

NEW YORK MORTGAGE TRUST INC

Form 10-Q

November 06, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32216

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

Maryland  
(State or Other Jurisdiction of  
Incorporation or Organization)

47-0934168  
(I.R.S. Employer  
Identification No.)

52 Vanderbilt Avenue, Suite 403, New York, New York 10017  
(Address of Principal Executive Office) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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 ☐ No ☐

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

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|                              |                        |                            |                                |
|------------------------------|------------------------|----------------------------|--------------------------------|
| Large Accelerated<br>Filer o | Accelerated Filer<br>o | Non-Accelerated Filer<br>x | Smaller Reporting<br>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 number of shares of the registrant's common stock, par value \$.01 per share, outstanding on November 3, 2009 was 9,419,094.

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NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

|                                                                                                     |    |
|-----------------------------------------------------------------------------------------------------|----|
| PART I. Financial Information                                                                       | 2  |
| Item 1. Condensed Consolidated<br>Financial Statements (unaudited)                                  | 2  |
| CONDENSED CONSOLIDATED<br>BALANCE SHEETS                                                            | 2  |
| CONDENSED CONSOLIDATED<br>STATEMENTS OF OPERATIONS                                                  | 3  |
| CONDENSED CONSOLIDATED<br>STATEMENT OF STOCKHOLDERS'<br>EQUITY                                      | 4  |
| CONDENSED CONSOLIDATED<br>STATEMENTS OF CASH FLOWS                                                  | 5  |
| NOTES TO THE CONDENSED<br>CONSOLIDATED FINANCIAL<br>STATEMENTS                                      | 6  |
| Item 2. Management's Discussion and<br>Analysis of Financial Condition and<br>Results of Operations | 25 |
| Item 3. Quantitative and Qualitative<br>Disclosures about Market Risk                               | 41 |
| Item 4. Controls and Procedures                                                                     | 46 |
| PART II. OTHER INFORMATION                                                                          | 47 |
| Item 1A. Risk Factors                                                                               | 47 |
| Item 6. Exhibits                                                                                    | 47 |
| SIGNATURES                                                                                          | 48 |

## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (unaudited)

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS(amounts in thousands, except share and per share amounts)  
(unaudited)

|                                                                                                                                   | September<br>30,<br>2009 | December 31,<br>2008 |
|-----------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                     |                          |                      |
| Cash and cash equivalents                                                                                                         | \$ 22,403                | \$ 9,387             |
| Restricted cash                                                                                                                   | 3,359                    | 7,959                |
| Investment securities - available for sale, at fair value (including pledged securities of \$208,327 and \$456,506, respectively) | 282,594                  | 477,416              |
| Accounts and accrued interest receivable                                                                                          | 2,623                    | 3,095                |
| Mortgage loans held in securitization trusts (net)                                                                                | 290,940                  | 348,337              |
| Derivative assets                                                                                                                 | 15                       | 22                   |
| Prepaid and other assets                                                                                                          | 1,636                    | 1,230                |
| Assets related to discontinued operation                                                                                          | 4,544                    | 5,854                |
| Total Assets                                                                                                                      | \$ 608,114               | \$ 853,300           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                       |                          |                      |
| Liabilities:                                                                                                                      |                          |                      |
| Financing arrangements, portfolio investments                                                                                     | \$ 194,745               | \$ 402,329           |
| Collateralized debt obligations                                                                                                   | 280,223                  | 335,646              |
| Derivative liabilities                                                                                                            | 3,025                    | 4,194                |
| Accounts payable and accrued expenses                                                                                             | 5,095                    | 3,997                |
| Subordinated debentures (net)                                                                                                     | 44,823                   | 44,618               |
| Convertible preferred debentures (net)                                                                                            | 19,814                   | 19,702               |
| Liabilities related to discontinued operation                                                                                     | 2,240                    | 3,566                |
| Total liabilities                                                                                                                 | 549,965                  | 814,052              |
| Commitments and Contingencies                                                                                                     |                          |                      |
| Stockholders' Equity:                                                                                                             |                          |                      |
| Common stock, \$0.01 par value, 400,000,000 authorized, 9,419,094 and 9,320,094, shares issued and outstanding, respectively      | 94                       | 93                   |
| Additional paid-in capital                                                                                                        | 144,838                  | 150,790              |
| Accumulated other comprehensive income/(loss)                                                                                     | 8,853                    | (8,521)              |
| Accumulated deficit                                                                                                               | (95,636)                 | (103,114)            |
| Total stockholders' equity                                                                                                        | 58,149                   | 39,248               |
| Total Liabilities and Stockholders' Equity                                                                                        | \$ 608,114               | \$ 853,300           |

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share amounts)  
(unaudited)

|                                                                                        | For the Three Months<br>Ended September 30, |                 | For the Nine Months<br>Ended September 30, |                    |
|----------------------------------------------------------------------------------------|---------------------------------------------|-----------------|--------------------------------------------|--------------------|
|                                                                                        | 2009                                        | 2008            | 2009                                       | 2008               |
| <b>REVENUE:</b>                                                                        |                                             |                 |                                            |                    |
| Interest income-investment securities and loans held in securitization trusts          | \$ 7,994                                    | \$ 10,324       | \$ 24,200                                  | \$ 34,332          |
| Interest expense-investment securities and loans held in securitization trusts         | 1,864                                       | 6,692           | 7,041                                      | 23,997             |
| Net interest income from investment securities and loans held in securitization trusts | 6,130                                       | 3,632           | 17,159                                     | 10,335             |
| Interest expense – subordinated debentures                                             | (785)                                       | (913)           | (2,417)                                    | (2,768)            |
| Interest expense – convertible preferred debentures                                    | (662)                                       | (537)           | (1,807)                                    | (1,612)            |
| Net interest income                                                                    | 4,683                                       | 2,182           | 12,935                                     | 5,955              |
| <b>OTHER EXPENSE:</b>                                                                  |                                             |                 |                                            |                    |
| Provision for loan losses                                                              | (526)                                       | (7)             | (1,414)                                    | (1,462)            |
| Impairment loss on investment securities                                               | —                                           | —               | (119)                                      | —                  |
| Realized gain (loss) on securities and related hedges                                  | 359                                         | 4               | 623                                        | (19,927)           |
| Total other expense                                                                    | (167)                                       | (3)             | (910)                                      | (21,389)           |
| <b>EXPENSE:</b>                                                                        |                                             |                 |                                            |                    |
| Salaries and benefits                                                                  | 473                                         | 258             | 1,486                                      | 988                |
| Professional fees                                                                      | 323                                         | 367             | 1,021                                      | 1,065              |
| Management fees                                                                        | 508                                         | 186             | 935                                        | 479                |
| Insurance                                                                              | 171                                         | 275             | 358                                        | 668                |
| Other                                                                                  | 400                                         | 349             | 1,247                                      | 1,626              |
| Total expenses                                                                         | 1,875                                       | 1,435           | 5,047                                      | 4,826              |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>                                        | <b>2,641</b>                                | <b>744</b>      | <b>6,978</b>                               | <b>(20,260)</b>    |
| Income from discontinued operation - net of tax                                        | 236                                         | 285             | 500                                        | 1,294              |
| <b>NET INCOME (LOSS)</b>                                                               | <b>\$ 2,877</b>                             | <b>\$ 1,029</b> | <b>\$ 7,478</b>                            | <b>\$ (18,966)</b> |
| Basic income (loss) per common share                                                   | \$ 0.31                                     | \$ 0.11         | \$ 0.80                                    | \$ (2.39)          |
| Diluted income (loss) per common share                                                 | \$ 0.30                                     | \$ 0.11         | \$ 0.78                                    | \$ (2.39)          |
| Dividends declared per common share                                                    | \$ 0.25                                     | \$ 0.16         | \$ 0.66                                    | \$ 0.44            |
| Weighted average shares outstanding-basic                                              | 9,406                                       | 9,320           | 9,349                                      | 7,924              |
| Weighted average shares outstanding-diluted                                            | 11,906                                      | 9,320           | 11,849                                     | 7,924              |

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2009

(dollar amounts in thousands)  
(unaudited)

|                                                                                        | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Comprehensive<br>Income | Total     |
|----------------------------------------------------------------------------------------|-----------------|----------------------------------|------------------------|--------------------------------------------------------|-------------------------|-----------|
| Balance, January 1, 2009                                                               | \$ 93           | \$ 150,790                       | \$ (103,114)           | \$ (8,521)                                             |                         | \$ 39,248 |
| Net income                                                                             | —               | —                                | 7,478                  | —                                                      | \$ 7,478                | 7,478     |
| Restricted Stock issuance                                                              | 1               | 224                              |                        |                                                        |                         | 225       |
| Dividends declared                                                                     | —               | (6,176)                          | —                      | —                                                      | —                       | (6,176)   |
| Reclassification of gain for<br>sales of investment – available<br>for sale securities | —               | —                                | —                      | 141                                                    | 141                     | 141       |
| Increase in fair value of<br>derivative instruments<br>utilized for cash flow hedges   | —               | —                                | —                      | 1,898                                                  | 1,898                   | 1,898     |
| Comprehensive income                                                                   | —               | —                                | —                      | —                                                      | \$ 24,852               |           |
| Balance, September 30, 2009                                                            | \$ 94           | \$ 144,838                       | \$ (95,636)            | \$ 8,853                                               |                         | \$ 58,149 |

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollar amounts in thousands)  
(unaudited)

|                                                                                                                      | For the Nine Months<br>Ended<br>September 30, |             |
|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------|
|                                                                                                                      | 2009                                          | 2008        |
| <b>Cash Flows from Operating Activities:</b>                                                                         |                                               |             |
| Net income (loss)                                                                                                    | \$ 7,478                                      | \$ (18,966) |
| Adjustments to reconcile net loss to net cash provided by operating activities:                                      |                                               |             |
| Depreciation and amortization                                                                                        | 1,069                                         | 1,044       |
| Accretion/amortization of discount/premium on investment securities and mortgage loans held in securitization trusts | (126)                                         | 819         |
| Realized (gain) loss on securities and related hedges                                                                | (623)                                         | 19,927      |
| Impairment loss on investment securities                                                                             | 119                                           | —           |
| Provision for loan losses                                                                                            | 1,414                                         | 1,520       |
| Loans held for sale lower of cost or market adjustments                                                              | 307                                           | —           |
| Restricted stock compensation expense                                                                                | 224                                           | —           |
| Changes in operating assets and liabilities:                                                                         |                                               |             |
| Proceeds from sales or repayments of mortgage loans held for sale                                                    | 975                                           | 2,732       |
| Accounts and accrued interest receivable                                                                             | 480                                           | 48          |
| Prepaid and other assets                                                                                             | (409)                                         | 207         |
| Due to loan purchasers                                                                                               | (192)                                         | 117         |
| Accounts payable and accrued expenses                                                                                | (1,297)                                       | (1,221)     |
| Net cash provided by operating activities                                                                            | 9,419                                         | 6,227       |
| <b>Cash Flows from Investing Activities:</b>                                                                         |                                               |             |
| Decrease in restricted cash                                                                                          | 4,600                                         | 7,237       |
| Purchases of investment securities                                                                                   | (43,440)                                      | (850,609)   |
| Proceeds from sales of investment securities                                                                         | 198,494                                       | 625,986     |
| Principal repayments received on mortgage loans held in securitization trusts                                        | 55,473                                        | 70,815      |
| Principal paydowns on investment securities - available for sale                                                     | 56,453                                        | 64,043      |
| Net cash provided by (used in) investing activities                                                                  | 271,580                                       | (82,528)    |
| <b>Cash Flows from Financing Activities:</b>                                                                         |                                               |             |
| Proceeds from common stock issued (net)                                                                              | —                                             | 56,544      |
| Proceeds from convertible preferred debentures (net)                                                                 | —                                             | 19,590      |
| Payments from termination of swaps                                                                                   | —                                             | (8,333)     |
| (Decrease) increase in financing arrangements                                                                        | (207,584)                                     | 90,581      |
| Dividends paid                                                                                                       | (4,753)                                       | (2,610)     |
| Payments made on collateralized debt obligations                                                                     | (55,646)                                      | (71,672)    |
| Net cash (used in) provided by financing activities                                                                  | (267,983)                                     | 84,100      |
| Net Increase in Cash and Cash Equivalents                                                                            | 13,016                                        | 7,799       |
| Cash and Cash Equivalents - Beginning of Period                                                                      | 9,387                                         | 5,508       |
| Cash and Cash Equivalents - End of Period                                                                            | \$ 22,403                                     | \$ 13,307   |

Supplemental Disclosure:

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|                                                    |    |        |    |        |
|----------------------------------------------------|----|--------|----|--------|
| Cash paid for interest                             | \$ | 10,092 | \$ | 28,030 |
| Non-Cash Financing Activities:                     |    |        |    |        |
| Dividends declared to be paid in subsequent period | \$ | 2,355  | \$ | 1,491  |
| Restricted stock grants                            | \$ | 523    | \$ | —      |

5

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009  
(unaudited)

1. restart Organization and Summary of Significant Accounting Policies

Organization - New York Mortgage Trust, Inc. together with its consolidated subsidiaries ("NYMT", the "Company", "we", "our", and "us") is a self-advised real estate investment trust, or REIT, in the business of acquiring and managing primarily residential adjustable rate mortgage-backed securities issued by a United States government-sponsored enterprise ("GSE" or "Agency"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and prime credit quality residential adjustable-rate mortgage ("ARM") loans, and/or prime ARM loans. We refer to residential adjustable rate mortgage-backed securities throughout this Quarterly Report on Form 10-Q as "RMBS" and RMBS issued by a GSE as "Agency RMBS". We also invest, although to a lesser extent, in certain alternative real estate related and financial assets that present greater credit risk and less interest rate risk than our current RMBS investments and prime ARM loans which may include, among other things, non-Agency RMBS, certain non-rated residential mortgage assets, commercial mortgage-backed securities, commercial real estate loans, collateralized loan obligations and other similar investments. We refer to our investment in these alternative assets as our "alternative investment strategy." We seek attractive long-term investment returns by investing our equity capital and borrowed funds in such securities. Our principal business objective is to generate net income for distribution to our stockholders resulting from the spread between the interest and other income we earn on our interest-earning assets and the interest expense we pay on the borrowings that we use to finance these assets, which we refer to as our net interest income.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for loan securitization purposes, a taxable REIT subsidiary ("TRS") and a qualified REIT subsidiary ("QRS"). The Company conducts certain of its operations related to its alternative investment strategy through its wholly-owned TRS, Hypotheca Capital, LLC ("HC"), in order to utilize, to the extent permitted by law, some or all of a net operating loss carry-forward held in HC that resulted from the Company's exit from the mortgage lending business. Prior to March 31, 2007, the Company conducted substantially all of its mortgage lending business through HC. The Company's wholly-owned QRS, New York Mortgage Funding, LLC ("NYMF"), currently holds certain mortgage-related assets under our principal investment strategy for regulatory compliance purposes. The Company also may conduct certain of its operations related to its alternative investment strategy through NYMF. 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 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.

Basis of Presentation - The condensed consolidated balance sheets at September 30, 2009 and December 31, 2008, the condensed consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008, the condensed consolidated statement of stockholders' equity for the nine months ended September 30, 2009 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2009 and 2008 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes

thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the operating results for the full year.

The accompanying condensed consolidated financial statements include our accounts and those of our consolidated subsidiaries. All significant intercompany amounts have been eliminated. The preparation of financial statements in conformity with GAAP requires us 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 periods. Actual results could differ from those estimates.

**New Accounting Pronouncements** - In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, The FASB Accounting Standards Codification (Codification "ASC") and the Hierarchy of GAAP ("SFAS No. 168"). SFAS No. 168 replaces SFAS No. 162, The Hierarchy of GAAP and establishes the Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 modifies the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. SFAS No. 168 is effective for financial statements issued for fiscal years ending after September 15, 2009 and interim periods within those fiscal years, and will therefore become effective for us as of September 30, 2009. Due to the nature of this pronouncement, we do not anticipate that the adoption of SFAS No. 168 will have a material impact on our results of operations and financial condition.

