NA	20,942	18,891	-
	<=$1,000	14	3.88	1.63	2.76	08/01/33	09/01/35	360	NA	10,339	9,996	-
	> $1,000	10	2.88	2.63	2.73	01/01/35	09/01/35	360	NA	14,914	14,559	-
	Summary	167	3.88	1.50	2.86	05/01/32	01/01/36	360	NA	$ 62,132	$ 56,705	$ 468
CO-OP	<= $100	4	2.88	2.50	2.61	09/01/34	08/01/35	360	NA	$ 443	$ 306	$ -
	<= $250	15	3.38	2.25	2.78	10/01/34	12/01/35	360	NA	3,423	2,573	212
	<= $500	23	3.50	1.38	2.78	08/01/34	12/01/35	360	NA	9,537	8,233	-
	<=$1,000	11	2.88	2.63	2.69	12/01/34	10/01/35	360	NA	8,563	8,321	-
	> $1,000	4	2.75	2.25	2.59	11/01/34	12/01/35	360	NA	5,659	5,232	-
	Summary	57	3.50	1.38	2.72	08/01/34	12/01/35	360	NA	$ 27,625	$ 24,665	$ 212
PUD	<= $100	1	2.63	2.63	2.63	07/01/35	07/01/35	360	NA	$ 100	$ 89	$ -
	<= $250	18	3.13	2.50	2.87	08/01/35	12/01/35	360	NA	3,958	3,656	160
	<= $500	10	3.00	2.63	2.88	08/01/32	12/01/35	360	NA	3,665	3,422	315
	<=$1,000	4	3.25	2.75	2.95	09/01/34	07/01/35	360	NA	2,832	2,593	-
	> $1,000	3	2.88	2.75	2.83	04/01/34	12/01/35	360	NA	4,148	4,011	-
	Summary	36	3.25	2.50	2.87	08/01/32	12/01/35	360	NA	$ 14,703	$ 13,771	$ 475
Summary	<= $100	34	3.63	2.50	2.85	09/01/34	12/01/35	360	NA	$ 4,053	$ 2,462	$ 75
	<= $250	182	4.50	1.50	2.93	08/01/32	01/01/36	360	NA	39,260	32,845	1,796
	<= $500	195	7.25	1.38	2.87	08/01/32	01/01/36	360	NA	73,594	66,736	6,704
	<=$1,000	63	3.88	1.50	2.77	08/01/31	12/01/35	360	NA	48,856	46,278	3,411
	> $1,000	38	3.25	2.25	2.77	04/01/34	12/01/35	360	NA	62,078	60,613	9,047
	Grand Total/	512	7.25	1.38	2.82	08/01/32	01/01/36	360	NA	$ 227,841	$ 208,934	$ 21,033

Weighted
Average

Distressed Residential Mortgage Loans Held in Securitization Trust. Included in our portfolio is a pool of performing and re-performing, fixed and adjustable rate, residential mortgage loans acquired in the fourth quarter of 2012 and transferred to NYMT Residential 2012-RP1 as part of a securitization transaction.

At December 31, 2012, distressed residential mortgage loans held in securitization trust totaled approximately $60.5 million. The Company's net investment in the securitization trust, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the distressed residential mortgage loans held in securitization trust and the carrying amount of securitized debt outstanding, was $21.8 million.

The following table displays the loan product type and accompanying loan characteristics of our distressed residential mortgage loans held in securitization trust recorded on our consolidated balance sheets at December 31, 2012 (amounts in thousands, except number of loans):

		Loan Balance	Number of Loans	Interest Rate	Maturity Date		Total Unpaid Principal
ARM Loans:	$	0 to 250,000	68	2.00 to 11.99%	1/2014 – 1/2057	$	9,320
		251,000 to 500,000	30	1.99 to 8.50 %	6/2033 – 3/2047		9,886
		Over 500,000	9	2.88 to 6.88%	5/2035 – 6/2037		6,079
ARM Total			107			$	25,285
Fixed Loans:	$	0 to 250,000	341	1.25 to 12. 75%	2/2012 – 8/2057	$	40,041
		251,000 to 500,000	54	1.5 to 9.25%	10/2020 – 2/2041		18,825
Fixed Total		Over 500,000	11	1.5 to 6.75%	8/2037 – 7/2057		7,680
			406			$	66,546
Grand Total			513			$	91,831

Multi-Family Loans Held in Securitization Trusts. As of December 31, 2012, we owned 100% of the first loss securities of the Consolidated K-Series. The Consolidated K-Series are comprised of multi-family mortgage loans held in four Freddie Mac-sponsored multi-family K-Series securitizations, of which we, or one of our SPEs, own the first loss POs and certain IOs. We determined that the securitizations comprising the Consolidated K-Series were VIEs and that we are the primary beneficiary of these securitizations. Accordingly, we are required to consolidate the Consolidated K-Series' underlying multi-family loans including their liabilities, interest income and expense in our financial statements. We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series will be reflected in our statement of operations. As of December 31, 2012, the Consolidated K-Series was comprised of $5.4 billion in multi-family loans held in securitization trusts and $5.3 billion in multi-family CDOs. In addition, as a result of the consolidation of the Consolidated K-Series, our statement of operations for the year ended December 31, 2012 included $104.4 million in interest income and $97.0 million in interest expense. Also, we recognized a $6.7 million unrealized gain in the statement of operations for the year ended December 31, 2012, as a result of the fair value accounting method election. We do not have any claims to the assets (other than the security represented by our first loss piece) or obligations for the liabilities of the Consolidated K-Series. Our maximum exposure to loss from the Consolidated K-Series is our net carrying value of $123.3 million as of December 31, 2012.

Multi-Family CMBS Loan Characteristics

The following table details the loan characteristics of the loans that back our multi-family CMBS (including the Consolidated K-Series) in our portfolio as of December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands, except as noted):

	December 31, 2012	December 31, 2011
Current balance of loans	$ 9,932,167	$ 3,457,297
Number of loans	609	234
Weighted average original LTV	69.2%	68.0%
Weighted average underwritten debt service coverage ratio	1.49x	1.52x
Current average loan size	$ 16,309	$ 14,775
Weighted average original loan term (in months)	108	117
Weighted average current remaining term (in months)	89	101
Weighted average loan rate	4.54%	5.25%
First mortgages	100%	100%
Geographic state concentration (greater than 5.0%):		
Texas	14.0%	14.3%
California	13.6%	9.3%
Florida	7.4%	5.5%
New York	6.8%	7.2%
Georgia	5.4 %	6.7%
Washington	5.0%	6.3%

Financing Arrangements, Portfolio Investments. As of December 31, 2012, we had approximately $889.1 million of repurchase agreement borrowings outstanding. Our repurchase agreements typically have terms of 30 days or less. As of December 31, 2012, the current weighted average borrowing rate on these financing facilities was 0.54%. For the year ended December 31, 2012, the ending balance, yearly average and maximum balance at any month-end for our repurchase agreement borrowings were $889.1 million, $358.5 million and $889.1 million, respectively. Our repurchase agreement borrowings as of December 31, 2012 are higher as compared to December 31, 2011 primarily as a result of our increased investments in Agency ARMs and Agency fixed rate RMBS during the year ended December 31, 2012, funded in large part through a portion of the total net proceeds received by us from public stock offerings during the year ended December 31, 2012.

As of December 31, 2011, there were approximately $112.7 million of repurchase borrowings outstanding. Our repurchase agreements typically have terms of 30 days or less. As of December 31, 2011, the current weighted average borrowing rate on these financing facilities was 0.71%. For the year ended December 31, 2011, the ending balance, yearly average and maximum balance at any month-end for our repurchase agreement borrowings were $112.7 million, $85.6 million and $123.8 million, respectively.

Residential Collateralized Debt Obligations. As of December 31, 2012 and 2011, we had residential collateralized debt obligations, or Residential CDOs, of $181.0 million and $199.8 million, respectively. As of December 31, 2012 and 2011, the weighted average interest rate of these Residential CDOs was 0.59% and 0.68%, respectively. The Residential CDOs are collateralized by ARM loans with a principal balance of $189.0 million and $208.9 million at December 31, 2012 and 2011, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations completed in 2005, and, as of December 31, 2012 and 2011, had a net investment in these residential securitization trusts of $7.0 million and $7.6 million, respectively.

Multi-Family Collateralized Debt Obligations. As of December 31, 2012, we had $5.3 billion of multi-family collateralized debt obligations, or Multi-Family CDOs, outstanding with a weighted average interest rate of 4.59%. These Multi-Family CDOs are obligations of the Consolidated K-Series. We determined that we are the primary beneficiary of the Consolidated K-Series and have consolidated the Consolidated K-Series into our financial statements. We do not have any claims to the assets (other than the security represented by our first loss piece) or obligations for the liabilities of the Consolidated K-Series. Our maximum exposure to loss from the Consolidated K-Series is our net carrying value of $123.3 million as of December 31, 2012.

Securitized Debt. The securitized debt represents the notes issued in (i) our May 2012 multi-family CMBS re-securitization transaction, (ii) our November 2012 multi-family CMBS collateralized recourse financing transaction and (iii) our December 2012 distressed residential mortgage loan securitization transactions. As of December 31, 2012, we had $117.6 million of securitized debt.

Subordinated Debentures. As of December 31, 2012, certain of our wholly owned subsidiaries had trust preferred securities outstanding of $45.0 million with a weighted average interest rate of 4.15%. The securities are fully guaranteed by us with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of our consolidated balance sheets.

Derivative Assets and Liabilities. We generally hedge the risks related to changes in interest rates related to our borrowings as well as market values of our overall portfolio.

In order to reduce our interest rate risk related to our borrowings, we may utilize various hedging instruments, such as interest rate swap agreement contracts whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting our short term repurchase agreement borrowings or Residential CDOs to a fixed rate. At December 31, 2012, the Company had $358.4 million of notional amount of interest rate swaps outstanding with a fair market liability value of $1.7 million. The interest rate swaps qualify as cash flow hedges for financial reporting purposes.

In addition to utilizing interest rate swaps, we may purchase or sell short U.S. Treasury securities or enter into Eurodollar or other futures contracts, options on futures and interest rate swaptions to help mitigate the potential impact of changes in interest rates on the performance of our Agency RMBS. We may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities, Eurodollar or other futures, options on futures and swaptions are recognized through earnings in our consolidated statements of operations.

The Company uses To-Be-Announced securities, or TBAs, to hedge market risk, as well as spread risk associated with its investments in Agency IOs. In a TBA transaction, we would agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable. Because we have not designated these forward commitments associated with our Agency IOs as hedging instruments, realized and unrealized gains and losses associated with these TBAs are recognized through earnings in the consolidated statements of operations.

The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. The use of TBAs associated with our Agency IO investments creates significant short term payables (and/or receivables) on our balance sheet.

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

Our investments in Agency IOs involve several types of derivative instruments used to hedge the overall risk profile of our investments in Agency IOs. This hedging technique is dynamic in nature and requires frequent adjustments, which accordingly makes it very difficult to qualify for hedge accounting treatment. Hedge accounting treatment requires specific identification of a risk or group of risks and then requires that we designate a particular trade to that risk with no minimal ability to adjust over the life of the transaction. Because we and Midway are frequently adjusting these derivative instruments in response to current market conditions, we have determined to account for all the derivative instruments related to our Agency IO investments as derivatives not designated as hedging instruments.

Balance Sheet Analysis - Stockholders' Equity

Stockholders' equity at December 31, 2012 was $322.0 million and included $18.1 million of accumulated other comprehensive income. The accumulated other comprehensive income consisted of $20.0 million in unrealized gains primarily related to our CLOs, partially offset by $1.7 million in unrealized derivative losses related to cash flow hedges and $0.2 million in unrealized losses related to our Agency RMBS. Stockholders' equity at December 31, 2011 was $85.3 million and included $11.3 million of accumulated other comprehensive income. The accumulated other comprehensive income consisted of $12.8 million in unrealized gains primarily related to our CLOs, partially offset by $1.2 million in unrealized losses related to our CMBS and $0.3 million in unrealized derivative losses related to cash flow hedges. The increase in stockholders' equity at December 31, 2012, as compared to December 31, 2011, is primarily due to issuance of shares of common stock in public stock offerings with net proceeds to us of $231.6 million, after deducting underwriting discounts and commissions and offering expenses during the year ended December 31, 2012.

Analysis of Changes in Book Value

The following table analyzes the changes in book value for the quarter and year ended December 31, 2012, respectively (amounts in thousands, except per share):

	Quarter Ended December 31, 2012			Year Ended December 31, 2012		
	Amount	Shares	Per Share(1)	Amount	Shares	Per Share(1)
Beginning Balance	$ 222,014	34,044	$ 6.52	$ 85,278	13,938	$ 6.12
Stock issuance, net	104,249	15,531		232,462	35,637	
Balance after share issuance activity	326,263	49,575	6.58	317,740	49,575	6.41
Dividends declared	(13,383)		(0.27)	(30,809)		(0.62)
Net change AOCI: (2)						
Hedges	179		0.00	(1,440)		(0.03)
RMBS	(3,640)		(0.07)	(327)		(0.01)
CMBS	3,000		0.06	3,766		0.08
CLOs	197		0.00	4,797		0.10
Net income excluding unrealized gains and losses on investment securities and related hedges and multi-family loans and debt held in securitization trusts	9,088		0.18	25,564		0.52
Unrealized net losses on investment securities and related hedges	(1,370)		(0.03)	(3,947)		(0.08)
Unrealized net gains on multi-family loans and debt held in securitization trusts	1,672		0.04	6,662		0.13
Ending Balance	$ 322,006	49,575	$ 6.50	$ 322,006	49,575	$ 6.50

(1)

Outstanding shares used to calculate book value per share for the quarter and year ended periods are based on outstanding shares as of December 31, 2012 of 49,575,331.

(2) Accumulated other comprehensive income (“AOCI”).

The following table analyzes the changes in book value for the quarter and year ended December 31, 2011 (amounts in thousands, except per share):

	Quarter Ended December 31, 2011			Year ended December 31, 2011		
	Amount	Shares	Per Share(1)	Amount	Shares(1)	Per Share
Beginning Balance	$ 75,437	11,178	$6.75	$ 68,487	9,425	$ 7.27
Stock issuance, net	17,773	2,760		29,907	4,513	
Balance after share issuance activity	93,210	13,938	6.69	98,394	13,938	7.06
Dividends declared	(4,878)		(0.35)	(11,452)		(0.82)
Net change AOCI: (2)						
Hedges	180		0.01	783		0.06
RMBS	284		0.02	(440)		(0.03)
CMBS	(1,036)		(0.08)	(1,036)		(0.08)
CLOs	(590)		(0.04)	(5,747)		(0.41)
Net income excluding unrealized gains and losses on Agency IOs and related hedges	(997)		(0.07)	14,433		1.03
Unrealized gains and losses on Agency IOs and related hedges	(895)		(0.06)	(9,657)		(0.69)
Ending Balance	$ 85,278	13,938	$ 6.12	$ 85,278	13,938	$ 6.12

(1) Outstanding shares used to calculate book value per share for the quarter and year ended periods are based on outstanding shares as of December 31, 2011 of 13,938,273.

(2) Accumulated other comprehensive income ("AOCI").

Results of Operations

Comparison of the Quarter Ended December 31, 2012 to the Quarter Ended December 31, 2011

For the quarter ended December 31, 2012, the Company reported consolidated net income attributable to common stockholders of $9.4 million, or $0.19 per common share, as compared to consolidated net loss attributable to common stockholders of $1.9 million, or $0.16 per common share, for the same period in 2011. The increase is primarily due to an increase in net interest margin of $6.0 million, an increase in realized gain on investment securities and related hedges of $2.9 million, an increase in unrealized gain on multi-family loans and debt held in securitization trusts of $1.7 million, a decrease in general, administrative and other expense of $1.2 million, and a decrease in impairment loss on investment securities of $0.3 million, partially offset by an increase in unrealized loss on investment securities and related hedges of $0.5 million, and a decrease in income from investments in limited partnership and limited liability company of $0.5 million. The increase in net interest margin of $6.0 million is primarily due to an increase of $977.3 million in average interest earning assets at December 31, 2012 as compared to December 31, 2011, which was mainly driven by the Company's additional investments in Agency RMBS and multi-family CMBS during 2012, achieved largely as a result of cash proceeds received from public stock offerings during the year ended December 31, 2012. The $2.9 million increase in realized gain on investment securities and related hedges is primarily due to the performance of our Agency IO portfolio, which had a $0.6 million realized gain for the quarter ended December 31, 2012 as compared to a $2.3 million loss in the quarter ended December 31, 2011. The decrease in general, administrative and other expense of $1.2 million is primarily due to the decrease in management contract termination fees of $2.2 million, substantially all of which was recorded during the quarter ended December 31, 2011.

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

For the year ended December 31, 2012, we reported net income attributable to common stockholders of $28.3 million, as compared to net income attributable to common stockholders of $4.8 million for the year ended December 31, 2011. The main components of the change in net income for the year ended December 31, 2012 as compared to the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	For the Years Ended December 31,					
	2012		2011		$ Change	
Net interest income	$	31,601	$	19,454	$	12,147
Total other income (expense)	$	8,924	$	(3,693)	$	12,617
Total general, administrative and other expenses	$	11,425	$	10,518	$	907
Income from continuing operations before income taxes	$	29,100	$	5,243	$	23,857
Income tax expense	$	932	$	433	$	499
Net income	$	28,182	$	4,873	$	23,309
Net income attributable to common stockholders	$	28,279	$	4,776	$	23,503
Basic income per common share	$	1.08	$	0.46	$	0.62
Diluted income per common share	$	1.08	$	0.46	$	0.62

For the year ended December 31, 2012, the Company reported consolidated net income attributable to common stockholders of $28.3 million, or $1.08 per common share, as compared to consolidated net income attributable to common stockholders of $4.8 million, or $0.46 per common share, for the year ended December 31, 2011. The increase is primarily due to an increase in net interest margin of $12.1 million, an increase in unrealized gain on multi-family loans and debt held in securitization trusts of $6.7 million, a decrease in unrealized loss on investment securities and related hedges of $5.7 million, a decrease in provision for loan loss of $0.9 million, an increase in realized gain on investment securities and related hedges of $0.5 million, partially offset by a decrease in income from investments in limited partnership and limited liability company of $1.5 million, an increase in general, administrative and other expenses of $0.9 million, and an increase in income tax expense of $0.5 million. The increase in net interest margin of $12.1 million is primarily due to an increase of $365.0 million in average interest earning assets resulting from the deployment of proceeds totaling $231.6 million from four public equity offerings completed in 2012. The proceeds were mainly invested in Agency RMBS and multi-family CMBS during 2012. The $6.7 million unrealized gain related to our multi-family loans and debt held in securitization trusts was due to improving market conditions during the year ended December 31, 2012. There were no multi-family loans and debt held in securitization trusts during the year ended December 31, 2011. The decline in net unrealized loss on investment securities and related hedges was mainly related to an improved environment for our investment portfolio, particularly our Agency IO portfolio, as compared to the comparative 2011 periods. During the second half of 2011, a confluence of factors, including uncertainty and concerns of systemic risk related to the European sovereign debt crisis and a revamping of the rules for HARP II, contributed to a significant widening of credit spreads and prepayment speed concerns, which in turn, negatively impacted the pricing of our Agency IOs at December 31, 2011. The general, administrative and other expenses increase of $0.9 million for the year ended December 31, 2012, as compared to the same period in 2011, is primarily due to an increase in management fees, driven in large part by the increase in assets managed by external managers and increased profitability of our investments.

Comparative Expenses (dollar amounts in thousands)

	For the Years Ended December 31,		
General, Administrative and Other Expenses:	2012	2011	% Change
Salaries, benefits and directors’ compensation	$ 2,078	$ 1,518	36.9 %
Professional fees	1,794	1,521	17.9 %
Management fees	4,971	3,250	53.0 %
Termination of management contract	40	2,195	(98.2) %
Other	2,542	2,034	25.0 %
Total	$ 11,425	$ 10,518	8.6 %

The increase in general, administrative and other expenses of $0.9 million for the year ended December 31, 2012, as compared to the prior year, was due primarily to an increase of $1.7 million in management fees, a $0.6 million increase in salaries, benefits and directors’ compensation, a $0.5 million increase in other expenses and a $0.3 million increase in professional fees, partially offset by a $2.2 million decrease in termination of management contract. The increase in management fees for the year ended December 31, 2012 is primarily a result of an increase in assets managed by third parties and increased profitability of our investments. The decrease in termination of management contract is due to the termination fees related to the termination of the advisory agreement between the Company and HCS amounting to $2.2 million, substantially all of which was recorded during the year ended December 31, 2011.

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

For the year ended December 31, 2011, we reported consolidated net income attributable to common stockholders of $4.8 million, as compared to $6.8 million, for the year ended December 31, 2010. The decrease in full year 2011 earnings as compared to the same period in 2010 was driven by a net unrealized loss of $9.7 million on investment securities and related hedges associated with the Company's Agency IO strategy, partially offset by realized gains of $4.7 million on the sale of CLO notes during 2011.

The main components of the change in net income for the year ended December 31, 2011 as compared to the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2011	2010	$ Change
Net interest income	$19,454	$10,288	$ 9,166
Total other (expense) income	$(3,693)	$3,332	$ (7,025)
Total general, administrative and other expenses	$10,518	$7,950	$ 2,568
Income from continuing operations before income taxes	$5,243	$5,670	$ (427)
Income tax expense	$433	$—	$ 433
Net income	$4,873	$6,805	$ (1,932)
Net income attributable to common stockholders	$4,776	$6,805	$ (2,029)
Basic income per common share	$0.46	$0.72	$ (0.26)
Diluted income per common share	$0.46	$0.72	$ (0.26)

For the year ended December 31, 2011, we reported net income attributable to common stockholders of $4.8 million as compared to $6.8 million for the year ended December 31, 2010. The $2.0 million decrease in net income was due primarily to a $9.7 million increase in net unrealized loss on investment securities and related hedges, a one-time termination fee of $2.2 million recorded in connection with the termination of our advisory agreement with HCS, a $1.1 million decrease in income from discontinued operations, a $0.4 million increase in general, administrative and other expenses, a $0.4 million increase in income tax expense, partially offset by a $9.2 million increase in net interest margin on our investment portfolio and loans held in securitization trusts, a $1.7 million increase in income from investments in limited partnership and limited liability company, a $0.5 million decrease in provision for loan loss for the loans held in securitization trusts, and a $0.4 million increase in net realized gain on securities and related hedges. The increase in net interest income for the year ended December 31, 2011 as compared to the year ended December 31, 2010 was primarily due to a 281 basis point increase in net interest income spread, which was mainly due to the performance of our Agency IOs and the maturity of all $20.0 million of our Series A Preferred Stock in 2010 (which had an interest rate of 10%). The $7.0 million decrease in other (expense) income from 2010 to 2011 was due primarily to a $9.7 million increase in net unrealized loss on investment securities and related hedges primarily associated with our Agency IOs, partially offset by a $1.7 million increase in income from investments in limited partnership and limited liability company, a $0.5 million decrease in provision for loan loss for the loans held in securitization trusts, and a $0.4 million increase in net realized gain on securities and related hedges. Because of the hedging strategy employed by the Company with respect to its Agency IOs, unrealized gains and losses are not designated for hedge accounting treatment, and therefore are directly run through the Company's income statement. Included in our total realized gains of $5.7 million for the year ended December 31, 2011 is a $4.7 million gain on the sale of CLOs.

