

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 March 31, 2011

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 filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding on May 4, 2011 was 9,442,537.

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

PART I. Financial Information	2
Item 1. Condensed Consolidated Financial Statements	2
Condensed Consolidated Balance Sheets as of March 31, 2011 (Unaudited) and December 31, 2010	2
Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2011	3
Unaudited Condensed Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2011	4
Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011	5
Unaudited Notes to the Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures about Market Risk	50
Item 4. Controls and Procedures	55
PART II. OTHER INFORMATION	56
Item 1A. Risk Factors	56
Item 6. Exhibits	56
SIGNATURES	57

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)

	March 31, 2011	December 31, 2010
ASSETS	(unaudited)	
Investment securities available for sale, at fair value (including pledged securities of \$55,772 and \$38,475, respectively)	\$ 119,322	\$ 86,040
Mortgage loans held in securitization trusts (net)	223,271	228,185
Mortgage loans held for investment	2,590	7,460
Investment in limited partnership	16,649	18,665
Cash and cash equivalents	8,436	19,375
Restricted cash	10,264	-
Receivable under reverse repurchase agreements	40,252	-
Receivable for securities sold	45,750	5,653
Derivative asset	5,902	-
Receivables and other assets	9,781	8,916
Total Assets	\$ 482,217	\$ 374,294
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	\$ 46,563	\$ 35,632
Securities sold short, at fair value	81,918	-
Collateralized debt obligations	215,260	219,993
Derivative liabilities	827	1,087
Payable for securities purchased	17,450	-
Accrued expenses and other liabilities	3,988	4,095
Subordinated debentures (net)	45,000	45,000
Total liabilities	411,006	305,807
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, \$0.01 par value, 400,000,000 authorized, 9,442,537 and 9,425,442, shares issued and outstanding, respectively	94	94
Additional paid-in capital	133,668	135,300
Accumulated other comprehensive income	19,574	17,732
Accumulated deficit	(82,125)	(84,639)
Total stockholders' equity	71,211	68,487
Total Liabilities and Stockholders' Equity	\$ 482,217	\$ 374,294

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 March 31,	
	<u>2011</u>	<u>2010</u>
INTEREST INCOME	\$ 3,694	\$ 6,221
INTEREST EXPENSE:		
Investment securities and loans held in securitization trusts	718	1,392
Subordinated debentures	466	759
Convertible preferred debentures	-	662
Total interest expense	<u>1,184</u>	<u>2,813</u>
NET INTEREST INCOME	<u>2,510</u>	<u>3,408</u>
OTHER INCOME (EXPENSE):		
Provision for loan losses	(633)	(2)
Income from investment in limited partnership	784	-
Realized gain on investment securities and related hedges	2,191	807
Unrealized loss on investment securities and related hedges	<u>(40)</u>	<u>-</u>
Total other income (expense)	<u>2,302</u>	<u>805</u>
General, administrative and other expenses	<u>2,293</u>	<u>1,856</u>
INCOME FROM CONTINUING OPERATIONS	2,519	2,357
(Loss) income from discontinued operation - net of tax	<u>(5)</u>	<u>311</u>
NET INCOME	<u>\$ 2,514</u>	<u>\$ 2,668</u>
Basic income per common share	<u>\$ 0.27</u>	<u>\$ 0.28</u>
Diluted income per common share	<u>\$ 0.27</u>	<u>\$ 0.28</u>
Dividends declared per common share	<u>\$ 0.18</u>	<u>\$ 0.25</u>
Weighted average shares outstanding-basic	<u>9,433</u>	<u>9,418</u>
Weighted average shares outstanding-diluted	<u>9,433</u>	<u>11,918</u>

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, 2010	\$ 94	\$ 135,300	\$ (84,639)	\$ 17,732	\$ -	\$ 68,487
Net income	-	-	2,514	-	2,514	2,514
Restricted stock issuance	-	68	-	-	-	68
Dividends declared	-	(1,700)	-	-	-	(1,700)
Reclassification adjustment for net gain included in net income	-	-	-	(1,868)	(1,868)	(1,868)
Increase in net unrealized gain on available for sale securities	-	-	-	3,450	3,450	3,450
Increase in fair value of derivative instruments utilized for cash flow hedges	-	-	-	260	260	260
Comprehensive income	-	-	-	-	\$ 4,356	-
Balance, March 31, 2011	<u>\$ 94</u>	<u>\$ 133,668</u>	<u>\$ (82,125)</u>	<u>\$ 19,574</u>		<u>\$ 71,211</u>