In June 2007, the Emerging Issues Task Force ("EITF") reached consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Award. EITF Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units that are expected to vest, be recorded as an increase to additional paid-in capital. The Company accounts for this tax benefit as a reduction to income tax expense. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2008. The Company adopted the provisions of EITF Issue No. 06-11 during the first quarter of 2009. The adoption of EITF Issue No. 06-11 did not have a material effect on the Company's condensed consolidated financial statements. EITF issue No. 6-11 has been incorporated into ASC 718 Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations and issued SFAS No. 141(R) Business Combinations. SFAS No. 141(R) broadens the guidance of SFAS No. 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations; and it stipulates that acquisition related costs be generally expensed rather than included as part of the basis of the acquisition. SFAS No. 141(R) expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS No. 141(R) is effective for all transactions the Company closes, on or after January 1, 2009. The Company adopted SFAS No. 141(R) as of January 1, 2009 and it did not have a material impact on the Company's condensed consolidated financial statements. SFAS No. 141(R) has been incorporated into ASC 805 Business Combinations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities, and is effective for financial statements the Company issues for fiscal years beginning after November 15, 2008, with early application encouraged. Because SFAS No. 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS No. 161 did not affect the Company's financial condition, results of operations or cash flows. The Company adopted SFAS No. 161 in the first quarter of 2009 and as a result expanded the footnote disclosure included in the condensed consolidated financial statements (see note 4). SFAS No. 161 has been incorporated into ASC 815 Derivatives and Hedging.

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement). The FSP requires the initial proceeds from the sale of our convertible preferred debentures to be allocated between a liability component and an equity component. The resulting discount would be amortized using the effective interest method over the period the debt is expected to remain outstanding as additional interest expense. The FSP No. APB 14-1 is effective for our fiscal year beginning on January 1, 2009 and requires retrospective application. The Company adopted FSP as of January 1, 2009 and it had no impact on the Company's condensed consolidated financial statements. FSP No. APB 14-1 has been incorporated into ASC 470 Debt, with Conversion and Other Options.



On October 10, 2008, the FASB issued FSP SFAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active “FSP No. 157-3” clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key consideration in determining the fair value of a financial asset when the market for that financial asset is not active. The issuance of FSP No. 157-3 did not have a significant impact on the Company’s determination of fair value for its financial assets. FSP SFAS No. 157-3 has been incorporated into ASC 820 Fair Value Measurements and Disclosures.

In April 2009, the FASB issued FSP SFAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (“FSP No. 157-4”), to provide additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased as well as on identifying circumstances that indicate that a transaction is not orderly. FSP No. 157-4 provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability (or similar assets or liabilities). FSP No. 157-4 further amends SFAS No. 157 to require the disclosure in interim and annual periods of the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. FSP No. 157-4 is effective for the Company’s interim and annual reporting periods ending after June 15, 2009, and should be applied prospectively. The Company adopted FSP SFAS No. 157-4 did not have a material impact on the Company’s condensed consolidated financial statements. FSP SFAS No. 157-4 has been incorporated into ASC 320 Accounting for Debt Securities After an Other-than-temporary Impairment.

In April 2009, the FASB issued FSP SFAS No. 115-2 and SFAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which provides additional guidance on the recognition, presentation and disclosure of losses in earnings for the impairment of investments in debt securities when changes in fair value of those securities are not regularly recognized in earnings (other-than-temporary impairment for debt securities). This FSP also requires additional disclosures regarding expected cash flows, credit losses, and aging of securities with unrealized losses. Under this FSP, an other than temporary impairment is taken if the Company intends or is forced to sell the related debt security before its anticipated recovery with any impairment charge recognized in the statements of operations. Realized credit losses are also recognized in the statement of operations. The FSP is effective for the Company’s interim and annual reporting periods ending after June 15, 2009, and should be applied prospectively. The Company adopted FSP SFAS No. 115-2 and FSP SFAS No. 124-2 and it did not have a material impact on the Company’s condensed consolidated financial statements. FSP SFAS No. 115-2 and SFAS No. 124-2 has been incorporated into ASC 825 Financial Instruments, Fair Value Option and ASC 270 Interim Reporting.

In June 2009, the FASB issued SFAS No. 165, Subsequent Events which is effective for interim and annual periods ending after June 15, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company adopted SFAS No. 165 in the second quarter of 2009 and has evaluated all events or transactions through November 6, 2009. During this period, we did not have any material subsequent events that impacted our consolidated financial statements. SFAS No. 165 has been incorporated into ASC 855 Subsequent Events.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140 (“SFAS No. 166”), which amends the derecognition guidance in SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, eliminates the concept of a “qualifying special-purpose entity” (“QSPE”) and requires more information about transfers of financial assets, including securitization transactions as well as a company’s continuing exposure to the risks related to transferred financial assets. The SFAS No. 166 will update ASC 810 Consolidation. SFAS No. 166 is effective for financial asset transfers occurring after the beginning of an entity’s first fiscal year that begins after November 15, 2009 and early adoption is prohibited. Management is currently evaluating the impact on our consolidated financial statements of adopting SFAS

No. 166.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (“SFAS No. 167”), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB ASC 810, Consolidation (“FASB ASC 810”) and changes the way entities account for securitizations and special purpose entities as a result of the elimination of the QSPE concept in SFAS No.166. SFAS No. 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. Management is currently evaluating the impact of adopting SFAS No. 167.

8

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In August 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-05 Measuring Liabilities at Fair Value. The update clarifies that the unadjusted quoted price for an identical liability, when traded as an asset in an active market is a Level 1 measurement for the liability and provides guidance on the valuation techniques to estimate fair value of a liability in the absence of a Level 1 measurement. The update is effective for the first interim or annual reporting period beginning after its issuance. The update did not have a material effect on our consolidated financial statements.

## 2. Investment Securities - Available for Sale

Investment securities available for sale consist of the following as of September 30, 2009 (dollar amounts in thousands):

|                                 | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Carrying<br>Value |
|---------------------------------|-------------------|---------------------|----------------------|-------------------|
| Agency RMBS (1)                 | \$ 218,202        | \$ 6,687            | \$ —                 | \$ 224,889        |
| Non-Agency RMBS                 | 42,889            | 4,133               | (2,637)              | 44,385            |
| Collateralized Loan Obligations | 8,988             | 4,332               | —                    | 13,320            |
| Total                           | \$ 270,079        | \$ 15,152           | \$ (2,637)           | \$ 282,594        |

(1)- Agency RMBS only includes Fannie Mae securities at September 30, 2009.

Investment securities available for sale consist of the following as of December 31, 2008 (dollar amounts in thousands):

|                 | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Carrying<br>Value |
|-----------------|-------------------|---------------------|----------------------|-------------------|
| Agency RMBS (1) | \$ 454,653        | \$ 1,316            | \$ (98)              | \$ 455,871        |
| Non-Agency RMBS | 25,724            | —                   | (4,179)              | 21,545            |
| Total           | \$ 480,377        | \$ 1,316            | \$ (4,277)           | \$ 477,416        |

(1)- Agency RMBS carrying value included \$354.4 million of Fannie Mae and \$101.5 million of Freddie Mac securities.

The Company commenced its alternative investment strategy by purchasing \$46.0 million face amount of CRATOS CLO I collateralized loan obligations (“CLO”) on March 31, 2009 at a purchase price of approximately \$9.0 million. This transaction settled on April 7, 2009. This marked the Company’s first investment under its alternative investment strategy. In addition, during the second and third quarters of 2009 the Company opportunistically purchased approximately \$45.0 million current par value of non-Agency RMBS at an average cost of 60.2% of par. The \$45.0 million current par value of non-Agency RMBS purchased were previously rated AAA (at issuance) and represent the senior cashflows of the applicable deal structures.

During March 2009, the Company determined that the Agency collateralized mortgage obligations (“CMO”) floaters in its portfolio were no longer producing acceptable returns and initiated a program for the purpose of disposing of these securities. The Company disposed approximately \$159.5 million in current par value of Agency CMO floaters during March 2009, with the balance of the Agency CMO floaters, or \$34.3 million in current par value, in its portfolio being sold in April 2009, for an aggregate disposition of approximately \$193.8 million in current par value of Agency CMO floaters and a net gain of approximately \$0.1 million. As a result of this sale program, the Company incurred an additional impairment of \$0.1 million in the quarter ended March 31, 2009 as the Company intended to sell their Agency CMO floaters.



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The following tables set forth the stated reset periods and weighted average yields of our investment securities at September 30, 2009 (dollar amounts in thousands):

|                        | Less than 6 Months |         | More than 6 Months |         | More than 24 Months |         | Total      |         |
|------------------------|--------------------|---------|--------------------|---------|---------------------|---------|------------|---------|
|                        | Weighted           |         | Weighted           |         | Weighted            |         | Weighted   |         |
|                        | Carrying           | Average | Carrying           | Average | Carrying            | Average | Carrying   | Average |
|                        | Value              | Yield   | Value              | Yield   | Value               | Yield   | Value      | Yield   |
| Agency RMBS            | \$ —               | —       | \$ 94,064          | 3.30%   | \$ 130,825          | 4.50%   | \$ 224,889 | 4.00%   |
| Non-Agency RMBS        | 19,365             | 8.47%   | 8,597              | 7.47%   | 16,423              | 12.52%  | 44,385     | 9.77%   |
| CLO                    | 13,320             | 22.25%  | —                  | —       | —                   | —       | 13,320     | 22.25%  |
| Total/Weighted Average | \$ 32,685          | 14.09%  | \$ 102,661         | 3.64%   | \$ 147,248          | 5.39%   | \$ 282,594 | 5.76%   |

The following table sets forth the stated reset periods and weighted average yields of our investment securities at December 31, 2008 (dollar amounts in thousands):

|                        | Less than 6 Months |         | More than 6 Months |         | More than 24 Months |         | Total      |         |
|------------------------|--------------------|---------|--------------------|---------|---------------------|---------|------------|---------|
|                        | Weighted           |         | Weighted           |         | Weighted            |         | Weighted   |         |
|                        | Carrying           | Average | Carrying           | Average | Carrying            | Average | Carrying   | Average |
|                        | Value              | Yield   | Value              | Yield   | Value               | Yield   | Value      | Yield   |
| Agency RMBS            | \$ 197,675         | 8.54%   | \$ 66,910          | 3.69%   | \$ 191,286          | 4.02%   | \$ 455,871 | 5.99%   |
| Non-Agency RMBS (1)    | 21,476             | 14.11%  | —                  | —       | 69                  | 16.99%  | 21,545     | 14.35%  |
| Total/Weighted Average | \$ 219,151         | 9.21%   | \$ 66,910          | 3.69%   | \$ 191,355          | 4.19%   | \$ 477,416 | 6.51%   |

(1) The NYMT retained securities includes \$0.1 million of residual interests related to the NYMT 2006-1 transaction.

The following table presents the Company's investment securities available for sale in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2009. (dollar amounts in thousands):

|                 | Less than 12 Months |            | Greater than 12 Months |            | Total     |            |
|-----------------|---------------------|------------|------------------------|------------|-----------|------------|
|                 | Carrying            | Unrealized | Carrying               | Unrealized | Carrying  | Unrealized |
|                 | Value               | Losses     | Value                  | Losses     | Value     | Losses     |
| Non-Agency RMBS | \$ 2,134            | \$ 128     | \$ 13,492              | \$ 2,509   | \$ 15,626 | \$ 2,637   |
| Total           | \$ 2,134            | \$ 128     | \$ 13,492              | \$ 2,509   | \$ 15,626 | \$ 2,637   |

The following table presents the Company's investment securities available for sale in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2008.

|  | Less than 12 Months |            | Greater than 12 Months |            | Total    |            |
|--|---------------------|------------|------------------------|------------|----------|------------|
|  | Carrying            | Unrealized | Carrying               | Unrealized | Carrying | Unrealized |
|  | Value               | Losses     | Value                  | Losses     | Value    | Losses     |

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|                 |    |        |    |       |    |   |    |   |        |       |
|-----------------|----|--------|----|-------|----|---|----|---|--------|-------|
| Agency RMBS     | \$ | 9,406  | \$ | 98    | \$ | — | \$ | — | 9,406  | 98    |
| Non-Agency RMBS |    | 18,649 |    | 4,179 |    | — |    | — | 18,649 | 4,179 |
| Total           | \$ | 28,055 | \$ | 4,277 | \$ | — | \$ | — | 28,055 | 4,277 |

10

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As of September 30, 2009 and the date of this filing, we either do not have the intent to sell or we believe that it is more likely than not that we will not have to sell our portfolio of securities which are currently in unrealized loss positions for the foreseeable future. In assessing the Company's ability to hold its securities, it considers the significance of each investment and the amount of impairment, as well as the Company's current and anticipated leverage capacity and liquidity position. In addition, the Company anticipates collecting principal repayments in amounts sufficient to recover the amortized cost of the related non-Agency RMBS and anticipates that credit losses will not exceed the purchased discount. Should conditions change that would require us to sell securities at a loss or for liquidity reasons, we may no longer be able to assert that we will not have to sell our portfolio of securities which are currently in an unrealized loss position for the foreseeable future, in which case we would then be required to record impairment charges related to these securities.

The majority of the Company's Agency RMBS that are classified as investment securities available for sale are pledged as collateral for borrowings under financing arrangements (see note 5).

### 3. Mortgage Loans Held in Securitization Trusts (net)

Mortgage loans held in securitization trusts (net) consist of the following as of September 30, 2009 and December 31, 2008 (dollar amounts in thousands):

|                                     | September<br>30,<br>2009 | December<br>31,<br>2008 |
|-------------------------------------|--------------------------|-------------------------|
| Mortgage loans principal amount (1) | \$ 291,423               | \$ 347,546              |
| Deferred origination costs – net    | 1,840                    | 2,197                   |
| Reserve for loan losses             | (2,323)                  | (1,406)                 |
| Total                               | \$ 290,940               | \$ 348,337              |

(1) Includes \$1.3 million and \$1.9 million in real estate owned through foreclosure as of September 30, 2009 and December 31, 2008, respectively.

Reserve for Loan losses - The following table presents the activity in the Company's reserve for loan losses on mortgage loans held in securitization trusts for the nine months ended September 30, 2009 and 2008 (dollar amounts in thousands).

|                                | September 30,<br>2009 | September 30,<br>2008 |
|--------------------------------|-----------------------|-----------------------|
| Balance at beginning of period | \$ 1,406              | \$ 1,647              |
| Provisions for loan losses     | 1,414                 | 1,433                 |
| Charge-offs                    | (497)                 | (1,674)               |
| Balance at the end of period   | \$ 2,323              | \$ 1,406              |

On an ongoing basis, the Company evaluates the adequacy of its reserve for loan losses. The Company's reserve for loan losses at September 30, 2009 was \$2.3 million, representing 80 basis points of the outstanding principal balance of loans held in securitization trusts as compared to 40 basis points as of December 31, 2008. As part of the Company's reserve adequacy analysis, management will access an overall level of reserves while also assessing credit losses inherent in each non-performing 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, collateral value, delinquency status, borrower's current economic and credit status and other relevant factors.

All of the Company's mortgage loans held in securitization trusts are pledged as collateral for the collateralized debt obligations ("CDO") issued by the Company (see note 6). As of September 30, 2009, the Company's net investment in the 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 loans and the amount of CDO's outstanding, was \$10.7 million.

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The following tables set forth delinquent mortgage loans in our securitization trusts as of September 30, 2009 and December 31, 2008 (dollar amounts in thousands):

September 30, 2009

| Days Late                             | Number of<br>Delinquent<br>Loans | Total<br>Dollar Amount | % of Loan<br>Portfolio |
|---------------------------------------|----------------------------------|------------------------|------------------------|
| 30-60                                 | 1                                | \$ 76                  | 0.03%                  |
| 61-90                                 | 5                                | 3,219                  | 1.10%                  |
| 90+                                   | 26                               | 13,145                 | 4.51%                  |
| Real estate owned through foreclosure | 3                                | 1,260                  | 0.43%                  |

December 31, 2008

| Days Late                             | Number of<br>Delinquent<br>Loans | Total<br>Dollar<br>Amount | % of<br>Loan<br>Portfolio |
|---------------------------------------|----------------------------------|---------------------------|---------------------------|
| 30-60                                 | 3                                | \$ 1,363                  | 0.39%                     |
| 61-90                                 | 1                                | 263                       | 0.08%                     |
| 90+                                   | 13                               | 5,734                     | 1.65%                     |
| Real estate owned through foreclosure | 4                                | 1,927                     | 0.55%                     |

#### 4. Derivative Instruments and Hedging Activities

The Company enters into derivatives instruments to manage its interest rate risk exposure. These derivative instruments include interest rate swaps and caps entered into to reduce interest expense costs related to our repurchase agreements, CDO's and our subordinated debentures. 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 swap notional amounts are based on an amortizing schedule fixed at the start date of the transaction. The Company's interest rate cap transactions are designated as cashflow hedges against the benchmark interest rate risk associated with the CDO's and the subordinated debentures. The interest rate cap transactions were initiated with an upfront premium that is 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. The Company's derivative instruments 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 through earnings as a result of ineffectiveness of any of its hedges.