Comparative Expenses (dollar amounts in thousands)

General, administrative and other expenses:	For the Year Ended December 31, 2011	2010	% Change
Salaries and benefits	$ 1,518	$ 1,780	(14.7)%
Professional fees	1,521	1,199	26.9 %
Management fees	3,250	2,852	14.0 %
Termination of management contract	2,195	—	100.0 %
Other	2,034	2,119	(4.0)%
Total	$ 10,518	$ 7,950	32.3 %

The increase in general, administrative and other expenses of $2.6 million for the year ended December 31, 2011, as compared to the year ended December 31, 2010 was primarily due to the $2.2 million termination fee related to the termination of the advisory agreement with HCS, a $0.4 million increase in management fees due to an increase in assets managed by two new external managers, RiverBanc and Midway, a $0.3 million increase in professional fees, offset by a $0.3 million decrease in salaries and benefits, and a $0.1 million decrease in other expenses.

Quarterly Comparative Net Interest Spread

Our results of operations for our investment portfolio during a given period typically reflects the net interest income earned on our investment portfolio of Agency and non-Agency RMBS, CMBS (including CMBS held in securitization trusts), prime ARM loans held in securitization trusts, distressed residential loans, loans held for investment, loans held for sale and CLOs (collectively, our “Interest Earning Assets”). The net interest spread is impacted by factors such as our cost of financing, the interest rate that our investments bear and our interest rate hedging strategies. Furthermore, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments. Realized and unrealized gains and losses on TBAs, Eurodollar and Treasury futures and other derivatives associated with our Agency IO investments, which do not utilize hedge accounting for financial reporting purposes, are included in other income (expense) in our statement of operations, and therefore, not reflected in the data set forth below.

The following table sets forth, among other things, the net interest spread for our portfolio of Interest Earning Assets by quarter for the eight most recently completed quarters, excluding the costs of our subordinated debentures:

Quarter Ended		Average Interest Earning Assets ($ millions)(1)	Weighted Average Cash Yield on Interest Earning Assets(3)	Cost of Funds(4)	Net Interest Spread(5)
December 31, 2012(2)	$	1,350.2	4.46%	1.13%	3.33%
September 30, 2012(2)	$	698.5	5.99%	1.29%	4.70%
June 30, 2012(2)	$	409.4	7.28%	1.33%	5.95%
March 31, 2012(2)	$	396.4	7.59%	1.01%	6.58%
December 31, 2011	$	372.9	7.17%	0.97%	6.20%
September 30, 2011	$	369.8	8.04%	0.89%	7.15%
June 30, 2011	$	341.7	7.59%	0.94%	6.65%
March 31, 2011	$	310.2	4.76%	1.08%	3.68%

(1) Our Average Interest Earning Assets is calculated each quarter as the daily average balance of our Interest Earning Assets for the quarter, excluding unrealized gains and losses.
(2) Average Interest Earning Assets for the quarter excludes all Consolidated K-Series assets other than those securities issued by the securitizations comprising the Consolidated K-Series that are actually owned by us.
(3) Our Weighted Average Cash Yield on Interest Earning Assets was calculated by dividing our annualized interest income from Interest Earning Assets for the quarter by our average Interest Earning Assets for the quarter.
(4) Our Cost of Funds was calculated by dividing our annualized interest expense from our Interest Earning Assets for the quarter by our average financing arrangements, portfolio investments, Residential CDOs and Securitized Debt for the quarter.
(5) Net Interest Spread is the difference between our Weighted Average Cash Yield on Interest Earning Assets and our Cost of Funds.

Prepayment Experience.

The following table sets forth the actual constant prepayment rates ("CPR") for selected asset classes, by quarter:

Quarter Ended	Agency ARMs	Agency Fixed Rate	Agency IOs	Non-Agency RMBS	Residential Securitizations	Weighted Average for Overall Portfolio
December 31, 2012	14.5%	1.9%	21.8%	16.2%	11.6%	12.5%
September 30, 2012	17.5%	2.0%	19.2%	15.1%	4.6%	15.1%
June 30, 2012	24.8%	N/A	19.4%	15.2%	7.4%	16.6%
March 31, 2012	18.1%	N/A	19.6%	13.3%	8.1%	16.6%
December 31, 2011	16.9%	N/A	19.5%	12.6%	5.2%	15.8%
September 30, 2011	16.6%	N/A	10.1%	14.7%	10.2%	10.8%
June 30, 2011	19.3%	N/A	8.0%	11.2%	8.4%	8.8%
March 31, 2011	16.5%	N/A	10.4%	20.8%	7.0%	9.6%

When prepayment expectations over the remaining life of assets increase, we have to amortize premiums over a shorter time period resulting in a reduced yield to maturity on our investment assets. Conversely, if prepayment expectations decrease, the premium would be amortized over a longer period resulting in a higher yield to maturity. In addition, the market values and cash flows from our Agency IOs can be materially adversely affected during periods of elevated prepayments. We monitor our prepayment experience on a monthly basis and adjust the amortization rate to reflect current market conditions

Non-GAAP Financial Measure

In addition to disclosing financial results calculated in accordance with United States generally accepted accounting principles (GAAP), we also present a non-GAAP financial measure that adjusts for certain items. The non-GAAP financial measure, net income excluding unrealized gains and losses associated with investment securities and related hedges and multi-family loans and debt held in securitization trusts and management contract termination, set forth below is provided to enhance the user's overall understanding of our financial performance. Specifically, management believes the non-GAAP financial measure provides useful information to investors by excluding or adjusting certain items affecting reported operating results that were unusual or not indicative of our core operating results. The non-GAAP financial measure presented by the Company should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. Moreover, the non-GAAP financial measure may not be comparable to similarly titled measures reported by other companies. The non-GAAP financial measure included in this filing has been reconciled to the nearest GAAP measure, which is net income attributable to common stockholders.

Net Income Excluding Unrealized Gains and Losses (Associated with Investment Securities and Related Hedges and the Consolidated K-Series) and Management Contract Termination

A reconciliation between net income excluding unrealized gains and losses (related to our investment securities and related hedges and multi-family loans and debt held in securitization trusts) and management contract termination, and GAAP net income attributable to common stockholders for the years ended December 31, 2012, 2011, and 2010, respectively, is presented below (dollar amounts in thousands, except per share amounts):

	For the Year Ended December 31, 2012		For the Year Ended December 31, 2011		For the Year Ended December 31, 2010	
	Amounts	Per Share	Amounts	Per Share	Amounts	Per Share
Net Income Attributable to Common Stockholders - GAAP	$28,279	$1.08	$4,776	$0.46	$6,805	$0.72
Adjustments:						
Unrealized net losses on investment securities and related hedges	3,947	0.15	9,657	0.91	—	—
Unrealized net gains on multi-family loans and debt held in securitization trusts	(6,662)	(0.25)	—	—	—	—
Termination of management contract	40	0.00	2,195	0.21	—	—
Net income attributable to common stockholders excluding unrealized gains and losses and management contract termination	$25,604	$0.98	$16,628	$1.58	$6,805	$0.72

Portfolio Asset Yields for the Quarters Ended December 31, 2012

The following table summarizes the Company's significant assets at December 31, 2012, classified by relevant categories (dollar amount in thousands):

	Carrying Value		Coupons(1)	Yield(1)	CPR(1)
Agency ARMs	$	273,923	2.98%	1.75%	14.5%
Agency Fixed Rate RMBS	$	627,944	2.96%	2.34%	1.9%
Agency IOs	$	99,372	5.94%	10.83%	21.8%
CMBS(2)	$	194,492	0.12%	11.94%	N/A
Distressed Residential Loans	$	60,459	5.77%	9.58%	N/A
Residential Securitized Loans	$	187,229	2.91%	2.81%	11.6%
CLOs	$	30,785	4.35%	40.59%	N/A

(1) Coupons, yields and CPRs are based on fourth quarter 2012 weighted average balances. Yields are calculated on amortized cost basis.
(2) CMBS carrying value, coupons and yield calculations are based on the underlying CMBS that are actually owned by the Company and do not include the other consolidated assets and liabilities of the Consolidated K-Series not owned by the Company.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, comply with margin requirements, fund our operations, pay management, incentive and consulting fees, pay dividends to our stockholders and other general business needs. Our investments and assets, excluding the principal only multi-family CMBS we invest in, generate liquidity on an ongoing basis through principal and interest payments, prepayments, net earnings retained prior to payment of dividends and distributions from unconsolidated investments, while the principal only multi-family CMBS we invest in are backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically seven to ten years. In addition, depending on market conditions, the sale of investment securities, structured financings or capital market transactions may provide additional liquidity. However, our intention is to meet our liquidity needs through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

During the year ended December 31, 2012, we were provided net cash of $15.2 million, as a result of $1.1 billion used in investing activities, which was offset by $1.1 billion provided by financing activities and $29.1 million of cash provided by operating activities. Our investing activities primarily included $1.0 billion of purchases of investment securities, $111 million of purchases of multi-family CMBS held in securitization trusts, partially offset by $50.6 million of proceeds from sales of investment securities and $47.7 million in principal paydowns on investment securities available for sale. Our financing activities included proceeds from financing arrangements of $776.5 million, stock issuances, net of expenses related to stock issuance of $231.6 million, proceeds from securitized debt of $114.7 million, partially offset by $22.3 million in dividends paid.

We fund our investments and operations through a balanced and diverse funding mix, which includes proceeds from equity offerings, short-term repurchase agreement borrowings, CDOs, securitized debt, and trust preferred debentures. The type and terms of financing used by us depends on the asset being financed. In those cases where we utilize some form of structured financing, be it through CDOs or securitized debt (including financings similar to our CMBS Master Repurchase Agreement), the cash flow produced by the assets that serve as collateral for these structured finance instruments may be restricted in terms of their use or applied to pay principal or interest on CDOs, repurchase agreements, or notes that are senior to our interests. At December 31, 2012, we had cash and cash equivalents balances of $31.8 million. The increase in cash and cash equivalents from $16.6 million at December 31, 2011 is due primarily to a significant increase in our average interest earning assets during the period and the need to hold greater cash and cash equivalent positions as a result of the additional investment securities and related hedges in our portfolio that are subject to margin calls. Based on our current investment portfolio, new investment initiatives, leverage ratio and available and future possible borrowing arrangements, we believe our existing cash balances, funds available under our current repurchase agreements and cash flows from operations will meet our liquidity requirements for at least the next 12 months.

We rely primarily on short-term repurchase agreements (typically 30 days) to finance the more liquid assets in our investment portfolio, such as Agency RMBS and CLOs. As of December 31, 2012, we have outstanding short-term repurchase agreements, a form of collateralized short-term borrowing, with eleven different financial institutions. These agreements are secured by certain of our investment securities and bear interest rates that have historically moved in close relationship to LIBOR. Our borrowings under repurchase agreements are based on the fair value of our investment securities portfolio. Interest rate changes and increased prepayment activity can have a negative impact on the valuation of these securities, reducing the amount we can borrow under these agreements. Moreover, our repurchase agreements allow the counterparties to determine a new market value of the collateral to reflect current market conditions and because these lines of financing are not committed, the counterparty can call the loan at any time. If a counterparty determines that the value of the collateral has decreased, the counterparty may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing in cash, on minimal notice. Moreover, in the event an existing counterparty elected to not renew the outstanding balance at its maturity into a new repurchase agreement, we would be required to repay the outstanding balance with cash or proceeds received from a new counterparty or to surrender the securities that serve as collateral for the outstanding balance, or any combination thereof. If we are unable to secure financing from a new counterparty and had to surrender the collateral, we would expect to incur a loss. In addition, in the event one of our lenders under the repurchase agreement defaults on its obligation to “re-sell” or return to us the securities that are securing the borrowings at the end of the term of the repurchase agreement, we would incur a loss on the transaction equal to the amount of “haircut” associated with the short-term repurchase agreement, which we sometimes refer to as the “amount at risk.” As of December 31, 2012, we had an aggregate amount at risk under our short-term repurchase agreements with eleven counterparties of approximately $65.6 million, with no greater than approximately $18.3 million at risk with any single counterparty.

At December 31, 2012, the Company had short-term repurchase agreement borrowings of $889.1 million as compared to $112.7 million as of December 31, 2011. The increase in outstanding repurchase agreement borrowings is primarily due to an increase in the size of our leveraged Agency RMBS portfolio, which has been funded with a portion of the proceeds from our recent public stock offerings. In addition to our excess cash, the Company has $80.1 million in unencumbered securities, including $62.2 million of RMBS, of which $59.5 million are Agency RMBS. The $31.8 million of cash, the $62.2 million in RMBS, and $25.8 million held in overnight deposits in our Agency IO portfolio included in restricted cash that is available to meet margin calls as it relates to our Agency IO portfolio repurchase agreements, which collectively represent 13.5% of our financing arrangements, portfolio investments, are liquid and could be monetized to pay down or collateralize the liability immediately.

At December 31, 2012, we also had other longer-term debt, including Residential CDOs outstanding of $181.0 million, multi-family CDOs outstanding of $5.3 billion (which represent obligations of the Consolidated K-Series), subordinated debt of $45.0 million and securitized debt of $117.6 million (including the $52 million of indebtedness issued pursuant to the CMBS Master Repurchase Agreement). The CDOs are collateralized by the residential and multi-family loans held in securitization trusts, respectively. Our maximum exposure to loss on our Residential and Multi-Family CDOs at December 31, 2012 is $7.0 million and $123.3 million, respectively.

The securitized debt represents the notes issued from (i) our May 2012 multi-family re-securitization transaction, (ii) our November 2012 multi-family CMBS collateralized recourse financing transaction, and (iii) our December 2012 distressed residential mortgage loan securitization transaction.

The multi-family re-securitization transaction was completed on May 23, 2012 for the purpose of financing certain multi-family CMBS in our portfolio. As part of the re-securitization transaction, we contributed multi-family CMBS having a carrying value at December 31, 2012 of approximately $51.7 million to an SPE (of which we hold the Class B note and the equity certificate). The SPE issued a Class A note with a coupon of 5.35% in the initial aggregate principal face amount of $35 million. The Class A note was issued at a discount that provides for a bond equivalent yield of 9.50% to the purchaser. The Class A Note holder is entitled to receive all distributions of principal and interest from the multi-family CMBS pledged to secure the note until the note is fully retired, which is expected to occur by January 2022. We will then receive all remaining cash flow, if any, through the Class B note and our retained ownership in the SPE. We received net cash proceeds of $26.0 million after deducting expenses associated with the transaction. The Class A note is not callable due to collateral valuation or performance and, due to the structure, we are not subject to margin call risk. There is no guarantee that we will receive any cash flow the assets serving as collateral following the end of the ten-year term.

We entered into the three-year CMBS Master Repurchase Agreement secured by multi-family CMBS on November 28, 2012 to finance a portion of our multi-family CMBS. Pursuant to this CMBS Master Repurchase Agreement, one of our wholly-owned subsidiaries transferred multi-family CMBS having a carrying value of approximately $111.8 million at December 31, 2012 to an SPE (of which we own the residual interest) to serve as collateral in exchange for $51 million of net proceeds to the Company. The proceeds of the transaction to us were generated from the SPE's concurrent private placement of $52 million of notes to a non-financial institution pursuant to an indenture. The notes bear interest that is payable monthly at a per annum rate equal to one-month LIBOR plus 6.50%. All income received on the multi-family CMBS during the term of the CMBS Master Repurchase Agreement are applied to pay any price differential and to reduce the aggregate repurchase price of the collateral under the CMBS Master Repurchase Agreement. In addition, the financing under the CMBS Master Repurchase Agreement is subject to margin calls to the extent the market value of the multi-family CMBS declines (as determined by the indenture trustee), in which case the Company would be required to either post additional collateral to cover such decrease or repay a portion of the outstanding financing in cash. The indenture and the CMBS Master Repurchase Agreement contain customary events of default. In connection with the transaction, the Company agreed to guarantee the due and punctual payment of our subsidiary's obligations under the CMBS Master Repurchase Agreement.

We entered into the securitization transaction with a three-year term on December 28, 2012 for the purpose of financing certain distressed residential mortgage loans acquired by us in the fourth quarter of 2012. Pursuant to the terms of the securitization agreements for this transaction, one of our a wholly-owned subsidiaries transferred distressed residential mortgage loans having a carrying value of approximately $60.5 million at December 31, 2012 to an SPE (of which we own the equity certificate) in exchange for $37.8 million of proceeds after deducting expenses associated with the transaction. The proceeds of the transaction to us were generated from the SPE's concurrent private placement of $38.7 million of notes to a non-financial institution pursuant to an indenture. The notes bear interest that is payable monthly at a per annum rate equal to 4.25% and are scheduled to mature in December 2015. During the first two years of the financing, no principal payments will be made on the notes. All cash proceeds generated by the mortgage loans during this two-year period, after payment of interest on the notes and equity certificate, reserve amounts and certain other transaction expenses, will be available for the purchase by the SPE of additional mortgage loans that satisfy certain eligibility criteria.

Currently, the Company targets our callable or short term financings leverage ratios at an 8 to 1 maximum leverage ratio for Agency RMBS (other than Agency IOs) and a 2 to 1 maximum leverage ratio for Agency IOs. At December 31, 2012, the Company had a repurchase agreement outstanding backed by a CLO security with an advance rate of approximately 65% or a leverage ratio of less than 2 to 1. As of December 31, 2012, our overall leverage ratio, including both our short- and longer-term financing (and excluding the CDO's issued by the Consolidated K-Series and our residential CDOs) divided by common stockholders' equity, was approximately 3.3 to 1. Our leverage ratio on our short term financings or callable debt was approximately 2.8 to 1. We monitor all at risk or short term borrowings to ensure that we have adequate liquidity to satisfy margin calls and have the ability to respond to other market disruptions.

Liquidity – Hedging and Other Factors

Certain of our hedging instruments may also impact our liquidity. We use interest rate swaps, swaptions, Eurodollar or other futures contracts to hedge interest rate risk associated with our investments in Agency RMBS. With respect to interest rate swaps, futures contracts and TBAs, initial margin deposits will be made upon entering into these contracts and can be either cash or securities. During the period these contracts are open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of these contracts at the end of each day's trading. We may be required to satisfy variable margin payments periodically, depending upon whether unrealized gains or losses are incurred.

We also use TBAs to hedge interest rate risk associated with our investments in Agency IOs. Since delivery for these securities extends beyond the typical settlement dates for most non-derivative investments, these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and thereby are more vulnerable to increasing amounts at risk with the applicable counterparties. The use of TBAs associated with our Agency IO investments creates significant short term payables (and/or receivables), amounting to $245.9 million at December 31, 2012, and is included in payable for securities purchased on our consolidated balance sheet.

We also use U.S. Treasury securities and U.S. Treasury futures and options to hedge interest rate risk associated with our investments in Agency IOs and interest rate swap agreements and swaptions as a mechanism to reduce the interest rate risk of our Agency ARMs and mortgage loans held in securitization trusts.

Liquidity — Equity Offerings

In addition to the financing arrangements described above under the caption " Liquidity Financing Arrangements," we also rely on secondary equity offerings as a source of both short-term and long-term liquidity. During the year ended December 31, 2012, we closed on the following public offerings of common stock:

- On May 25, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 3,162,500 shares of our common stock (including 412,500 shares issuable pursuant to an over-allotment option) at a public offering price of $6.65 per share. On May 31, 2012, we closed on the issuance of 3,162,500 shares to the underwriter, resulting in total net proceeds to us of $20.0 million after deducting the underwriting discount and offering expenses.

- On July 17, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 5,175,000 shares of our common stock (including 675,000 shares that were issuable pursuant to an over-allotment option) at a public offering price of $6.70 per share. On July 17, 2012, we closed on the issuance of 5,175,000 shares of common stock to the underwriter (including the 675,000 over-allotment option shares), resulting in total net proceeds of $33.1 million after deducting the underwriting discount and offering expenses.

- On August 16, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 11,500,000 shares of our common stock (including 1,500,000 shares that were issuable pursuant to an option to purchase additional shares) at a public offering price of $6.73 per share. On August 21, 2012, we closed on the issuance of 10,000,000 shares of common stock to the underwriter, resulting in total net proceeds of $64.9 million after deducting the underwriting discount and offering expenses. On September 4, 2012, we closed on the issuance of 1,500,000 additional shares pursuant to the option granted to the underwriters, resulting in additional net proceeds of $9.8 million.

- On October 3, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 15,525,000 shares of our common stock (including the 2,025,000 shares that were issuable pursuant to an over-allotment option) at a public offering price of $6.89 per share. On October 9, 2012, we closed on the issuance of 15,525,000 shares of common stock to the underwriter (including the 2,025,000 shares issuable pursuant to the over-allotment option), resulting in total net proceeds of $104.1 million, after deducting underwriting discounts and commissions and offering expenses.

We used substantially all of the net proceeds from these offerings to fund additional investments in our targeted assets, including Agency RMBS, multi-family CMBS and distressed residential mortgage loans.

We also may generate liquidity through the sale of shares of our common stock in an "at the market" offering program pursuant to an equity distribution agreement, as well as through the sale of shares of our common stock pursuant to our Dividend Reinvestment Plan, or DRIP. On June 11, 2012, we entered into an equity distribution agreement with JMP Securities LLC as the placement agent, pursuant to which we may sell up to $25,000,000 of shares of our common stock from time to time through the placement agent. Pursuant to the equity distribution agreement, the shares may be offered and sold through the placement agent in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on The Nasdaq Capital Market or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions. We have no obligation to sell any of the shares under the equity distribution agreement and may at any time suspend solicitations and offers under the equity distribution agreement. On January 14, 2012, we filed a registration statement on Form S-3 to enable us to issue up to $20,000,000 of shares of our common stock pursuant to our DRIP. As of December 31, 2012, we had yet to issue any shares under the equity distribution agreement or the DRIP.

Management Agreements

We have investment management agreements with RiverBanc, Midway and Headlands, pursuant to which we pay these managers a base management and incentive fee quarterly in arrears. See " - Results of Operations - Comparison of the Year Ended December 31, 2012 to Year Ended December 31, 2011 - Comparative Expenses" for more information regarding the management fees paid during the year ended December 31, 2012. In addition, pursuant to the terms of our former advisory relationship with HCS, we also may pay incentive compensation to HCS with respect to those assets of our company that were managed by HCS at the time the advisory relationship with HCS concluded (the “Incentive Tail Assets”) until such time as such Incentive Tail Assets are disposed of by us or mature.

Dividends

On December 14, 2012, we declared a 2012 fourth quarter cash dividend of $0.27 per common share, which is the same amount that was declared for the 2012 third quarter. The dividend was paid on January 25, 2013 to common stockholders of record as of December 24, 2012. The dividend was paid out of our working capital. For additional information regarding the declaration and payment of dividends on our common stock, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" above. We expect to continue to pay quarterly cash dividends on our common stock during the near term. However, our Board of Directors will continue to evaluate our dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the need to maintain our REIT status, our financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends.

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

Exposure to European financial counterparties

We finance the acquisition of a significant portion of our mortgage-backed securities with repurchase agreements. In connection with these financing arrangements, we pledge our securities as collateral to secure the borrowings. The amount of collateral pledged will typically exceed the amount of the financing with the extent of over-collateralization ranging from 9% of the amount borrowed (in the case of Agency ARM and Agency fixed rate RMBS collateral) to up to 35% (in the case of CLO collateral). While our repurchase agreement financing results in us recording a liability to the counterparty in our consolidated balance sheet, we are exposed to the counterparty, if during the term of the repurchase agreement financing, a lender should default on its obligation and we are not able to recover our pledged assets. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender (including accrued interest receivable on such collateral).