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 Three Months Ended March 31,	
	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Net income	\$ 2,514	\$ 2,668
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	34	320
Net accretion on investment securities and mortgage loans held in securitization trusts	(1,107)	(839)
Realized gain on securities and related hedges	(2,191)	(807)
Unrealized loss on securities and related hedges	40	-
Proceeds from repayments or sales of mortgage loans	7	8
Provision for loan losses	633	2
Income from investment in limited partnership	(784)	-
Distributions from investment in limited partnership	203	-
Restricted stock issuance	68	(48)
Changes in operating assets and liabilities:		
Receivables and other assets	(616)	(38)
Accrued expenses and other liabilities	(108)	(483)
Net cash (used in) provided by operating activities	<u>(1,307)</u>	<u>783</u>
Cash Flows from Investing Activities:		
Restricted cash	(10,745)	-
Purchases of reverse repurchase agreements	(40,252)	-
Purchases of investment securities	(30,399)	-
Proceeds from investment in limited partnership	2,597	-
Proceeds from mortgage loans held for investment	5,002	-
Proceeds from sales of investment securities	48,888	359
Principal repayments received on mortgage loans held in securitization trusts	4,453	16,776
Principal paydowns on investment securities - available for sale	6,340	8,982
Net cash (used in) provided by investing activities	<u>(14,116)</u>	<u>26,117</u>
Cash Flows from Financing Activities:		
Proceeds from (payments of) financing arrangements	10,931	(9,307)
Dividends paid	(1,697)	(2,355)
Payments made on collateralized debt obligations	(4,750)	(17,007)
Net cash provided by (used in) financing activities	<u>4,484</u>	<u>(28,669)</u>
Net Decrease in Cash and Cash Equivalents	<u>(10,939)</u>	<u>(1,769)</u>
Cash and Cash Equivalents - Beginning of Period	<u>19,375</u>	<u>24,522</u>
Cash and Cash Equivalents - End of Period	<u>\$ 8,436</u>	<u>\$ 22,753</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 1,113</u>	<u>\$ 2,468</u>
Non-Cash Investment Activities:		
Sale of investment securities not yet settled	<u>\$ 45,750</u>	<u>\$ 2,936</u>
Purchase of investment securities not yet settled	<u>\$ 17,450</u>	<u>\$ -</u>
Non-Cash Financing Activities:		

Dividends declared to be paid in subsequent period	\$ 1,700	\$ 2,355
--	----------	----------

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(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 real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets. 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 our leveraged assets and our operating costs, which we refer to as our net interest income. We intend to achieve this objective by investing in a broad class of mortgage-related and financial assets that in aggregate will generate what we believe are attractive risk-adjusted total returns for our stockholders. We also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them.

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, 2010, has been derived from audited financial statements. The condensed consolidated balance sheet at March 31, 2011, the condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010, the condensed consolidated statement of stockholders' equity for the three months ended March 31, 2011 and the condensed consolidated statements of cash flows for the three months ended March 31, 2011 and 2010 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, 2010, as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the operating results for the full year.

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

The condensed consolidated financial statements of the Company include the accounts of all subsidiaries; significant intercompany accounts and transactions have been eliminated.

Prior period income statement and balance sheet accounts have been reclassified to conform to current period classifications.

Investment Securities Available for Sale - The Company's investment securities, where the fair value option has not been elected and are reported at fair value with unrealized gains and losses reported in other comprehensive income ("OCI"), include residential mortgage-backed securities ("RMBS") that are issued by Fannie Mae, a federally chartered corporation ("GSE"), which, together with RMBS issued or guaranteed by other GSE's or government agencies, is referred to as "Agency RMBS," non-Agency RMBS and collateralized loan obligations ("CLOs"). Our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the 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 effective yield method. Adjustments to amortization are made for actual prepayment activity.

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

The Company's investment securities available for sale also includes its investment in a wholly owned account referred to as the Midway Residential Mortgage Portfolio. The Midway Residential Mortgage Portfolio investments include interest only and inverse interest only securities issued or guaranteed by a GSE (collectively referred to as "IOs") and U.S. Treasury securities. Since the Midway Residential Mortgage Portfolio investments include derivative investments not designated as hedging instruments, unrealized gains and losses are recognized through earnings in the condensed consolidated statements of operations. Therefore, the Company has elected the fair value option for these investment securities which also measures unrealized gains and losses through earnings in the condensed consolidated statements of operations. The Company believes this accounting treatment more accurately and consistently reflects their results of operations.