The following table presents the fair value of derivative instruments and their location in the Company's condensed consolidated balance sheets at September 30, 2009 and December 31, 2008, respectively (amounts in thousands):

| Derivative Designated as Hedging | Balance Sheet Location | September 30,<br>2009 | December 31,<br>2008 |
|----------------------------------|------------------------|-----------------------|----------------------|
| Interest Rate Caps               | Derivative Assets      | \$ 15                 | \$ 22                |
| Interest Rate Swaps              | Derivative Liabilities | 3,025                 | 4,194                |

The following table presents the impact of the Company's derivative instruments on the Company's accumulated other comprehensive income/(loss) for the nine months ended September 30, 2009 and 2008 (amounts in thousands):

| Derivative Designated as Hedging Instruments                                       | Nine Months Ended<br>September 30 |            |
|------------------------------------------------------------------------------------|-----------------------------------|------------|
|                                                                                    | 2009                              | 2008       |
| Accumulated other comprehensive income/(loss) for derivative instruments:          |                                   |            |
| Balance at beginning of the period                                                 | \$ (5,560)                        | \$ (1,951) |
| Unrealized gain on interest rate caps                                              | 729                               | 602        |
| Unrealized gain on interest rate swaps                                             | 1,169                             | 1,481      |
| Reclassification adjustment for net gains/losses included in net income for hedges | —                                 | —          |
| Balance at the end of the period                                                   | \$ (3,662)                        | \$ 132     |

The Company estimates that over the next 12 months, approximately \$2.5 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 three and nine months ended September 30, 2009 and 2008 (amounts in thousands):

|                                                                                | Three Months ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--------------------------------------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                                                | 2009                                | 2008   | 2009                               | 2008   |
| Interest Rate Caps:                                                            |                                     |        |                                    |        |
| Interest expense-investment securities and loans held in securitization trusts | \$ 157                              | \$ 171 | \$ 485                             | \$ 528 |
| Interest expense-subordinated debentures                                       | 90                                  | 77     | 252                                | 218    |
| Interest Rate Swaps:                                                           |                                     |        |                                    |        |
| Interest expense-investment securities and loans held in securitization trusts | 799                                 | 167    | 2,464                              | 285    |

**Interest Rate Swaps** - 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, whose collateral requirements vary by counterparty and change over time based on the market value, notional amount, and remaining term of the interest rate swap ("Swap"). In the event the Company is unable to meet a margin call under one of its Swap agreements, thereby causing an event of default or triggering an early termination event under one of its Swap agreements, the counterparty to such agreement may have the option to terminate all of such counterparty's outstanding Swap 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 Swap agreements as of September 30, 2009 and December 31, 2008. The Company had \$3.2 million and \$4.2 million of restricted cash related to margin posted for Swaps as of September 30, 2009 and December 31, 2008, respectively.

The use of interest rate swaps exposes the Company to counterparty credit risks in the event of a default by a Swap counterparty. If a counterparty defaults under the applicable Swap agreement the Company may be unable to collect payments to which it is entitled under its Swap agreements, and may have difficulty collecting the assets it pledged as collateral against such Swaps. The Company currently has in place with all outstanding Swap counterparties bi-lateral margin agreements thereby 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 following table presents information about the Company's interest rate swaps as of September 30, 2009 and December 31, 2008 (amounts in thousands):

| Maturity (1)                | September 30, 2009 |                                          | December 31, 2008 |                                          |
|-----------------------------|--------------------|------------------------------------------|-------------------|------------------------------------------|
|                             | Notional Amount    | Weighted Average Fixed Pay Interest Rate | Notional Amount   | Weighted Average Fixed Pay Interest Rate |
| Within 30 Days              | \$ 2,260           | 2.99%                                    | \$ 2,960          | 3.00%                                    |
| Over 30 days to 3 months    | 4,180              | 2.99                                     | 5,220             | 3.00                                     |
| Over 3 months to 6 months   | 5,770              | 2.99                                     | 7,770             | 2.99                                     |
| Over 6 months to 12 months  | 19,100             | 2.98                                     | 13,850            | 2.99                                     |
| Over 12 months to 24 months | 54,700             | 3.01                                     | 48,640            | 2.99                                     |
| Over 24 months to 36 months | 10,140             | 3.01                                     | 34,070            | 3.03                                     |
| Over 36 months to 48 months | 17,760             | 3.08                                     | 7,560             | 3.01                                     |
| Over 48 months              | —                  | —                                        | 17,200            | 3.08                                     |
| Total                       | \$ 113,910         | 3.01%                                    | \$ 137,270        | 3.01%                                    |

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

**Interest Rate Caps** – Interest rate caps are designated by the Company as cash flow hedges against interest rate risk associated with the Company's CDO's and the subordinated debentures. The interest rate caps associated with the CDO's are amortizing contractual notional schedules determined at origination and had \$411.4 million and \$456.9 million outstanding as of September 30, 2009 and December 31, 2008, respectively. These interest rate caps are utilized to cap the interest rate on the CDO's at a fixed-rate when one month LIBOR exceeds a predetermined rate. In addition, the Company has an interest rate cap contract on \$25.0 million of subordinated debentures that effectively caps three month LIBOR at 3.75% until March 31, 2010.

## 5. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its agency RMBS 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 September 30, 2009, the Company had repurchase agreements with an outstanding balance of \$194.7 million and a weighted average interest rate of 0.39%. As of December 31, 2008, the Company had repurchase agreements with an outstanding balance of \$402.3 million and a weighted average interest rate of 2.62%. At September 30, 2009 and December 31, 2008, securities pledged by the Company as collateral for repurchase agreements had estimated fair values of \$208.3 million and \$456.5 million, respectively. All outstanding borrowings under our repurchase agreements mature within 30 days. As of September 30, 2009, the average days to maturity for all repurchase agreements are 25 days. The Company had outstanding repurchase agreements with five different financial institutions as of September 30, 2009 and six as of December 31, 2008.

As of September 30, 2009, our Agency RMBS are financed with \$194.7 million of repurchase agreement funding with an advance rate of 93.6% that implies an overall haircut of 6.4%.

As of September 30, 2009, the Company had \$22.4 million in cash and \$74.3 million in unencumbered investment securities to meet additional haircut or market valuation requirements including \$60.9 million of RMBS, of which \$16.6 million are Agency RMBS.

## 6. Collateralized Debt Obligations

The Company's 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 September 30, 2009 and December 31, 2008, the Company had CDOs outstanding of \$280.2 million and \$335.6 million, respectively. As of September 30, 2009 and December 31, 2008, the current weighted average interest rate on these CDOs was 0.63% and 0.85%, respectively. The CDOs are collateralized by ARM loans with a principal balance of \$291.4 million and \$347.5 million at September 30, 2009 and December 31, 2008, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations, and, as of September 30, 2009 and December 31, 2008, had a net investment in the securitizations trusts after loan loss reserves of \$10.7 million and \$12.7 million, respectively.

The CDO transactions include amortizing interest rate cap contracts with an aggregate notional amount of \$411.4 million as of September 30, 2009 and an aggregate notional amount of \$456.9 million as of December 31, 2008, which are recorded as derivative assets of the Company. The interest rate caps are carried at fair value and totaled \$14,535 as of September 30, 2009 and \$18,575 as of December 31, 2008, respectively. The interest rate cap reduces interest rate risk exposure on these transactions.

## 7. 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 and the related assets and liabilities as assets and liabilities related to a discontinued operation for all periods presented in the accompanying condensed consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as subordinated debt and liabilities related to lease facilities not sold, are part of our ongoing operations and accordingly, we have not included these items as part of the discontinued operation.

### Balance Sheet Data

The components of assets related to the discontinued operation as of September 30, 2009 and December 31, 2008 are as follows (dollar amounts in thousands):

|                                          | September<br>30,<br>2009 | December<br>31,<br>2008 |
|------------------------------------------|--------------------------|-------------------------|
| Accounts and accrued interest receivable | \$ 20                    | \$ 26                   |
| Mortgage loans held for sale (net)       | 4,096                    | 5,377                   |
| Prepaid and other assets                 | 428                      | 451                     |
| Total assets                             | \$ 4,544                 | \$ 5,854                |

The components of liabilities related to the discontinued operation as of September 30, 2009 and December 31, 2008 are as follows (dollar amounts in thousands):

| September<br>30,<br>2009 | December<br>31,<br>2008 |
|--------------------------|-------------------------|
|--------------------------|-------------------------|

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|                                       |    |       |    |       |
|---------------------------------------|----|-------|----|-------|
| Due to loan purchasers                | \$ | 354   | \$ | 708   |
| Accounts payable and accrued expenses |    | 1,886 |    | 2,858 |
| Total liabilities                     | \$ | 2,240 | \$ | 3,566 |

15

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## Statements of Operations Data

The statements of operations of the discontinued operation for the three and nine months ended September 30, 2009 and 2008 are as follows (dollar amounts in thousands):

|                                               | Three Months<br>Ended September 30, |        | Nine Months<br>Ended September 30, |          |
|-----------------------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                               | 2009                                | 2008   | 2009                               | 2008     |
| Revenues                                      | \$ 395                              | \$ 203 | \$ 905                             | \$ 1,136 |
| Expenses                                      | 159                                 | (82)   | 405                                | (158)    |
| Income from discontinued operation-net of tax | \$ 236                              | \$ 285 | \$ 500                             | \$ 1,294 |

## 8. Commitments and Contingencies

**Loans Sold to Investors** - For loans originated and sold by our discontinued mortgage lending business, the Company is not exposed to long term credit risk. In the normal course of business, however, the Company is obligated to repurchase loans based on violations of representations and warranties in the sale agreement, or early payment defaults. The Company did not repurchase any loans during the nine months ended September 30, 2009.

The Company periodically receives repurchase requests based on alleged violations of representations and warranties, each of which management reviews to determine, based on management's experience, whether such requests may reasonably be deemed to have merit. As of September 30, 2009, we had a total of \$1.5 million of unresolved repurchase requests that management concluded may reasonably be deemed to have merit against which the Company has a reserve of approximately \$0.3 million. The reserve is based on one or more of the following factors; historical settlement rates, property value securing the loan in question and specific settlement discussions with third parties.

**Outstanding Litigation** - The Company is at times subject to various legal proceedings arising in the ordinary course of business. As of September 30, 2009, 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 and equipment under short-term lease agreements expiring at various dates through 2013. All such leases are accounted for as operating leases. Total lease expense for property and equipment amounted to \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2009.

**Letters of Credit** - 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, located at 52 Vanderbilt Avenue in New York City, 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.

## 9. Concentrations of Credit Risk

At September 30, 2009, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held in the securitization trusts. At December 31, 2008, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held in the securitization trusts and retained interests in our REMIC securitization, NYMT 2006-1. The Company sold all the retained interests related to NYMT 2006-1 during the quarter ended September 30, 2009. At September 30, 2009 and December 31, 2008, the geographic concentrations of credit risk exceeding 5% are as follows:

|               | September<br>30,<br>2009 | December<br>31,<br>2008 |
|---------------|--------------------------|-------------------------|
| New York      | 39.4%                    | 30.7%                   |
| Massachusetts | 23.7%                    | 17.2%                   |
| New Jersey    | 8.3%                     | 6.0%                    |
| Florida       | 5.8%                     | 7.8%                    |

## 10. 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 is 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 (CLO) - The fair value of the CLO notes, as of September 30, 2009, was based on management's valuation determined by using a discounted future cash flows model that management believes would be used by market participants to value similar financial instruments. If a reliable market for these assets develops in the future, management will consider quoted prices provided by dealers who make markets in similar financial instruments in determining the fair value of the CLO notes. The CLO notes are classified as Level 3 fair values.

c. Interest Rate Swaps and Caps - The fair value of interest rate swaps and caps are based on using market accepted financial models as well as dealer quotes. The model utilizes readily observable market parameters, including treasury rates, interest rate swap spreads and swaption volatility curves. The Company's interest rate caps and swaps are classified as Level 2 fair values.

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of September 30, 2009 and December 31, 2008 on the condensed consolidated balance sheets (dollar amounts in thousands):

|                                              | Assets Measured at Fair Value on a Recurring Basis<br>at September 30, 2009 |             |           |            |
|----------------------------------------------|-----------------------------------------------------------------------------|-------------|-----------|------------|
|                                              | Level 1                                                                     | Level 2     | Level 3   | Total      |
| <b>Assets carried at fair value:</b>         |                                                                             |             |           |            |
| Investment securities available for sale     | \$                                                                          | —\$ 269,274 | \$ 13,320 | \$ 282,594 |
| Derivative assets (interest rate caps)       |                                                                             | — 15        | —         | 15         |
| Total                                        | \$                                                                          | —\$ 269,289 | \$ 13,320 | \$ 282,609 |
| <b>Liabilities carried at fair value:</b>    |                                                                             |             |           |            |
| Derivative liabilities (interest rate swaps) | \$                                                                          | —\$ 3,025   | \$ —      | \$ 3,025   |
| Total                                        | \$                                                                          | —\$ 3,025   | \$ —      | \$ 3,025   |

|                                              | Assets Measured at Fair Value on a Recurring Basis<br>at December 31, 2008 |             |         |            |
|----------------------------------------------|----------------------------------------------------------------------------|-------------|---------|------------|
|                                              | Level 1                                                                    | Level 2     | Level 3 | Total      |
| <b>Assets carried at fair value:</b>         |                                                                            |             |         |            |
| Investment securities available for sale     | \$                                                                         | —\$ 477,416 | \$ —    | \$ 477,416 |
| Derivative assets (interest rate caps)       |                                                                            | — 22        | —       | 22         |
| Total                                        | \$                                                                         | —\$ 477,438 | \$ —    | \$ 477,438 |
| <b>Liabilities carried at fair value:</b>    |                                                                            |             |         |            |
| Derivative liabilities (interest rate swaps) | \$                                                                         | —\$ 4,194   | \$ —    | \$ 4,194   |
| Total                                        | \$                                                                         | —\$ 4,194   | \$ —    | \$ 4,194   |

The following table details changes in valuation for the Level 3 assets for the three and nine months ended September 30, 2009 (amounts in thousands):

Investment securities available for sale

|                                               | Three<br>Months<br>Ended<br>September<br>30, 2009 | Nine<br>Months<br>Ended<br>September<br>30, 2009 |
|-----------------------------------------------|---------------------------------------------------|--------------------------------------------------|
| Beginning Balance                             | \$ 8,988                                          | \$ —                                             |
| Total gains (realized/unrealized)             |                                                   |                                                  |
| Included in earnings (1)                      | 155                                               | 260                                              |
| Included in other comprehensive income/(loss) | 4,177                                             | 4,332                                            |
| Purchases                                     | —                                                 | 8,728                                            |
| Ending Balance                                | \$ 13,320                                         | \$ 13,320                                        |

(1) - Amounts included in interest income-investment securities and loans held in securitizations trusts.

18

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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 September 30, 2009 and December 31, 2008 on the condensed consolidated balance sheet (dollar amounts in thousands):

|                                                                         | Assets Measured at Fair Value on a Non-Recurring Basis |         |          |          |
|-------------------------------------------------------------------------|--------------------------------------------------------|---------|----------|----------|
|                                                                         | at September 30, 2009                                  |         |          | Total    |
|                                                                         | Level 1                                                | Level 2 | Level 3  |          |
| Mortgage loans held for sale (Net)                                      | \$ —                                                   | \$ —    | \$ 4,096 | \$ 4,096 |
| Mortgage loans held in securitization trusts (net) – impaired loans (1) | \$ —                                                   | \$ —    | \$ 6,068 | \$ 6,068 |

(1) Includes \$0.4 million in real estate owned through foreclosure.

|                                                                         | Assets Measured at Fair Value on a Non-Recurring Basis |         |          |          |
|-------------------------------------------------------------------------|--------------------------------------------------------|---------|----------|----------|
|                                                                         | at December 31, 2008                                   |         |          | Total    |
|                                                                         | Level 1                                                | Level 2 | Level 3  |          |
| Mortgage loans held for sale (net)                                      | \$ —                                                   | \$ —    | \$ 5,377 | \$ 5,377 |
| Mortgage loans held in securitization trusts (net) – impaired loans (1) | \$ —                                                   | \$ —    | \$ 2,958 | \$ 2,958 |

(1) Includes \$0.5 million in real estate owned through foreclosure.

