NEW YORK MORTGAGE TRUST INC
Form 10-Q
November 05, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _______ to ____________

Commission file number 001-32216

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

Maryland (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 x No o

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

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

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

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 2, 2010 was 9,425,442.

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

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)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Investment securities - available for sale, at fair value (including pledged securities of $40,937 and $91,071, respectively)	$99,191	$176,691
Mortgage loans held in securitization trusts (net)	236,050	276,176
Investment in limited partnership	10,150	-
Cash and cash equivalents	40,514	24,522
Receivable for securities sold	7,743	-
Receivables and other assets	10,394	11,425
Total Assets	$404,042	$488,814
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$38,465	$85,106
Collateralized debt obligations	227,665	266,754
Derivative liabilities	1,633	2,511
Accounts payable, accrued expenses and other liabilities	3,849	6,713
Convertible preferred debentures (net)	19,963	19,851
Subordinated debentures (net)	45,000	44,892
Total liabilities	336,575	425,827
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, $0.01 par value, 400,000,000 authorized, 9,425,442 and 9,415,094, shares issued and outstanding, respectively	94	94
Additional paid-in capital	138,608	142,519
Accumulated other comprehensive income	14,422	11,818
Accumulated deficit	(85,657)	(91,444)
Total stockholders' equity	67,467	62,987
Total Liabilities and Stockholders' Equity	$404,042	$488,814

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 Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
INTEREST INCOME	$4,536	$7,994	$15,942	$24,200
INTEREST EXPENSE:				
Investment securities and loans held in securitization trusts	1,211	1,864	3,887	7,041
Subordinated debentures	563	785	1,995	2,417
Convertible preferred debentures	537	662	1,737	1,807
Total interest expense	2,311	3,311	7,619	11,265
NET INTEREST INCOME	2,225	4,683	8,323	12,935
OTHER INCOME (EXPENSE):				
Provision for loan losses	(734)	(526)	(1,336)	(1,414)
Impairment loss on investment securities	-	-	-	(119)
Income from investment in limited partnership	150	-	150	-
Realized gain on investment securities and related hedges	1,860	359	3,958	623
Total other income (expense)	1,276	(167)	2,772	(910)
General, administrative and other expenses	2,222	1,875	6,185	5,047
INCOME FROM CONTINUING OPERATIONS	1,279	2,641	4,910	6,978
Income from discontinued operation - net of tax	298	236	877	500
NET INCOME	$1,577	$2,877	$5,787	$7,478
Basic income per common share	$0.17	$0.31	$0.61	$0.80
Diluted income per common share	$0.17	$0.30	$0.61	$0.78
Dividends declared per common share	$-	$0.25	$0.43	$0.66
Weighted average shares outstanding-basic	9,425	9,406	9,421	9,349
Weighted average shares outstanding-diluted	9,425	11,906	9,421	11,849

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(dollar amounts in thousands)
(unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Comprehensive Income	Total
Balance, December 31, 2009	$ 94	$ 142,519	$ (91,444)	$ 11,818	$ -	$ 62,987
Net income	-	-	5,787	-	5,787	5,787
Restricted Stock issuance	-	139	-	-	-	139
Dividends declared	-	(4,050)	-	-	-	(4,050)
Reclassification adjustment for net gain included in net income	-	-	-	(3,292)	(3,292)	(3,292)
Increase in net unrealized gain on available for sale securities	-	-	-	4,628	4,628	4,628
Increase in fair value of derivative instruments utilized for cash flow hedges	-	-	-	1,268	1,268	1,268
Comprehensive income	-	-	-	-	$ 8,391	-
Balance, September 30, 2010	$ 94	$ 138,608	$ (85,657)	$ 14,422		$ 67,467