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

Restricted Cash - Restricted cash consists of amounts designated for investments in our Midway Residential Mortgage Portfolio.

Receivables and Other Assets - Receivables and other assets totaled \$9.8 million as of March 31, 2011, and consist primarily of \$4.0 million of assets related to discontinued operations, \$1.9 million of restricted cash held by third parties, \$1.5 million related to escrow advances, \$0.8 million of accrued interest receivable, \$0.6 million of real estate owned ("REO") in securitization trusts, \$0.6 million of capitalization expenses related to equity and bond issuance cost, \$0.2 million of prepaid expenses and \$0.1 million of deferred tax asset. The restricted cash held by third parties of \$1.9 million includes \$1.7 million held by counterparties as collateral for hedging instruments and \$0.2 million as collateral for a letter of credit related to the lease of the Company's corporate headquarters. Receivables and other assets totaled \$8.9 million as of December 31, 2010, and consist of \$4.0 million of assets related to discontinued operations, \$1.4 million of restricted cash held by third parties, \$1.1 million related to escrow advances, \$0.7 million of real estate owned ("REO") in securitization trusts, \$0.6 million of capitalization expenses related to equity and bond issuance cost, \$0.6 million of accrued interest receivable, \$0.4 million of prepaid expenses and \$0.1 million of deferred tax asset. The restricted cash held by third parties of \$1.4 million includes \$1.2 million held by counterparties as collateral for hedging instruments and \$0.2 million as collateral for a letter of credit related to the lease of the Company's corporate headquarters.

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

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

status when principal and interest become current and are anticipated to be fully collectible.

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

Investment in Limited Partnership Interest - The Company has an equity 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 current appraised value. This estimate is based on management's experience as well as 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 continued difficult real estate market conditions in many geographic regions that 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. As of March 31, 2011 and December 31, 2010, the allowance for loan losses held in securitization trusts totaled \$2.6 million.

Financing Arrangements, Portfolio Investments - Investment securities available for sale are typically financed with repurchase agreements, a form of collateralized borrowing which is secured by the securities on the balance sheet. Such financings are recorded at their outstanding principal balance with any accrued interest due recorded as an accrued expense.

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 are demonstrating, and are expected to continue to demonstrate, a high level of effectiveness. Hedge accounting is discontinued on a prospective basis if it is determined that the hedging relationship is no longer highly effective or expected to be highly effective in offsetting changes in fair value of the hedged item.

Additionally, the Company may elect to un-designate a hedge relationship during an interim period and re-designate upon the

rebalancing of a hedge profile and the corresponding hedge relationship. When hedge accounting is discontinued, the Company continues to carry the derivative instruments at fair value with changes recorded in current earnings.

Revenue Recognition - Interest income on our 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.

Collateralized Debt Obligations (“CDO”) - We use CDOs to permanently finance our loans held in securitization trusts. For financial reporting purposes, the ARM loans held as collateral are recorded as assets of the Company and the CDO is recorded as the Company’s debt. The transaction includes interest rate caps which are held by the securitization trust and recorded as an asset or liability of the Company. The Company has completed four securitizations since inception, the first three were accounted for as a permanent financing and the fourth was accounted for as a sale and accordingly, not included in the Company’s financial statements.

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

Convertible Preferred Debentures (Net) - The Company issued \$20.0 million in Series A Convertible Preferred Stock that matured on December 31, 2010. The outstanding shares were redeemed by the Company at the \$20.00 per share liquidation preference plus accrued dividends on December 31, 2010.

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

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines. Management does not 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.

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

Interest Rate and Prepayment 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, as well as prepayment risk associated with its Midway Residential Mortgage Portfolio. With respect to interest rate risk, the Company generally intends to hedge the risk related to changes in the benchmark interest rate (London Interbank Offered Rate (“LIBOR”). The Company applies hedge accounting for certain interest rate hedges utilizing the cash flow hedge criteria.

In order to reduce such interest rate risk, 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 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.

In addition to utilizing interest rate swaps and caps, we may purchase or sell short U.S. Treasury securities or enter into Eurodollar futures contracts to help mitigate the potential impact of changes in interest rates on the performance of the Midway Residential Mortgage Portfolio. We may borrow U.S. Treasury securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. We account for the securities borrowing transactions as a receivable under reverse repurchase agreements on our condensed consolidated balance sheet. The short sales of U.S. Treasury securities are accounted for as securities sold short, at fair value on our condensed consolidated balance sheet. For instruments that are not designated or qualify as a cash flow hedge, such as our use of U.S. Treasury securities or Eurodollar futures contracts, any realized and unrealized gains and losses associated with these instruments are recognized through earnings in the condensed consolidated statement of operations.