The following table presents losses incurred for assets measured at fair value on a non-recurring basis for the three and nine months ended September 30, 2009 and September 30, 2008 on the condensed statements of operations (dollar amounts in thousands):

|                                                                     | Three Months Ended |                    | Nine Months Ended  |                    |
|---------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                     | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Mortgage loans held for sale (net)                                  | \$ —               | \$ 34              | \$ 245             | \$ 433             |
| Mortgage loans held in securitization trusts (net) – impaired loans | \$ 525             | \$ 7               | \$ 1,414           | \$ 1,440           |

Mortgage Loans Held in Securitization Trusts (net) – Impaired Loans – 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.

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 cap, periodic cap, underwriting standards, age and credit.

The following table presents the carrying value and estimated fair value of the Company's financial instruments, at September 30, 2009 and December 31, 2008 (dollar amounts in thousands):

|                                                                             | September 30, 2009 |                      | December 31, 2008 |                      |
|-----------------------------------------------------------------------------|--------------------|----------------------|-------------------|----------------------|
|                                                                             | Carrying Value     | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| <b>Financial assets:</b>                                                    |                    |                      |                   |                      |
| Cash and cash equivalents                                                   | \$ 22,403          | \$ 22,403            | \$ 9,387          | \$ 9,387             |
| Restricted cash                                                             | 3,359              | 3,359                | 7,959             | 7,959                |
| Investment securities – available for sale                                  | 282,594            | 282,594              | 477,416           | 477,416              |
| Mortgage loans held in securitization trusts (net)                          | 290,940            | 266,189              | 348,337           | 343,028              |
| Derivative assets                                                           | 15                 | 15                   | 22                | 22                   |
| Assets related to discontinued operation-Mortgage loans held for sale (net) | 4,096              | 4,096                | 5,377             | 5,377                |
| <b>Financial Liabilities:</b>                                               |                    |                      |                   |                      |
| Financing arrangements, portfolio investments                               | 194,745            | 194,745              | 402,329           | 402,329              |
| Collateralized debt obligations                                             | 280,223            | 183,090              | 335,646           | 199,503              |
| Derivative liabilities                                                      | 3,025              | 3,025                | 4,194             | 4,194                |
| Subordinated debentures (net)                                               | 44,823             | 24,067               | 44,618            | 10,049               |
| Convertible preferred debentures (net)                                      | 19,814             | 18,981               | 19,702            | 16,363               |

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 and restricted cash: Estimated fair value approximates the carrying value of such assets.
- b. Mortgage Loans Held in Securitization Trusts - Mortgage loans held in the securitization trusts are recorded at amortized cost. Fair value is estimated using pricing models and taking into consideration the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the estimated market prices for similar types of loans.
- c. Financing arrangements, portfolio investments – The fair value of these financing arrangements approximates cost as they are short term in nature and mature in 30 days.
- d. Collateralized debt obligations – The fair value of these collateralized debt obligations is based on discounted cashflows as well as market pricing on comparable obligations.
- e. Subordinated debentures (net) – The fair value of these subordinated debentures (net) is based on discounted cashflows using management's estimate for market yields.
- f. Convertible preferred debentures (net) – The fair value of the convertible preferred debentures (net) is based on discounted cashflows using management's estimate for market yields.

## 11. Capital Stock and Earnings per Share

The Company had 400,000,000 shares of common stock, par value \$0.01 per share, authorized with 9,419,094 and 9,320,094 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively. The Company had 200,000,000 shares of preferred stock, par value \$0.01 per share, authorized, including 2,000,000 shares of Series A Cumulative Convertible Redeemable Preferred Stock ("Series A Preferred Stock") authorized. As of September 30, 2009 and December 31, 2008, the Company had issued and outstanding 1,000,000 shares, of Series A Preferred Stock. Of the common stock authorized at September 30, 2009, 4,111 shares were reserved for issuance as Restricted Stock awards to employees, officers and directors pursuant to the 2005 Stock Incentive Plan.

On February 21, 2008, the Company completed the issuance and sale of 7.5 million shares of its common stock in a private placement at a price of \$8.00 per share. This private offering of the Company's common stock generated net proceeds to the Company of \$56.5 million after payment of private placement fees and expenses. The Company filed a resale shelf registration statement on Form S-3 on April 4, 2008, registering for resale the 7.5 million shares issued in February 2008, which became effective on April 18, 2008.

The Board of Directors declared a one-for-two reverse stock split of the Company's common stock, effective on May 27, 2008, decreasing the number of shares then outstanding to approximately 9.3 million shares. All per share and share amounts provided in the quarterly report have been restated to give to effect the reverse stock split.

The following table presents cash dividends declared by the Company on its common stock from January 1, 2008 through September 30, 2009.

| Period              | Declaration Date   | Record Date      | Payment Date     | Cash Dividend Per Share |
|---------------------|--------------------|------------------|------------------|-------------------------|
| Third Quarter 2009  | September 29, 2009 | October 13, 2009 | October 26, 2009 | \$ 0.25                 |
| Second Quarter 2009 | June 15, 2009      | June 26, 2009    | July 27, 2009    | 0.23                    |
| First Quarter 2009  | March 25, 2009     | April 6, 2009    | April 27, 2009   | 0.18                    |
| Fourth Quarter 2008 | December 23, 2008  | January 7, 2009  | January 26, 2009 | \$ 0.10                 |
| Third Quarter 2008  | September 26, 2008 | October 10, 2008 | October 27, 2008 | 0.16                    |
| Second Quarter 2008 | June 30, 2008      | July 10, 2008    | July 25, 2008    | 0.16                    |
| First Quarter 2008  | April 21, 2008     | April 30, 2008   | May 15, 2008     | 0.12                    |

The following table presents cash dividends declared by the Company on its Series A Preferred Stock from January 1, 2008 through September 30, 2009.

| Period              | Declaration Date   | Record Date        | Payment Date     | Cash Dividend Per Share |
|---------------------|--------------------|--------------------|------------------|-------------------------|
| Third Quarter 2009  | September 29, 2009 | September 30, 2009 | October 30, 2009 | \$ 0.63                 |
| Second Quarter 2009 | June 15, 2009      | June 30, 2009      | July 30, 2009    | \$ 0.58                 |
| First Quarter 2009  | March 25, 2009     | March 31, 2009     | April 30, 2009   | 0.50                    |
| Fourth Quarter 2008 | December 23, 2008  | December 31, 2008  | January 30, 2009 | \$ 0.50                 |
| Third Quarter 2008  | September 29, 2008 | September 30, 2008 | October 30, 2008 | 0.50                    |
| Second Quarter 2008 | June 30, 2008      | June 30, 2008      | July 30, 2008    | 0.50                    |
| First Quarter 2008  | April 21, 2008     | March 31, 2008     | April 30, 2008   | 0.50                    |

The Company calculates basic net income (loss) per share by dividing net income (loss) for the period by the weighted-average shares of common stock outstanding for that period. Diluted net income (loss) 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.

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The following table presents the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share amounts):

|                                                      | For the Three Months Ended<br>September 30, |          | For the Nine Months Ended<br>September 30, |             |
|------------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|-------------|
|                                                      | 2009                                        | 2008     | 2009                                       | 2008        |
| <b>Numerator:</b>                                    |                                             |          |                                            |             |
| Net income (loss) – Basic                            | \$ 2,877                                    | \$ 1,029 | \$ 7,478                                   | \$ (18,966) |
| Net income (loss) from continuing operations         | 2,641                                       | 744      | 6,978                                      | (20,260)    |
| Net income from discontinued operations (net of tax) | 236                                         | 285      | 500                                        | 1,294       |
| <b>Effect of dilutive instruments:</b>               |                                             |          |                                            |             |
| Convertible preferred debentures (1)                 | 662                                         | 537      | 1,807                                      | 1,612       |
| Net income (loss) – Dilutive                         | 3,539                                       | 1,029    | 9,285                                      | (18,966)    |
| Net income (loss) from continuing operations         | 3,303                                       | 744      | 8,785                                      | (20,260)    |
| Net income from discontinued operations (net of tax) | \$ 236                                      | \$ 285   | \$ 500                                     | \$ 1,294    |
| <b>Denominator:</b>                                  |                                             |          |                                            |             |
| Weighted average basis shares outstanding            | 9,406                                       | 9,320    | 9,349                                      | 7,919       |
| <b>Effect of dilutive instruments:</b>               |                                             |          |                                            |             |
| Convertible preferred debentures (1)                 | 2,500                                       | 2,500    | 2,500                                      | 2,344       |
| Weighted average dilutive shares outstanding         | 11,906                                      | 9,320    | 11,849                                     | 7,919       |
| <b>EPS:</b>                                          |                                             |          |                                            |             |
| Basic EPS                                            | \$ 0.31                                     | \$ 0.11  | \$ 0.80                                    | \$ (2.39)   |
| Basic EPS from continuing operations                 | 0.28                                        | 0.08     | 0.75                                       | (2.55)      |
| Basic EPS from discontinued operations (net of tax)  | 0.03                                        | 0.03     | 0.05                                       | 0.16        |
| Dilutive EPS                                         | \$ 0.30                                     | \$ 0.11  | \$ 0.78                                    | \$ (2.39)   |
| Dilutive EPS from continuing operations              | 0.28                                        | 0.08     | 0.74                                       | (2.55)      |
| Basic EPS from discontinued operations (net of tax)  | 0.02                                        | 0.03     | 0.04                                       | 0.16        |

(1) – Amount excluded from dilutive calculation in 2008 as it is anti-dilutive.

## 12. Convertible Preferred Debentures (net)

As of September 30, 2009, there were 1.0 million shares of our Series A Preferred Stock outstanding, with an aggregate redemption value of \$20.0 million. The Series A Preferred Stock matures on December 31, 2010, at which time any outstanding shares must be redeemed by the Company at the \$20.00 per share liquidation preference. Because of this mandatory redemption feature, the Company classifies these securities as a liability on its balance sheet, and accordingly, the corresponding dividend as an interest expense.

We issued these shares of Series A Preferred Stock to JMP Group Inc. and certain of its affiliates for an aggregate purchase price of \$20.0 million. The Series A Preferred Stock entitles the holders to receive a cumulative dividend of 10% per year, subject to an increase to the extent any future quarterly common stock dividends exceed \$0.20 per share. The Company paid a third quarter 2009 common stock dividend of \$0.25, resulting in an increase in the dividend rate for the Series A Preferred Stock in the 2009 third quarter to 12.5% (per annum). The Series A Preferred Stock is convertible into shares of the Company's common stock based on a conversion price of \$8.00 per share of common stock, which represents a conversion rate of two and one-half (2 ½) shares of common stock for each share of Series A Preferred Stock.

### 13. Related Party Transactions

On January 18, 2008, the Company entered into an advisory agreement with Harvest Capital Strategies LLC (“HCS”) (formerly known as JMP Asset Management LLC), pursuant to which HCS is responsible for implementing and managing the Company’s investments in alternative real estate-related and financial assets, which is referred to in this report to as the “alternative investment strategy.” The Company entered into the 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. Pursuant to Schedule 13D’s filed with the SEC, as of December 31, 2008, HCS and JMP Group Inc. beneficially owned approximately 16.8% and 12.2%, respectively, of the Company’s common stock, and 100%, collectively, of its Series A Preferred Stock.

Pursuant to the advisory agreement, HCS is responsible for managing 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 acquired or formed in the future to hold investments made on the Company's behalf by HCS. The Company refers to these subsidiaries in its periodic reports filed with the Securities and Exchange Commission as the "Managed Subsidiaries." On March 31, 2009, the Company commenced its alternative investment strategy by purchasing approximately \$9.0 million in collateralized loan obligations. The Company's investment in these assets was completed in connection with the acquisition by JMP Group Inc. of the investment adviser of the collateralized loan obligations. The Company expects that, from time to time in the future, certain of its alternative investments will take the form of a co-investment alongside or in conjunction with JMP Group Inc. or certain of its affiliates. In accordance with investment guidelines adopted by the Company's Board of Directors, any subsequent alternative investments by the Managed Subsidiaries must be approved by the Board of Directors and must adhere to investment guidelines adopted by the Board of Directors. The advisory agreement provides that HCS will be paid a base advisory fee that is a percentage of the "equity capital" (as defined in the advisory agreement) of the Managed Subsidiaries, which may include the net asset value of assets held by the Managed Subsidiaries as of any fiscal quarter end, and an incentive fee upon the Managed Subsidiaries achieving certain investment hurdles. For the three and nine months ended September 30, 2009, HCS earned a base advisory fee of approximately \$0.2 million and \$0.6 million, respectively. For the three and nine months ended September 30, 2008, HCS earned a base advisory fee of approximately \$0.2 million and \$0.5 million, respectively. In addition, in the three months and nine months ended September 30, 2009, HCS earned an incentive fee of approximately \$0.3 million and \$0.3 million, respectively. There was no incentive fee earned in the nine months ended September 30, 2008. As of September 30, 2009, HCS was managing approximately \$41.3 million of assets on the Company's behalf.

#### 14. Income Taxes

At September 30, 2009, the Company had approximately \$62.9 million of net operating loss carryforwards which may be used to offset future taxable income. The carryforwards will expire in 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 may have undergone an ownership change within the meaning of IRC section 382 that would impose such a limitation, but a final conclusion has not been made. At this time, based on management's initial assessment of the limitations, management does not believe that the limitation would cause a significant amount of the Company's net operating losses to expire unused. The Company continues to maintain a reserve for 100% of the deferred tax benefits.

#### 15. Stock Incentive Plan

Pursuant to the 2005 Stock Incentive Plan (the "Plan"), eligible employees, officers and directors of the Company are offered the opportunity to acquire the Company's common stock through the award of Restricted Stock under the Plan. The maximum number of Restricted Stock awards that may be granted under the Plan is 103,111.

The Company awarded 99,000 shares of Restricted Stock under the Plan on July 13, 2009, of which 34,335 shares have fully vested. As of September 30, 2009, 4,111 shares remain available for issuance under the Plan. During the three and nine months ended September 30, 2009, the Company recognized non-cash compensation expense of \$0.2 million and \$0.2 million, respectively. Dividends are paid on all Restricted Stock issued, whether those shares are vested or not. In general, unvested Restricted Stock is forfeited upon the recipient's termination of employment.

A summary of the status of the Company's non-vested Restricted Stock as of September 30, 2009 and changes during the nine months then ended is presented below:

|                                                                           | Number of<br>Non-vested<br>Restricted<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Non-vested shares at beginning of year, January 1, 2009                   | -                                               | \$ -                                            |
| Granted                                                                   | 99,000                                          | 5.28                                            |
| Forfeited                                                                 | -                                               | -                                               |
| Vested                                                                    | (34,335)                                        | 5.28                                            |
| Non-vested shares as of September 30, 2009                                | 64,665                                          | \$ 5.28                                         |
| Weighted-average fair value of Restricted Stock granted during the period | 99,000                                          | \$ 5.28                                         |

There was no outstanding non-vested Restricted Stock for the previous period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain forward-looking statements. Forward-looking statements are those which are not historical in nature. They can often be identified by their inclusion of words such as "will," "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions. Any projection of revenues, earnings, losses, capital expenditures, distributions, capital structure or other financial terms is a forward-looking statement. Certain statements regarding the following particularly are forward-looking in nature:

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

It is important to note that the description of our business, in general, and our investment in real estate-related and certain alternative assets, in particular, is a statement about our operations as of a specific point in time and is not meant to be construed as an investment policy. The types of assets we hold, the amount of leverage we use or the liabilities we incur and other characteristics of our assets and liabilities disclosed in this report as of a specified period of time are subject to reevaluation and change without notice.

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

- our portfolio strategy and operating strategy may be changed or modified by our management without advance notice to you or stockholder approval and we may suffer losses as a result of such modifications or changes;
- our ability to successfully implement and grow our alternative investment strategy and to identify suitable alternative assets;
- market changes in the terms and availability of repurchase agreements used to finance our investment portfolio activities;
  - reduced demand for our securities in the mortgage securitization and secondary markets;
  - interest rate mismatches between our interest-earning assets and our borrowings used to fund such purchases;
    - changes in interest rates and mortgage prepayment rates;
    - increased rates of default and/or decreased recovery rates on our assets;
-

changes in the financial markets and economy generally, including the continued or accelerated deterioration of the U.S. economy;

- effects of interest rate caps on our adjustable-rate mortgage-backed securities;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- potential impacts of our leveraging policies on our net income and cash available for distribution;
- our board's ability to change our operating policies and strategies without notice to you or stockholder approval;
- our ability to manage, minimize or eliminate liabilities stemming from the discontinued operation including, among other things, litigation, repurchase obligations on the sales of mortgage loans and property leases;
- actions taken by the U.S. and foreign governments, central banks and other governmental and regulatory bodies for the purpose of stabilizing the financial credit and housing markets, and economy generally, including loan modification programs;
- changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac; and
- the other important factors identified, or incorporated by reference into this report, including, but not limited to those under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk", and those described in Part I, Item 1A – "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2008, and the various other factors identified in any other documents filed by us with the SEC.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking events might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. In addition, you should carefully review the risk factors described in other documents we file from time to time with the SEC.