Several large European banks have experienced financial difficulty in recent years, some of whom have required a rescue or assistance from other large European banks or the European Central Bank. Some of these banks have U.S. banking subsidiaries which have provided repurchase agreement financing or interest rate swap agreements to us in connection with the acquisition of various investments, including mortgage-backed securities investments. We have outstanding repurchase agreement borrowings with Credit Suisse First Boston LLC in the amount of $98.9 million at December 31, 2012 with a net exposure of $4.1 million. We have outstanding repurchase agreement borrowings with Deutsche Bank Securities Inc. in the amount of $97.8 million at December 31, 2012 with a net exposure of $5.2 million. We have outstanding repurchase agreement borrowings with Barclays Capital Inc. in the amount of $114.3 million at December 31, 2012 with a net exposure of $7.2 million. We have outstanding interest rate swap agreements with Barclays Bank PLC as a counterparty in the amount of $8.4 million notional with a net exposure of $0.02 million. We have outstanding interest rate swap agreements with Credit Suisse International as a counterparty in the amount of $245.0 million notional with a net exposure of $1.7 million. In addition, certain of our U.S. based counterparties may have significant exposure to the financial and economic turmoil in Europe which could impact their future lending activities or cause them to default under agreements with us. In the event one or more of these counterparties or their affiliates experience liquidity difficulties in the future, our liquidity could be materially adversely affected.

Inflation

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

Contractual Obligations and Commitments

The Company had the following contractual obligations at December 31, 2012 (dollar amounts in thousands):

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating leases(1)	$ 2,197	$ 67	$ 414	$ 414	$ 1,302
Repurchase agreements	889,134	889,134	-	-	-
Subordinated debentures (2)	87,602	1,891	3,782	3,787	78,142
Securitized debt (2)	111,422	5,182	61,928	44,312	-
Management fees (3)	7,052	3,317	2,143	1,592	-
Employment agreements	425	425	-	-	-
Interest rate swaps (2)	7,355	1,684	3,257	2,414	-
Total contractual obligations (4)	$ 1,105,187	$ 901,700	$ 71,524	$ 52,519	$ 79,444

(1) Amount reflects nine-months of free-rent on a ten year lease agreement entered into by us on December 19, 2012 to relocate our corporate office.

(2) Amounts include projected interest payments during the period. Interest based on interest rates in effect on December 31, 2012.

(3) Amounts include the base fees for Midway, RiverBanc and Headlands based on the current invested capital. The management fees exclude incentive fees which are based on future performance.

(4) We exclude our Residential CDOs from the contractual obligations disclosed in the table above as this debt is non-recourse and not cross-collateralized and, therefore, must be satisfied exclusively from the proceeds of the residential mortgage loans and real estate owned held in the securitization trusts. See Note 11 in the Notes to Consolidated Financial Statements for further information regarding our Residential CDOs. We also exclude the securitized debt related to our May 2012 re-securitization transaction as this debt is non-recourse to the Company. See Note 13 in the Notes to Consolidated Financial Statements for further information regarding our Securitized Debt. The Company's Multi-Family CDOs, which represent the CDOs issued by the Consolidated K-Series is excluded as this debt is non-recourse to the Company.

Off-Balance Sheet Arrangements

We did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads and equity prices. All of our market risk sensitive assets, liabilities and related derivative positions are for non-trading purposes only. Management recognizes the following primary risks associated with our business and the industry in which we conduct business:

- Interest rate risk
- Liquidity risk
- Prepayment risk
- Credit risk
- Fair value risk

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

Interest Rate Risk

Interest rates are sensitive to many factors, including governmental, monetary, tax policies, domestic and international economic conditions, and political or regulatory matters beyond our control. Changes in interest rates affect the value of the financial assets we manage and hold in our investment portfolio and the variable-rate borrowings we use to finance our portfolio. Changes in interest rates also affect the interest rate swaps and caps, Eurodollar and other futures, TBAs and other securities or instruments we use to hedge our portfolio. As a result, our net interest income is particularly affected by changes in interest rates.

For example, we hold RMBS, some of which may have fixed rates or interest rates that adjust on various dates that are not synchronized to the adjustment dates on our repurchase agreements. In general, the re-pricing of our repurchase agreements occurs more quickly than the re-pricing of our variable-interest assets. Thus, it is likely that our floating rate borrowings, such as our repurchase agreements, may react to interest rates before our RMBS because the weighted average next re-pricing dates on the related borrowings may have shorter time periods than that of the RMBS. In addition, the interest rates on our Agency ARMs backed by hybrid ARMs may be limited to a “periodic cap,” or an increase of typically 1% or 2% per adjustment period, while our borrowings do not have comparable limitations. Moreover, changes in interest rates can directly impact prepayment speeds, thereby affecting our net return on RMBS. During a declining interest rate environment, the prepayment of RMBS may accelerate (as borrowers may opt to refinance at a lower interest rate) causing the amount of liabilities that have been extended by the use of interest rate swaps to increase relative to the amount of RMBS, possibly resulting in a decline in our net return on RMBS, as replacement RMBS may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, RMBS may prepay more slowly than expected, requiring us to finance a higher amount of RMBS than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on RMBS. Accordingly, each of these scenarios can negatively impact our net interest income.

We seek to manage interest rate risk in our portfolio by utilizing interest rate swaps, swaptions, caps, Eurodollar and other futures, options and U.S. Treasury securities with the goal of optimizing the earnings potential while seeking to maintain long term stable portfolio values. We continually monitor the duration of our mortgage assets and have a policy to hedge the financing of those assets such that the net duration of the assets, our borrowed funds related to such assets, and related hedging instruments, is less than one year. In addition, we utilize TBAs to mitigate the risks on our long Agency RMBS positions associated with our investments in Agency IOs.

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

Based on the results of the model, the instantaneous changes in interest rates specified below would have had the following effect on net interest income for the next 12 months based on our assets and liabilities as of December 31, 2012 (dollar amounts in thousands):

Changes in Net Interest Income

Changes in Interest Rates		Changes in Net Interest Income
+200	$	1,581
+100	$	778
-100	$	(14,990)

Interest rate changes may also impact our net book value as our financial assets and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our mortgage assets, other than IOs, decreases, and conversely, as interest rates decrease, the value of such investments will increase. The value of an IO will likely be negatively affected in a declining interest rate environment due to the risk of increasing prepayment rates because the IOs' value is wholly contingent on the underlying mortgage loans having an outstanding balance. In general, we expect that, over time, decreases in the value of our portfolio attributable to interest rate changes will be offset, to the degree we are hedged, by increases in the value of our interest rate swaps or other financial instruments used for hedging purposes, and vice versa. However, the relationship between spreads on securities and spreads on our hedging instruments may vary from time to time, resulting in a net aggregate book value increase or decline. That said, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.

Liquidity Risk

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

Our principal sources of liquidity are the repurchase agreements on our mortgage-backed securities, the CDOs we have issued to finance our loans held in securitization trusts, securitized debt, trust preferred securities, the principal and interest payments from our assets and cash proceeds from the issuance of equity or debt securities (as market and other conditions permit). We are subject to "margin call" risk under the terms of our repurchase agreements. We believe our existing cash balances and cash flows from operations will be sufficient for our liquidity requirements for at least the next 12 months.

As it relates to our investment portfolio, derivative financial instruments we use to hedge interest rate risk subject us to "margin call" risk. If the value of our pledged assets decreases due to a change in interest rates, credit characteristics, or other pricing factors, we may be required to post additional cash or asset collateral, or reduce the amount we are able to "borrow" against the collateral. For example, under our interest rate swaps, typically we pay a fixed rate to the counterparties while they pay us a floating rate. If interest rates drop below the fixed rate we are paying on an interest rate swap, we may be required to post cash margin.

Prepayment Risk

When borrowers repay the principal on their residential mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, reduce the yield for residential mortgage assets purchased at a premium to their then current balance, as with the majority of our assets. Conversely, residential mortgage assets purchased for less than their then current balance, such as the distressed residential mortgage loans purchased by us in December 2012, exhibit higher yields due to faster prepayments. Furthermore, prepayment speeds exceeding or lower than our modeled prepayment speeds impact the effectiveness of any hedges we have in place to mitigate financing and/or fair value risk. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages, thereby increasing prepayments. The impact of increasing prepayment rates, whether as a result of declining interest rates, government intervention in the mortgage markets or otherwise, is particularly acute with respect to our Agency IOs. Because the value of an IO security is wholly contingent on the underlying mortgage loans having an outstanding principal balance, an unexpected increase in prepayment rates on the pool of mortgage loans underlying the IOs could significantly negatively impact the performance of our Agency IOs.

Our modeled prepayments will help determine the amount of hedging we use to off-set changes in interest rates. If actual prepayment rates are higher than modeled, the yield will be less than modeled in cases where we paid a premium for the particular residential mortgage asset. Conversely, when we have paid a premium, if actual prepayment rates experienced are slower than modeled, we would amortize the premium over a longer time period, resulting in a higher yield to maturity.

In an environment of increasing prepayment speeds, the timing difference between the actual cash receipt of principal paydowns and the announcement of the principal paydown may result in additional margin requirements from our repurchase agreement counterparties.

We mitigate prepayment risk by constantly evaluating our residential mortgage assets relative to prepayment speeds observed for assets with a similar structure, quality and characteristics. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to further develop or make modifications to our hedge balances. Historically, we have not hedged 100% of our liability costs due to prepayment risk.

Credit Risk

Credit risk is the risk that we will not fully collect the principal we have invested in mortgage loans, including distressed residential loans or other assets, such as non-Agency RMBS, CMBS, and CLOs, due to borrower defaults.

Our portfolio of residential mortgage loans held in securitization trusts as of December 31, 2012 consisted of approximately $189.0 million of securitized first liens originated in 2005 and earlier. The securitized first liens were principally originated in 2005 by one of our subsidiaries prior to our exit from the mortgage lending business. These are predominately high-quality loans with an average loan-to-value (“LTV”) ratio at origination of approximately 70.5%, and average borrower FICO score of approximately 728. In addition, approximately 64.4% of these loans were originated with full income and asset verification. While we feel that the quality of our origination and underwriting of these loans will help to mitigate the risk of significant borrower default on these loans, we cannot assure you that all borrowers will continue to satisfy their payment obligations under these loans and thereby avoid default.

In our distressed residential loans portfolio, the mortgage loans are purchased at discounts reflecting their distressed state or perceived higher risk of default, which may include higher LTV’s and, in certain instances, delinquent loan payments. Prior to the acquisition of loans, our external investment manager validates key information provided by the sellers that is necessary to determine the value of the residential loan. We then seek to maximize the value of the mortgage loans that we acquire either through borrower assisted refinancing, outright loan sale or through foreclosure and resale of the underlying home.

As of December 31, 2012, the Company owns $135.5 million of first loss CMBS comprised of POs that are backed by commercial mortgage loans on multi-family properties at a weighted average amortized purchase price of approximately 25.5% of current par. The overall return of these securities will be dependent on the performance of the underlying loans and accordingly, management has taken an appropriate credit reserve when determining the amount of discount to accrete into income over time. In addition, we owned approximately $2.7 million of non-Agency RMBS senior securities. The non-Agency RMBS has a weighted average amortized purchase price of approximately 85.1% of current par value. Management believes the purchase price discount coupled with the credit support within the bond structure protects us from principal loss under most stress scenarios for these non-Agency RMBS. As of December 31, 2012, we own approximately $30.8 million of notes issued by a CLO at a discounted purchase price equal to 38.0% of par. The securities are backed by a portfolio of middle market corporate loans. We also own approximately $5 million of mezzanine financing at December 31, 2012 backed by residential and multi-family properties.

Fair Value Risk

Changes in interest rates also expose us to market value (fair value) fluctuation on our assets, liabilities and hedges. While the fair value of the majority of our assets (when excluding all Consolidated K-Series assets other than the securities we actually own) that are measured on a recurring basis are determined using Level 2 fair values, we own certain assets, such as our CMBS, for which fair values may not be readily available if there are no active trading markets for the instruments. In such cases, fair values would only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. Our fair value estimates and assumptions are indicative of the interest rate environments as of December 31, 2012, and do not take into consideration the effects of subsequent interest rate fluctuations.

We note that the values of our investments in derivative instruments, primarily interest rate hedges on our debt, will be sensitive to changes in market interest rates, interest rate spreads, credit spreads and other market factors. The value of these investments can vary and has varied materially from period to period.

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

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

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

The table below presents the sensitivity of the market value and net duration changes of our portfolio as of December 31, 2012, using a discounted cash flow simulation model assuming an instantaneous interest rate shift. Application of this method results in an estimation of the fair market value change of our assets, liabilities and hedging instruments per 100 basis point (“bp”) shift in interest rates.

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

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

Changes in Interest Rates	Market Value Changes Changes in Market Value (Amounts in thousands)		Net Duration
+200	$	(55,743)	3.16 years
+100	$	(19,298)	2.05 years
Base		—	0.66 years
-100	$	887	0.24 years

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

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

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the related notes, together with the Report of Independent Registered Public Accounting Firm thereon, as required by this Item 8, are set forth beginning on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures - We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2012. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Management’s Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability, preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which appears in F-3 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 9B. OTHER INFORMATION

Amended and Restated Riverbanc Management Agreement

On March 13, 2013, we entered into an amended and restated management agreement with RB Commercial Mortgage LLC, our wholly-owned subsidiary, and RiverBanc (as amended, the "RiverBanc Management Agreement"). The RiverBanc Management Agreement replaces the prior management agreement between RiverBanc and RB Commercial Mortgage LLC, dated as of April 5, 2011. The amended and restated agreement has an effective date of January 1, 2013 and has a term that will expire on December 31, 2014, subject to automatic annual one-year renewals thereof.

The amended and restated management agreement was adopted and executed for the following purposes: (i) to make our company a direct party to the agreement; and (ii) to cause the base management fee and incentive fee to be calculated based on "Equity" rather than "Invested Capital." Under the amended and restated management agreement, Equity is defined as "Assets" minus "Debt," where Assets is defined as the aggregate net carrying value (in accordance with GAAP) of those assets of our company managed by RiverBanc (specifically excluding (A) any unrealized gains or losses that have impacted net carrying value as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss or in net income, and (B) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case, as mutually agreed between RiverBanc and us) and Debt is defined as the greater of (1) the net carrying value (in accordance with GAAP, excluding adjustments for unrealized gains or losses) of all third-party debt or liabilities secured by the Assets and (2) prior to termination of the RiverBanc Management Agreement, zero, or following termination of the RiverBanc Management Agreement, an amount equal to 50% of Assets.

The foregoing is only a summary of the material amendments to the RiverBanc Management Agreement and is qualified in its entirety by the terms of the RiverBanc Management Agreement, which is filed as an exhibit to this report and incorporated by reference herein. For more information regarding the RiverBanc Management Agreement, see "Item 1. Business Our External Managers RiverBanc Management Agreement" in this Annual Report on Form 10-K.

ADDITIONAL MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of additional material federal income tax considerations with respect to the ownership of our stock. This summary supplements and should be read together with the discussion under “Material Federal Income Tax Considerations” in the prospectus dated April 9, 2012 and filed as part of a registration statement on Form S-3 (No. 333-179314).

Recent Legislation

Pursuant to recently enacted legislation, as of January 1, 2013, (1) the maximum tax rate on "qualified dividend income" received by U.S. stockholders taxed at individual rates is 20%, (2) the maximum tax rate on long-term capital gain applicable to U.S. stockholders taxed at individual rates is 20%, and (3) the highest marginal individual income tax rate is 39.6%. Pursuant to such legislation, the backup withholding rate remains at 28%. We urge you to consult your tax advisors regarding the impact of this legislation on the purchase, ownership and sale of our stock.

Taxation of Taxable U.S. Stockholders

For payments after December 31, 2013, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our stock received by U.S. stockholders who own their stock through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed on proceeds from the sale of our stock received after December 31, 2016 by U.S. stockholders who own their stock through foreign accounts or foreign intermediaries. We will not pay any additional amounts in respect of any amounts withheld.

Taxation of Non-U.S. Stockholders

For payments after December 31, 2013, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our stock received by certain non-U.S. stockholders if they held our stock through foreign entities that fail to meet certain disclosure requirements related to U.S. persons that either have accounts with such entities or own equity interests in such entities. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed on proceeds from the sale of our stock received after December 31, 2016 by certain non-U.S. stockholders. If payment of withholding taxes is required, non-U.S. stockholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect of such dividends and proceeds will be required to seek a refund from the Internal Revenue Service to obtain the benefit or such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICER AND CORPORATE GOVERNANCE

The information required by this item is included in our Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2012 (the "2013 Proxy Statement") and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is included in the 2013 Proxy Statement and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required by this item is included in the 2013 Proxy Statement and is incorporated herein by reference.

The information presented under the heading "Market for the Registrant's Common Equity and Related Stockholder Matters — Securities Authorized for Issuance Under Equity Compensation Plans" in Item 5 of Part II of this Form 10-K is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is included in the 2013 Proxy Statement and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is included in the 2013 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

(b) Exhibits.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		NEW YORK MORTGAGE TRUST, INC.
Date: March 18, 2013	By:	/s/ Steven R. Mumma Steven R. Mumma Chief Executive Officer and President (Principal Executive Officer)
Date: March 18, 2013	By:	/s/ Fredric S. Starker Fredric S. Starker Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Steven R. Mumma Steven R. Mumma	Chief Executive Officer, President and Director (Principal Executive Officer)	March 18, 2013
/s/ Fredric S. Starker Frederic S. Starker	Chief Financial Officer (Principal Financial and Accounting Officer)	March 18, 2013
/s/ Douglas E. Neal Douglas E. Neal	Chairman of the Board	March 18, 2013
/s/ Alan L. Hainey Alan L. Hainey	Director	March 18, 2013
/s/ Steven G. Norcutt Steven G. Norcutt	Director	March 18, 2013
/s/ David R. Bock David R. Bock	Director	March 18, 2013

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AND

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

For Inclusion in Form 10-K

Filed with

United States Securities and Exchange Commission

December 31, 2012

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
New York Mortgage Trust, Inc.

We have audited the accompanying consolidated balance sheets of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits of the basic consolidated financial statements included the financial statement schedules listed in the index appearing under Item 15(a). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York Mortgage Trust, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 18, 2013 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

New York, New York
March 18, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
New York Mortgage Trust, Inc.

We have audited the internal control over financial reporting of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2012, and our report dated March 18, 2013 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

New York, New York

March 18, 2013

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

	December 31, 2012	December 31, 2011
ASSETS		
Investment securities, available for sale, at fair value (including pledged securities of $954,656 and $129,942, respectively)	$1,034,711	$200,342
Investment securities, available for sale, at fair value held in securitization trusts	71,159	-
Residential mortgage loans held in securitization trusts (net)	187,229	206,920
Distressed residential mortgage loans held in securitization trust (net)	60,459	-
Multi-family loans held in securitization trusts, at fair value	5,442,906	-
Derivative assets	246,129	208,218
Investment in limited partnership	136	8,703
Cash and cash equivalents	31,777	16,586
Receivable for securities sold	-	1,133
Receivables and other assets	85,895	40,803
Total Assets	$7,160,401	$682,705
LIABILITIES AND EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$889,134	$112,674
Residential collateralized debt obligations	180,979	199,762
Multi-family collateralized debt obligations, at fair value	5,319,573	-
Securitized debt	117,591	-
Derivative liabilities	5,542	2,619
Payable for securities purchased	245,931	228,300
Accrued expenses and other liabilities	34,434	7,154
Accrued expenses, related parties	211	889
Subordinated debentures	45,000	45,000
Total liabilities	6,838,395	596,398
Commitments and Contingencies		
Equity:		
Stockholders' equity		
Common stock, $0.01 par value, 400,000,000 authorized, 49,575,331 and 13,938,273 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	496	139
Additional paid-in capital	355,006	153,710
Accumulated other comprehensive income	18,088	11,292
Accumulated deficit	(51,584)	(79,863)
Total stockholders' equity	322,006	85,278
Noncontrolling interest	-	1,029

Total equity	322,006	86,307
Total Liabilities and Equity	$7,160,401	$682,705

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollar amounts in thousands, except per share data)

	For the Years Ended December 31, 2012	2011	2010
INTEREST INCOME:			
Investment securities and other	$27,112	$18,751	$10,865
Multi-family loans held in securitization trusts	104,410	-	-
Residential mortgage loans held in securitization trusts	5,573	5,540	9,034
Distressed residential mortgage loans held in securitization trusts	432	-	-
Total interest income	137,527	24,291	19,899
INTEREST EXPENSE:			
Investment securities and other	3,645	1,518	2,686
Multi-family collateralized debt obligations	97,032	-	-
Residential collateralized debt obligations	1,337	1,428	2,178
Securitized debt	1,945	-	-
Subordinated debentures	1,967	1,891	2,473
Convertible preferred debentures	-	-	2,274
Total interest expense	105,926	4,837	9,611
NET INTEREST INCOME	31,601	19,454	10,288
OTHER INCOME (EXPENSE):			
Provision for loan losses	(766)	(1,693)	(2,230)
Impairment loss on investment securities	-	(250)	(296)
Income from investments in limited partnership and limited liability company	622	2,167	496
Realized gain on investment securities and related hedges, net	6,268	5,740	5,362
Realized gain on distressed residential mortgage loans held in securitization trusts	85	-	-
Unrealized loss on investment securities and related hedges, net	(3,947)	(9,657)	-
Unrealized gain on multi-family loans and debt held in securitization trusts, net	6,662	-	-
Total other income (expense)	8,924	(3,693)	3,332
General, administrative and other expenses (including $1,544, $3,280 and $3,068 to related parties, respectively)	11,385	8,323	7,950
Termination of management contract with related party	40	2,195	-
Total general, administrative and other expenses	11,425	10,518	7,950
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	29,100	5,243	5,670
Income tax expense	932	433	-

INCOME FROM CONTINUING OPERATIONS	28,168	4,810	5,670
Income from discontinued operation - net of tax	14	63	1,135
NET INCOME	28,182	4,873	6,805
Net (loss) income attributable to noncontrolling interest	(97)	97	-
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$28,279	$4,776	$6,805
Basic income per common share	$1.08	$0.46	$0.72
Diluted income per common share	$1.08	$0.46	$0.72
Dividends declared per common share	$1.06	$1.00	$0.79
Weighted average shares outstanding-basic	26,067	10,495	9,422
Weighted average shares outstanding-diluted	26,067	10,495	9,422

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollar amounts in thousands)

	For the Years Ended December 31,		
	2012	2011	2010
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$28,279	$4,776	$6,805
OTHER COMPREHENSIVE INCOME (LOSS)			
Increase (decrease) in net unrealized gain on available for sale securities	9,310	(3,337)	9,106
Reclassification adjustment for net gain included in net income	(1,074)	(3,886)	(5,011)
(Decrease) increase in fair value of derivative instruments utilized for cash flow hedges	(1,440)	783	1,819
OTHER COMPREHENSIVE INCOME (LOSS)	6,796	(6,440)	5,914
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$35,075	$(1,664)	$12,719