With respect to a Eurodollar futures contract, initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are made or received periodically, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

The Company uses TBAs to hedge interest rate risk and the aggregate risk of prepayments associated with its Midway Residential Mortgage Portfolio. For example, we may utilize TBAs to hedge the interest rate or yield spread risk inherent in our long Agency RMBS by taking short positions in TBAs that are similar in character. In a TBA transaction, we would agree to purchase or sell for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS.

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

Employee Benefits Plans - The Company sponsors a defined contribution plan (the "Plan") for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, participating employees may defer up to 15% of their pre-tax earnings, subject to the annual Internal Revenue Code contribution limit. The Company may match contributions up to a maximum of 25% of the first 5% of salary. Employees vest immediately in their contribution and vest in the Company's contribution, if any, at a rate of 25% after two full years and then an incremental 25% per full year of service until fully vested at 100% after five full years of service. The Company made no contributions to the Plan for the three months ended March 31, 2011 and 2010.

Stock Based Compensation - Compensation expense for equity based awards is recognized over the vesting period of such awards, based upon the fair value of the stock at the grant date.

Income Taxes - The Company operates so as to qualify as a REIT under the requirements of the Internal Revenue Code. 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 distribution balance may extend until the 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.

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

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

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

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 March 31, 2011, we had a total of \$2.0 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.

A Summary of Recent Accounting Pronouncements Follows:

Receivables (ASC 310)

In April 2011, the FASB issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. ASU 2011-02 clarifies whether loan modifications constitute troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 is effective for the first interim and annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. We are assessing the impact of ASU 2011-02 on our financial condition, results of operations and disclosures.

Transfers and Servicing (ASC 860)

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

2. Investment Securities Available for Sale

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	\$ 75,735	\$ 1,909	\$ (357)	\$ 77,287
Non-Agency RMBS	7,929	—	(1,149)	6,780
CLOs	10,304	19,958	—	30,262
U.S. Treasury securities	4,987	6	—	4,993
Total	\$ 98,955	\$ 21,873	\$ (1,506)	\$ 119,322

Securities included in investment securities available for sale held in our Midway Residential Mortgage Portfolio that are measured at fair value through earnings as of March 31, 2011 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Interest only securities included in Agency RMBS:				
Fannie Mae	\$ 17,532	\$ 216	\$ (280)	\$ 17,468
Freddie Mac	8,652	41	(53)	8,640
Ginnie Mae	6,343	61	(24)	6,380
U.S. Treasury securities	4,987	6	—	4,993
Total	\$ 37,514	\$ 324	\$ (357)	\$ 37,481

Investment securities available for sale consist of the following as of December 31, 2010 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS (1)	\$ 45,865	\$ 1,664	\$ —	\$ 47,529
Non-Agency RMBS	10,071	80	(1,166)	8,985
CLOs	11,286	18,240	—	29,526
Total	\$ 67,222	\$ 19,984	\$ (1,166)	\$ 86,040

(1) Agency RMBS includes only Fannie Mae issued RMBS at December 31, 2010.

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

March 31, 2011	Less than 6 Months	More than 6 Months to 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Agency RMBS	\$ 23,357	\$ 44,798	\$ 9,132	\$ 77,287
Non-Agency RMBS	6,311	469	—	6,780
CLO	30,262	—	—	30,262
U.S. Treasury securities	—	—	4,993	4,993
Total	<u>\$ 59,930</u>	<u>\$ 45,267</u>	<u>\$ 14,125</u>	<u>\$ 119,322</u>

The following table sets forth the stated reset periods of our investment securities available for sale at December 31, 2010 (dollar amounts in thousands):

December 31, 2010	Less than 6 Months	More than 6 Months to 24 Months	More than 24 Months	Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Agency RMBS	\$ 25,816	\$ 5,313	\$ 16,400	\$ 47,529
Non-Agency RMBS	8,985	—	—	8,985
CLO	29,526	—	—	29,526
Total	<u>\$ 64,327</u>	<u>\$ 5,313</u>	<u>\$ 16,400</u>	<u>\$ 86,040</u>

The following tables present the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