#### General

New York Mortgage Trust, Inc., together with its consolidated subsidiaries ("NYMT", the "Company", "we", "our", and "us") a self-advised real estate investment trust, or REIT, in the business of acquiring and managing primarily residential adjustable-rate, hybrid adjustable-rate and fixed-rate mortgage-backed securities ("RMBS"), for which the principal and interest payments are guaranteed by a U.S. Government agency, such as the Government National Mortgage Association ("Ginnie Mae") or a U.S. Government-sponsored entity ("GSE" or "Agency"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), which we refer to collectively as "Agency RMBS," and prime credit quality residential adjustable-rate mortgage ("ARM") loans, or prime ARM loans. We also acquire and manage, although to a lesser extent, certain alternative real estate-related and financial assets that present greater credit risk and less interest rate risk than our investments in Agency RMBS and prime ARM loans, which may include, among other things, non-Agency RMBS and certain non-rated residential mortgage assets, commercial mortgage-backed securities ("CMBS"), commercial real estate loans, collateralized loan obligations ("CLO") and other similar investments. We refer to our investments in Agency RMBS, prime ARM loans and certain legacy non-Agency RMBS as our "principal investment strategy" and investments in certain alternative real estate-related and financial assets that present greater credit risk as our "alternative investment strategy" and such assets as our "alternative assets." We elected to be taxed as a REIT for federal income tax purposes commencing with our taxable year ended on December 31, 2004. Therefore, we generally will not be subject to federal income tax on our taxable income that is distributed to our stockholders.

Our investment strategy historically has focused on holding a portfolio comprised of Agency RMBS, prime ARM loans held in securitization trusts, and, to a lesser extent, on certain non-agency RMBS rated in the highest rating category by two rating agencies. The prime ARM loans in our portfolio were originated by us through Hypotheca Capital, LLC (“HC,” then doing business as The New York Mortgage Company LLC), our wholly-owned subsidiary and former mortgage lending business, or purchased from third parties, and were subsequently securitized by us and are held in our four securitization trusts.

In connection with a \$20.0 million private investment in our Series A Cumulative Convertible Redeemable preferred stock (the “Series A Preferred Stock”) by JMP Group Inc. and certain of its affiliates (collectively, the “JMP Group”) on January 18, 2008, we entered into an advisory agreement with Harvest Capital Strategies LLC (“HCS,” formerly known as JMP Asset Management LLC), an affiliate of the JMP Group, on the same date, pursuant to which HCS manages the assets held by HC and New York Mortgage Funding, LLC other than certain Agency RMBS held in these entities for regulatory compliance purposes, as well as any additional subsidiaries acquired or formed in the future to hold investments made on the Company’s behalf. We refer to these entities as the “Managed Subsidiaries.” We expect these assets to include certain types of alternative assets described above. We formed this relationship with HCS and the JMP Group for the purpose of improving our capitalization and diversifying our investment strategy away from a strategy focused exclusively on investments in Agency RMBS, in part to achieve attractive risk-adjusted returns, and to potentially utilize all or part of an approximately \$62.9 million net operating loss carry-forward held by HC at September 30, 2009. On March 31, 2009, we initiated our first investment under the alternative investment strategy.

Our principal business objective is to generate net income for distribution to our stockholders resulting from the spread between the interest and other income we earn on our interest-earning assets and the interest expense we pay on the borrowings that we use to finance these assets, which we refer to as our net interest income. We intend to achieve this objective by investing in a broad class of real estate-related and financial assets to construct an investment portfolio that is designed to achieve attractive risk-adjusted returns and that is structured to comply with the various federal income tax requirements for REIT status and to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Because we intend to continue to qualify as a REIT and to maintain our exemption from registration under the Investment Company Act, we will be required to invest a substantial majority of our assets in qualifying real estate assets, such as Agency RMBS, mortgage loans and other liens on and interests in real estate.

## Recent Events

### Continued Deployment of Capital Under Alternative Investment Strategy

On March 31, 2009, we commenced our alternative investment strategy by purchasing \$9 million of discounted notes issued by Cratos CLO I, Ltd. a CLO. The purchase of these assets closed on April 7, 2009. As of September 30, 2009, the CLO’s portfolio was comprised of approximately \$473.9 million par amount of senior secured corporate loans, extended to more than 88 different borrowers and was diversified by industry, geography and borrower classification. Our investment in this CLO was completed in connection with the acquisition of the CLO’s investment adviser by JMP Group Inc.

In addition, during the 2009 second quarter and continuing through the third quarter, the Company deployed capital under its alternative investment strategy by investing approximately \$27.1 million in non-Agency RMBS which were previously rated in the highest rating categories by one or more of the rating agencies. The Company purchased these securities for an average purchase price equal to 60.2% of current par value. As of September 30, 2009, the Company had \$24.1 million invested in non-Agency RMBS with an average price equal to of 60.4% of current par value and an estimated a risk adjusted average yield of approximately 15.8%.

Each of the assets described under this caption is held in HC and managed by HCS.

### Known Material Trends and Commentary

General. The well publicized disruptions in the credit markets that began in 2007 escalated throughout 2008 and spread to the financial markets and the greater economy. The financial and credit markets continued to experience difficulties during most of the 2009 first half, but have shown signs of improvement more recently.

As discussed under the caption “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Current Market Conditions and Known Material Trends” in our Annual Report on Form 10-K for the year ended December 31, 2008, U.S. and foreign governments, central banks and other governmental and regulatory bodies have taken or are considering taking numerous actions to address the financial and credit crisis and the global recession, such as the U.S. government’s passage of a \$787 billion economic stimulus plan and the Troubled Asset Relief Program, the Homeowner Affordability and Stability Plan (“HASP”), and the Federal Reserve Bank’s (“Federal Reserve”) commitment to purchase up to \$1.25 trillion of Agency RMBS. We refer you to the caption in our Form 10-K noted in the immediately preceding sentence for more information regarding these initiatives.

In addition to the initiatives referred to in the immediately preceding paragraph and described in our Annual Report on Form 10-K for the year ended December 31, 2008, as a further response to the continued challenges in the credit and financial markets, the U.S. Government and the Federal Reserve, as applicable, have announced the creation of new initiatives and modifications to certain existing initiatives supported or backed by the U.S. Government or the Federal Reserve. The Term Asset-Backed Securities Loan Facility, or TALF, was first announced by the U.S. Treasury on November 25, 2008, and has been expanded in size and scope since its initial announcement. Under the TALF, the Federal Reserve Bank of New York makes non-recourse loans to borrowers to fund their purchase of eligible assets, currently certain ABS but not RMBS. Currently, TALF loans have three-year terms, have interest due monthly, are exempt from mark-to-market accounting rules and margin calls related to a decrease in the underlying collateral value, are pre-payable in whole or in part, and prohibit the substitution of any underlying collateral. It is expected that the TALF loans will require that any payments of principal made on the underlying collateral will reduce the principal amount of the TALF loan pro rata based upon the original loan-to-value ratio.

The nature of the eligible assets under TALF has been expanded several times. The U.S. Treasury has stated that through its expansion of the TALF, non-recourse loans will be made available to investors to fund certain purchases of legacy securitization assets. In May 2009, the Federal Reserve announced that certain types of CMBS are now eligible for TALF financing. The TALF-eligibility requirements for CMBS include, but are not limited to, the following: (i) at closing, the CMBS must have been rated in the highest long-term investment-grade rating category of an eligible rating agency, (ii) the CMBS must not have been junior to other securities with claims on the same pool of loans, and (iii) payments on the CMBS must be applied to both principal and interest (no interest only or principal only). Other types of TALF-eligible assets are expected to include certain non-Agency RMBS. On August 17, 2009, the Federal Reserve and the Treasury announced that they approved an extension of the TALF. With respect to newly issued asset-backed securities and legacy CMBS, the TALF was extended through March 31, 2010 and, with respect to newly issued CMBS, the TALF was extended through June 30, 2010. In connection with the announcement of such extension, the Federal Reserve and the Treasury announced that they did not anticipate any further additions to the types of collateral that are eligible for the TALF.

While we are considering utilizing the TALF program to the extent feasible, we can provide no assurance that we will be eligible to do so, or if eligible, will be able to utilize it successfully.

In addition, on March 23, 2009, the U.S. Government announced that the U.S. Treasury in conjunction with the Federal Deposit Insurance Corporation, and the Federal Reserve, would create the Public-Private Investment Program, or PPIP. The PPIP aims to recreate a market for specific illiquid residential and commercial loans and securities through a number of joint public and private investment funds. The PPIP is designed to draw new private capital into the market for these securities and loans by providing government equity co-investment and attractive public financing. Since September 30, 2009 the U.S. Treasury has announced the closing of five legacy securities PPIP funds, each with at least \$500.0 million of committed equity capital from investors.

Although these aggressive steps are intended to protect and support the U.S. housing and mortgage market, we continue to operate under very difficult market conditions. As a result, the outcome of these events remain highly uncertain and we cannot predict whether or when such actions may occur or what impact, if any, such actions could have on our business, results of operations and financial condition.

Mortgage asset values. The Federal Reserve's announcement on January 9, 2009 that it had begun to buy Agency RMBS, combined with the Federal Reserve's announcement in March 2009 of an increase of up to \$750 billion in its commitment to purchase Agency RMBS has resulted in a substantial increase in the sale prices of Agency RMBS. The Federal Reserve announced on September 23, 2009 an increase of up to \$1.25 trillion in its commitment to purchase Agency RMBS and up to \$200 billion of agency debt. We believe that the stronger backing for the guarantors of Agency RMBS, resulting from the conservatorship of Fannie Mae and Freddie Mac, along with the U.S. Treasury's commitment to purchase senior preferred stock in these companies and the Federal Reserve's Agency

RMBS purchase program has positively impacted the value of our Agency RMBS. However, we expect this positive impact to be partially offset in future months due to expected increases in prepayment rates resulting from greater refinancing activity.

With respect to non-Agency RMBS and other alternative assets, available leverage has decreased significantly in the past few years, which has negatively affected the liquidity of these assets and has contributed to the significant rise in market yields on these types of assets. As described above, there has been significant government action aimed at increasing the liquidity of various types of non-Agency RMBS and certain other alternative assets. However, non-Agency RMBS and certain other alternative assets have continued to experience significant price volatility, which has made it more difficult to accurately value these assets. The PPIP program has the potential to increase available leverage to finance the purchase of non-Agency RMBS and certain other alternative assets; however, the effect of this program on the liquidity of non-Agency RMBS and certain other alternative assets is currently unknown.

Financing markets and liquidity. Financing and liquidity markets continued to show signs of improvement during the third quarter. As of September 30, 2009, we had outstanding repurchase borrowings from five counterparties, as compared to six counterparties at December 31, 2008 and five counterparties at September 30, 2008. The Company does not anticipate difficulty financing its Agency RMBS portfolio.

As noted above, available leverage for non-Agency RMBS and certain other alternative assets has remained scarce due to the recent conditions in the credit markets and reductions in the value of various types of RMBS. As of September 30, 2009, our investment in CLO and non-Agency RMBS was unlevered.

Financing costs and interest rates. As of September 30, 2009, 30-day LIBOR was 0.25 % while the Fed Funds effective rate was 0.07% as compared to 30-day LIBOR of 0.44% and a Fed Funds effective rate of 0.14% at December 31, 2008. Because of continued uncertainty in the credit markets and difficult U.S. economic conditions, we expect that interest rates are likely to remain at these historically low levels until such time as the economic data begin to confirm an improvement in the overall economy.

Prepayment rates. As a result of various government initiatives, including HASP and the reduction in intermediate and longer-term treasury yields, rates on conforming mortgages have declined, nearing historical lows during the first nine months of 2009. Hybrid and adjustable-rate mortgage originations have declined substantially, as rates on these types of mortgages are comparable with rates available on 30-year fixed-rate mortgages. We experienced similar prepayment rates on both our Agency RMBS and prime ARM loans during the quarter ended September 30, 2009 as compared to the quarter ended June 30, 2009. We expect that the constant prepayment rate, or CPR, will remain in a range of between 17%-22% CPR during the fourth quarter of 2009 based on current market interest rates, however, future CPRs may be affected by current and future government initiatives, if any, and the resulting impact on borrowers' ability to refinance, mortgage interest rates in the market and home values.

#### Presentation Format

In connection with the sale of substantially all of our wholesale and retail mortgage lending platform assets during the first quarter of 2007, we classified certain assets and liabilities related to our mortgage lending segment as a discontinued operation in accordance with the provisions of FASB ASC 205-20 Presentation of Financial Statements Discontinued Operations. As a result, we have reported revenues and expenses related to the segment as a discontinued operation and the related assets and liabilities as assets and liabilities related to a discontinued operation for all periods presented in the accompanying condensed consolidated financial statements. Our continuing operations are primarily comprised of what had been our portfolio management operations. In addition, certain assets such as the deferred tax asset, and certain liabilities, such as subordinated debt and liabilities related to leased facilities not sold, have become part of the ongoing operations of NYMT and accordingly, we have not classified such assets or liabilities as a discontinued operation in accordance with the provisions of FASB ASC 205-20.

The Company completed a one for two reverse stock split of its common stock in May 2008. All share amounts and earnings per share disclosures have been restated to reflect this reverse stock split.



## Significance of Estimates and Critical Accounting Policies

A summary of our critical accounting policies is included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008 and “Note 1 – Significant Accounting Policies” to the consolidated financial statements included therein. There have been no significant changes to those policies during 2009.

## Summary of Operations

**Net Interest Spread.** For the three and nine months ended September 30, 2009, our net income was dependent upon the net interest income (the interest income on portfolio assets net of the interest expense and hedging costs associated with such assets) generated from our portfolio of RMBS, CLO and mortgage loans held in securitization trusts. The net interest spread on our investment portfolio was 413 basis points for the quarter ended September 30, 2009, as compared to 361 basis points for the quarter ended June 30, 2009, and 136 basis points for the quarter ended September 30, 2008.

**Financing.** During the quarter ended September 30, 2009, we continued to employ a balanced and diverse funding mix to finance our assets. At September 30, 2009, our Agency RMBS portfolio was funded with approximately \$194.7 million of repurchase agreement borrowing, or approximately 35.4% of our total liabilities, at a weighted average interest rate of 0.39%. The Company’s average haircut on its repurchase borrowings was approximately 6.4% at September 30, 2009. As of September 30, 2009, the loans held in securitization trusts were permanently financed with approximately \$280.2 million of CDOs, or approximately 51.0% of our total liabilities, at an average interest rate of 0.63%. The Company has a net equity investment of \$10.7 million in the securitization trusts.

At September 30, 2009 our leverage ratio for our RMBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by the sum of stockholders’ equity and our convertible preferred debentures, was 2.5 to 1. Excluding the convertible preferred debentures, the leverage ratio for our RMBS investment portfolio was 3.3 to 1. Given the continued uncertainty in the credit markets, we believe that maintaining a maximum leverage ratio in the range of 6 to 8 times for our Agency RMBS portfolio and an overall Company leverage ratio of 4 to 5 times is appropriate at this time. To date, the Company has used cash from operating activities to purchase its alternative assets.

**Prepayment Experience.** The cumulative prepayment rate (“CPR”) on our overall mortgage portfolio averaged approximately 22.5% during the three months ended September 30, 2009, as compared to 21.4% for the three months ended June 30, 2009. CPRs on our purchased portfolio of RMBS averaged approximately 20.4% for the three months ended September 30, 2009, as compared to 20.2% for the three months ended June 30, 2009. The CPRs on our mortgage loans held in our securitization trusts averaged approximately 24.7% during the three months ended September 30, 2009, as compared to 22.3% for the three months ended June 30, 2009. 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. We monitor our prepayment experience on a monthly basis and adjust the amortization of our net premiums accordingly.

## Financial Condition

As of September 30, 2009, we had approximately \$608.1 million of total assets, as compared to approximately \$853.3 million of total assets as of December 31, 2008. The decrease in total assets resulted primarily from our sale of all CMO Agency floaters totaling approximately \$245.2 million.