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 Ended September 30, 2010	2009
Cash Flows from Operating Activities:		
Net income	$5,787	$7,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	627	1,069
Net accretion on investment securities and mortgage loans held in securitization trusts	(2,223)	(126)
Realized gain on securities and related hedges	(3,958)	(623)
Impairment loss on investment securities	-	119
Provision for loan losses	1,336	1,414
Income from investment in limited partnership	(150)	-
Lower of cost or market adjustment mortgage loans held for sale	-	307
Restricted stock issuance	139	224
Changes in operating assets and liabilities:		
Receivables and other assets	76	71
Accounts payable, accrued expenses and other liabilities	(526)	(1,489)
Payments received on loans held for sale	24	975
Net cash provided by operating activities	1,132	9,419
Cash Flows from Investing Activities:		
Restricted cash	690	4,600
Purchases of investment securities	-	(43,440)
Investment in limited partnership	(10,000)	-
Proceeds from sales of investment securities	33,113	198,494
Principal repayments received on mortgage loans held in securitization trusts	38,761	55,473
Principal paydowns on investment securities - available for sale	44,588	56,453
Net cash provided by investing activities	107,152	271,580
Cash Flows from Financing Activities:		
Decrease in financing arrangements	(46,641)	(207,584)
Dividends paid	(6,405)	(4,753)
Payments made on collateralized debt obligations	(39,246)	(55,646)
Cash used in financing activities	(92,292)	(267,983)
Net Increase in Cash and Cash Equivalents	15,992	13,016
Cash and Cash Equivalents - Beginning of Period	24,522	9,387
Cash and Cash Equivalents - End of Period	$40,514	$22,403
Supplemental Disclosure:		
Cash paid for interest	$7,269	$10,092
Non-Cash Investment Activities:		
Sale of investment securities not yet settled	$7,743	$-

Non-Cash Financing Activities:		
Dividends declared to be paid in subsequent period	$-	$2,355
Grant of restricted stock	$30	$523

See notes to condensed consolidated financial statements.

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(unaudited)

1. 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, 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," RMBS backed by prime jumbo and Alternative A-paper ("Alt-A") ("non-Agency RMBS"), and prime credit quality residential adjustable-rate mortgage ("ARM") loans held in securitization trusts, or prime ARM loans. The remainder of our current investment portfolio is primarily comprised of notes issued by a collateralized loan obligation ("CLO"). We also may opportunistically acquire and manage various other types of real estate-related and financial assets, including, among other things, certain non-rated residential mortgage assets, commercial mortgage-backed securities ("CMBS"), commercial real estate loans and other similar investments. Subject to maintaining our qualification as a REIT, we also may invest in debt or equity securities, which may or may not be related to real estate. 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 and our operating costs, 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 portfolio investment operations 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 for regulatory compliance purposes. The Company also may conduct certain other portfolio investment operations 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 sheet as of December 31, 2009, has been derived from audited financial statements. The condensed consolidated balance sheet at September 30, 2010, the condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009, the condensed consolidated statement of stockholders' equity for the nine months ended September 30, 2010 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's 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, 2009, as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three and nine months ended September 30, 2010 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.

Prior period amounts have been reclassified to conform to current period classifications, including the reclassification of assets and liabilities related to discontinued operations on the balance sheet from a separate line item to receivables and other assets and accounts payable, accrued expenses and other liabilities.

The Company has evaluated all events or transactions through the date of this filing. Other than the declaration and payment in October 2010 of a cash dividend of $0.18 per share on shares of its common stock for the quarter ended September 30, 2010, the Company did not have any material subsequent events that impacted its condensed consolidated financial statements.

Investment Securities Available for Sale - The Company's investment securities include RMBS comprised of Fannie Mae, non-Agency RMBS, initially rated AAA securities, and CLOs. Investment securities are classified as available for sale securities and are reported at fair value with unrealized gains and losses reported in other comprehensive income (“OCI”). Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the condensed consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the interest method. Adjustments to amortization are made for actual prepayment activity.

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

Mortgage Loans Held in Securitization Trusts (net) - Mortgage loans held in securitization trusts consist of certain adjustable rate mortgage loans transferred to New York Mortgage Trust 2005-1, New York Mortgage Trust 2005-2 and New York Mortgage Trust 2005-3 that have been securitized into sequentially rated classes of beneficial interests. Mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses.

Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management’s opinion, the interest is not collectible in the normal course of business, and in every case, when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Investment in Limited Partnership Interest – The Company has an investment in a limited partnership. In circumstances where the Company has a non-controlling interest but either owns a significant interest or is able to exert influence over the affairs of the enterprise, the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity’s earnings and decreased for cash distributions and a proportionate share of the entity’s losses.