March 31, 2011	Less than 12 Months		Greater than 12 Months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Non-Agency RMBS	\$ —	\$ —	\$ 6,780	\$ 1,149	\$ 6,780	\$ 1,149
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,780</u>	<u>\$ 1,149</u>	<u>\$ 6,780</u>	<u>\$ 1,149</u>

December 31, 2010	Less than 12 Months		Greater than 12 Months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Non-Agency RMBS	\$ —	\$ —	\$ 6,436	\$ 1,166	\$ 6,436	\$ 1,166
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,436</u>	<u>\$ 1,166</u>	<u>\$ 6,436</u>	<u>\$ 1,166</u>

As of March 31, 2011 and December 31, 2010, respectively, the Company did not have unrealized losses in investment securities that were deemed other-than-temporary.

3. Mortgage Loans Held in Securitization Trusts and Real Estate Owned

Mortgage loans held in securitization trusts (net) consist of the following as of March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

	March 31, 2011	December 31, 2010
Mortgage loans principal amount	\$ 224,436	\$ 229,323
Deferred origination costs – net	1,415	1,451
Reserve for loan losses	(2,580)	(2,589)
Total	<u>\$ 223,271</u>	<u>\$ 228,185</u>

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

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	\$ 2,589	\$ 2,581
Provisions for loan losses	425	(27)
Transfer to real estate owned	—	(172)
Charge-offs	(434)	(219)
Balance at the end of period	<u>\$ 2,580</u>	<u>\$ 2,163</u>

On an ongoing basis, the Company evaluates the adequacy of its allowance for loan losses. The Company's allowance for loan losses at March 31, 2011 was \$2.6 million, representing 115 basis points of the outstanding principal balance of loans held in securitization trusts as of March 31, 2011, as compared to 113 basis points as of December 31, 2010. As part of the Company's allowance for loan losses adequacy analysis, management will assess an overall level of allowances 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, delinquency status, the borrower's current economic and credit status and other relevant factors.

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

	March 31, 2011	December 31, 2010
Balance at beginning of period	\$ 740	\$ 546
Write downs	—	(193)
Transfer from mortgage loans held in securitization trusts	—	1,398
Disposal	(175)	(1,011)
Balance at the end of period	<u>\$ 565</u>	<u>\$ 740</u>

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

All of the Company's mortgage loans and real estate owned held in securitization trusts are pledged as collateral for the collateralized debt obligations ("CDOs") issued by the Company. As of March 31, 2011 and December 31, 2010, 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 real estate owned held in securitization trusts and the amount of CDOs outstanding, was \$8.6 million and \$8.9 million, respectively.

Delinquency Status of Our Mortgage Loans Held in Securitization Trusts

As of March 31, 2011, we had 46 delinquent loans totaling approximately \$23.9 million categorized as Mortgage Loans Held in Securitization Trusts (net). Of the \$23.9 million in delinquent loans, \$20.3 million, or 85%, are currently under some form of modified payment plan. As these borrowers are not current, they continue to be reported as delinquent even though they are working towards a credit resolution. The table below shows delinquencies in our portfolio of loans held in securitization trusts, including real estate owned through foreclosure (REO), as of March 31, 2011 (dollar amounts in thousands):

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	1	\$ 338	0.15%
61-90	4	2,243	1.00%
90+	41	21,321	9.47%
Real estate owned through foreclosure	2	711	0.32%

As of December 31, 2010, we had 46 delinquent loans totaling approximately \$25.1 million categorized as Mortgage Loans Held in Securitization Trusts (net). Of the \$25.1 million in delinquent loans, \$17.8 million, or 71%, are currently under some form of modified payment plan. As these borrowers are not current, they continue to be reported as delinquent even though they are working towards a credit resolution. The table below shows delinquencies in our portfolio of loans held in securitization trusts, including real estate owned through foreclosure (REO), as of December 31, 2010 (dollar amounts in thousands):

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	7	\$ 2,515	1.09%
61-90	4	4,362	1.89%
90+	35	18,191	7.90%
Real estate owned through foreclosure	3	894	0.39%

4. Investment in Limited Partnership

The Company has a non-controlling, unconsolidated limited partnership interest in an entity that is accounted for using the equity method of accounting. Capital contributions, distributions, and profits and losses of the entity are allocated in accordance with the terms of the limited partnership agreement. The Company owns 100% of the equity of the limited partnership, but has no decision-making powers, and therefore does not consolidate the limited partnership. Our maximum exposure to loss in this variable interest entity is \$16.6 million at March 31, 2011.