## Balance Sheet Analysis - Asset Quality

Investment Securities - Available for Sale - The following tables set forth the credit characteristics of our securities portfolio as of September 30, 2009 and December 31, 2008 (dollar amounts in thousands):

| September 30,<br>2009  | Sponsor or Rating<br>S&P/Moodys/Fitch | Par<br>Value | Carrying<br>Value | % of<br>Portfolio | Coupon | Yield   |
|------------------------|---------------------------------------|--------------|-------------------|-------------------|--------|---------|
| Agency RMBS            | FNMA                                  | \$ 213,802   | \$ 224,889        | 79.6 %            | 5.14 % | 4.00%   |
| Non - Agency<br>RMBS   | AAA/Aaa                               | 2,398        | 1,870             | 0.7%              | 4.98 % | 11.38 % |
|                        | AA/Aa                                 | 15,677       | 12,970            | 4.6 %             | 1.70 % | 11.08 % |
|                        | A/A                                   | 4,040        | 3,260             | 1.2 %             | 1.51 % | 6.34 %  |
|                        | BBB/Baa                               | 609          | 451               | 0.1 %             | 4.15 % | 8.77 %  |
|                        | BB/Ba                                 | 1,273        | 976               | 0.3 %             | 5.02 % | 8.55 %  |
|                        | B/B                                   | 7,186        | 5,398             | 1.9 %             | 5.64 % | 9.72 %  |
|                        | CCC or Below                          | 29,006       | 19,460            | 6.9 %             | 5.24 % | 9.42 %  |
| CLO                    | BBB/Baa                               | 10,400       | 4,680             | 1.7 %             | 1.53 % | 12.43 % |
|                        | BB/Ba                                 | 15,300       | 4,590             | 1.6 %             | 2.83 % | 20.61 % |
|                        | B/B                                   | 20,250       | 4,050             | 1.4 %             | 5.43 % | 35.47 % |
| Total/Weighted average |                                       | \$ 319,941   | \$ 282,594        | 100.0 %           | 4.74 % | 5.76 %  |
| December 31,<br>2008   | Sponsor or Rating<br>S&P/Moodys/Fitch | Par<br>Value | Carrying<br>Value | % of<br>Portfolio | Coupon | Yield   |
| Agency RMBS            | FNMA/FHLMC                            | \$ 455,447   | \$ 455,871        | 95 %              | 3.67 % | 5.99 %  |
| Non - Agency<br>RMBS   | AAA/Aaa                               | 23,289       | 18,118            | 4 %               | 1.27 % | 15.85 % |
|                        | AA/Aa                                 | 609          | 530               | 0 %               | 1.22 % | 4.32 %  |
|                        | A/A                                   | 3,648        | 2,828             | 1 %               | 2.30 % | 4.08 %  |
|                        | CCC/Caa or Below                      | 2,058        | 69                | 0 %               | 5.67 % | 20.33 % |
|                        | Not Rated                             | 404          | —                 | 0 %               | 5.67 % | 0.00 %  |
| Total/Weighted average |                                       | \$ 485,455   | \$ 477,416        | 100 %             | 3.55 % | 6.51 %  |

Mortgage Loans Held in Securitization Trusts (net) - Included in our portfolio are ARM loans that we originated or purchased in bulk from third parties that met our investment criteria and portfolio requirements. These loans were initially classified as “mortgage loans held for investment” during a period of aggregation and until the portfolio reached a size sufficient for us to securitize such loans. Once the securitization of these loans qualified as a financing for GAAP purposes, the loans were then re-classified as “mortgage loans held in securitization trusts (net).”

New York Mortgage Trust 2006-1, qualified as a sale under GAAP, which resulted in the recording of residual assets and mortgage servicing rights. The Company sold all the residual assets related to the 2006-1 securitization during the third quarter ended September 30, 2009 incurring a realized loss of approximately \$32,000.

The following table details mortgage loans held in securitization trusts at September 30, 2009 (dollar amounts in thousands):

|                    | Par Value  | Coupon | Carrying Value | Yield |
|--------------------|------------|--------|----------------|-------|
| September 30, 2009 | \$ 291,423 | 5.05%  | \$ 290,940     | 5.41% |

At September 30, 2009, mortgage loans held in securitization trusts totaled approximately \$290.9 million, or 47.8% of our total assets. Of this mortgage loan investment portfolio, 100% are traditional ARMs or hybrid ARMs, 81.2% of which are ARM loans that are interest only. On our hybrid ARMs, interest rate reset periods are 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 mortgage loans held in securitization trusts are payment option-ARMs or ARMs with negative amortization.

The following table sets forth the composition of our portfolio of mortgage loans held in securitization trusts as of September 30, 2009 (dollar amounts in thousands):

Loans Held in Securitization Trusts:

|                                                     | Average | High     | Low   |
|-----------------------------------------------------|---------|----------|-------|
| General Loan Characteristics:                       |         |          |       |
| Original Loan Balance (dollar amounts in thousands) | \$ 453  | \$ 2,950 | \$ 48 |
| Coupon Rate                                         | 5.43%   | 7.50%    | 2.50% |
| Gross Margin                                        | 2.37%   | 5.00%    | 1.13% |
| Lifetime Cap                                        | 11.24%  | 13.25%   | 9.13% |
| Original Term (Months)                              | 360     | 360      | 360   |
| Remaining Term (Months)                             | 307     | 315      | 274   |
| Average Months to Reset                             | 10      | 18       | 1     |
| Original Average FICO Score                         | 733     | 820      | 593   |
| Original Average LTV                                | 70.19   | 95.00    | 13.94 |

Index / Reset Characteristics:

|                               | Index Type | Weighted<br>Average Gross<br>Margin (%) |
|-------------------------------|------------|-----------------------------------------|
| General Loan Characteristics: |            |                                         |
| One Month Libor               | 2.9%       | 1.67%                                   |
| Six Month Libor               | 71.7%      | 2.41%                                   |
| One Year Libor                | 16.3%      | 2.27%                                   |
| One Year CMT                  | 9.1%       | 2.66%                                   |
| Total / Weighted Average      | 100.0%     | 2.39%                                   |

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The following table details loan summary information for loans held in securitization trusts at September 30, 2009 (dollar amounts in thousands).

| Property Type | Description |     | Interest Rate % |      |      | Final Maturity |       | Periodic Payment Terms (months) | Prior Liens | Face Amount of Mortgage | Carrying Amount of Mortgage | Principal Amount of Loans Subject to Delinquent Principal or Interest |
|---------------|-------------|-----|-----------------|------|------|----------------|-------|---------------------------------|-------------|-------------------------|-----------------------------|-----------------------------------------------------------------------|
|               |             |     |                 |      |      |                |       |                                 |             |                         |                             |                                                                       |
| Single Family | <= \$100    | 12  | 5.88            | 3.38 | 4.19 | 01/34          | 01/35 | 360                             | NA          | 1,874                   | \$ 846                      | \$ -                                                                  |
|               | <= \$250    | 75  | 7.25            | 3.88 | 5.07 | 01/32          | 01/35 | 360                             | NA          | 15,106                  | 13,407                      | 287                                                                   |
|               | <= \$500    | 125 | 7.13            | 2.75 | 5.14 | 01/01          | 01/36 | 360                             | NA          | 46,851                  | 43,653                      | 3,556                                                                 |
|               | <= \$1,000  | 53  | 6.38            | 1.63 | 5.07 | 01/32          | 01/35 | 360                             | NA          | 40,324                  | 38,326                      | 3,169                                                                 |
|               | > \$1,000   | 26  | 6.25            | 1.50 | 5.05 | 01/01          | 01/36 | 360                             | NA          | 45,082                  | 44,434                      | 6,247                                                                 |
|               | Summary     | 291 | 7.25            | 1.50 | 5.08 | 01/01          | 01/36 | 360                             | NA          | 149,237                 | \$ 140,666                  | \$ 13,259                                                             |
| 2-4 FAMILY    | <= \$100    | 1   | 6.63            | 6.63 | 6.63 | 01/01          | 01/35 | 360                             | NA          | 80                      | \$ 75                       | \$ 76                                                                 |
|               | <= \$250    | 6   | 6.75            | 4.38 | 5.17 | 01/04          | 01/35 | 360                             | NA          | 1,115                   | 1,001                       | -                                                                     |
|               | <= \$500    | 18  | 7.25            | 2.13 | 5.00 | 01/04          | 01/36 | 360                             | NA          | 6,522                   | 6,290                       | 513                                                                   |
|               | <= \$1,000  | 4   | 6.88            | 4.63 | 5.16 | 01/08          | 01/35 | 360                             | NA          | 3,068                   | 3,042                       | -                                                                     |
|               | > \$1,000   | -   | -               | -    | -    | -              | -     | 360                             | NA          | -                       | -                           | -                                                                     |
|               | Summary     | 29  | 7.25            | 2.13 | 5.05 | 01/04          | 01/36 | 360                             | NA          | 10,785                  | \$ 10,408                   | \$ 589                                                                |
| Condo         | <= \$100    | 17  | 6.38            | 4.00 | 5.08 | 01/32          | 01/35 | 360                             | NA          | 2,812                   | \$ 1,258                    | \$ -                                                                  |
|               | <= \$250    | 87  | 6.50            | 3.25 | 5.08 | 01/01          | 01/36 | 360                             | NA          | 16,788                  | 15,576                      | 723                                                                   |
|               | <= \$500    | 77  | 6.88            | 1.50 | 5.09 | 01/32          | 01/35 | 360                             | NA          | 26,485                  | 25,473                      | 649                                                                   |
|               | <= \$1,000  | 29  | 6.13            | 1.63 | 5.08 | 01/31          | 01/35 | 360                             | NA          | 20,717                  | 19,796                      | 546                                                                   |
|               | > \$1,000   | 13  | 6.13            | 4.88 | 5.09 | 01/09          | 01/35 | 360                             | NA          | 20,373                  | 19,690                      | -                                                                     |
|               | Summary     | 223 | 6.88            | 1.50 | 5.08 | 01/01          | 01/36 | 360                             | NA          | 87,175                  | \$ 81,793                   | \$ 1,918                                                              |
| CO-OP         | <= \$100    | 4   | 5.50            | 4.63 | 5.10 | 01/32          | 01/35 | 360                             | NA          | 1,350                   | \$ 222                      | \$ -                                                                  |
|               | <= \$250    | 24  | 6.25            | 4.00 | 5.12 | 01/32          | 01/35 | 360                             | NA          | 4,710                   | 4,273                       | 212                                                                   |
|               | <= \$500    | 35  | 6.38            | 1.38 | 5.08 | 01/32          | 01/35 | 360                             | NA          | 14,317                  | 13,003                      | -                                                                     |
|               | <= \$1,000  | 19  | 5.63            | 4.75 | 5.13 | 01/34          | 01/35 | 360                             | NA          | 13,252                  | 12,909                      | -                                                                     |
|               | > \$1,000   | 5   | 6.00            | 2.25 | 4.17 | 01/32          | 01/35 | 360                             | NA          | 7,544                   | 7,008                       | -                                                                     |
|               | Summary     | 87  | 6.38            | 1.38 | 5.08 | 01/32          | 01/35 | 360                             | NA          | 41,173                  | \$ 37,415                   | \$ 212                                                                |
| PUD           | <= \$100    | 2   | 5.63            | 5.25 | 5.07 | 01/01          | 01/35 | 360                             | NA          | 438                     | \$ 99                       | \$ -                                                                  |
|               | <= \$250    | 22  | 6.50            | 2.75 | 5.08 | 01/32          | 01/35 | 360                             | NA          | 4,795                   | 4,179                       | 183                                                                   |
|               | <= \$500    | 21  | 6.88            | 2.75 | 5.08 | 01/32          | 01/35 | 360                             | NA          | 7,409                   | 7,127                       | 279                                                                   |
|               | <= \$1,000  | 7   | 5.88            | 4.14 | 5.05 | 01/32          | 01/35 | 360                             | NA          | 4,746                   | 4,555                       | -                                                                     |
|               | > \$1,000   | 4   | 6.13            | 4.22 | 5.04 | 01/32          | 01/35 | 360                             | NA          | 5,233                   | 5,181                       | -                                                                     |
|               | Summary     | 56  | 6.88            | 2.75 | 5.08 | 01/01          | 01/36 | 360                             | NA          | 22,621                  | \$ 21,141                   | \$ 462                                                                |
| Summary       | <= \$100    | 36  | 6.63            | 3.38 | 5.10 | 01/32          | 01/35 | 360                             | NA          | 6,554                   | \$ 2,500                    | \$ 76                                                                 |
|               | <= \$250    | 214 | 7.25            | 2.75 | 5.08 | 01/01          | 01/36 | 360                             | NA          | 42,514                  | 38,436                      | 1,405                                                                 |
|               | <= \$500    | 276 | 7.25            | 1.38 | 5.08 | 01/01          | 01/36 | 360                             | NA          | 101,584                 | 95,546                      | 4,997                                                                 |
|               | <= \$1,000  | 112 | 6.88            | 1.63 | 5.07 | 01/32          | 01/35 | 360                             | NA          | 82,107                  | 78,628                      | 3,715                                                                 |
|               | > \$1,000   | 48  | 6.25            | 1.50 | 5.04 | 01/04          | 01/36 | 360                             | NA          | 78,232                  | 76,313                      | 6,247                                                                 |
| Grand Total   |             | 686 | 7.25            | 1.38 | 5.08 | 01/01          | 01/36 | 360                             | NA          | 310,991                 | \$ 291,423                  | \$ 16,440                                                             |



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The following table details activity for loans held in securitization trusts for the nine months ended September 30, 2009.

|                             | Current Principal | Premium  | Loan Reserve | Net Carrying Value |
|-----------------------------|-------------------|----------|--------------|--------------------|
| Balance, January 1, 2009    | \$ 347,546        | \$ 2,197 | \$ (1,406)   | \$ 348,337         |
| Additions                   | —                 | —        | —            | —                  |
| Principal repayments        | (56,123)          | —        | —            | (56,123)           |
| Provision for loan losses   | —                 | —        | (1,414)      | (1,414)            |
| Charge-offs                 | —                 | —        | 497          | 497                |
| Amortization for premium    | —                 | (357)    | —            | (357)              |
| Balance, September 30, 2009 | \$ 291,423        | \$ 1,840 | \$ (2,323)   | \$ 290,940         |

Cash and cash equivalents - We had unrestricted cash and cash equivalents of \$22.4 million at September 30, 2009 versus \$9.4 million at December 31, 2008.

Restricted Cash - Restricted cash of \$3.4 million at September 30, 2009 includes \$3.2 million held by counterparties as collateral for hedging instruments and \$0.2 million as collateral for a letter of credit related to the Company's lease of its corporate headquarters. Restricted cash of \$8.0 million at December 31, 2008 includes \$7.7 million held by counterparties as collateral for hedging instruments and a repurchase agreement and \$0.3 million held as collateral for two letters of credit related to the Company's lease of office space, including its corporate headquarters.

Accounts and accrued interest receivable - Accounts and accrued interest receivable includes accrued interest receivable for the investment securities and mortgage loans held in securitization trusts.

Prepaid and other assets - Prepaid and other assets totaled \$1.6 million as of September 30, 2009 and \$1.2 million as of December 31, 2008. Prepaid and other assets consist mainly of \$0.5 million of capitalization expenses related to equity and bond issuance cost, \$0.5 million related to insurance costs and \$0.2 million of capitalized servicing costs.

### Assets Related to Discontinued Operation:

Mortgage Loans Held for Sale (net) - Mortgage loans that we have originated but do not intend to hold for investment and are held pending sale to investors are classified as mortgage loans held for sale. We had mortgage loans held for sale (net) of \$4.1 million at September 30, 2009 as compared to \$5.4 million at December 31, 2008.

### Balance Sheet Analysis - Financing Arrangements

Financing Arrangements, Portfolio Investments - As of September 30, 2009 and December 31 2008, there were approximately \$194.7 million and \$402.3 million of repurchase borrowings outstanding, respectively. Our repurchase agreements typically have terms of 30 days or less. As of September 30, 2009, the current weighted average borrowing rate on these financing facilities was 0.39% as compared to 2.62% as of December 31, 2008.

Collateralized Debt Obligations - As of September 30, 2009 and December 31, 2008, we have CDOs outstanding of approximately \$280.2 million and \$335.6 million, respectively, with an average interest rate of 0.63% and 0.85%, respectively.

Subordinated Debentures - As of September 30, 2009, we have trust preferred securities outstanding of \$44.8 million with an average interest rate of 6.13%. As of December 31, 2008, we had trust preferred securities outstanding of \$44.6 million with an average interest rate of 6.61%. The securities 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 our consolidated balance sheet.