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2012, 2011 and 2010
(Dollar amounts in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-controlling Interest	Total
Balance, January 1, 2010	$ 94	$ 142,519	$ (91,444)	$ 11,818	$ -	$ 62,987
Net income	-	-	6,805	-	-	6,805
Stock issuance, net	-	225	-	-	-	225
Dividends declared	-	(7,444)	-	-	-	(7,444)
Reclassification adjustment for net gain included in net income	-	-	-	(5,011)	-	(5,011)
Increase in net unrealized gain on available for sale securities	-	-	-	9,106	-	9,106
Increase in fair value of derivative instruments utilized for cash flow hedges	-	-	-	1,819	-	1,819
Balance, December 31, 2010	94	135,300	(84,639)	17,732	-	68,487
Net income	-	-	4,776	-	97	4,873
Stock issuance, net	45	29,862	-	-	-	29,907
Dividends declared	-	(11,452)	-	-	-	(11,452)
Increase in non-controlling interests related to consolidation of interest in a limited liability company	-	-	-	-	932	932
Reclassification adjustment for net gain included in net income	-	-	-	(3,886)	-	(3,886)
Decrease in net unrealized gain on available for sale securities	-	-	-	(3,337)	-	(3,337)
Increase in fair value of derivative instruments utilized for cash flow hedges	-	-	-	783	-	783
Balance, December 31, 2011	139	153,710	(79,863)	11,292	1,029	86,307
Net income	-	-	28,279	-	(97)	28,182
Stock issuance, net	357	232,105	-	-	-	232,462
Dividends declared	-	(30,809)	-	-	-	(30,809)

Decrease in noncontrolling interest related to sale of interest in a mortgage loan held for investment		-		-		-		-		(932)		(932)
Reclassification adjustment for net gain included in net income		-		-		-		(1,074)		-		(1,074)
Increase in net unrealized gain on available for sale securities		-		-		-		9,310		-		9,310
Decrease in fair value of derivative instruments utilized for cash flow hedges		-		-		-		(1,440)		-		(1,440)
Balance, December 31, 2012	$	496	$	355,006	$	(51,584)	$	18,088	$	-	$	322,006

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

	For the Years Ended December 31,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net income	$28,182	$4,873	$6,805
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net amortization	10,486	5,684	(2,579)
Realized gain on investment securities and related hedges, net	(6,268)	(5,740)	(5,362)
Realized gain on distressed residential mortgage loans held in securitization trusts	(85)	-	-
Unrealized loss on investment securities and related hedges, net	3,947	9,657	-
Unrealized gain on loans and debt held in multi-family securitization trusts, net	(6,662)	-	-
Impairment loss on investment securities	-	250	296
Net decrease in loans held for sale	935	31	32
Provision for loan losses	766	1,693	2,230
Income from investments in limited partnership and limited liability company	(622)	(2,167)	(496)
Interest distributions from investments in limited partnership and limited liability company	148	1,079	234
Stock issuance expense	826	210	225
Changes in operating assets and liabilities:			
Receivables and other assets	(20,660)	(2,923)	269
Accrued expenses and other liabilities and accrued expenses, related parties	18,096	767	(1,959)
Net cash provided by (used in) operating activities	29,089	13,414	(305)
Cash Flows from Investing Activities:			
Restricted cash	(20,783)	(24,326)	1,610
Proceeds from sales of investment securities	50,578	167,805	46,024
Purchases of investment securities	(1,033,924)	(291,211)	(5)
Issuance of mortgage loans held for investment	-	(2,520)	(7,460)
Purchase of investment in limited partnership and limited liability company	(3,344)	(5,322)	(19,359)
Proceeds from investment in limited partnership	9,042	10,909	956
Proceeds from mortgage loans held for investment	3,344	5,004	-
Net receipts on other derivative instruments settled during the period	7,191	4,961	-
Principal repayments received on residential mortgage loans held in securitization trusts	18,498	19,950	45,744
Principal repayments received on multi-family loans held in securitization trusts	28,034	-	-
Principal paydowns on investment securities - available for sale	47,684	19,459	52,174
	(61,700)	-	-

Purchases of distressed residential mortgage loans held in securitization trusts			
Purchases of investments held in multi-family securitization trusts	(111,002)	-	-
Net cash (used in) provided by investing activities	(1,066,382)	(95,291)	119,684
Cash Flows from Financing Activities:			
Proceeds from (payments of) financing arrangements	776,460	77,042	(49,474)
Stock issuance	232,668	30,382	-
Costs associated with common stock issued	(1,032)	(686)	-
Dividends paid	(22,304)	(8,270)	(8,102)
Payments made on residential collateralized debt obligations	(18,874)	(20,312)	(46,950)
Payments made on multi-family collateralized debt obligations	(28,034)	-	-
Redemption of convertible preferred debentures	-	-	(20,000)
Capital (distributed to) contributed by noncontrolling interest	(932)	932	-
Proceeds from securitized debt	114,716	-	-
Payments made on securitized debt	(184)	-	-
Net cash provided by (used in) financing activities	1,052,484	79,088	(124,526)
Net Increase (Decrease) in Cash and Cash Equivalents	15,191	(2,789)	(5,147)
Cash and Cash Equivalents - Beginning of Year	16,586	19,375	24,522
Cash and Cash Equivalents - End of Year	$31,777	$16,586	$19,375
Supplemental Disclosures:			
Cash paid for interest	$115,656	$4,669	$9,730
Cash paid for income taxes	$1,207	$232	$-
Non-Cash Investment Activities:			
Sale of securities not yet settled	$-	$1,133	$5,653
Purchase of securities not yet settled	$245,931	$228,300	$-
Consolidation of multi-family loans held in securitization trusts	$5,305,933	$-	$-
Consolidation of multi-family collateralized debt obligations	$5,195,166	$-	$-
Transfer of investment securities from investment in limited liability company	$-	$5,463	$-
Non-Cash Financing Activities:			
Dividends declared to be paid in subsequent period	$13,384	$4,878	$1,697

See notes to consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

1. Organization

New York Mortgage Trust, Inc., together with its consolidated subsidiaries (“NYMT,” the “Company,” “we,” “our” and “us”) a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes investments in mortgage-related and financial assets, including Agency RMBS, consisting of fixed-rate, adjustable-rate and hybrid adjustable-rate RMBS, Agency IOs, consisting of interest only and inverse interest only RMBS that represent the right to the interest component of the cash flow from a pool of mortgage loans, multi-family CMBS and residential mortgage loans, including loans sourced from distressed markets.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for residential loan and CMBS securitization purposes, taxable REIT subsidiaries ("TRSs") and qualified REIT subsidiaries ("QRSs"). The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America (“GAAP”).

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

2. Summary of Significant Accounting Policies

Definitions – The following defines certain of the commonly used terms in these financial statements: “RMBS” refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only and principal only mortgage-backed securities; “Agency RMBS” refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “non-Agency RMBS” refers to RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) mortgage loans; “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; “ARMs” refers to adjustable-rate residential mortgage loans; “multi-family CMBS” refers to commercial mortgage-backed securities backed by commercial mortgage loans on multi-family properties, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; and “CLO” refers to collateralized loan obligations.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain prior period amounts have been reclassified in the consolidated financial statements to conform to current period presentation.

Principles of Consolidation and Variable Interest Entities – The consolidated financial statements of the Company include the accounts of all its subsidiaries which are majority-owned, controlled by the Company or a variable interest entity ("VIE") where the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

An entity is referred to as a variable interest entity ("VIE") if it meets at least one of the following criteria: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support of other parties; or (2) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (3) have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionally few voting rights.

The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Investment Securities Available for Sale – The Company's investment securities, where the fair value option has not been elected and which are reported at fair value with unrealized gains and losses reported in other comprehensive income ("OCI"), include Agency RMBS and non-Agency RMBS. Our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis, and designates such impairments as either "temporary" or "other-than-temporary." If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then it must recognize an other-than-temporary impairment through earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the consolidated balance sheet. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security, which may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

The Company's investment securities available for sale also includes its investment in a wholly owned account referred to as our Agency IO portfolio. These investments primarily include interest only and inverse interest only securities sometimes referred to as IO's that represent the right to the interest component of the cash flow from a pool of mortgage loans that are guaranteed or issued by a GSE or government agency. The Agency IO portfolio investments also include derivative investments not designated as hedging instruments for accounting purposes, with unrealized gains and losses recognized through earnings in the consolidated statements of operations. The Company has elected the fair value option for these investment securities, which also measures unrealized gains and losses through earnings in the consolidated statements of operations, as the Company believes this accounting treatment more accurately and consistently reflects their results of operations.

Investment Securities Available for Sale Held in Securitization Trusts – The Company’s investment securities available for sale held in securitization trusts are comprised of multi-family CMBS consisting of first loss tranche PO securities, a first loss floating rate security and certain IOs issued from four Freddie Mac-sponsored multi-family K-Series securitizations. The Company’s multi-family CMBS investments are held in RB Commercial Trust 2012-RS1 (the “2012-RS1 Trust”) and New York Mortgage Securitization Trust 2012-1 (the “NYMST 2012-1 Trust”) pursuant to a re-securitization transaction and a collateralized recourse financing transaction completed during the year ended December 31, 2012 (see Notes 7 and 13).

The Company's investment securities available for sale held in securitization trusts, where the fair value option has not been elected are reported at fair value with unrealized gains and losses reported in OCI. Realized gains and losses recorded on the sale of investment securities available for sale held in securitization trusts are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the consolidated statements of operations. Purchase premiums or discounts are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method.

Residential Mortgage Loans Held in Securitization Trusts – Residential mortgage loans held in securitization trusts are comprised of certain adjustable rate mortgage ("ARM") loans transferred to New York Mortgage Trust 2005-1, New York Mortgage Trust 2005-2 and New York Mortgage Trust 2005-3 that have been securitized into sequentially rated classes of beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the financial statements. Residential mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses. Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management’s opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Distressed residential Mortgage Loans Held in Securitization Trust – Distressed residential mortgage loans held in securitization trust are comprised of a pool of performing and re-performing, fixed and adjustable rate, residential mortgage loans (the “Distressed residential Mortgage Loans”) acquired in the fourth quarter of 2012 and transferred to NYMT Residential 2012-RP1, LLC (“NYMT Residential 2012-RP1”) as part of a securitization transaction. The Company accounted for this securitization trust as a financing which is consolidated into the financial statements. Distressed residential mortgage loans held in securitization trust are carried at their unpaid principal balances, net of unamortized discount, and allowance for loan losses. Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management’s opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Allowance for Loan Losses on Residential Mortgage Loans Held in Securitization Trusts – We establish an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held in securitization trusts.

Estimation involves the consideration of various credit-related factors, including but not limited to, macro-economic conditions, current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the current value of the collateralizing property. We utilize various home valuation methodologies including appraisals, broker pricing opinions, internet-based property data services to review comparable properties in the same area or consult with a realtor in the property's area.

Multi-Family Loans Held in Securitization Trusts – Multi-family loans held in securitization trusts are comprised of multi-family mortgage loans held in four Freddie Mac-sponsored multi-family K-Series securitizations (the “Consolidated K-Series”). Based on a number of factors, we determined that we were the primary beneficiary of each VIE within the Consolidated K-Series, met the criteria for consolidation and, accordingly, have consolidated these Freddie Mac-sponsored multi-family K-Series securitizations, including their assets, liabilities, interest income and expense in our financial statements. The Company has elected the fair value option on each of the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in the Company's statement of operations, as the Company believes this accounting treatment more accurately and consistently reflects their results of operations.

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

Mortgage Loans Held for Investment – Mortgage loans held for investment are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances, and are included in receivables and other assets. Interest income is accrued on the principal amount of the loan based on the loan’s contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in interest income. Loans are considered to be impaired when it is probable that based upon current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Based on the facts and circumstances of the individual loans being impaired, loan specific valuation allowances are established for the excess carrying value of the loan over either: (i) the present value of expected future cash flows discounted at the loan’s original effective interest rate, (ii) the estimated fair value of the loan’s underlying collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or (iii) the loan’s observable market price.

Investment in Limited Partnership –In circumstances where the Company has a non-controlling interest but either owns a significant interest or is able to exert influence over the affairs of the enterprise, the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity’s earnings and decreased for cash distributions and a proportionate share of the entity’s losses. Where the Company is not required to fund additional losses, the Company does not continue to record its proportionate share of the entity’s losses such that its investment balance would go below zero.

Management periodically reviews its investments for impairment based on projected cash flows from the entity over the holding period. When any impairment is identified, the investments are written down to recoverable amounts.

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

Receivables and Other Assets – Receivables and other assets at December 31, 2012 and 2011 include restricted cash held by third parties of $46.5 million and $25.8 million, respectively. Included in restricted cash is $25.8 million and $16.5 million held in our Agency IO portfolio to be used for trading purposes and $19.8 million and $9.1 million held by counterparties as collateral for hedging instruments at December 31, 2012 and 2011, respectively. Also included is interest receivable on multi-family loans held in securitization trusts of $18.3 million as of December 31, 2012.

Financing Arrangements, Portfolio Investments – The Company finances the majority of its agency securities purchases using repurchase agreements. Under a repurchase agreement, an asset is sold to a counterparty to be repurchased at a future date at a predetermined price, which represents the original sales price plus interest. The Company accounts for these repurchase agreements as financings under ASC 860-10-40. Under this standard, for these transactions to be treated as financings, they must be separate transactions and not linked. If the Company finances the purchase of its agency securities with repurchase agreements with the same counterparty from which the securities are purchased and both transactions are entered into contemporaneously or in contemplation of each other, the transactions are presumed under GAAP to be part of the same arrangement, or a "Linked Transaction," unless certain criteria are met. None of the Company’s repurchase agreements are accounted for as linked transactions.

Residential Collateralized Debt Obligations (“Residential CDOs”) – We use Residential CDOs to permanently finance our residential mortgage loans held in securitization trusts. For financial reporting purposes, the ARM loans held as collateral are recorded as assets of the Company and the Residential CDOs are recorded as the Company’s debt. The Company has completed four securitizations since inception, the first three were accounted for as a permanent financing and the fourth was accounted for as a sale and accordingly, not included in the Company’s financial statements.

Multi-Family Collateralized Debt Obligations (“Multi-Family CDOs”) – We consolidated the Consolidated K-Series including their debt, referred to as Multi-Family CDOs, in our financial statements. The Multi-Family CDOs permanently finance the multi-family mortgage loans held in the Consolidated K-Series securitizations. For financial reporting purposes, the loans held as collateral are recorded as assets of the Company and the Multi-Family CDOs are recorded as the Company’s debt. We refer to both the Residential CDOs and Multi-Family CDOs as CDOs in this report.

Securitized Debt –On May 23, 2012, the 2012-RS1 Trust, a subsidiary of the Company, completed a re-securitization of multi-family CMBS. As part of the re-securitization transaction, the 2012-RS1 Trust issued the notes, which are secured by the multi-family CMBS contributed to the 2012-RS1 Trust.

On November 28, 2012, the Company’s subsidiary, RB Commercial Mortgage LLC (“RBCM”) entered into a master repurchase agreement with a three-year term for the purpose of financing certain multi-family CMBS. As part of the master repurchase agreement, NYMST 2012-1 Trust issued notes, which are secured by the multi-family CMBS transferred to NYMST 2012-1 Trust.

The multi-family CMBS contributed to the 2012-RS1 Trust and NYMST 2012-1 Trust are comprised collectively of the Company’s interests in the first loss tranche PO securities, first loss floating rate security and certain IOs issued by seven Freddie Mac-sponsored multi-family K-Series securitizations.

On December 28, 2012, NYMT Residential LLC, a wholly-owned subsidiary of the Company, completed a securitization transaction with a three-year term for the purpose of financing distressed residential mortgage loans. As part of the securitization transaction, NYMT Residential 2012-RP1 issued the 2012-RP1 Note, which is secured by the distressed residential mortgage loans transferred to NYMT Residential 2012-RP1. The distressed residential mortgage loans serving as collateral for the 2012-RP1 Note are performing and re-performing, fixed- and adjustable-rate, fully-amortizing, interest only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties.

The Company has consolidated the 2012-RS1 Trust, NYMST 2012-1 Trust and NYMT Residential 2012-RP1 on its financial statements as of December 31, 2012. Costs related to issuance of securitized debt which include underwriting, rating agency, legal, accounting and other fees are reflected as deferred charges. Such costs are included on the Company’s consolidated balance sheet in receivable and other assets in the amount of $2.6 million as of December 31, 2012. These deferred charges are amortized as an adjustment to interest expense using the effective interest method.

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

Derivative Financial Instruments – The Company has developed risk management programs and processes, which include investments in derivative financial instruments designed to manage interest rate and prepayment risk associated with its securities investment activities.

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines.

F-13

The Company invests in To-Be-Announced securities (“TBAs”) through its Agency IO portfolio. TBAs are forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are “To-Be-Announced.” Pursuant to these TBA transactions, we agree to purchase or sell, for future settlement, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable, therefore we have not designated these forward commitments as hedging instruments. Realized and unrealized gains and losses associated with these TBAs are recognized through earnings as other income (expense) in the consolidated statements of operations.

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

For instruments that are not designated or qualify as a cash flow hedge, such as our use of U.S. Treasury securities or financial futures and options on financial futures contracts, any realized and unrealized gains and losses associated with these instruments are recognized through earnings as other income (expense) in the consolidated statement of operations.

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

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

Revenue Recognition – Interest income on our investment securities and on our mortgage loans is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities and mortgage loans at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our non-Agency RMBS and certain of our CMBS that were purchased at a discount to par value, is recognized based on the security’s effective interest rate. The effective interest rate on these securities is based on management’s estimate from each security of the projected cash flows, which are estimated based on the Company’s assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

Based on the projected cash flows from the Company’s first loss principal only multi-family CMBS purchased at a discount to par value, a portion of the purchase discount is designated as non-accretable purchase discount or credit reserve, which partially mitigates the Company’s risk of loss on the mortgages collateralizing such multi-family

CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

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

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

Employee Benefits Plans – The Company sponsors a defined contribution plan (the "Plan") for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. The Company made no contributions to the Plan for the years ended December 31, 2012, 2011 and 2010.

Stock Based Compensation – Compensation expense for equity based awards and stock issued for services are recognized over the vesting period of such awards and services based upon the fair value of the stock at the grant date.

Income Taxes – The Company operates so as to qualify as a REIT under the requirements of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of the Company's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

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

Accounting Standards Codification Topic 740 Accounting for Income Taxes ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. In situations involving uncertain tax positions related to income tax matters, we do not recognize benefits unless it is more likely than not that they will be sustained. ASC 740 was applied to all open taxable years as of the effective date. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based on factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof. The Company will recognize interest and penalties, if any, related to uncertain tax positions as income tax expense.

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

Segment Reporting – ASC 280, Segment Reporting, is the authoritative guidance for the way public entities report information about operating segments in their annual financial statements. We are a REIT focused on the business of acquiring, investing in, financing and managing primarily mortgage-related assets and currently operate in only one reportable segment.

Summary of Recent Accounting Pronouncements

Transfers and Servicing (ASC 860)

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. ASU 2011-03 is intended to improve financial reporting of repurchase agreements ("repos") and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. In a typical repo transaction, an entity transfers financial assets to a counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. FASB Accounting Standards Codification (“Codification”) Topic 860, Transfers and Servicing, prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repo agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. The amendments to the Codification in this ASU are intended to improve the accounting for these transactions by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. The guidance in the ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 did not have an effect on our financial condition, results of operations and disclosures.

Fair Value Measurements (ASC 820)

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 represents the converged guidance of the FASB and the IASB (collectively, the "Boards") on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not affect our financial condition or results of operations but required us to add additional disclosures.

Balance Sheet (ASC 210)

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The update requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective January 1, 2013 and is to be applied retrospectively. The adoption of ASU 2011-11 will have an effect on our disclosures but we do not expect the adoption to have an effect on our financial condition or results of operations.

Comprehensive Income (ASC 220)

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires registrants to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present significant amounts reclassified out of AOCI by the respective line items of net income. ASU No. 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We will reflect the impact of these amendments beginning with our Quarterly Report on Form 10-Q for the period ending March 31, 2013. As the new standard does not change the current requirements for reporting net income or other comprehensive income in the accompanying financial statements, our financial position and, results of operations will not be impacted.

3. Investment Securities Available For Sale

Investment securities available for sale consist of the following as of December 31, 2012 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS:				
Agency ARMs				
Freddie Mac	$ 80,106	$ 341	$ (83)	$ 80,364
Fannie Mae	169,020	659	(118)	169,561
Ginnie Mae	24,127	—	(129)	23,998
Total Agency ARMs	273,253	1,000	(330)	273,923
Agency Fixed Rate				
Freddie Mac	49,899	24	(162)	49,761
Fannie Mae	578,300	1,166	(1,283)	578,183
Total Agency Fixed Rate	628,199	1,190	(1,445)	627,944
Agency IOs (1)				
Freddie Mac	38,025	92	(3,217)	34,900
Fannie Mae	40,858	656	(5,266)	36,248
Ginnie Mae	30,530	738	(3,044)	28,224
Total Agency IOs	109,413	1,486	(11,527)	99,372
Total Agency RMBS	1,010,865	3,676	(13,302)	1,001,239
Non-Agency RMBS	3,291	—	(604)	2,687
CLOs	13,495	17,290	—	30,785
Total	$ 1,027,651	$ 20,966	$ (13,906)	$ 1,034,711

(1) Included in investment securities available for sale as of December 31, 2012 are Agency IOs. Agency IOs are measured at fair value through earnings.

Investment securities available for sale held in securitization trusts consist of the following as of December 31, 2012 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
CMBS	$ 68,426	$ 3,006	$ (273)	$ 71,159
Total	$ 68,426	$ 3,006	$ (273)	$ 71,159

Investment securities available for sale consist of the following as of December 31, 2011 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS:				
Agency ARMs				
Freddie Mac	$ 10,202	$ —	$ (3)	$ 10,199
Fannie Mae	57,225	1,391	(40)	58,576
Total Agency ARMs	67,427	1,391	(43)	68,775
Agency IOs (1)				
Freddie Mac	19,477	142	(2,554)	17,065
Fannie Mae	31,079	490	(3,908)	27,661
Ginnie Mae	21,656	304	(3,004)	18,956
Total Agency IOs	72,212	936	(9,466)	63,682
Total Agency RMBS	139,639	$ 2,327	(9,509)	132,457
CMBS	42,221	128	(1,164)	41,185
Non-Agency RMBS	5,156	—	(1,211)	3,945
CLOs	10,262	12,493	—	22,755
Total	$ 197,278	$ 14,948	$ (11,884)	$ 200,342

(1) Included in investment securities available for sale as of December 31, 2011 are Agency IOs. Agency IOs are measured at fair value through earnings.

During the year ended December 31, 2012, the Company received total proceeds of approximately $50.6 million, realizing approximately $0.5 million of net gains from the sale of investment securities available for sale. During the year ended December 31, 2011, the Company received total proceeds of approximately $20.8 million, realizing approximately $5.0 million of net gains from the sale of investment securities available for sale. During the year ended December 31, 2010, the Company received total proceeds of approximately $46.0 million, realizing approximately $5.0 million of net gains from the sale of investment securities available for sale.

Actual maturities of our available for sale securities are generally shorter than stated contractual maturities (which range up to 30 years), as they are affected by the contractual lives of the underlying mortgages, periodic payments and prepayments of principal. As of December 31, 2012 and December 31, 2011, based on management's estimates, the weighted average life of the Company's available for sale securities portfolio was approximately 4.83 and 5.24 years, respectively.