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

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

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

Comparing the current loan balance to the property value determines the current loan-to-value ("LTV") ratio of the loan. Generally, we estimate that a first lien loan on a property that goes into a foreclosure process and becomes real estate owned ("REO"), results in the property being disposed of at approximately 84% of the property's current appraised value. This estimate is based on management's experience as well as our realized severity rates since issuance of our securitizations. During 2008, as a result of the significant deterioration in the housing market, we revised our policy to estimate recovery values based on current home valuations less expected costs to dispose. These costs typically approximate 16% of the current home value. It is possible given today's deteriorating market conditions, we may realize less than that return in certain cases. Thus, for a first lien loan that is delinquent, we will adjust the property value down to approximately 84% of the current property value and compare that to the current balance of the loan. The difference determines the base provision for the loan loss taken for that loan. This base provision for a particular loan may be adjusted if we are aware of specific circumstances that may affect the outcome of the loss mitigation process for that loan. Predominately, however, we use the base reserve number for our reserve.

The allowance for loan losses will be maintained through ongoing provisions charged to operating income and will be reduced by loans that are charged off.

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

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines. Management does not currently expect any counterparty to default on its obligations and, therefore, does not expect to incur any loss due to counterparty default. In addition, all outstanding interest rate swap agreements have bi-lateral margin call capabilities, meaning the Company will require margin for interest rate swaps that are in the Company's favor, minimizing any amounts at risk.

Interest Rate Risk - The Company hedges the aggregate risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. The Company generally intends to hedge only the risk related to changes in the benchmark interest rate (London Interbank Offered Rate, or "LIBOR"). The Company applies hedge accounting utilizing the cash flow hedge criteria.

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

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

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

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

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

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

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

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

Revenue Recognition. Interest income on our residential mortgage loans and mortgage-backed securities is a combination of the interest earned based on the outstanding principal balance of the underlying loan/security, the contractual terms of the assets and the amortization of yield adjustments, principally premiums and discounts, using generally accepted interest methods. The net GAAP cost over the par balance of self-originated loans held for investment and premium and discount associated with the purchase of mortgage-backed securities and loans are amortized into interest income over the lives of the underlying assets using the effective yield method as adjusted for the effects of estimated prepayments. Estimating prepayments and the remaining term of our interest yield investments require management judgment, which involves, among other things, consideration of possible future interest rate environments and an estimate of how borrowers will react to those environments, historical trends and performance. The actual prepayment speed and actual lives could be more or less than the amount estimated by management at the time of origination or purchase of the assets or at each financial reporting period.

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

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

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

Management has reviewed the Company's income tax positions for the tax years of 2006 through 2009 by major jurisdictions and has concluded that no provision for taxes is required in the Company's financial statements.

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

A Summary of Recent Accounting Pronouncements Follows:

Fair Value Measurements and Disclosures (ASC 820)

In January 2010, the FASB issued No. ASU 2010-06, Improving Disclosures about Fair Value Measurement, to enhance the usefulness of fair value measurements. The amended guidance requires both the disaggregation of information in certain existing disclosures, as well as the inclusion of more robust disclosures about valuation techniques and inputs to recurring and nonrecurring fair value measurements. This ASU amends ASC 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. This ASU also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, this ASU amends guidance on employers’ disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. This ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard may require additional disclosures, but the Company does not expect the adoption to have a material effect on our condensed consolidated financial statements.

Consolidation (ASC 810)

In June 2009, the FASB amended the guidance for determining whether an entity is a variable interest entity, or VIE. The guidance requires an entity to consolidate a VIE if (i) it has the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. The pronouncement is effective for fiscal years beginning after November 15, 2009. On January 1, 2010, the Company adopted the FASB guidance for determining whether an entity is a variable interest entity; such adoption did not have a material effect on the Company's condensed consolidated financial statements.

Receivables (ASC 310)

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The ASU amends FASB Accounting Standards Codification Topic 310, Receivables, to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class of financing receivables, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. This ASU is effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this standard may require additional disclosures, but the Company does not expect the adoption to have a material effect on our condensed consolidated financial statements.

2. Investment Securities - Available for Sale

Investment securities available for sale consist of the following as of September 30, 2010 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	$ 49,558	$ 1,774	$ —	$ 51,332
Non-Agency RMBS	22,891	2,735	(1,716)	23,910
Collateralized Loan Obligations	10,683	13,266	—	23,949
Total	$ 83,132	$ 17,775	$ (1,716)	$ 99,191

Investment securities available for sale consist of the following as of December 31, 2009 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	$ 112,525	$ 3,701	$ —	$ 116,226
Non-Agency RMBS	40,257	4,764	(2,155)	42,866
Collateralized Loan Obligations	9,187	8,412	—	17,599
Total	$ 161,969	$ 16,877	$ (2,155)	$ 176,691