**Convertible Preferred Debentures** - As of September 30, 2009 and December 31, 2008, there were 1.0 million shares of our Series A Preferred Stock outstanding with an aggregate redemption value of \$20.0 million. The Series A Preferred Stock entitles the holders to receive a cumulative dividend of 10% per year, subject to an increase to the extent any future quarterly common stock dividends exceed \$0.20 per share. The Company declared a 2009 third quarter common stock dividend of \$0.25 resulting in an increase in the Series A Preferred Stock dividend rate for the 2009 third quarter to 12.5% (per annum). The Series A Preferred Stock is convertible into shares of our common stock based on a conversion price of \$8.00 per share of common stock, which represents a conversion rate of two and one-half (2 1/2) shares of common stock for each share of Series A Preferred Stock. The Series A Preferred Stock matures on December 31, 2010, at which time any outstanding shares must be redeemed by us at the \$20.00 per share liquidation preference. Pursuant to GAAP, because of this mandatory redemption feature, we classify these securities as convertible preferred debentures in the liability section of our balance sheet.

**Derivative Assets and Liabilities** - We generally attempt to hedge only the risk related to changes in the interest rates, usually a London LIBOR or a U.S. Treasury rate.

In order to mitigate these risks, we enter into interest rate swap agreements whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to a fixed rate. We also enter into interest rate cap agreements whereby, in exchange for a fee, we are reimbursed for interest paid in excess of a contractually specified capped rate.

Derivative financial instruments 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. The Company regularly monitors the potential risk of loss with any one party resulting from this type of credit risk. In addition, the Company has in place with all outstanding swap counterparties bi-lateral margin agreements thereby 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. Accordingly, we do not expect any material losses as a result of default by other parties.

We enter into derivative transactions solely for risk management purposes and not for speculation. The decision of whether or not a given transaction (or portion thereof) is hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including the financial impact on income and asset valuation and the restrictions imposed on REIT hedging activities by the Internal Revenue Code, among others. In determining whether to hedge a risk, we may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as a hedge are entered into with a view towards minimizing the potential for economic losses that could be incurred by us. Generally, all derivatives entered into are intended to qualify as cashflow hedges in accordance with GAAP, unless specifically precluded. To this end, the terms of the hedges are matched closely to the terms of the hedged items to minimize ineffectiveness. We closely monitor the hedge's effectiveness and record the related ineffectiveness into earnings.

The following table summarizes the estimated fair value of derivative assets and liabilities as of September 30, 2009 and December 31, 2008 (dollar amounts in thousands):

|                                | September 30,<br>2009 | December 31,<br>2008 |
|--------------------------------|-----------------------|----------------------|
| <b>Derivative Assets:</b>      |                       |                      |
| Interest rate caps             | \$ 15                 | \$ 22                |
| <b>Total</b>                   | <b>\$ 15</b>          | <b>\$ 22</b>         |
| <b>Derivative Liabilities:</b> |                       |                      |
| Interest rate swaps            | \$ 3,025              | \$ 4,194             |
| <b>Total</b>                   | <b>\$ 3,025</b>       | <b>\$ 4,194</b>      |

Balance Sheet Analysis - Stockholders' Equity

Stockholders' equity at September 30, 2009 was \$58.1 million and included \$12.5 million of net unrealized gains on available for sale securities and a \$3.7 million unrealized loss related to cashflow hedges presented as accumulated other comprehensive income/(loss).

## Results of Operations

## Overview of Performance

For the three and nine months ended September 30, 2009 we reported net income of \$2.9 million and \$7.5 million, respectively, as compared to net income of \$1.0 million and a net loss of \$19.0 million, for the same periods in 2008.

The main components of the change in net income (loss) for the three and nine months ended September 30, 2009 as compared to the same period for the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

|                                                                                        | For the Three months<br>Ended September 30, |          |            | For the Nine months<br>Ended September 30, |             |            |
|----------------------------------------------------------------------------------------|---------------------------------------------|----------|------------|--------------------------------------------|-------------|------------|
|                                                                                        | 2009                                        | 2008     | Difference | 2009                                       | 2008        | Difference |
| Net interest income from investment securities and loans held in securitization trusts | \$ 6,130                                    | \$ 3,632 | \$ 2,498   | \$ 17,159                                  | \$ 10,335   | \$ 6,824   |
| Net interest income                                                                    | 4,683                                       | 2,182    | 2,501      | 12,935                                     | 5,955       | 6,980      |
| Provision for loan losses                                                              | (526)                                       | (7)      | (519)      | (1,414)                                    | (1,462)     | 48         |
| Impairment loss on investment securities                                               | —                                           | —        | —          | (119)                                      | —           | (119)      |
| Realized gain (loss) on securities and related hedges                                  | 359                                         | 4        | 355        | 623                                        | (19,927)    | 20,550     |
| Total expenses                                                                         | 1,875                                       | 1,435    | 441        | 5,047                                      | 4,826       | 221        |
| Income (loss) from continuing operations                                               | 2,641                                       | 744      | 1,896      | 6,978                                      | (20,260)    | 27,238     |
| Income from discontinued operation - net of tax                                        | 236                                         | 285      | (49)       | 500                                        | 1,294       | (794)      |
| Net income (loss)                                                                      | \$ 2,877                                    | \$ 1,029 | \$ 1,847   | \$ 7,478                                   | \$ (18,966) | \$ 26,444  |
| Basic income (loss) per common share                                                   | \$ 0.31                                     | \$ 0.11  | \$ 0.20    | \$ 0.80                                    | \$ (2.39)   | \$ 3.19    |
| Diluted income (loss) per common share                                                 | \$ 0.30                                     | \$ 0.16  | \$ 0.19    | \$ 0.78                                    | \$ (2.39)   | \$ 3.17    |

The increase in net income of \$1.8 million for the quarter ended September 30, 2009 as compared to the same period in the previous year was due mainly to a \$2.5 million increase in net interest margin on the investment portfolio and on the loans held in securitization trusts. The improved net interest margin was offset by an increase in provision for loan losses of \$0.5 million. The improved net interest margin for our portfolio was due primarily to the transition out of lower yielding Agency CMO floaters in March and April of 2009 and into higher yielding non-agency RMBS, and to a lesser extent, a CLO. In addition, improved borrowing costs for the Company's repurchase agreements and collateralized debt obligations contributed to the improved results.

The \$26.4 million improvement in net income for the nine months ended September 30, 2009 as compared to the prior year period was due primarily to significantly improved operating conditions and a lower interest rate environment. Lower interest rates and a portfolio restructuring during the nine months ended September 30, 2009 resulted in a \$7.0 million improvement in net interest margin as compared to the nine months ended September 30, 2008. The large realized loss recorded in 2008 was primarily a result of the March 2008 market disruption and the

Company's response to such disruption. The Company sold an aggregate of \$592.8 million of Agency RMBS in its portfolio during March 2008 in an effort to reduce its leverage and improve its liquidity position in response to the market disruption, and incurred a loss of \$15.0 million. In addition, the Company terminated a total of \$517.7 million of notional interest rate swaps in the quarter ended March 31, 2008, resulting in a realized loss of \$4.8 million.

## Comparative Net Interest Income

Our results of operations for our investment portfolio during a given period typically reflect the net interest spread earned on our investment portfolio of Agency RMBS, non-Agency RBMS, loans held in securitization trusts, and to a lesser extent, CLOs. The net interest spread is impacted by factors such as our cost of financing, the interest rate our investments are earning and our interest 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. The following tables set forth the changes in net interest income, yields earned on securities and mortgage loans and rates on financial arrangements for the three and nine months ended September 30, 2009 and 2008 (dollar amounts in thousands, except as noted):

| For the Three Months Ended September 30,                                |                                     |          |                |                                     |           |                |
|-------------------------------------------------------------------------|-------------------------------------|----------|----------------|-------------------------------------|-----------|----------------|
|                                                                         | 2009                                |          |                | 2008                                |           |                |
|                                                                         | Average<br>Balance<br>(\$ Millions) | Amount   | Yield/<br>Rate | Average<br>Balance<br>(\$ Millions) | Amount    | Yield/<br>Rate |
| <b>Interest income:</b>                                                 |                                     |          |                |                                     |           |                |
| Investment securities and<br>loans held in the<br>securitization trusts | \$ 610.3                            | \$ 7,594 | 4.98%          | \$ 872.5                            | \$ 10,517 | 4.82%          |
| Amortization of net<br>premium                                          | (39.3)                              | 400      | 0.62%          | 1.9                                 | (193)     | (0.10)%        |
| Interest income/weighted<br>average                                     | \$ 571.0                            | \$ 7,994 | 5.60%          | \$ 874.4                            | \$ 10,324 | 4.72%          |
| <b>Interest expense:</b>                                                |                                     |          |                |                                     |           |                |
| Investment securities and<br>loans held in the<br>securitization trusts | \$ 495.9                            | \$ 1,864 | 1.47%          | \$ 779.9                            | \$ 6,692  | 3.36%          |
| Subordinated debentures                                                 | 45.0                                | 785      | 6.83%          | 45.0                                | 913       | 7.94%          |
| Convertible preferred<br>debentures                                     | 20.0                                | 662      | 12.95%         | 20.0                                | 537       | 10.51%         |
| Interest expense/weighted<br>average                                    | \$ 560.9                            | \$ 3,311 | 2.31%          | \$ 844.9                            | \$ 8,142  | 3.77%          |
| <b>Net interest<br/>income/weighted average</b>                         |                                     | \$ 4,683 | 3.29%          |                                     | \$ 2,182  | 0.95%          |

| For the Nine Months Ended September 30,                                 |                                     |           |                |                                     |           |                |
|-------------------------------------------------------------------------|-------------------------------------|-----------|----------------|-------------------------------------|-----------|----------------|
|                                                                         | 2009                                |           |                | 2008                                |           |                |
|                                                                         | Average<br>Balance<br>(\$ Millions) | Amount    | Yield/<br>Rate | Average<br>Balance<br>(\$ Millions) | Amount    | Yield/<br>Rate |
| <b>Interest income:</b>                                                 |                                     |           |                |                                     |           |                |
| Investment securities and<br>loans held in the<br>securitization trusts | \$ 679.3                            | \$ 23,849 | 4.68%          | \$ 929.8                            | \$ 34,775 | 4.99%          |
| Amortization of net<br>premium                                          | (23.1)                              | 351       | 0.24%          | 1.1                                 | (443)     | (0.07)%        |
|                                                                         | \$ 656.2                            | \$ 24,200 | 4.92%          | \$ 930.9                            | \$ 34,332 | 4.92%          |

Interest income/weighted  
average

Interest expense:

|                                                                         |    |       |    |        |        |    |       |    |        |        |
|-------------------------------------------------------------------------|----|-------|----|--------|--------|----|-------|----|--------|--------|
| Investment securities and<br>loans held in the<br>securitization trusts | \$ | 577.5 | \$ | 7,041  | 1.60%  | \$ | 846.0 | \$ | 23,997 | 3.73%  |
| Subordinated debentures                                                 |    | 45.0  |    | 2,417  | 7.06%  |    | 45.0  |    | 2,768  | 8.08%  |
| Convertible preferred<br>debentures                                     |    | 20.0  |    | 1,807  | 11.87% |    | 20.0  |    | 1,612  | 10.59% |
| Interest expense/weighted<br>average                                    | \$ | 642.5 | \$ | 11,265 | 2.30%  | \$ | 911.0 | \$ | 28,377 | 4.09%  |
| Net interest<br>income/weighted average                                 |    |       | \$ | 12,935 | 2.62%  |    |       | \$ | 5,995  | 0.83%  |

37

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The following table sets forth, among other things, the net interest spread, since inception, for our portfolio of investment securities available for sale, mortgage loans held for investment and mortgage loans held in securitization trusts, excluding the costs of our subordinated debentures and convertible preferred debentures.

| Quarter Ended      | Average<br>Interest<br>Earning<br>Assets<br>(\$ millions) | Weighted<br>Average<br>Coupon | Weighted<br>Average<br>Cash Yield<br>on Interest<br>Earning<br>Assets | Cost of<br>Funds | Net Interest<br>Spread | Constant<br>Prepayment<br>Rate<br>(CPR) |
|--------------------|-----------------------------------------------------------|-------------------------------|-----------------------------------------------------------------------|------------------|------------------------|-----------------------------------------|
| September 30, 2009 | \$ 571.0                                                  | 4.98 %                        | 5.60 %                                                                | 1.47 %           | 4.13 %                 | 22.5 %                                  |
| June 30, 2009      | \$ 600.5                                                  | 4.99 %                        | 5.09 %                                                                | 1.48 %           | 3.61 %                 | 21.4 %                                  |
| March 31, 2009     | \$ 797.2                                                  | 4.22 %                        | 4.31 %                                                                | 1.79 %           | 2.52 %                 | 12.3 %                                  |
| December 31, 2008  | \$ 841.7                                                  | 4.77 %                        | 4.65 %                                                                | 3.34 %           | 1.31 %                 | 9.2 %                                   |
| September 30, 2008 | \$ 874.5                                                  | 4.81 %                        | 4.72 %                                                                | 3.36 %           | 1.36 %                 | 13.8 %                                  |
| June 30, 2008      | \$ 899.3                                                  | 4.86 %                        | 4.78 %                                                                | 3.35 %           | 1.43 %                 | 14.0 %                                  |
| March 31, 2008     | \$ 1,019.2                                                | 5.24 %                        | 5.20 %                                                                | 4.35 %           | 0.85 %                 | 13.0 %                                  |
| December 31, 2007  | \$ 799.2                                                  | 5.90 %                        | 5.79 %                                                                | 5.33 %           | 0.46 %                 | 19.0 %                                  |
| September 30, 2007 | \$ 865.7                                                  | 5.93 %                        | 5.72 %                                                                | 5.38 %           | 0.34 %                 | 21.0 %                                  |
| June 30, 2007      | \$ 948.6                                                  | 5.66 %                        | 5.55 %                                                                | 5.43 %           | 0.12 %                 | 21.0 %                                  |
| March 31, 2007     | \$ 1,022.7                                                | 5.59 %                        | 5.36 %                                                                | 5.34 %           | 0.02 %                 | 19.2 %                                  |
| December 31, 2006  | \$ 1,111.0                                                | 5.53 %                        | 5.35 %                                                                | 5.26 %           | 0.09 %                 | 17.2 %                                  |
| September 30, 2006 | \$ 1,287.6                                                | 5.50 %                        | 5.28 %                                                                | 5.12 %           | 0.16 %                 | 20.7 %                                  |
| June 30, 2006      | \$ 1,217.9                                                | 5.29 %                        | 5.08 %                                                                | 4.30 %           | 0.78 %                 | 19.8 %                                  |
| March 31, 2006     | \$ 1,478.6                                                | 4.85 %                        | 4.75 %                                                                | 4.04 %           | 0.71 %                 | 18.7 %                                  |
| December 31, 2005  | \$ 1,499.0                                                | 4.84 %                        | 4.43 %                                                                | 3.81 %           | 0.62 %                 | 26.9 %                                  |
| September 30, 2005 | \$ 1,494.0                                                | 4.69 %                        | 4.08 %                                                                | 3.38 %           | 0.70 %                 | 29.7 %                                  |
| June 30, 2005      | \$ 1,590.0                                                | 4.50 %                        | 4.06 %                                                                | 3.06 %           | 1.00 %                 | 30.5 %                                  |
| March 31, 2005     | \$ 1,477.9                                                | 4.39 %                        | 4.01 %                                                                | 2.86 %           | 1.15 %                 | 29.2 %                                  |
| December 31, 2004  | \$ 1,325.7                                                | 4.29 %                        | 3.84 %                                                                | 2.58 %           | 1.26 %                 | 23.7 %                                  |
| September 30, 2004 | \$ 776.5                                                  | 4.04 %                        | 3.86 %                                                                | 2.45 %           | 1.41 %                 | 16.0 %                                  |

Comparative Expenses (dollar amounts in thousands)

| Expenses:             | For the Three Months Ended<br>September 30, |          |  | % Change | For the Nine Months Ended<br>September 30, |          |  | % Change |
|-----------------------|---------------------------------------------|----------|--|----------|--------------------------------------------|----------|--|----------|
|                       | 2009                                        | 2008     |  |          | 2009                                       | 2008     |  |          |
| Salaries and benefits | \$ 473                                      | \$ 258   |  | 83.3 %   | \$ 1,486                                   | \$ 988   |  | 50.4 %   |
| Professional fees     | 323                                         | 367      |  | (12.0)%  | 1,021                                      | 1,065    |  | (4.1) %  |
| Management fees       | 508                                         | 186      |  | 173.1 %  | 935                                        | 479      |  | 95.2 %   |
| Insurance             | 171                                         | 275      |  | (37.8)%  | 358                                        | 668      |  | (46.4) % |
| Other                 | 400                                         | 349      |  | 14.6 %   | 1,247                                      | 1,626    |  | (23.3) % |
| Total Expenses        | \$ 1,875                                    | \$ 1,435 |  | 30.7 %   | \$ 5,047                                   | \$ 4,826 |  | 4.6 %    |

The increase in expenses of approximately \$0.4 million for the three months ended September 30, 2009 as compared to the same period in 2008 is primarily due to \$0.2 million in compensation related to a performance based incentive accrual and a \$0.3 million increase in incentive based management fees. The \$0.5 million increase in salaries and benefits for the nine months ended September 30, 2009 is due to higher incentive based compensation accruals. In addition, the management fees increase of \$0.5 million is due to incentive fees under the advisory agreement, based on performance. These increases in expenses during the nine months ended September 30, 2009 were partially offset by

lower insurance costs and reduced other expenses. Other expenses during the nine months ended September 30, 2008 included a non-recurring penalty fees totaling approximately \$0.7 million that was paid to investors in the Company's February 2008 private placement of common stock.