The following tables set forth the stated reset periods of our investment securities available for sale at December 31, 2012 (dollar amounts in thousands):

December 31, 2012	Less than 6 Months	More than 6 Months To 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Agency RMBS	$ 91,633	$ 15,559	$ 894,047	$ 1,001,239
Non-Agency RMBS	2,687	—	—	2,687
CLOs	30,785	—	—	30,785
Total	$ 125,105	$ 15,559	$ 894,047	$ 1,034,711

The following tables set forth the stated reset periods of our investment securities available for sale held in securitization trusts at December 31, 2012 (dollar amounts in thousands):

December 31, 2012	Less than 6 Months	More than 6 Months To 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
CMBS	$ 22,215	$ —	$ 48,944	$ 71,159
Total	$ 22,215	$ —	$ 48,944	$ 71,159

The following tables set forth the stated reset periods of our investment securities available for sale at December 31, 2011 (dollar amounts in thousands):

December 31, 2011	Less than 6 Months	More than 6 Months To 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Agency RMBS	$ 74,983	$ 29,210	$ 28,264	$ 132,457
CMBS	—	—	41,185	41,185
Non-Agency RMBS	3,945	—	—	3,945
CLOs	22,755	—	—	22,755
Total	$ 101,683	$ 29,210	$ 69,449	$ 200,342

The following tables present the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 (dollar amounts in thousands):

December 31, 2012	Less than 12 Months	Greater than 12 months	Total

	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	$ 513,731	$ (1,749)	$ 6,158	$ (26)	$ 519,889	$ (1,775)
Non-Agency RMBS	—	—	2,687	(604)	2,687	(604)
Total	$ 513,731	$ (1,749)	$ 8,845	$ (630)	$ 522,576	$ (2,379)

The following tables present the Company's investment securities available for sale held in securitization trusts in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 (dollar amounts in thousands):

December 31, 2012	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
CMBS	$ 16,357	$ (273)	$ —	$ —	$ 16,357	$ (273)
Total	$ 16,357	$ (273)	$ —	$ —	$ 16,357	$ (273)

The following table presents the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 (dollar amounts in thousands):

December 31, 2011	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	$ 13,718	$ (43)	$ —	$ —	$ 13,718	$ (43)
CMBS	13,396	(1,164)	—	—	13,396	(1,164)
Non-Agency RMBS	—	—	3,944	(1,211)	3,944	(1,211)
Total	$ 27,114	$ (1,207)	$ 3,944	$ (1,211)	$ 31,058	$ (2,418)

For the years ended December 31, 2012 and 2010, the Company did not have unrealized losses in investment securities that were deemed other-than-temporary. For the year ended December 31, 2011, the Company recognized a $0.3 million other-than-temporary impairment through earnings relating to unrealized losses in investment securities.

4. Residential Mortgage Loans Held in Securitization Trusts (Net) and Real Estate Owned

Residential mortgage loans held in securitization trusts (net) consist of the following at December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

	December 31, 2012	December 31, 2011
Unpaid principal balance	$ 189,009	$ 208,934
Deferred origination costs – net	1,198	1,317
Reserve for loan losses	(2,978)	(3,331)
Total	$ 187,229	$ 206,920

Allowance for Loan Losses - The following table presents the activity in the Company's allowance for loan losses on residential mortgage loans held in securitization trusts for the years ended December 31, 2012, 2011 and 2010, respectively (dollar amounts in thousands):

	Years Ended December 31,		
	2012	2011	2010
Balance at beginning of period	$ 3,331	$ 2,589	$ 2,581
Provisions for loan losses	675	1,380	1,560
Transfer to real estate owned	(899)	(192)	(564)

Charge-offs		(129)		(446)		(988)
Balance at the end of period	$	2,978	$	3,331	$	2,589

On an ongoing basis, the Company evaluates the adequacy of its allowance for loan losses. The Company's allowance for loan losses at December 31, 2012 was $3.0 million, representing 158 basis points of the outstanding principal balance of residential loans held in securitization trusts as of December 31, 2012, as compared to 159 basis points as of December 31, 2011. As part of the Company's allowance for loan adequacy analysis, management will assess an overall level of allowances while also assessing credit losses inherent in each non-performing residential mortgage loan held in securitization trusts. These estimates involve the consideration of various credit related factors, including but not limited to, current housing market conditions, current loan to value ratios, delinquency status, the borrower's current economic and credit status and other relevant factors.

Real Estate Owned – The following table presents the activity in the Company's real estate owned held in residential securitization trusts for the years ended December 31, 2012, 2011 and 2010, respectively (dollar amounts in thousands):

	December 31, 2012	December 31, 2011	December 31, 2010
Balance at beginning of period	$ 454	$ 740	$ 546
Write downs	(124)	(87)	(193)
Transfer from mortgage loans held in securitization trusts	1,569	698	1,398
Disposal	(1,167)	(897)	(1,011)
Balance at the end of period	$ 732	$ 454	$ 740

Real estate owned held in residential securitization trusts are included in receivables and other assets on the balance sheet and write downs are included in provision for loan losses in the statement of operations for reporting purposes.

All of the Company's mortgage loans and real estate owned held in residential securitization trusts are pledged as collateral for the Residential CDOs issued by the Company. As of December 31, 2012 and 2011, the Company's net investment in the residential securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the mortgage loans and real estate owned held in residential securitization trusts and the amount of Residential CDOs outstanding, was $7.0 million and $7.6 million, respectively.

Delinquency Status of Our Residential Mortgage Loans Held in Securitization Trusts

As of December 31, 2012, we had 35 delinquent loans with an aggregate principal amount outstanding of approximately $19.5 million categorized as Residential Mortgage Loans Held in Securitization Trusts (net). Of the $19.5 million in delinquent loans, $15.2 million, or 78%, are under some form of modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts, including real estate owned through foreclosure (REO), as of December 31, 2012 (dollar amounts in thousands):

December 31, 2012

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	3	$ 751	0.39%
61-90	—	$ —	—%
90+	32	$ 18,762	9.85%
Real estate owned through foreclosure	4	$ 1,421	0.75%

F-21

As of December 31, 2011, we had 38 delinquent loans with an aggregate principal amount outstanding of approximately $21.0 million categorized as Residential Mortgage Loans Held in Securitization Trusts (net). Of the $21.0 million in delinquent loans, $18.0 million, or 86%, were under some form of modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts, including real estate owned through foreclosure (REO), as of December 31, 2011 (dollar amounts in thousands):

December 31, 2011

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	2	$ 517	0.25%
61-90	1	$ 378	0.18%
90+	35	$ 20,138	9.61%
Real estate owned through foreclosure	3	$ 656	0.31%

The geographic concentrations of credit risk exceeding 5% of the total loan balances in our residential mortgage loans held in securitization trusts and real estate owned held in residential securitization at December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
New York	37.8%	37.5%
Massachusetts	25.2%	24.6%
New Jersey	9.5%	9.2%
Florida	5.1%	5.7%
Connecticut	5.0%	5.1%

5. Distressed Residential Mortgage Loans Held in Securitization Trust (Net)

Distressed residential mortgage loans held in securitization trust (net) consist of the following at December 31, 2012 (dollar amounts in thousands):

Unpaid principal balance	$ 91,831
Unamortized discount	(31,372)
Reserve for loan losses	—
Total	$ 60,459

Distressed Residential Mortgage Loan Characteristics

The geographic concentrations of credit risk exceeding 5% of the total loan balances in our distressed residential mortgage loans held in securitization trust at December 31, 2012 are as follows:

California	24.1%
Texas	7.0%
Florida	6.5%

Maryland	5.5%

The Company's distressed residential mortgage loans held in securitization trust are pledged as collateral for the Securitized Debt issued by the Company (see Note 13). As of December 31, 2012, the Company's net investment in the securitization trust, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the distressed residential mortgage loans held in securitization trust and the carrying amount of securitized debt outstanding, was $21.8 million.

6. Multi-Family Loans Held in Securitization Trusts

The Company has elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in the Company's statement of operations. We first consolidated one of the Freddie-Mac-sponsored multi-family K-Series securitizations included in the Consolidated K-Series for the quarter ended March 31, 2012, while two other K-series securitizations included in the Consolidated K-Series were first consolidated in our financial statements during the quarter ended June 30, 2012. The fourth and final K-Series securitization included in the Consolidated K-Series was consolidated during the quarter ended December 31, 2012. Our investment in the Consolidated K-Series is limited to the multi-family CMBS comprised of first loss tranche PO securities and/or certain IOs issued by these K-Series securitizations with an aggregate net carrying value of $123.3 million at December 31, 2012.

The condensed balance sheet of the Consolidated K-Series at December 31, 2012 is as follows (dollar amounts in thousands):

Balance Sheet		Total
Assets		
Multi-family loans held in securitization trusts	$	5,442,906
Receivables		18,342
Total Assets	$	5,461,248
Liabilities and Equity		
Multi-family CDOs	$	5,319,573
Accrued expenses		18,022
Total Liabilities		5,337,595
Equity		123,653
Total Liabilities and Equity	$	5,461,248

The condensed statement of operations of the Consolidated K-Series for the year ended December 31, 2012 is as follows (dollar amounts in thousands):

Statement of Operations		Total
Interest income	$	104,410
Interest expense		97,032
Net interest income		7,378
Unrealized gain on multi-family loans		6,662
Net Income	$	14,040

The geographic concentrations of credit risk exceeding 5% of the total loan balances related to our CMBS investments included in investment securities, available for sale and Multi-family loans held in securitization trusts at December 31, 2012 and 2011 are follows:

	December 31,	December 31,

	2012	2011
Texas	14.0%	14.3%
California	13.6%	9.3%
Florida	7.4%	5.5%
New York	6.8%	7.2%
Georgia	5.4%	6.7%
Washington	5.0%	6.3%

7. Use of Special Purpose Entities and Variable Interest Entities

A Special Purpose Entity ("SPE") is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or re-securitizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to an SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business through the SPE's issuance of debt or equity instruments. Investors in an SPE usually have recourse only to the assets in the SPE and depending on the overall structure of the transaction, may benefit from various forms of credit enhancement, such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement.

Multi-Family CMBS Re-securitization Transaction

On May 23, 2012, the Company completed a re-securitization of multi-family CMBS through the 2012-RS1 Trust. This re-securitization transaction resulted in the Company consolidating as a VIE the SPE that was created to facilitate the transaction and to which the underlying assets in connection with the re-securitization were transferred. The Company received net cash proceeds of approximately $26.0 million after deducting expenses associated with the re-securitization transaction.

As part of the re-securitization transaction, the 2012-RS1 Trust, a subsidiary of NYMT, issued a Class A Senior Note (the "Class A Note") with a coupon of 5.35% in the initial aggregate principal face amount of $35 million. The Class A Note was issued at a discount that provides for a bond equivalent yield of 9.50% to the purchaser. The Class A Note holder is entitled to receive all distributions of principal and interest from the multi-family CMBS pledged to secure the Class A Note until the Class A Note is fully retired, which is expected to occur by January 2022. NYMT will then receive all remaining cash flow, if any, through its retained ownership in the 2012-RS1 Trust. The transaction effectively represents a long term structured financing of the multi-family CMBS contributed to the 2012-RS1 Trust by NYMT. The Class A Note is not callable due to collateral valuation or performance.

The 2012-RS1 Trust classified the multi-family CMBS issued by the two K-Series securitizations and held by the 2012-RS1 Trust as available for sale securities as the purpose is not to trade these securities. Available for sale securities are reported at fair value and unrealized gains and losses are recognized in other comprehensive income, not in earnings.

The 2012-RS1 Trust consolidated one of the K-Series securitizations, including its assets, liabilities, interest income and expense, in its financial statements during the second quarter of 2012. (See "Multi-Family Loans Held in Securitization Trusts", footnote 2 above). As based on a number of factors, the Company determined that it was the primary beneficiary and has a controlling financial interest in such K-Series securitizations. The Company has elected the fair value option on the assets and liabilities held within this K-Series securitization, which requires that changes in valuations in the assets and liabilities be reflected in the Company's consolidated statement of operations.

The Company engaged in the re-securitization transaction primarily for the purpose of obtaining non-recourse financing on a portion of its multi-family CMBS portfolio. As a result of engaging in this transaction, the Company remains economically exposed to the first loss position on the underlying multi-family CMBS transferred to the VIE.

There is no guarantee that the Company will receive any cash flow from the Trust.

F-24

Collateralized recourse financing transaction

In November 2012, the Company, through a wholly-owned subsidiary, entered into a master repurchase agreement with a three-year term for the purpose of financing certain multi-family CMBS owned by the Company. The Company received gross cash proceeds of approximately $52 million before deducting expenses associated with the transaction.

Pursuant to the terms of the master repurchase agreement (the “Master Repurchase Agreement”) dated November 27, 2012 by and between, a wholly-owned subsidiary of the Company, NYMST 2012-1 Trust , a special purpose entity, and U.S. Bank National Association, as indenture trustee, the Company transferred multi-family CMBS to NYMST 2012-1 Trust in exchange for the proceeds set forth above. The proceeds of the transaction to the Company were generated from NYMST 2012-1 Trust’s concurrent private placement of $52 million of notes pursuant to an indenture.

The notes bear interest that is payable monthly at a per annum rate equal to one-month LIBOR plus 6.50%. The notes and the financing under the Master Repurchase Agreement are scheduled to mature in November 2015, at which time NYMST 2012-1 Trust will transfer the multi-family CMBS serving as collateral back to the Company concurrent with the repayment of the outstanding financing under the Master Repurchase Agreement at maturity and NYMST 2012-1 Trust will repay the notes. In connection with the transaction, the Company agreed to guarantee the due and punctual payment of the subsidiary’s obligations under the Master Repurchase Agreement (the “Guarantee”).

All income received on the multi-family CMBS during the term of the Master Repurchase Agreement will be applied to pay any price differential and to reduce the aggregate repurchase price of the collateral under the Master Repurchase Agreement. The financing under the Master Repurchase Agreement is subject to margin calls to the extent the market value of the multi-family CMBS declines (as determined by the indenture trustee), in which case the Company would be required to either post additional collateral to cover such decrease or repay a portion of the outstanding financing in cash.

Repayment of the notes and outstanding financing under the Master Repurchase Agreement may be accelerated upon an event of default under the Master Repurchase Agreement, the indenture relating to the notes or the Guarantee. Events of default under the Master Repurchase Agreement, include, without limitation, the failure by the Company to repurchase the multi-family CMBS on the repurchase date, the failure by the Company to pay the price differential on any payment date or failure to cure any margin deficit when due, or any failure by the Company to perform, observe or comply with any material term, condition or agreement or breach of any material representation, warranty or covenant in the Master Repurchase Agreement.

The multi-family CMBS serving as collateral under the Master Repurchase Agreement are comprised of securities issued from four separate Freddie Mac-sponsored multifamily K-Series securitizations, including a first loss floating rate security acquired by the Company in October 2012 and the first loss POs and certain IOs acquired by the Company in November 2012.

Distressed Residential Mortgage Loan Securitization Transaction

In December 2012, the Company, through a wholly-owned subsidiary, entered into a securitization transaction with a three-year term for the purpose of financing distressed residential mortgage loans owned by the Company. The Company received gross cash proceeds of approximately $38.7 million before deducting expenses associated with the transaction.

Pursuant to the terms of the securitization agreements, the Company transferred the distressed residential mortgage loans to NYMT Residential, LLC, a wholly-owned subsidiary of the Company, which in turn transferred the distressed residential mortgage loans to NYMT Residential 2012-RP1, a special purpose entity, in exchange for the proceeds set forth above. The Company owns the equity certificate of NYMT Residential 2012-RP1. The gross proceeds of the transaction were generated from NYMT Residential 2012-RP1's concurrent private placement of $38.7 million of a note pursuant to an indenture.

The note bears interest that is payable monthly at a per annum rate equal to 4.25% and is scheduled to mature in December 2015, at which time NYMT Residential 2012-RP1 will transfer the distressed residential mortgage loans serving as collateral back to the Company. During the first two years of the financing (the "Revolving Period"), no principal payments will be made on the note. All cash proceeds generated by the distressed residential mortgage loans and received by NYMT Residential 2012-RP1 during the Revolving Period, after payment of interest on the note, reserve amounts and certain other transaction expenses, will be available for the purchase by the NYMT Residential 2012-RP1 of additional mortgage loans that satisfy certain eligibility criteria.

The distressed residential mortgage loans serving as collateral for the note are performing and re-performing, fixed and adjustable-rate, fully-amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties.

The Company concluded that the entities created to facilitate each of the re-securitization transactions, the collateralized recourse financing transaction and the distressed residential mortgage loan securitization transactions are VIEs. The Company then completed an analysis of whether the VIEs should be consolidated by the Company, based on consideration of its involvement in the VIEs, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of the VIEs. In determining whether the Company would be considered the primary beneficiary, the following factors were assessed:

- whether the Company has both the power to direct the activities that most significantly impact the economic performance of the VIE; and

- whether the Company has a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

Based on its evaluation of the factors discussed above, including its involvement in the purpose and design of the entity, the Company determined that the VIEs met the criteria for consolidation and, accordingly, consolidated the VIEs created to facilitate these transactions.

As of December 31, 2012, the aggregate fair value of the net assets of the multi-family CMBS that were re-securitized through NYMST 2012-1 Trust and 2012-RS1 Trust as described above was $111.8 million and $51.7 million, respectively. These net assets are included in the Company’s consolidated balance sheet and disclosed as “Investment securities available for sale, at fair value held in securitization trust”, “Multi-family loans held in securitization trusts” and “Multi-family collateralized debt obligation” in the amount of $71.2 million, $3,946.1 million and $3,853.8 million, respectively.

As of December 31, 2012, the aggregate carrying value of the net assets of the distressed residential mortgage loans that were securitized through NYMT Residential 2012-RP1 as described above and represents the difference between the carrying amount of the distressed residential mortgage loans held in securitization trust and the amount of securitized debt outstanding was $21.8 million.

As of December 31, 2012, the carrying value of the Class A Note issued by the 2012-RS1 Trust was $26.9 million. The Class A Note is included in the Company’s consolidated balance sheet and disclosed as “Securitized debt”. The holders of the Class A Note have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances, to repurchase assets from the VIE upon the breach of certain representations and warranties in relation to the CMBS contributed to the VIE. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to the VIE.

As of December 31, 2012, the aggregate carrying value of the notes issued by the NYMST 2012-1 Trust and NYMT Residential 2012-RP1 was $52.0 million and $38.7 million, respectively and is included in the Company’s consolidated balance sheet and disclosed as “Securitized debt”.

The Company has also determined that it has a variable interest in the Consolidated K-Series, New York Mortgage Trust 2005-1, New York Mortgage Trust 2005-2 and New York Mortgage Trust 2005-3 for which it is the primary beneficiary and has a controlling financial interest and, accordingly, has consolidated their assets, liabilities, income and expenses in its consolidated financial statements (see Notes 2 and 6).

The Company has evaluated its CMBS investments in four Freddie-Mac sponsored K-Series securitizations to determine whether they are VIEs and should be consolidated by the Company. Based on a number of factors, the Company determined that it has no controlling financial interest and is not the primary beneficiary of the VIEs.

8. Investment in Limited Partnership

The Company has a non-controlling, unconsolidated limited partnership interest in an entity that is accounted for using the equity method of accounting. Capital contributions, distributions, and profits and losses of the entity are allocated in accordance with the terms of the limited partnership agreement. The Company owns 100% of the equity of the limited partnership, but has no decision-making powers, and therefore does not consolidate the limited partnership. Our maximum exposure to loss in this VIE is $0.1 million and $8.5 million at December 31, 2012 and December 31, 2011, respectively. During the third and fourth quarters of 2010, HC invested, in exchange for limited partnership interests, $19.4 million in this limited partnership that was formed for the purpose of acquiring, servicing, selling or otherwise disposing of first-lien residential mortgage loans. The pool of mortgage loans was acquired by the partnership at a significant discount to the loans' unpaid principal balance.

For the years ended December 31, 2012, 2011 and 2010, the Company recognized income from the investment in limited partnership of $0.6 million, $1.8 million and $0.5 million, respectively. For the years ended December 31, 2012, 2011 and 2010, the Company received distributions from the investment in limited partnership of $9.2 million, $11.8 million and $1.2 million, respectively.

The condensed balance sheets of the investment in limited partnership at December 31, 2012 and December 31, 2011, respectively, are as follows (dollar amounts in thousands):

Assets	December 31, 2012	December 31, 2011
Cash	$ 136	$ 1,154
Mortgage loans held for sale (net)	—	6,918
Other assets	—	661
Total Assets	$ 136	$ 8,733
Liabilities and Partners' Equity		
Other liabilities	$ —	$ 206
Partners' equity	136	8,527
Total Liabilities and Partners' Equity	$ 136	$ 8,733

The condensed statements of operations of the investment in limited partnership for the years ended December 31, 2012, 2011 and 2010, respectively, are as follows (dollar amounts in thousands):

	Years Ended December 31,		
Statements of Operations	2012	2011	2010
Interest income	$ 311	$ 1,267	$ 489
Realized gain	577	1,107	164
Total Income	888	2,374	653
Other expenses	(266)	(536)	(157)
Net Income	$ 622	$ 1,838	$ 496

9. Derivative Instruments and Hedging Activities

The Company enters into derivative instruments to manage its interest rate risk exposure. These derivative instruments include interest rate swaps, swaptions and futures. The Company may also purchase or short TBAs and U.S. Treasury securities, purchase put or call options on U.S. Treasury futures or invest in other types of mortgage derivative securities.

The following table presents the fair value of derivative instruments that were not designated as hedging instruments and their location in our consolidated balance sheets at December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	December 31, 2012	December 31, 2011
TBA securities	Derivative assets	$ 244,789	$ 207,891
U.S. Treasury futures	Derivative assets	676	—
Swaptions	Derivative assets	597	—
Options on U.S. Treasury futures	Derivative assets	59	327
Interest rate swap futures	Derivative assets	8	—
Eurodollar futures	Derivative liabilities	3,798	1,749
U.S. Treasury futures	Derivative liabilities	—	566

The tables below summarize the activity of derivative instruments not designated as hedges for the years ended December 31, 2012 and 2011, respectively (dollar amounts in thousands). There were no derivative instruments not designated as hedges for the same period in 2010.

	Notional Amount For the Year Ended December 31, 2012			
Derivatives Not Designated as Hedging Instruments	December 31, 2011	Additions	Settlement, Expiration or Exercise	December 31, 2012
TBA securities	$ 202,000	$ 3,088,000	$ (3,056,000)	$ 234,000
U.S. Treasury futures	(92,800)	1,142,100	(1,221,400)	(172,100)
Interest rate swap futures	—	6,000	(19,000)	(13,000)
Short sales of Eurodollar futures	(2,422,000)	1,531,000	(1,961,000)	(2,852,000)
Options on U.S. Treasury futures	199,500	1,181,500	(1,311,000)	70,000
Swaptions	—	100,000	—	100,000

	Notional Amount For the Year Ended December 31, 2011			
Derivatives Not Designated as Hedging Instruments	December 31, 2010	Additions	Settlement, Expiration or Exercise	December 31, 2011
TBA securities	$ —	$ 1,017,000	$ (815,000)	$ 202,000
U.S. Treasury futures	—	566,600	(659,400)	(92,800)
Short sales of Eurodollar futures	—	1,938,000	(4,360,000)	(2,422,000)
Options on U.S. Treasury futures	—	795,000	(595,500)	199,500

The TBAs in our Agency IO portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our consolidated statements of operations. The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. For the year ended December 31, 2012, we recorded net realized gains of $16.4 million, and net unrealized losses of $1.3 million. For the year ended December 31, 2011, we recorded net realized gains of $2.9 million and net unrealized losses of $1.4 million. There were no realized or unrealized gains or losses from TBAs for the same period in 2010. At December 31, 2012, our consolidated balance sheet includes TBA-related liabilities of $245.9 million included in payable for securities purchased. Open TBA purchases and sales involving the same counterparty, same underlying deliverable and the same settlement date are reflected in our consolidated financial statements on a net basis.