## Off-Balance Sheet Arrangements

Since inception, we have not maintained 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. Accordingly, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

## 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, fund our operations, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available for our operating businesses and meet these potential cash requirements. Our investments and assets generate liquidity on an ongoing basis through mortgage principal and interest payments, prepayments and net earnings held prior to payment of dividends. In addition, depending on market conditions, the sale of investment securities or capital market transactions may provide additional liquidity. We intend to meet our liquidity needs through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds. At September 30, 2009, we had cash balances of \$22.4 million, \$60.9 million in unencumbered RMBS securities, including \$16.6 million in Agency RMBS, and borrowings of \$194.7 million under outstanding repurchase agreements. At September 30, 2009, we also utilized longer-term capital resources, including CDOs outstanding of \$280.2 million, subordinated debt of \$44.8 million (in the form of trust preferred securities) and \$19.8 million of convertible preferred debentures. Based on our current investment portfolio, leverage ratio and available 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.

To finance our RMBS investment portfolio, we generally seek to borrow between six and eight times the amount of our equity. At September 30, 2009, our leverage ratio for our RMBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by the sum of total stockholders' equity and the convertible preferred debentures, was 2.5:1; excluding the convertible preferred debentures our leverage ratio was 3.3:1. As of September 30, 2009, our investment in CLO and non-Agency RMBS was unlevered. Given the continued uncertainty in the global credit markets and economy, we believe it is prudent and appropriate to currently employ leverage at a level below our targeted leverage range.

We had outstanding repurchase agreements, a form of collateralized short-term borrowing, with five different financial institutions as of September 30, 2009. These agreements are secured by our RMBS 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 RMBS portfolio. Interest rate changes 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, on minimal notice. Moreover, in the event an existing counterparty elected to not reset 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 mortgage-backed 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 or sell it at a distressed price, we could incur a significant loss.

We enter into interest rate swap agreements as a mechanism to reduce the interest rate risk of the RMBS portfolio. At September 30, 2009, we had \$113.9 million in notional interest rate swaps outstanding. Should market rates for similar term interest rate swaps drop below the fixed rates we have agreed to on our interest rate swaps, we will be required to post additional margin to the swap counterparty, reducing available liquidity. The weighted average maturity of the swaps was 2.8 years at September 30, 2009.

We also own approximately \$4.1 million of loans held for sale. Our inability to sell these loans at all or on favorable terms could adversely affect our profitability as any sale for less than the current reserved balance would result in a loss. Currently, these loans are not financed or pledged.

As it relates to loans sold previously under certain loan sale agreements by our discontinued mortgage lending business, we may be required to repurchase some of those loans or indemnify the loan purchaser for damages caused by a breach of the loan sale agreement. While in the past we complied with the repurchase demands by repurchasing the loan with cash and reselling it at a loss, thus reducing our cash position; since December 31, 2007, we have addressed these requests by attempting to negotiate a net cash settlement based on the actual or assumed loss on the loan in lieu of repurchasing the loans. The Company periodically receives repurchase requests, each of which management reviews to determine, based on management's experience, whether such request may reasonably be deemed to have merit. As of September 30, 2009, the amount of repurchase requests outstanding was approximately \$1.5 million, against which we had a reserve of approximately \$0.3 million. We cannot assure you that we will be successful in settling the remaining repurchase demands on favorable terms, or at all. If we are unable to continue to resolve our current repurchase demands through negotiated net cash settlements, our liquidity could be adversely affected. In addition, we may be subject to new repurchase requests from investors with whom we have not settled or with respect to repurchase obligations not covered under the settlement.

We paid a fourth quarter 2008 cash dividend of \$0.10 in January 2009, a first quarter 2009 cash dividend of \$0.18 per common share in April 2009, a second quarter 2009 dividend of \$0.23 per common share in July 2009 and a third quarter 2009 cash dividend of \$0.25 per common share in October 2009 the third quarter 2009 dividend was paid to common stockholders of record as of October 13, 2009.

On January 31, 2009 we paid the 2008 fourth quarter \$0.50 per share cash dividend, or \$0.5 million in the aggregate, on shares of the Series A Preferred Stock to holders of record on December 31, 2008. On April 30, 2009, we paid a \$0.50 per share cash dividend, or \$0.5 million in the aggregate, on shares of our Series A Preferred Stock to holders of record as of March 31, 2009. On July 30, 2009, we paid a \$0.575 per share cash dividend, or \$0.6 million in the aggregate, on shares of our Series A Preferred Stock to holders of record as of June 30, 2009 and on October 30, 2009, we paid a \$0.625 per share cash dividend, or \$0.6 million in the aggregate, on shares of our Series A Preferred Stock to holders of record as of September 30, 2009. As described above, pursuant to the terms of the Series A Preferred Stock, we are required to increase the quarterly dividend on the Series A Preferred Stock, on a pro rata basis, to the extent our future quarterly common stock dividends exceed \$0.20 per share.

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, which only occurs when our board of directors declares a dividend.

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 avoid corporate income tax and the nondeductible excise tax.

#### Advisory Agreement

On January 18, 2008, we entered into an advisory agreement with HCS, pursuant to which HCS will advise, manage and make investments on behalf the Managed Subsidiaries. Pursuant to the advisory agreement, HCS is entitled to receive the following compensation:

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base advisory fee equal to 1.50% per annum of the “equity capital” (as defined in advisory agreement) of the Managed Subsidiaries is payable by us to HCS in cash, quarterly in arrears; and

- incentive compensation 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 will be 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.

If we terminate the advisory agreement (other than for cause) or elect not to renew it, we will be required to pay JMPAM a cash termination fee equal to the sum of (i) the average annual base advisory fee and (ii) the average annual incentive compensation earned during the 24-month period immediately preceding the date of termination.

For the three and nine months ended September 30, 2009, we paid HCS a base advisory fee of \$0.2 million and \$0.6 million, respectively, and incentive compensation of \$0.3 million and \$0.3 million, respectively.

#### 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.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. Because we are invested solely in U.S.-dollar denominated instruments, primarily residential mortgage instruments, and our borrowings are also domestic and U.S. dollar denominated, we are not subject to foreign currency exchange, or commodity and equity price risk; the primary market risk that we are exposed to is interest rate risk and its related ancillary risks. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. 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
- Market (fair value) risk

#### 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 our RMBS and ARM loans we manage and hold in our investment portfolio, the variable-rate borrowings we use to finance our portfolio, and the interest rate swaps and caps we use to hedge our portfolio. All of our portfolio interest market risk sensitive assets, liabilities and related derivative positions are managed with a long term perspective and are not for trading purposes.

Interest rate risk is measured by the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows, especially the speed at which prepayments occur on our residential mortgage related assets. Changes in interest rates can affect our net interest income, which is the difference between the interest income earned on assets and our interest expense incurred in connection with our borrowings.

Our adjustable-rate hybrid ARM assets reset on various dates that are not matched to the reset dates on our repurchase agreements. In general, the repricing of our repurchase agreements occurs more quickly than the repricing of our assets. First, our floating rate borrowings may react to changes in interest rates before our adjustable rate assets because the weighted average next re-pricing dates on the related borrowings may have shorter time periods than that of the adjustable rate assets. Second, interest rates on adjustable rate assets 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. Third, our adjustable rate assets typically lag changes in the applicable interest rate indices by 45 days due to the notice period provided to adjustable rate borrowers when the interest rates on their loans are scheduled to change.

We seek to manage interest rate risk in the portfolio by utilizing interest rate swaps, caps and Eurodollar futures, 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 such that the net duration of the assets, our borrowed funds related to such assets, and related hedging instruments, are less than one year.

Interest rates can also affect our net return on hybrid ARM securities and loans net of the cost of financing hybrid ARMs. We continually monitor and estimate the duration of our hybrid ARMs and have a policy to hedge the financing of the hybrid ARMs such that the net duration of the hybrid ARMs, our borrowed funds related to such assets, and related hedging instruments are less than one year. During a declining interest rate environment, the prepayment of hybrid ARMs may accelerate (as borrowers may opt to refinance at a lower rate) causing the amount of liabilities that have been extended by the use of interest rate swaps to increase relative to the amount of hybrid ARMs, possibly resulting in a decline in our net return on hybrid ARMs as replacement hybrid ARMs may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, hybrid ARMs may prepay slower than expected, requiring us to finance a higher amount of hybrid ARMs than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on hybrid ARMs. Our exposure to changes in the prepayment speeds of hybrid ARMs is mitigated by regular monitoring of the outstanding balance of hybrid ARMs, and adjusting the amounts anticipated to be outstanding in future periods and, on a regular basis, making adjustments to the amount of our fixed-rate borrowing obligations for future periods.

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, including mortgage-backed securities, repurchase agreements, interest rate swaps and interest rate caps.

Based on the results of the model, as of September 30, 2009, instantaneous changes in interest rates would have the following effect on net interest income: (dollar amounts in thousands)

| Changes in Net Interest Income |                                |
|--------------------------------|--------------------------------|
| Changes in Interest Rates      | Changes in Net Interest Income |
| +200                           | \$ (4,144 )                    |
| +100                           | \$ (1,851 )                    |
| -100                           | \$ 1,770                       |

Interest rate changes may also impact our net book value as our mortgage assets and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our mortgage assets decreases and as interest rates decrease, the value of such investments will increase. In general, we would expect however that, over time, decreases in value of our portfolio attributable to interest rate changes will be offset, to the degree we are hedged, by increases in value of our interest rate swaps, and vice versa. However, the relationship between spreads on securities and spreads on swaps may vary from time to time, resulting in a net aggregate book value increase or decline. However, 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 RMBS, the CDOs we have issued to finance our loans held in securitization trusts, the principal and interest payments from mortgage assets and cash proceeds from the issuance of equity securities (as market and other conditions permit). 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 versus the collateral. 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 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 mortgage assets purchased at a premium to their then current balance, as with the majority of our assets. Conversely, mortgage assets purchased for less than their then current balance 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.

Our prepayment model 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 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 increasing prepayment environment, 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 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 or other assets due to either borrower defaults, or a counterparty failure. Our portfolio of loans held in securitization trusts as of September 30, 2009 consisted of approximately \$280.2 million of securitized first liens originated in 2005 and earlier. The securitized first liens were principally originated by our subsidiary, HC, 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 70.2%, and average borrower FICO score of approximately 733. In addition, approximately 68.4% of these loans were originated with full income and asset verification. While we feel that 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.

As of September 30, 2009, we owned approximately \$44.4 million on non-Agency RMBS senior securities. The non-Agency RMBS has a weighted average amortized purchase price of approximately 71.2% of current par value. Management believes the purchase price discount coupled with the credit support within the bond structure protects the Company from principal loss under most stress scenarios for these non-Agency RMBS. In addition, we own approximately \$13.3 million of collateralized loan obligations at a discounted purchase price of approximately 19.22% of par. The securities are backed by a portfolio of middle market corporate loans.

#### Market (Fair Value) Risk

Changes in interest rates also expose us to market risk that the market value (fair) value on our assets may decline. For certain of the financial instruments that we own, fair values will not be readily available since there are no active trading markets for these instruments as characterized by current exchanges between willing parties. Accordingly, fair values can 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. These estimates and assumptions are indicative of the interest rate environments as of September 30, 2009, and do not take into consideration the effects of subsequent interest rate fluctuations.

We note that the values of our investments in mortgage-backed securities and 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. Historically, the values of our mortgage loan portfolio have tended to vary inversely with those of its derivative instruments.

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 cashflows, 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 fair values of the Company's RMBS are generally based on market prices provided by dealers who make markets in these financial instruments. If the fair value of a security is not reasonably available from a dealer, management estimates the fair value based on characteristics of the security that the Company receives from the issuer and on available market information.

The fair value of mortgage loans held in securitization trusts 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. Due to significant market dislocation over the past 18 months, secondary market prices were given minimal weighting when arriving at loan valuation at September 30, 2009 and December 31, 2008 fair value.

The fair value of these collateralized debt obligations is based on discounted cashflows as well as market pricing on comparable collateralized debt obligations.



The market risk management discussion and the amounts estimated from the analysis that follows are 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.

As a financial institution that has only invested in U.S.-dollar denominated instruments, primarily residential mortgage instruments, and has only borrowed money in the domestic market, we are not subject to foreign currency exchange or commodity price risk. Rather, our market risk exposure is largely due to interest rate risk. Interest rate risk impacts our interest income, interest expense and the market value on a large portion of our assets and liabilities. The management of interest rate risk attempts to maximize earnings and to preserve capital by minimizing the negative impacts of changing market rates, asset and liability mix, and prepayment activity.

The table below presents the sensitivity of the market value and net duration changes of our portfolio as of September 30, 2009, 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<br>Interest Rates | Market Value Changes       |          | Net<br>Duration |
|------------------------------|----------------------------|----------|-----------------|
|                              | Changes in<br>Market Value |          |                 |
|                              | (Amount in thousands)      |          |                 |
| +200                         | \$                         | (10,983) | 1.34 years      |
| +100                         | \$                         | (5,032)  | 1.25 years      |
| Base                         |                            | —        | 0.81 years      |
| -100                         | \$                         | 3,617    | 0.43 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.

Based on the assumptions used, the model output suggests a very low degree of portfolio price change given increases in interest rates, which implies that our cash flow and earning characteristics should be relatively stable for comparable changes in interest rates.

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 ARM products, 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 business scenarios that may include different interest rate scenarios, different investment strategies, different prepayment possibilities and other scenarios that provide us with a range of possible earnings outcomes 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 4. 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 September 30, 2009. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2009.

**Changes in Internal Control over Financial Reporting** - There has been no change in our internal control over financial reporting during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

### Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements 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: November 6, 2009

By: /s/ Steven R. Mumma  
Steven R. Mumma  
Chief Executive Officer, President and Chief Financial Officer  
(Principal Executive Officer and Principal Financial Officer)

EXHIBIT INDEX

| 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 to the Company's Current Report on Form 8-K filed on October 4, 2007).                                                                                                                                                                                                                                                 |
| 3.1(c)  | Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on October 4, 2007).                                                                                                                                                                                                                                                 |
| 3.1(d)  | Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.1(d) to the Company's Current Report on Form 8-K filed on May 16, 2008).                                                                                                                                                                                                                                                 |
| 3.1(e)  | Articles of Amendment of the Registrant (Incorporated by reference to Exhibit 3.1(e) to the Company's Current Report on Form 8-K filed on May 16, 2008).                                                                                                                                                                                                                                                 |
| 3.1(f)  | 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).                                                                                                                                                                                                                                                |
| 3.2(a)  | Bylaws of New York Mortgage Trust, Inc. (Incorporated by reference to Exhibit 3.2 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).                                                                                                                                                     |
| 3.2(b)  | Amendment No. 1 to Bylaws of New York Mortgage Trust, Inc. (Incorporated by reference to Exhibit 3.2(b) to Registrant's Annual Report on Form 10-K filed on March 16, 2006).                                                                                                                                                                                                                             |
| 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)  | Amended and Restated Trust Agreement among The New York Mortgage Company, LLC, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association and the Administrative Trustees named therein, dated September 1, 2005. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 6, 2005). |
| 4.3(a)  | Articles Supplementary Establishing and Fixing the Rights and Preferences of Series A Cumulative Redeemable Convertible Preferred Stock of the Company (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 25, 2008).                                                                                                                                 |
| 4.3(b)  |                                                                                                                                                                                                                                                                                                                                                                                                          |

Form of Series A Cumulative Redeemable Convertible Preferred Stock Certificate  
(Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on  
January 25, 2008).

- 10.1 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.)
- 10.2 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).
- 31.1 Section 302 Certification of Chief Executive Officer and Chief Financial Officer.\*
- 32.1 Section 906 Certification of Chief Executive Officer and Chief Financial Officer.\*