The Eurodollar futures in our Agency IO portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our consolidated statements of operations. For the year ended December 31, 2012, we recorded net realized losses of $1.0 million and net unrealized losses of $2.0 million, in our Eurodollar futures contracts. For the year ended December 31, 2011, we recorded net realized losses of $2.0 million and net unrealized losses of $1.7 million in our Eurodollar futures contracts. There were no realized or unrealized gains or losses from Eurodollars for the same period in 2010. The Eurodollar futures consist of 2,852 contracts with expiration dates ranging between March 2013 and September 2014.

The U.S. Treasury futures and interest rate swap futures and options in our Agency IO portfolio are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our consolidated statements of operations. For the year ended December 31, 2012, we recorded net realized losses of $9.5 million, and unrealized gains of $1.3 million. For the year ended December 31, 2011, we recorded net realized losses of $0.2 million, and net unrealized losses of $0.7 million. There were no realized or unrealized gains or losses from U.S. Treasury futures and options for the same period in 2010.

Swaptions are accounted for at fair value with both realized and unrealized gains and losses included in other income (expense) in our consolidated statements of operations. For the year ended December 31, 2012, we recorded realized gains of $0, and unrealized losses of $0.3 million. There were no realized or unrealized gains or losses for the same period in 2011 and 2010.

The following table presents the fair value of derivative instruments designated as hedging instruments and their location in the Company’s consolidated balance sheets at December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	December 31, 2012	December 31, 2011
Interest Rate Swaps	Derivative liabilities	$ 1,744	$ 304

The following table presents the impact of the Company's derivative instruments on the Company's accumulated other comprehensive income (loss) for the years ended December 31, 2012, 2011 and 2010, respectively (dollar amounts in thousands):

	Years Ended December 31,		
Derivatives Designated as Hedging Instruments	2012	2011	2010
Accumulated other comprehensive income (loss) for derivative instruments:			
Balance at beginning of the period	$ (304)	$ (1,087)	$ (2,904)
Unrealized gain on interest rate caps	—	—	394
Unrealized (loss) gain on interest rate swaps	(1,440)	783	1,423
Balance at end of the period	$ (1,744)	$ (304)	$ (1,087)

The Company estimates that over the next 12 months, approximately $1.6 million of the net unrealized losses on the interest rate swaps will be reclassified from accumulated other comprehensive income (loss) into earnings.

The following table details the impact of the Company's interest rate swaps and interest rate caps included in interest expense for the years ended December 31, 2012, 2011 and 2010, respectively (dollar amounts in thousands):

	Years Ended December 31,		
	2012	2011	2010
Interest Rate Caps:			
Interest expense-investment securities and loans held in securitization trusts	$ —	$ —	$ 308
Interest expense-subordinated debentures	—	—	92
Interest Rate Swaps:			
Interest expense-investment securities	810	893	2,515

The Company's interest rate swaps are designated as cash flow hedges against the benchmark interest rate risk associated with its short term repurchase agreements. There were no costs incurred at the inception of our interest rate swaps, under which the Company agrees to pay a fixed rate of interest and receive a variable interest rate based on one month LIBOR, on the notional amount of the interest rate swaps. The Company's interest rate cap transactions were designated as cash flow hedges against the benchmark interest rate risk associated with the CDOs and the subordinated debentures. The interest rate cap transactions were initiated with an upfront premium that was being amortized over the life of the contract.

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities, and upon entering into hedging transactions, documents the relationship between the hedging instrument and the hedged liability contemporaneously. The Company assesses, both at inception of a hedge and on an on-going basis, whether or not the hedge is "highly effective" when using the matched term basis.

The Company discontinues hedge accounting on a prospective basis and recognizes changes in the fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate. The Company's derivative instruments are carried on the Company's balance sheet at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. For the Company's derivative instruments that are designated as "cash flow hedges," changes in their fair value are recorded in accumulated other comprehensive income (loss), provided that the hedges are effective. A change in fair value for any ineffective amount of the Company's derivative instruments would be recognized in earnings. The Company has not recognized any change in the value of its existing derivative instruments designated as cash flow hedges through earnings as a result of ineffectiveness of any of its hedges.

The following table presents information about the Company's interest rate swaps as of December 31, 2012 and December 31, 2011, respectively (dollar amounts in thousands):

	December 31, 2012		December 31, 2011	
Maturity (1)	Notional Amount	Weighted Average Fixed Pay Interest Rate	Notional Amount	Weighted Average Fixed Pay Interest Rate
Within 30 Days	$ 8,380	2.93%	$ 14,930	3.02%
Over 30 days to 3 months	—	—	260	2.93
Over 3 months to 6 months	—	—	380	2.93
Over 6 months to 12 months	—	—	810	2.93
Over 12 months to 24 months	—	—	8,380	2.93
Over 24 months to 36 months	135,000	0.45	—	—
Over 36 months to 48 months	—	—	—	—
Over 48 months to 60 months	215,000	0.83	—	—
Total	$ 358,380	0.74%	$ 24,760	2.99%

(1) The Company enters into interest rate swap transactions whereby the Company pays a fixed rate of interest and receives one month LIBOR.

Interest Rate Caps – Interest rate caps were designated by the Company as cash flow hedges against interest rate risk associated with the Company's Residential CDOs and the subordinated debentures. The interest rate caps associated with the Residential CDOs were amortizing contractual schedules determined at origination. These interest rate caps were utilized to cap the interest rate on the Residential CDOs at a fixed-rate when one month LIBOR exceeds a predetermined rate. The interest rate caps expired on April 25, 2011.

Interest Rate Swaps, Futures Contracts and TBAs - The use of derivatives exposes the Company to counterparty credit risks in the event of a default by a counterparty. If a counterparty defaults under the applicable derivative agreement, the Company may be unable to collect payments to which it is entitled under its derivative agreements, and may have difficulty collecting the assets it pledged as collateral against such derivatives. The Company currently has in place with all counterparties bi-lateral margin agreements requiring a party to post collateral to the Company for any valuation deficit. This arrangement is intended to limit the Company's exposure to losses in the event of a counterparty default.

The Company is required to pledge assets under a bi-lateral margin arrangement, including either cash or Agency RMBS, as collateral for its interest rate swaps, futures contracts and TBAs, whose collateral requirements vary by counterparty and change over time based on the market value, notional amount, and remaining term of the agreement. In the event the Company is unable to meet a margin call under one of its agreements, thereby causing an event of default or triggering an early termination event under one of its agreements, the counterparty to such agreement may have the option to terminate all of such counterparty's outstanding transactions with the Company. In addition, under this scenario, any close-out amount due to the counterparty upon termination of the counterparty's transactions would be immediately payable by the Company pursuant to the applicable agreement. The Company believes it was in compliance with all margin requirements under its agreements as of December 31, 2012 and 2011. The Company had $19.8 million and $9.1 million of restricted cash related to margin posted for its agreements as of December 31, 2012 and 2011, respectively. The restricted cash held by third parties is included in receivables and other assets in the accompanying consolidated balance sheets.

F-31

10. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its investment portfolio. The repurchase agreements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance. At December 31, 2012, the Company had repurchase agreements with an outstanding balance of $889.1 million and a weighted average interest rate of 0.54%. As of December 31, 2011, the Company had repurchase agreements with an outstanding balance of $112.7 million and a weighted average interest rate of 0.71%. At December 31, 2012 and December 31, 2011, securities pledged by the Company as collateral for repurchase agreements had estimated fair values of $954.7 million and $129.9 million, respectively. As of December 31, 2012, the average days to maturity for all repurchase agreements are 39 days. The Company's accrued interest payable on outstanding repurchase agreements at December 31, 2012 and 2011 amounts to $0.2 million and $0.1 million, respectively, and is included in accrued expenses and other liabilities on the Company's consolidated balance sheet.

The following table summarizes outstanding repurchase agreement borrowings secured by portfolio investments as of December 31, 2012 and 2011, respectively (dollar amounts in thousands):

Repurchase Agreements by Counterparty

Counterparty Name	December 31, 2012	December 31, 2011
Barclays Capital Inc.	$ 114,276	$ —
Cantor Fitzgerald Securities	27,835	9,225
Credit Suisse First Boston LLC	98,915	11,147
Deutsche Bank Securities Inc.	97,767	—
Jefferies & Company, Inc.	55,537	18,380
JPMorgan Chase Bank, N.A.	121,155	49,226
Mizuho Securities USA Inc.	72,527	—
Morgan Stanley & Co. LLC	81,263	—
RBC Capital Markets Corporation	46,155	—
South Street Securities LLC	32,718	24,696
Wells Fargo Bank, N.A.	140,986	—
Total Financing Arrangements, Portfolio Investments	$ 889,134	$ 112,674

The following table presents contractual maturity information about the Company's outstanding repurchase agreements at December 31, 2012 and 2011 (dollar amounts in thousands):

Contractual Maturity	December 31, 2012	December 31, 2011
Overnight	$ —	$ —
Within 30 days	765,593	112,674
Over 30 days to 90 days	123,541	—
Over 90 days	—	—
Demand	—	—
Total	$ 889,134	$ 112,674

The following table presents detailed information about the Company's assets pledged as collateral pursuant to its borrowings under repurchase agreements at December 31, 2012 (dollar amounts in thousands):

	Outstanding Repurchase Agreements	Fair Value of Collateral Pledged	Amortized Cost Of Collateral Pledged
Agency RMBS			
Agency ARMs	$ 240,440	$ 253,841	$ 253,281
Agency Fixed Rate	566,037	597,620	597,769
Agency IOs	74,707	90,250	100,076
CLOs	7,950	12,945	6,877
Balance at end of the period	$ 889,134	$ 954,656	$ 958,003

The following table presents detailed information about the Company's assets pledged as collateral pursuant to its borrowings under repurchase agreements at December 31, 2011 (dollar amounts in thousands):

	Outstanding Repurchase Agreements	Fair Value of Collateral Pledged	Amortized Cost Of Collateral Pledged
Agency RMBS			
Agency ARMs	$ 56,913	$ 60,857	$ 59,646
Agency Fixed Rate	—	—	—
Agency IOs	49,226	58,551	66,439
CLOs	6,535	10,534	5,386
Balance at end of the period	$ 112,674	$ 129,942	$ 131,471

As of December 31, 2012, the outstanding balance under our repurchase agreements was funded at an advance rate of 93.1% that implies an average haircut of 6.9%. The weighted average "haircut" related to our repurchase agreement financing for our Agency RMBS (excluding Agency IOs), Agency IOs and CLOs was approximately 5%, 25% and 35%, respectively, for a total weighted average "haircut" of 6.9%. The amount at risk for each of the counterparties is as follows: Barclays Capital Inc.: $7.2 million; Cantor Fitzgerald Securities: $6.3 million; Credit Suisse First Boston LLC: $4.1 million; Deutsche Bank Securities Inc.: $5.2 million; Jefferies & Company, Inc.: $3.0 million; JPMorgan Chase Bank, N.A.: $18.3 million; Mizuho Securities USA Inc.: $4.1 million; Morgan Stanley & Co. LLC: $5.1 million; RBC Capital Markets Corporation: $2.7 million; South Street Securities LLC: $1.7 million; and Wells Fargo, N.A.: $7.9 million.

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

As of December 31, 2012, the Company had $31.8 million in cash and $80.1 million in unencumbered investment securities to meet additional haircut or market valuation requirements, including $62.2 million of RMBS, of which $59.5 million are Agency RMBS. The $31.8 million of cash, the $62.2 million in RMBS, and $25.8 million held in overnight deposits in our Agency IO portfolio included in restricted cash (that is available to meet margin calls as it relates to our Agency IO portfolio repurchase agreements), which collectively represent 13.5% of our Financing Arrangements, Portfolio Investments, are liquid and could be monetized to pay down or collateralize the liability immediately.

11. Residential Collateralized Debt Obligations

The Company's Residential CDOs, which are recorded as liabilities on the Company's balance sheet, are secured by ARM loans pledged as collateral, which are recorded as assets of the Company. As of December 31, 2012 and 2011, the Company had Residential CDOs outstanding of $181.0 million and $199.8 million, respectively. As of December 31, 2012 and 2011, the current weighted average interest rate on these CDOs was 0.59% and 0.68%, respectively. The Residential CDOs are collateralized by ARM loans with a principal balance of $189.0 million and $208.9 million at December 31, 2012 and 2011, respectively. The Company retained the owner trust certificates, or residual interest for three securitizations, and, as of December 31, 2012 and 2011, had a net investment in the residential securitization trusts of $7.0 million and $7.6 million, respectively.

12. Multi-Family Collateralized Debt Obligations

The Company's Multi-Family CDOs, which represent the CDOs issued by the Consolidated K-Series and are recorded as liabilities on the Company's balance sheet, are secured by multi-family mortgage loans pledged as collateral, which are recorded as assets of the Company in accordance with accounting requirements. As of December 31, 2012, the current weighted average interest rate on these CDOs was 4.59%. The Multi-Family CDOs are collateralized by multi-family mortgage loans with a principal balance of $5.3 billion at December 31, 2012. The Company had a net investment in the Consolidated K-Series of $123.3 million as of December 31, 2012.

13. Securitized Debt

Securitized debt consists of notes issued by the 2012-RS1 Trust, NYMST 2012-1 Trust and NYMT Residential 2012-RP1 that have been consolidated by the Company.

Provided in the table below is information regarding the Company's securitized debt as of December 31, 2012 (dollar amount in thousands):

	Principal Amount	Carrying Value
2012-RS1 Trust	$ 35,000	$ 26,891
NYMST 2012-1 Trust	52,000	52,000
NYMT Residential 2012-RP1	38,700	38,700
Total	$ 125,700	$ 117,591

On May 23, 2012, the 2012-RS1 Trust, a subsidiary of the Company, completed a re-securitization of multi-family CMBS. As part of the re-securitization transaction, the 2012-RS1 Trust issued notes, which are secured by the multi-family CMBS contributed to the 2012-RS1 Trust. The multi-CMBS contributed to the 2012-RS1 Trust are comprised of the Company's interest in the first loss tranche PO securities and certain IOs issued from three separate Freddie Mac-sponsored multi-family K-Series securitizations. The 2012-RS1 Trust issued the Class A Note with a coupon of 5.35% in the initial aggregate principal face amount of $35 million. The Class A Note was issued at a discount that provides for a bond equivalent yield of 9.50% to the purchaser. The Class A Note holder will be entitled to receive all distributions of principal and interest from the multi-family CMBS pledged to secure the Class A Note until the Class A Note is fully retired, which is expected to occur by January 2022. The Company will then receive all remaining cash flow, if any, through its Class B Note and its retained ownership in the 2012-RS1 Trust. The transaction effectively represents a long term structured financing of the multi-family CMBS contributed to the 2012-RS1 Trust by the Company. The Class A Note is not callable due to collateral valuation or performance.

On November 28, 2012, the Company's subsidiary RBCM entered into a Master Repurchase Agreement with a three-year term for the purpose of financing certain multi-family CMBS collateralized by multi-family mortgage loans. As part of the Master Repurchase Agreement, NYMST 2012-1 Trust issued notes pursuant to an indenture, which are secured by multi-family CMBS transferred to NYMST 2012-1 Trust. The multi-family CMBS contributed to the NYMST 2012-1 Trust are comprised of the Company's interest in the first loss tranche PO securities, first loss floating rate securities and certain IOs issued by four separate Freddie Mac-sponsored multi-family K-Series securitizations. The NYMST 2012-1 Trust notes bear interest that is payable monthly at a per annum rate equal to one-month LIBOR plus 6.50%. The notes and the financing under the Master Repurchase Agreement are scheduled to mature in November 2015, at which time NYMST 2012-1 Trust will transfer the multi-family CMBS serving as collateral back to the RBCM in exchange for the repayment of the outstanding financing under the Master Repurchase Agreement at maturity and NYMST 2012-1 Trust will repay the notes. In connection with the transaction, the Company agreed to guarantee the due and punctual payment of the RBCM's obligations under the Master Repurchase Agreement.

All income received on the multi-family CMBS during the term of the Master Repurchase Agreement will be applied to pay any price differential and to reduce the aggregate repurchase price of the collateral under the Master Repurchase Agreement. The financing under the Master Repurchase Agreement is subject to margin calls to the extent the market value of the multi-family CMBS declines, in which case the Company would be required to either post additional collateral to cover such decrease or repay a portion of the outstanding financing in cash.

On December 28, 2012, NYMT Residential LLC, a wholly-owned subsidiary of the Company, completed a securitization transaction with a three-year term for the purpose of financing distressed residential mortgage loans. As part of the securitization transaction, the NYMT Residential 2012-RP1 issued the 2012-RP1 note, which is secured by the distressed residential mortgage loans transferred to NYMT Residential 2012-RP1 by the Company. The distressed residential mortgage loans serving as collateral for 2012-RP1 Note are comprised of performing and re-performing, fixed- and adjustable-rate, fully-amortizing, interest only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties.

The NYMT Residential 2012-RP1 note bears interest that is payable monthly at a per annum rate equal to 4.25% and is scheduled to mature in December 2015, at which time NYMT Residential 2012-RP1 will transfer the distressed residential mortgage loans serving as collateral back to the Company. During the first two years of the financing (the "Revolving Period"), no principal payments will be made on the note. All cash proceeds generated by the distressed residential mortgage loans and received by NYMT Residential 2012-RP1 during the Revolving Period, after payment of interest on the notes, reserve amounts and certain other transaction expenses, will be available for the purchase by NYMT Residential 2012-RP1 of additional mortgage loans that satisfy certain eligibility criteria.

There is no guarantee that the Company will receive any cash flow from the 2012-RS1 Trust, NYMST 2012-1 Trust and NYMT Residential 2012-RP1.

14. Subordinated Debentures

The outstanding subordinated debentures as of December 31, 2012 and 2011, was in the amount of $45 million.

On March 15, 2005 the Company closed a private placement of $25.0 million of trust preferred securities to Taberna Preferred Funding I, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust I and are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities have a floating interest rate equal to three-month LIBOR plus 3.75%, resetting quarterly (4.06% at December 31, 2012, 4.33% at December 31, 2011 and 4.05% at December 31, 2010). The securities mature on March 15, 2035 and may be called at par by the Company any time after March 15, 2010. The preferred stock of NYM Preferred Trust I has been classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

On September 1, 2005 the Company closed a private placement of $20.0 million of trust preferred securities to Taberna Preferred Funding II, Ltd., a pooled investment vehicle. The securities were issued by NYM Preferred Trust II and are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities had a fixed interest rate equal to 8.35% up to and including July 30, 2010, at which point the interest rate was converted to a floating rate equal to three-month LIBOR plus 3.95% until maturity (4.26% at December 31, 2012, 4.38% at December 31, 2011 and 4.24% at December 31, 2010). The securities mature on October 30, 2035 and may be called at par by the Company any time after October 30, 2010. The preferred stock of NYM Preferred Trust II has been classified as subordinated debentures in the liability section of the Company's consolidated balance sheet.

As of March 18, 2013, the Company has not been notified, and is not aware, of any event of default under the covenants for the subordinated debentures.

15. Discontinued Operation

In connection with the sale of our mortgage origination platform assets during the quarter ended March 31, 2007, we classified our mortgage lending segment as a discontinued operation. As a result, we have reported revenues and expenses related to the segment as a discontinued operation for all periods presented in the accompanying consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as subordinated debentures, are part of our ongoing operations and accordingly, we have not included these items as part of the discontinued operation. Assets and liabilities related to the discontinued operation are $3.1 million and $0.2 million, respectively, at December 31, 2012, and $4.0 million and $0.5 million, respectively, at December 31, 2011, and are included in receivables and other assets and accrued expenses and other liabilities in the consolidated balance sheets.

Statements of Operations Data

The statements of operations of the discontinued operation for the years ended December 31, 2012, 2011 and 2010, respectively, are as follows (dollar amounts in thousands):

	Years Ended December 31,		
	2012	2011	2010
Revenues	$156	$203	$1,403
Expenses	142	140	268
Income from discontinued operations – net of tax	$14	$63	$1,135

16. Commitments and Contingencies

Loans Sold to Third Parties – The Company sold its discontinued mortgage lending business in March 2007. In the normal course of business, the Company is obligated to repurchase loans based on violations of representations and warranties in the loan sale agreements. The Company did not repurchase any loans during the years ended December 31, 2012, 2011 and 2010.

Outstanding Litigation – The Company is at times subject to various legal proceedings arising in the ordinary course of business. As of December 31, 2012, the Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations, financial condition or cash flows.

Leases– The Company leases its corporate office under a lease agreement expiring in 2013. This lease is accounted for as an operating lease. Total property lease expense amounted to $0.2 million for each of the years ended December 31, 2012, 2011 and 2010. The Company maintains a letter of credit in the amount of $0.2 million in lieu of a cash security deposit for its current corporate headquarters for its landlord, Vanderbilt Associates I, L.L.C, as beneficiary. This letter of credit is secured by cash deposited in a bank account maintained at JP Morgan Chase bank.

On December 19, 2012, the Company entered into a ten year lease agreement where the Company will relocate its corporate office on or about March of 2013. The Company will account for the new lease as a non-cancelable operating lease.

As of December 31, 2012, obligations under non-cancelable operating leases are as follows (dollar amounts in thousands):

Year Ending December 31,	Total

2013	$	67
2014		207
2015		207
2016		207
2017		207
Thereafter		1,302
	$	2,197

17. Fair Value of Financial Instruments

The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies used for the Company's financial instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

a. Investment Securities Available for Sale (RMBS) – Fair value for the RMBS in our portfolio are valued using a third-party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The dealers will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. If quoted prices for a security are not reasonably available from a dealer, the security will be re-classified as a Level 3 security and, as a result, management will determine the fair value based on characteristics of the security that the Company receives from the issuer and based on available market information. Management reviews all prices used in determining valuation to ensure they represent current market conditions. This review includes surveying similar market transactions, comparisons to interest pricing models as well as offerings of like securities by dealers. The Company's investment securities that are comprised of RMBS are valued based upon readily observable market parameters and are classified as Level 2 fair values.

b. Investment Securities Available for Sale Held in Securitization Trusts (CMBS)– As the Company's CMBS investments are comprised of securities for which there are not substantially similar securities that trade frequently, the Company classifies these securities as Level 3 fair values. Fair value of the Company's CMBS investments is based on an internal valuation model that considers expected cash flows from the underlying loans and yields required by market participants. The significant unobservable inputs used in the measurement of these investments are projected losses of certain identified loans within the pool of loans and a discount rate. The discount rate used in determining fair value incorporates default rate, loss severity and current market interest rates. The discount rate ranges from 4.7% to 16.9%. Significant increases or decreases in these inputs would result in a significantly lower or higher fair value measurement. We also obtain quoted prices provided by dealers who make markets in similar financial instruments.

c. Multi-Family Loans Held in Securitization Trusts – Multi-family loans held in securitization trusts are recorded at fair value and classified as Level 3 fair values. Fair value is based on an internal valuation model that considers expected cash flows from the underlying loans and yields required by market participants. The significant unobservable inputs used in the measurement of these investments are discount rates. The discount rate used in determining fair value incorporates default rate, loss severity and current market interest rates. The discount rate ranges from 2.4% to 5.4%. Significant increases or decreases in these inputs would result in a significantly lower or higher fair value measurement. We also obtain quoted prices provided by dealers who make markets in similar financial instruments.

d. Investment Securities Available for Sale (CLO) – The fair value of the CLO notes are valued using a third-party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The Company classifies these securities as Level 2 fair values.

e. Investment Securities Available for Sale – The fair value of other investment securities available for sale, such as U.S. Treasury securities, are based on quoted prices provided by dealers who make markets in similar financial instruments and are typically classified as Level 2 fair values.

f. Derivative Instruments – The fair value of interest rate swaps, swaptions, options and TBAs are based on dealer quotes. The fair value of futures are based on exchange-traded prices. The Company's derivatives are classified as Level 1 or Level 2 fair values.

g. Multi-Family CDOs – The fair value of Multi-Family CDOs is based on contractual cash payments and yields expected by market participants. We also obtain quoted market prices provided by dealers who make markets in similar securities.

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2012 and 2011, respectively, on the Company's consolidated balance sheets (dollar amounts in thousands):

	Measured at Fair Value on a Recurring Basis at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investment securities available for sale:				
Agency RMBS	$ —	$ 1,001,239	$ —	$ 1,001,239
Non-Agency RMBS	—	2,687	—	2,687
CLOs	—	30,785	—	30,785
Investment securities available for sale held in securitization trust:				
CMBS	—	—	71,159	71,159
Multi-family loans held in securitization trusts	—	—	5,442,906	5,442,906
Derivative assets:				
TBA securities	—	244,789	—	244,789
Options on U.S. Treasury futures	—	59	—	59
U.S. Treasury futures	676	—	—	676
Interest rate swap futures	8	—	—	8
Swaptions	—	597	—	597
Total	$ 684	$ 1,280,156	$ 5,514,065	$ 6,794,905
Liabilities carried at fair value:				
Multi-family collateralized debt obligations	$ —	$ —	$ 5,319,573	$ 5,319,573
Derivative liabilities:				
Interest rate swaps	—	1,744	—	1,744
Eurodollar futures	3,798	—	—	3,798
Total	$ 3,798	$ 1,744	$ 5,319,573	$ 5,325,115

	Measured at Fair Value on a Recurring Basis at December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investment securities available for sale:				
Agency RMBS	$ —	$ 132,457	$ —	$ 132,457
CMBS	—	—	41,185	41,185
Non-Agency RMBS	—	3,945	—	3,945
CLOs	—	22,755	—	22,755
Derivative assets:				
TBA securities	—	207,891	—	207,891
Options on U.S. Treasury futures	—	327	—	327
Total	$ —	$ 367,375	$ 41,185	$ 408,560
Liabilities carried at fair value:				
Derivative liabilities:				
Interest rate swaps	$ —	$ 304	$ —	$ 304
U.S. Treasury futures	566	—	—	566

Eurodollar futures		1,749		—		—		1,749
Total	$	2,315	$	304	$	—	$	2,619

F-39

The following table details changes in valuation for the Level 3 assets for the years ended December 31, 2012, 2011 and 2010, respectively (amounts in thousands):

Level 3 Assets:

	Years Ended December 31, 2012	2011	2010
Balance at beginning of period	$ 41,185	$ —	$ 17,599
Total gains (realized/unrealized)			
Included in earnings (1)	167,094	—	2,100
Included in other comprehensive income	3,768	(1,036)	9,827
Purchases (2)	4,212,009	42,221	—
Paydowns	(28,034)	—	—
Transfers (3)	1,118,043	—	—
Transfers out of Level 3 (4)	—	—	(29,526)
Balance at the end of period	$ 5,514,065	$ 41,185	$ —

(1) Amounts included in interest income and unrealized gain.

(2) Based on a number of factors, we determined that we were the primary beneficiary of three K-Series securitizations (two purchased in the second quarter of 2012 and one purchased in the fourth quarter of 2012), and have consolidated the assets, liabilities, interest income and expense of these securitizations in our consolidated financial statements.

(3) Based on a number of factors, we determined that we were the primary beneficiary of one K-Series securitization as of January 4, 2012 and have consolidated its assets, liabilities, interest income and expense in our consolidated financial statements.

(4) The CLOs were re-classified from Level 3 to Level 2 fair values during the fourth quarter of 2010 due to management determining that inputs and assumptions for these assets based upon quoted prices provided by dealers who make markets in similar investments became more observable.

The following table details changes in valuation for the Level 3 liabilities for the years ended December 31, 2012, 2011 and 2010, respectively (amounts in thousands):

Level 3 Liabilities:

	Years Ended December 31, 2012	2011	2010
Balance at beginning of period	$ —	$ —	$ —
Total gains (realized/unrealized)			
Included in earnings (1)	152,440	—	—
Included in other comprehensive income	—	—	—
Purchases (2)	4,077,276	—	—
Paydowns	(28,034)	—	—
Transfers (3)	1,117,891	—	—
Balance at the end of period	$ 5,319,573	$ —	$ —

(1) Amounts included in interest expense and unrealized gain.

(2) Based on a number of factors, we determined that we were the primary beneficiary of three K-Series securitizations, two purchased in the second quarter of 2012 and one purchased in the fourth quarter of 2012, and have consolidated

the K-Series securitization's assets, liabilities, interest income and expense in our consolidated financial statements.

(3) Based on a number of factors, we determined that we were the primary beneficiary of the one K-Series as of January 4, 2012 and have consolidated its assets, liabilities, interest income and expense in our consolidated financial statements.

Any changes to the valuation methodology are reviewed by management to ensure the changes are appropriate. As markets and products develop and the pricing for certain products becomes more transparent, the Company continues to refine its valuation methodologies. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of each reporting date, which may include periods of market dislocation, during which time price transparency may be reduced. This condition could cause the Company's financial instruments to be reclassified from Level 2 to Level 3 in future periods.

The following table presents assets measured at fair value on a non-recurring basis as of December 31, 2012 and 2011, respectively, on the consolidated balance sheets (dollar amounts in thousands):

	Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Mortgage loans held for investment	$—	$—	$1,775	$1,775
Mortgage loans held for sale – included in discontinued operations (net)	—	—	2,837	2,837
Residential mortgage loans held in securitization trusts – impaired loans (net)	—	—	5,059	5,059
Real estate owned held in residential securitization trusts	—	—	732	732

	Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2011			
	Level 1	Level 2	Level 3	Total
Mortgage loans held for investment	$—	$—	$5,118	$5,118
Mortgage loans held for sale – included in discontinued operations (net)	—	—	3,780	3,780
Residential mortgage loans held in securitization trusts – impaired loans (net)	—	—	6,518	6,518
Real estate owned held in residential securitization trusts	—	—	454	454

The following table presents losses incurred for assets measured at fair value on a non-recurring basis for the years ended December 31, 2012, 2011 and 2010, respectively, on the Company's consolidated statements of operations (dollar amounts in thousands):

	Years Ended December 31, 2012	2011	2010
Residential mortgage loans held in securitization trusts – impaired loans (net)	$ 707	$ 1,380	$ 1,560
Real estate owned held in residential securitization trusts	45	87	193

Mortgage Loans Held for Investment – The Company's mortgage loans held for investment are recorded at amortized cost less specific loan loss reserves.

Mortgage Loans Held for Sale (net) – The fair value of mortgage loans held for sale (net) are estimated by the Company based on the price that would be received if the loans were sold as whole loans taking into consideration the aggregated characteristics of the loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed interest rate period, life time cap, periodic cap, underwriting standards, age and credit.

Residential Mortgage Loans Held in Securitization Trusts – Impaired Loans (net) – Impaired residential mortgage loans held in securitization trusts are recorded at amortized cost less specific loan loss reserves. Impaired loan value is based on management's estimate of the net realizable value taking into consideration local market conditions of the distressed property, updated appraisal values of the property and estimated expenses required to remediate the impaired loan.

Real Estate Owned Held in Residential Securitization Trusts – Real estate owned held in the residential securitization trusts are recorded at net realizable value. Any subsequent adjustment will result in the reduction in carrying value with the corresponding amount charged to earnings. Net realizable value based on an estimate of disposal taking into consideration local market conditions of the distressed property, updated appraisal values of the property and estimated expenses required to sell the property.

The following table presents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2012 and 2011, respectively, (dollar amounts in thousands):

		December 31, 2012		December 31, 2011	
	Fair Value Hierarchy Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:					
Cash and cash equivalents	Level 1	$ 31,777	$ 31,777	$ 16,586	$ 16,586
Investment securities available for sale	Level 2	1,034,711	1,034,711	200,342	200,342
Investment securities available for sale, at fair value held in securitization trust	Level 3	71,159	71,159	—	—
Residential mortgage loans held in securitization trusts (net)	Level 3	187,229	165,919	206,920	182,976
Distressed residential mortgage loans held in securitization trusts (net)	Level 3	60,459	60,459	—	—
Multi-family loans held in securitization trusts	Level 3	5,442,906	5,442,906	—	—
Derivative assets	Level 1 or 2	246,129	246,129	208,218	208,218
Assets related to discontinued operation-mortgage loans held for sale (net)	Level 3	2,837	2,837	3,780	3,780
Mortgage loans held for investment	Level 3	1,775	1,775	5,118	5,118
Receivable for securities sold	Level 1	—	—	1,133	1,133
Financial Liabilities:					
Financing arrangements, portfolio investments	Level 2	$ 889,134	$ 889,134	$ 112,674	$ 112,674
Residential collateralized debt obligations	Level 3	180,979	160,506	199,762	171,187
Multi-family collateralized debt obligations	Level 3	5,319,573	5,319,573	—	—
Securitized debt	Level 3	117,591	118,402	—	—
Derivative liabilities	Level 1 or 2	5,542	5,542	2,619	2,619
Payable for securities purchased	Level 1	245,931	245,931	228,300	228,300
Subordinated debentures	Level 3	45,000	34,108	45,000	26,318

In addition to the methodology to determine the fair value of the Company's financial assets and liabilities reported at fair value on a recurring basis and non-recurring basis, as previously described, the following methods and assumptions were used by the Company in arriving at the fair value of the Company's other financial instruments in the following table:

a. Cash and cash equivalents – Estimated fair value approximates the carrying value of such assets.

b. Residential mortgage loans held in securitization trusts (net) – Residential mortgage loans held in the securitization trusts are recorded at amortized cost. Fair value is estimated using pricing models and taking into consideration the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the estimated market prices for similar types of loans.

c. Distressed residential mortgage loans held in securitization trusts (net) – Fair value is estimated using pricing models taking into consideration current interest rates, loan amount, payment status and property type, and forecasts of future interest rates, home prices and property values, prepayment speeds, default and loss severities.

d. Receivable for securities sold – Estimated fair value approximates the carrying value of such assets.

e. Financing arrangements, portfolio investments – The fair value of these financing arrangements approximates cost as they are short term in nature and generally mature in 30 days.

f. Residential collateralized debt obligations – The fair value of these CDOs is based on discounted cash flows as well as market pricing on comparable obligations.

g. Securitized debt – The fair value of securitized debt is based on discounted cash flows using management’s estimate for market yields.

h. Payable for securities purchased – Estimated fair value approximates the carrying value of such liabilities.

i. Subordinated debentures – The fair value of these subordinated debentures is based on discounted cash flows using management’s estimate for market yields.

18. Capital Stock and Earnings per Share

The Company had 400,000,000 shares of common stock, par value $0.01 per share, authorized, with 49,575,331 and 13,938,273 shares issued and outstanding as of December 31, 2012 and December 31, 2011, respectively. As of December 31, 2012 and December 31, 2011, the Company had 200,000,000 shares of preferred stock, par value $0.01 per share, authorized, with 0 shares issued and outstanding. The Company issued 35,637,058 and 4,512,831 shares of common stock during the years ended December 31, 2012 and 2011, respectively. Of the common stock authorized at December 31, 2012 and 2011, 1,094,414 shares and 1,154,992 shares, respectively, were reserved for issuance under the Company’s 2010 Stock Incentive Plan. In addition, no shares of common stock were forfeited during the years ended December 31, 2012 and 2011.

The following table presents cash dividends declared by the Company on its common stock with respect to each of the quarterly periods commencing January 1, 2011 and ended December 31, 2012:

Period	Declaration Date	Record Date	Payment Date		Cash Dividend Per Share
Fourth Quarter 2012	December 14, 2012	December 24, 2012	January 25, 2013	$	0.27
Third Quarter 2012	September 18, 2012	September 28, 2012	October 25, 2012		0.27
Second Quarter 2012	June 15, 2012	June 25, 2012	July 25, 2012		0.27
First Quarter 2012	March 19, 2012	March 29, 2012	April 25, 2012		0.25
Fourth Quarter 2011	December 15, 2011	December 27, 2011	January 25, 2012		0.35 (1)
Third Quarter 2011	September 20, 2011	September 30, 2011	October 25, 2011		0.25
Second Quarter 2011	May 31, 2011	June 10, 2011	June 27, 2011		0.22
First Quarter 2011	March 18, 2011	March 31, 2011	April 26, 2011		0.18
Fourth Quarter 2010	December 20, 2010	December 30, 2010	January 25, 2011		0.18
Third Quarter 2010	October 4, 2010	October 14, 2010	October 25, 2010		0.18
Second Quarter 2010	June 16, 2010	July 6, 2010	July 26, 2010		0.18
First Quarter 2010	March 16, 2010	April 1, 2010	April 26, 2010		0.25

(1) Includes a $0.10 per share special dividend.

The following table presents cash dividends declared by the Company on its Series A Preferred Stock from January 1, 2010 through December 31, 2010. The outstanding shares of Series A Preferred Stock were redeemed by the Company on December 31, 2010.

Period	Declaration Date	Record Date	Payment Date		Cash Dividend Per Share
Fourth Quarter 2010	December 20, 2010	December 30, 2010	December 31, 2010	$	0.50
Third Quarter 2010	September 29, 2010	September 30, 2010	October 29, 2010		0.50
Second Quarter 2010	June 16, 2010	June 30, 2010	July 30, 2010		0.50
First Quarter 2010	March 16, 2010	March 31, 2010	April 30, 2010		0.63

During 2012, dividends for our common stock were in the amount of $1.06 per share. For tax reporting purposes, the 2012 dividends were classified as ordinary income and return of capital in the amounts of $0.92 and $0.14, respectively per share. During 2011, dividends for our common stock were in the amount of $1.00 per share. For tax reporting purposes, the 2011 dividends were classified as ordinary income. During 2010, dividends for our common stock were in the amount of $1.04 per share. For tax reporting purposes, the 2010 dividends were classified as ordinary income and return of capital in the amounts of $0.22 and $0.82, respectively per share.

On May 25, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 3,162,500 shares of our common stock (including 412,500 shares issuable pursuant to an over-allotment option) at a public offering price of $6.65 per share. On May 31, 2012, we closed on the issuance of 3,162,500 shares to the underwriter, resulting in total net proceeds to us of $20.0 million after deducting the underwriting discount and offering expenses.

On July 17, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 5,175,000 shares of our common stock (including the 675,000 shares that were issuable pursuant to an over-allotment option) at a public offering price of $6.70 per share. On July 17, 2012, we closed on the issuance of 5,175,000 shares of common stock to the underwriter (including the 675,000 over-allotment option shares), resulting in total net proceeds of $33.1 million after deducting the underwriting discount and offering expenses.

On August 16, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 11,500,000 shares of our common stock (including the 1,500,000 shares that were issuable pursuant to an over-allotment option) at a public offering price of $6.73 per share. On August 21, 2012, we closed on the issuance of 10,000,000 shares of common stock to the underwriter, resulting in total net proceeds of $64.9 million after deducting the underwriting discount and offering expenses. On September 4, 2012, we closed on the issuance of 1,500,000 shares to the underwriter pursuant to the over-allotment option, resulting in additional net proceeds of $9.8 million.

On October 3, 2012, we entered into an underwriting agreement relating to the offer and sale of up to 15,525,000 shares of our common stock (including the 2,025,000 shares that were issuable pursuant to an over-allotment option) at a public offering price of $6.89 per share. On October 9, 2012, we closed on the issuance of 15,525,000 shares of common stock to the underwriter (including the 2,025,000 shares subject to the over-allotment option), resulting in total net proceeds of $104.1 million, after deducting underwriting discounts and commissions and offering expenses.

The Company calculates basic net income per share by dividing net income for the period by weighted-average shares of common stock outstanding for that period. Diluted net income per share takes into account the effect of dilutive instruments, such as convertible preferred stock, stock options and unvested restricted or performance stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. There were no dilutive instruments for the years ended December 31, 2012 and 2011. There were dilutive instruments consisting of convertible preferred debentures for the year ended December 31, 2010.

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

	For the Years Ended December 31,		
	2012	2011	2010
Numerator:			
Net income – Basic	$28,279	$4,776	$6,805
Net income from continuing operations	28,265	4,713	5,670
Net income from discontinued operations (net of tax)	14	63	1,135
Effect of dilutive instruments:			
Convertible preferred debentures	—	—	2,274
Net income – Dilutive	28,279	4,776	9,079
Net income from continuing operations	27,265	4,713	7,944
Net income from discontinued operations (net of tax)	$14	$63	$1,135
Denominator:			
Weighted average basic shares outstanding	26,067	10,495	9,422
Effect of dilutive instruments:			
Convertible preferred debentures	—	—	2,500
Weighted average dilutive shares outstanding	26,067	10,495	11,922
EPS:			
Basic EPS	$1.08	$0.46	$0.72
Basic EPS from continuing operations	1.08	0.45	0.60
Basic EPS from discontinued operations (net of tax)	—	0.01	0.12
Dilutive EPS	$1.08	$0.46	$0.72
Dilutive EPS from continuing operations	1.08	0.45	0.60
Dilutive EPS from discontinued operations (net of tax)	—	0.01	0.12

19. Income Taxes

At December 31, 2012, one of the Company’s wholly owned TRS had approximately $59 million of net operating loss carryforwards which the Company does not expect to be able to utilize to offset future taxable income. The carryforwards will expire between 2024 through 2028. The Internal Revenue Code places certain limitations on the annual amount of net operating loss carryforwards that can be utilized if certain changes in the Company’s ownership occur. The Company determined during 2012 that it had undergone ownership changes within the meaning of IRC section 382 that the Company believes will substantially eliminate utilization of these net operating loss carryforwards to offset future taxable income. In general, if a company incurs an ownership change under Section 382, the company's ability to utilize a NOL carryforward to offset its taxable income after any required dividend distributions become limited to a certain amount per year. The Company has recorded a full valuation allowance against its deferred tax assets because at December 31, 2012 management does not believe that it is more likely than not that the deferred tax assets will be realized.

The Company files income tax returns with the U.S. federal government and various state and local jurisdictions. The Company is no longer subject to tax examinations by tax authorities for years prior to 2009. The Company has assessed its tax positions for all open years, which includes 2009 to 2012 and concluded that there are no material uncertainties to be recognized.

During the years ended December 31, 2012, 2011 and 2010, the Company’s TRSs recorded approximately $0.9 million, $0.4 million and $0, respectively of income tax expense. The Company’s estimated taxable income differs from the federal statutory rate as a result of state and local taxes, non-taxable REIT income and a valuation allowance.

F-46

A reconciliation of the statutory income tax provision to the effective income tax provision for the years ended December 31, 2012, 2011 and 2010, respectively, are as follows (dollar amounts in thousands).

	December 31,					
	2012		2011		2010	
Provision at statutory rate	$ 10,190	(35.0)%	$ 1,857	(35.0)%	$ 2,382	(35.0)%
Non-taxable REIT income	(9,774)	33.6%	(1,088)	20.5%	(813)	11.9%
State and local tax provision	129	(0.4)%	239	(4.5)%	414	(6.1)%
Other	331	(1.1)%	(1,810)	34.1%	—	—%
Valuation allowance	56	(0.2)%	1,235	(23.3)%	(1,983)	29.2%
Total provision	$ 932	(3.1)%	$ 433	(8.2)%	$ —	—%

The income tax provision for the years ended December 31, 2012, 2011 and 2010 is comprised of the following components (dollar amounts in thousands):

	Years Ended December 31,		
	2012	2011	2010
Current income tax expense	$ 932	$ 433	$83
Deferred income tax expense	—	—	(83)
Total provision	$ 932	$ 433	$—

The gross deferred tax asset at December 31, 2012 and 2011 is $27.2 million, respectively. The major sources of temporary differences included in the deferred tax assets and their deferred tax effect as of December 31, 2012 and 2011 are as follows (dollar amounts in thousands):

Deferred tax assets	December 31, 2012	December 31, 2011
Net operating loss carryover	$ 27,078	$ 27,052
GAAP reserves	135	105
Gross deferred tax asset	27,213	27,157
Valuation allowance	(27,213)	(27,157)
Net deferred tax asset	$ —	$ —

20. Stock Incentive Plan

In May 2010, the Company’s stockholders approved the Company’s 2010 Stock Incentive Plan (the “2010 Plan”), with such stockholder action resulting in the termination of the Company’s 2005 Stock Incentive Plan (the “2005 Plan”). The terms of the 2010 Plan are substantially the same as the 2005 Plan. At December 31, 2012 and 2011, there are 31,580 and 14,084 shares of unvested restricted stock outstanding under the 2010 Plan.

Pursuant to the 2010 Plan, eligible employees, officers and directors of the Company have the opportunity to acquire the Company's common stock through the award of restricted stock and other equity awards under the 2010 Plan. The maximum number of shares that may be issued under the 2010 Plan is 1,190,000. The Company’s directors have been issued 59,311 and 20,924 shares under the 2010 Plan as of December 31, 2012 and 2011, respectively. The Company’s officers have been issued 36,275 and 14,084 shares under the 2010 Plan as of December 31, 2012 and 2011, respectively.

During the years ended December 31, 2012, 2011 and 2010, the Company recognized non-cash compensation expense of $0.1 million, $0.1 million and $0.2 million, respectively. Dividends are paid on all restricted stock issued, whether those shares have vested or not. In general, non-vested restricted stock is forfeited upon the recipient's termination of employment.

A summary of the activity of the Company's non-vested restricted stock under the 2010 Plan for the years ended December 31, 2012, 2011 and 2010, respectively, are presented below:

	2012		2011		2010	
	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value (1)	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value (1)	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value (1)
Non-vested shares at January 1	14,084	$ 7.10	28,999	$ 5.43	60,665	$ 5.28
Granted	22,191	6.36	14,084	7.10	4,000	7.50
Forfeited	—	—	—	—	(829)	5.28
Vested	(4,695)	7.10	(28,999)	5.43	(34,837)	5.41
Non-vested shares as of December 31	31,580	$ 6.58	14,084	$ 7.10	28,999	$ 5.43
Weighted-average fair value of restricted stock granted during the period	22,191	$ 6.36	14,084	$ 7.10	4,000	$ 7.50

(1) The grant date fair value of restricted stock awards is based on the closing market price of the Company’s common stock at the grant date.

At each of December 31, 2012 and 2011, the Company had unrecognized compensation expense of $0.1 million related to the non-vested shares of restricted common stock under the 2010 Plan. The unrecognized compensation expense at December 31, 2012 is expected to be recognized over a weighted average period of 1.9 years. The total fair value of restricted shares vested during the years ended December 31, 2012, 2011 and 2010 was $33,000, $0.2 million and $0.2 million, respectively. The requisite service period for restricted shares at issuance is two or three years.

F-48

21. Related Party Transactions

Management Agreement

On April 5, 2011, the Company entered into a management agreement with RiverBanc LLC ("RiverBanc"), pursuant to which RiverBanc provides investment management services to the Company. Under the terms of RiverBanc's operating agreement, we may acquire up to 17.5% of the limited liability company interests of RiverBanc, upon satisfying certain funding thresholds. As of December 31, 2012 and 2011, the Company owned 15% and 0%, respectively of the outstanding limited liability company interests of RiverBanc. For the years ended December 31, 2012 and 2011, the Company expensed approximately $892,000 and $96,000 in fees to RiverBanc, respectively. As of December 31, 2012 and 2011 the Company had a management fee payable to RiverBanc in the amount of approximately $121,000 and 27,000, respectively. At December 31, 2012, the management fee payable is included in accrued expenses, related parties. At December 31, 2011, the management fee payable is included in accrued expenses and other liabilities. See Note 23 (Subsequent Events) for a description of our amended and restated management agreement with RiverBanc.

Accounting Outsourcing Agreement

The Company entered into an outsourcing agreement with Real Estate Systems Implementation Group, LLC ("RESIG") effective May 1, 2010, pursuant to which RESIG, among other things, (a) performs day-to-day accounting services for the Company and (b) effective October 4, 2010, provided a Chief Financial Officer to the Company. During the years ended December 31, 2012, 2011 and 2010, respectively, RESIG earned $0.7 million, $0.6 million and $0.2 million in fees. As of December 31, 2012 and 2011, the Company had fees payable to RESIG in the amount of approximately $90,000 and $59,000, respectively, included in accrued expenses, related parties.

Termination of Advisory Agreement

On January 18, 2008, the Company entered into an advisory agreement (the "Prior Advisory Agreement") with Harvest Capital Strategies LLC ("HCS") (formerly known as JMP Asset Management LLC), pursuant to which HCS was responsible for implementing and managing the Company's investments in certain real estate-related and financial assets. The Company entered into the Prior Advisory Agreement concurrent and in connection with its private placement of Series A Preferred Stock to JMP Group Inc. and certain of its affiliates. HCS is a wholly-owned subsidiary of JMP Group Inc. As of December 31, 2012 and 2011, HCS and JMP Group Inc. collectively beneficially owned approximately 0% and 10.3%, respectively of the Company's common stock. In addition, until its redemption on December 31, 2010, HCS and JMP Group Inc. collectively beneficially owned 100% of the Company's Series A Preferred Stock. The Company's Series A Preferred Stock matured on December 31, 2010, at which time it redeemed all the outstanding shares at the $20.00 per share liquidation preference plus accrued dividends of $0.5 million.

Pursuant to the Prior Advisory Agreement, HCS managed investments made by HC and NYMF (other than certain RMBS that are held in these entities for regulatory compliance purposes) as well as any additional subsidiaries that were acquired or formed to hold investments made on the Company's behalf by HCS. The Company sometimes refers to these subsidiaries in its periodic reports filed with the Securities and Exchange Commission as the "Managed Subsidiaries." The Prior Advisory Agreement provided for the payment to HCS of a base advisory fee that was equal to 1.50% per annum of the "equity capital" (as defined in the advisory agreement) of the Managed Subsidiaries; and an incentive fee upon the Managed Subsidiaries achieving certain investment hurdles. HCS was also eligible to earn an incentive fee on the managed assets. Pursuant to the Prior Advisory Agreement, HCS was entitled to an incentive fee equal to 25% of the GAAP net income of the Managed Subsidiaries attributable to the investments that are managed by HCS that exceed a hurdle rate equal to the greater of (a) 8.00% and (b) 2.00% plus the ten year treasury rate for such fiscal year. The incentive fee is payable by us to HCS in cash, quarterly in arrears; provided, however, that a portion of the incentive compensation may be paid in shares of our common stock. The Prior Advisory Agreement was terminated effective July 26, 2010 upon execution and effectiveness of an amended and restated advisory agreement among the Company, HC, NYMF and HCS (the "HCS Advisory Agreement").

Pursuant to the HCS Advisory Agreement, HCS provided investment advisory services to the Company and managed on the Company's behalf "new program assets" acquired after the date of the HCS Advisory Agreement. The terms for new program assets, including the compensation payable thereunder to HCS by the Company, was to be negotiated on a transaction-by-transaction basis. For those new program assets identified as "Managed Assets", HCS was (A) entitled to receive a quarterly base advisory fee (payable in arrears) in an amount equal to the product of (i) one-fourth of the amortized cost of the Managed Assets as of the end of the quarter, and (ii) 2%, and (B) eligible to earn incentive compensation on the Managed Assets for each fiscal year during the term of the Agreement in an amount (not less than zero) equal to 35% of the GAAP net income attributable to the Managed Assets for the full fiscal year (including paid interest and realized gains), after giving effect to all direct expenses related to the Managed Assets, including but not limited to, the annual consulting fee (described below) and base advisory fees, that exceeds a hurdle rate of 13% based on the average equity of the Company invested in Managed Assets during that particular year. For those new program assets identified as Scheduled Assets, HCS received compensation, which may include base advisory and incentive compensation, agreed upon between the Company and HCS and set forth in a term sheet or other documentation related to the transaction. Under the terms of the HCS Advisory Agreement, HCS is eligible to earn incentive compensation on those assets held by the Company as of the effective date of the HCS Advisory Agreement that are deemed to be managed assets under the Prior Advisory Agreement. Incentive compensation for these "legacy assets" is calculated in the manner prescribed in the Prior Advisory Agreement. Lastly, during the term of the HCS Advisory Agreement, the Company was required to pay HCS an annual consulting fee equal to $1 million, subject to reduction under certain circumstances, payable on a quarterly basis in arrears, for consulting and support services. The HCS Advisory Agreement had an initial term that was to expire on June 30, 2012, subject to automatic annual one-year renewals thereafter. Under the terms of the HCS Advisory Agreement, the Company has the right to terminate or not renew the HCS Advisory Agreement, subject to certain conditions and subject to paying a termination fee equal to the product of (A) 1.5 and (B) the sum of (i) the average annual base advisory fee earned by HCS during the 24-month period preceding the effective termination date, and (ii) the annual consulting fee.

For the years ended December 31, 2012, 2011 and 2010, HCS earned aggregate base advisory and consulting fees of approximately $0, $1.1 million and $0.9 million, respectively, and an incentive fee of approximately $0.9 million, $1.7 million and $2.0 million, respectively. As of December 30, 2011 and 2010, approximately $34.1 million and $48.2 million, respectively, of the Company's assets were managed pursuant to the HCS Advisory Agreement. As of December 31, 2012 and 2011, the Company had a management fee payable totaling $0.3 million and $0.8 million, respectively. At December 31, 2012, the management fee payable is included in accrued expenses and other liabilities. At December 31, 2011, the management fee payable is included in accrued expenses, related parties.

On December 30, 2011, the Company and HCS agreed to terminate the HCS Advisory Agreement effective on December 31, 2011, with HCS agreeing to waive the 180-day advance notice requirement provided in the HCS Advisory Agreement. In addition, the Company and HCS agreed that, in consideration of the termination of the HCS Advisory Agreement, the Company will pay to HCS a termination fee equal to $2,235,000 (the "Agreed Fee"), which fee is the sum of (a) the termination fee provided in the HCS Advisory Agreement and (b) $500,000, which represents the fees that otherwise would have been payable through the end of the term of the HCS Advisory Agreement. The Agreed Fee was paid to HCS by the Company in three separate installments with the first installment of $1,735,000 paid on December 30, 2011, and the final two installments of $250,000 was paid on May 9, 2012.

In connection with the payment of the Agreed Fee, HCS has agreed to provide certain transitional consulting services at the request of the Company until the earlier of (i) the day immediately prior to the Company's annual stockholders' meeting in May or June 2012 or (ii) a majority vote of the independent directors of the Company to terminate such transitional consulting services. As part of the transitional consulting services to be provided by HCS, James J. Fowler, a portfolio manager for HCS and a managing director of JMP Group Inc. and the former Chairman of the Company's Board of Directors, had agreed to continue to serve as a director and Chairman of the Company's Board of Directors until the earlier of (a) the Company's 2012 annual stockholders' meeting, (b) his successor is duly qualified and appointed by the Company's Board of Directors or (c) he determines that his resignation is legally or for regulatory reasons advisable or appropriate under the circumstances. During the year ended December 31, 2012, Mr. Fowler was replaced as Chairman of the Company's Board of Directors.

Pursuant to the terms of the HCS Advisory Agreement, following the termination date of December 31, 2011, the Company will continue to pay incentive compensation to HCS with respect to all assets of the Company that were, as of the effective termination date, managed pursuant to the HCS Advisory Agreement (the "Incentive Tail Assets") until such time as such Incentive Tail Assets are disposed of by the Company or mature. The Company expensed $40,000 and $2.2 million in 2012 and 2011, respectively, relating to the termination of the HCS Advisory Agreement.

22. Quarterly Financial Data (unaudited)

The following table is a comparative breakdown of our unaudited quarterly results for the immediately preceding eight quarters (dollar amounts in thousands, except per share data):

	Three Months Ended			
	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012
Interest income	$ 19,091	$ 24,991	$ 43,837	$ 49,608
Interest expense	12,884	19,150	35,707	38,185
Net interest income	6,207	5,841	8,130	11,423
Other Income:				
Provision for loan losses	(230)	(59)	(247)	(230)
Income (loss) from investments in limited partnership and limited liability company	370	358	(64)	(42)
Realized gain (loss) on investment securities and related hedges, net	1,069	(443)	5,048	594
Realized gain on distressed residential mortgage loans held in securitization trusts	—	—	—	85
Unrealized (loss) gain on investment securities and related hedges, net	(872)	171	(1,876)	(1,370)
Unrealized gain on multi-family loans and debt held in securitization trusts, net	2,023	2,205	762	1,672
Total other income	2,360	2,232	3,623	709
General, administrative and other expenses	2,648	2,639	3,241	2,857
Termination of management contract	20	20	—	—
Income from continuing operations before income taxes	5,899	5,414	8,512	9,275
Income tax expense	—	467	598	(133)
Income from continuing operations	5,899	4,947	7,914	9,408
(Loss) income from discontinued operation - net of tax	(9)	42	(1)	(18)
Net income	5,890	4,989	7,913	9,390
Net income (loss) attributable to noncontrolling interest	51	(148)	—	—
Net income attributable to common stockholders	$ 5,839	$ 5,137	$ 7,913	$ 9,390
Per share basic income	$ 0.42	$ 0.34	$ 0.30	$ 0.19
Per share diluted income	$ 0.42	$ 0.34	$ 0.30	$ 0.19
Dividends declared per common share	$ 0.25	$ 0.27	$ 0.27	$ 0.27
Weighted average shares outstanding-basic	13,998	15,262	26,541	48,219
Weighted average shares outstanding-diluted	13,998	15,262	26,541	48,219

	Three Months Ended			
	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011
Interest income	$ 3,694	$ 6,482	$ 7,431	$ 6,684
Interest expense	1,184	1,181	1,203	1,269
Net interest income	2,510	5,301	6,228	5,415
Other Income (Expense):				
Provision for loan losses	(633)	(391)	(435)	(234)
Impairment loss on investment securities	—	—	—	(250)
Income from investments in limited partnership and limited liability company	784	499	479	405
Realized gain (loss) on investment securities and related hedges, net	2,191	3,283	2,526	(2,260)
Unrealized loss on investment securities and related hedges, net	(40)	(695)	(8,027)	(895)
Total other income (expense)	2,302	2,696	(5,457)	(3,234)
General, administrative and other expenses	2,293	3,454	717	1,859
Termination of management contract	—	—	—	2,195
Income (loss) from continuing operations before income taxes	2,519	4,543	54	(1,873)
Income tax expense	—	363	56	14
Income (loss) from continuing operations	2,519	4,180	(2)	(1,887)
(Loss) income from discontinued operation - net of tax	(5)	9	19	40
Net income (loss)	2,514	4,189	17	(1,847)
Net income attributable to noncontrolling interest	—	20	32	45
Net income (loss) attributable to common stockholders	$ 2,514	$ 4,169	$ (15)	$ (1,892)
Per share basic income (loss)	$ 0.27	$ 0.44	$ —	$ (0.16)
Per share diluted income (loss)	$ 0.27	$ 0.44	$ —	$ (0.16)
Dividends declared per common share	$ 0.18	$ 0.22	$ 0.25	$ 0.35
Weighted average shares outstanding-basic	9,433	9,447	11,146	11,919
Weighted average shares outstanding-diluted	9,433	9,447	11,146	11,919

23. Subsequent Events

On March 13, 2013, we entered into an amended and restated management agreement with RB Commercial Mortgage LLC, our wholly-owned subsidiary, and RiverBanc (as amended, the “RiverBanc Management Agreement”). The RiverBanc Management Agreement replaces the prior management agreement between RiverBanc and RB Commercial Mortgage LLC, dated as of April 5, 2011. The amended and restated agreement has an effective date of January 1, 2013 and has a term that will expire on December 31, 2014, subject to automatic annual one-year renewals thereof.

Pursuant to the terms of the RiverBanc Management Agreement, RiverBanc will receive a monthly base management fee in arrears in a cash amount equal to the product of (i) 1.50% per annum of “Equity” as of the last business day of the previous month, multiplied by (ii) 1/12th. For purposes of the RiverBanc Management Agreement, Equity is defined as “Assets” minus “Debt,” where Assets is defined as the aggregate net carrying value (in accordance with GAAP) of those assets of our company managed by RiverBanc (specifically excluding (i) any unrealized gains or losses that have impacted net carrying value as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss or in net income, and (ii) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case, as mutually agreed between RiverBanc and us) and Debt is defined as the greater of (1) the net carrying value (in accordance with GAAP, excluding adjustments for unrealized gains or losses) of all third-party debt or liabilities secured by the Assets and (2) prior to termination of the RiverBanc Management Agreement, zero, or following termination of the RiverBanc Management Agreement, an amount equal to 50% of Assets. In addition, RiverBanc will be entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon the average Equity during the fiscal quarter, subject to a high water mark equal to a 9% return on Equity, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the RiverBanc Management Agreement) attributable to the Assets, before accounting for any incentive fees payable to RiverBanc, exceeds an annualized 12% rate of return on such average Equity (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 21% shall be reduced to 20% from 35%). Any incentive fee paid for the fourth fiscal quarter of each year under the agreement is calculated based on the incentive fee earned during the calendar twelve-month period less the aggregate incentive fees paid for the first three quarters during the period.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
December 31, 2012
(Amounts in Thousands)

	Beginning Balance	Charged to Costs and Expenses	Other Charges	Deductions	Ending Balance
For the Year Ended December 31, 2012					
Loan loss reserves	$3,558	$766	$-	$(1,104)	$3,220
For the Year Ended December 31, 2011					
Loan loss reserves	$2,954	$1,693	$-	$(1,089)	$3,558
For the Year Ended December 31, 2010					
Loan loss reserves	$2,947	$2,230	$-	$(2,223)	$2,954

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
SCHEDULE IV – MORTGAGE LOANS ON REAL ESTATE
December 31, 2012
(Dollar Amounts in Thousands)

Asset Type	Description (1) (2)	Number	Interest Rate			Final Maturity Date (3)		Periodic Payment Terms (4)	Prior Liens	Face Amount of Mortgages (5)	Carrying Amount of Mortgages	Principal Amount of Loans Subject to Delinquent Principal or Interest
Multi-family Loans Held in Securitization Trusts	Multi-family	286	3.04%	to	6.56%	7/1/2013	to 8/1/2022	P&I	$-	$4,874,975	$5,442,906	$14,831
Residential Mortgage Loans Held in Securitization Trusts	Various	474	1.38%	to	7.25%	8/1/2032	to 1/1/2036	P&I	-	208,387	187,229	19,513
Distressed Residential Mortgage Loans Held In Securitization Trust	Various	515	1.25%	to	12.75%	12/31/2012	to 8/1/2057	P&I	-	92,354	60,459	24,839
Other Loans	Various	11	3.00%	to	14.00%	12/31/2012	to 4/1/2037	P&I	-	5,204	4,670	2,834
									$-	$5,180,920	$5,695,264	$62,017

(1) Individual loans have a carrying value less than 3% of total carrying value.
(2) Description of property types include single family, multi-family, condos, co-ops and other which are located in various locations in the United States of America.
(3) The maturity dates as of 12/31/12 are loans which are currently due to the Company.
(4) Principal and interest; some mortgages have balloon principal amounts due at final maturity.
(5) Represents initial maturity.

Reconciliation of Carrying Value of Mortgage Loans on Real Estate:

	2012	2011	2010
Beginning Balance	$213,299	$239,451	$280,069
Additions:			
Principal amount of new loans	4,967,490	-	7,560
Fair value adjustment	592,835		

(Discount) on new loans	(31,581)	-	(201)
Gain on sale of loans	85	-	-
Amortization of premiums and (discounts)	(37)	12	(253)
Deductions:			
Collection of principal	47,165	25,560	47,717
Chargeoff of loans	(1,104)	(1,089)	(2,223)
Provision for loan loss	766	1,693	2,230
Ending Balance	$5,695,264	$213,299	$239,451

F-55

Exhibits: The exhibits required by Item 601 of Regulation S-K are listed below. Management contracts or compensatory plans are filed as Exhibits 10.14 through 10.19.

Exhibit	Description
3.1(a)	Articles of Amendment and Restatement of New York Mortgage Trust, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 333-111668), effective (June 23, 2004).
3.1(b)	Articles of Amendment of the Registrant (incorporated by reference to Exhibit 3.1(f) to the Company's Current Report on Form 8-K filed on June 15, 2009 (File No. 001–32216)).
3.1(c)	Certificate of Notice, dated May 4, 2012 (incorporated by reference to Exhibit 3.1(g) to the Company's Quarterly Report on Form 10-Q filed on May 4, 2012 (File No. 001–32216)).
3.2	Bylaws of New York Mortgage Trust, Inc., as amended (Incorporated by reference to Exhibit 3.2 to the Company’s Annual Report on Form 10-K filed on March 4, 2011).
4.1	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 333-111668), effective June 23, 2004).
4.2(a)	Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated September 1, 2005. (Incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 6, 2005).
4.2(b)	Parent Guarantee Agreement between New York Mortgage Trust, Inc. and IPMorgan Chase Bank, National Association, as guarantee trustee, dated September 1, 2005. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 6, 2005 (File No 001-32216)).
4.3(a)	Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated March 15, (Incorporated by reference to Exhibit 4.3(a) to the Company's Quarterly Report on Form 10-Q filed on August 9, 2012 (File No. 001-32216)).
4.3(b)	Parent Guarantee Agreement between New York Mortgage Trust, Inc. and JPMorgan Chase Bank, National Association, as guarantee trustee, dated March 15, 2005. (Incorporated by reference to Exhibit 4.3(b) to the Company's Quarterly Report on Form 10-Q filed on August 9, 2012 (File No. 001-32216)).
	Certain instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.
10.1	Form of Registration Rights Agreement, by and among New York Mortgage Trust, Inc. and the Investors listed on Schedule A thereto, dated as of February 14, 2008 (Incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on February 19, 2008 (File No. 001-32216)).
10.2	Amended and Restated Advisory Agreement by and among New York Mortgage Trust, Inc., Hypotheca Capital, LLC, New York Mortgage Funding, LLC and Harvest Capital Strategies, LLC, dated as of July

	26, 2010 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 2010 (File No. 001-32216)).
10.3	Notice of Termination and Letter Agreement, by and among New York Mortgage Trust, Inc., Hypotheca Capital, LLC, New York Mortgage Funding, LLC and Harvest Capital Strategies LLC, dated as of December 30, 2011 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 30, 2011 (File No. 001-32216)).
10.4	Investment Management Agreement, by and between New York Mortgage Trust, Inc. and The Midway Group, LP dated as of February 11, 2011 (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2011 (File No. 001-32216)).
10.5	First Amendment to Investment Management Agreement by and between New York Mortgage Trust, Inc. and The Midway Group, L.P., dated March 9, 2012 (Incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on March 12, 2012 (File No. 001-32216)).

10.6	Management Agreement, by and between RB Commercial Mortgage LLC and RiverBanc LLC, dated as of April 5, 2011 (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2011 (File No. 001-32216)).
10.7	Amended and Restated Management Agreement, by and between RB Commercial Mortgage LLC, New York Mortgage Trust, Inc. and RiverBanc, LLC, dated as of March 13, 2013).*
10.8	Underwriting Agreement among New York Mortgage Trust, Inc. and the several underwriters listed therein, dated as of December 1, 2011 (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on December 2, 2011 (File No. 001-32216)).
10.9	Underwriting Agreement among New York Mortgage Trust, Inc. and the several underwriters listed therein, dated as of May 25, 2012 (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on May 31, 2012 (File No. 001-32216)).
10.10	Equity Distribution Agreement, dated June 11, 2012, by and between New York Mortgage Trust, Inc. and JMP Securities LLC (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 11, 2012 (File No. 001-32216)).
10.11	Underwriting Agreement, dated as of May 25, 2012, between New York Mortgage Trust, Inc. and Ladenburg Thalmann & Co., Inc. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on July 17, 2012 (File No. 001-32216))
10.12	Agreement, dated August 16, 2012, by and between New York Mortgage Trust, Inc. and Deutsche Bank Securities Inc. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K as filed August 21, 2012 (File No. 001-32216)).
10.13	Underwriting Agreement, dated as of October 3, 2012, between the Company and Deutsche Bank Securities Inc. (Incorporated by reference to Exhibit 1.1 tothe Company's Current Report on Form 8-K as filed October 9, 2012 (File No. 001-32216))
10.14	New York Mortgage Trust, Inc. 2005 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-3/A (File No. 333-127400) as filed with the Securities and Exchange Commission on December 9, 2005).
10.15	New York Mortgage Trust, Inc. 2010 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 17, 2010 (File No. 001-32216)).
10.16	Form of Restricted Stock Award Agreement for Officers (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 14, 2009 (File No. 001-32216)).
10.17	Form of Restricted Stock Award Agreement for Directors (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 14, 2009 (File No. 001-32216)).
10.18	Amended and Restated Employment Agreement, by and between New York Mortgage Trust, Inc. and Steven R. Mumma, dated as of February 11, 2009 (Incorporated by reference to Exhibit 10.1 to the

	Company’s Current Report on Form 8-K filed on February 12, 2009 (File No. 001-32216)).
10.19	Amended and Restated Employment Agreement, by and between New York Mortgage Trust, Inc. and Steven R. Mumma dated as of November 22, 2011 (Incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on November 23, 2011 (File No. 001-32216)).
12.1	Statement re: Computation of Ratios*
21.1	List of Subsidiaries of the Registrant.*
23.1	Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP).*

31.1	Section 302 Certification of Chief Executive Officer.*
31.2	Section 302 Certification of Chief Financial Officer.*
32.1	Section 906 Certification of Chief Executive Officer and Chief Financial Officer.*
101.INS	XBRL Instance Document ***
101.SCH	Taxonomy Extension Schema Document ***
101.CAL	Taxonomy Extension Calculation Linkbase Document ***
101.DEF	Taxonomy Extension Definition Linkbase Document ***
101.LAB	Taxonomy Extension Label Linkbase Document ***
101.PRE	Taxonomy Extension Presentation Linkbase Document ***

* Filed herewith.

** Furnished herewith. Such certification shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

*** Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2012 and 2011; (ii) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012, 2011 and 2010; (iv) Consolidated Statements of Equity for the years ended December 31, 2012, 2011 and 2010; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010; and (vi) Notes to Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.