During the third and fourth quarters of 2010, HC invested, in exchange for limited partnership interests, \$19.4 million in a limited partnership that was formed for the purpose of acquiring, servicing, selling or otherwise disposing of first-lien residential mortgage loans. The pool of mortgage loans was acquired by the partnership at a significant discount to the loans' unpaid principal balance.

At March 31, 2011, the Company had an investment in limited partnership of \$16.6 million. For the three months ended March 31, 2011, the Company recognized income from the investment in limited partnership of \$0.8 million.

The condensed balance sheet of the investment in limited partnership at March 31, 2011 is as follows (dollar amounts in thousands):

Assets

Cash	\$	1,888
Mortgage loans held for sale (net)		14,778
Other assets		161
Total Assets	\$	<u>16,827</u>

Liabilities & Partners' Equity

Other liabilities	\$	238
Partners' equity		16,589
Total Liabilities and Partners' Equity	\$	<u>16,827</u>

The condensed statement of operations of the investment in limited partnership for the three months ended March 31, 2011 is as follows (dollar amounts in thousands):

Statement of Operations

Interest income	\$	408
Realized gain		606
Total Income		<u>1,014</u>
Other expenses		(230)
Net Income	\$	<u>784</u>

5. Derivatives and Other Hedging Instruments

The following table presents the fair value of derivative instruments designated as hedging instruments and their location in the Company's condensed consolidated balance sheets at March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	March 31, 2011	December 31, 2010
Interest Rate Swaps	Derivative Liabilities	\$ 827	\$ 1,087

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

Derivatives Designated as Hedging Instruments	Three Months Ended March 31,	
	2011	2010
Accumulated other comprehensive income (loss) for derivative instruments:		
Balance at beginning of the period	\$ (1,087)	\$ (2,905)
Unrealized gain on interest rate caps	—	210
Unrealized gain on interest rate swaps	260	195
Reclassification adjustment for net gains (losses) included in net income for hedges	—	—
Balance at the end of the period	\$ (827)	\$ (2,500)

The Company estimates that over the next 12 months, approximately \$0.7 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 presents the fair value of derivative instruments held in our Midway Residential Mortgage Portfolio that were not designated as hedging instruments and their location in the Company's condensed consolidated balance sheets at March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Derivative Not Designated as Hedging Instruments	Balance Sheet Location	March 31, 2011	December 31, 2010
TBA security	Derivative Asset	\$ 5,902	\$ —

The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price.

Additionally as of March 31, 2011, the Company had \$81.9 million of U.S. Treasury securities sold short, at fair value. We borrowed securities to cover the short sales of U.S. Treasury securities under reverse repurchase agreements from which we received total proceeds of \$82.0 million.

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

	Three Months Ended March 31,	
	2011	2010
Interest Rate Caps:		
Interest expense-investment securities and loans held in securitization trusts	\$ —	\$ 123
Interest expense-subordinated debentures	—	92
Interest Rate Swaps:		
Interest expense-investment securities and loans held in securitization trusts	280	725

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 March 31, 2011 and December 31, 2010. The Company had \$1.0 million and \$1.2 million of restricted cash related to margin posted for Swaps as of March 31, 2011 and December 31, 2010, respectively. The restricted cash held by third parties is included in receivables and other assets in the accompanying condensed consolidated balance sheets.

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 March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Maturity (1)	March 31, 2011		December 31, 2010	
	Notional Amount	Weighted Average Fixed Pay Interest Rate	Notional Amount	Weighted Average Fixed Pay Interest Rate
Within 30 Days	\$ 840	3.03%	\$ 24,080	2.99%
Over 30 days to 3 months	1,440	3.03	2,110	3.03
Over 3 months to 6 months	2,460	3.03	2,280	3.03
Over 6 months to 12 months	18,330	3.02	5,600	3.03
Over 12 months to 24 months	9,570	2.93	16,380	3.01
Over 24 months to 36 months	—	—	8,380	2.93
Over 36 months to 48 months	—	—	—	—
Total	<u>\$ 32,640</u>	<u>3.00%</u>	<u>\$ 58,830</u>	<u>3.00%</u>

(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 CDOs and the subordinated debentures. The interest rate caps associated with the CDOs are amortizing contractual schedules determined at origination. The Company had \$71.9 million and \$76.0 million of notional interest rate caps outstanding as of March 31, 2011 and December 31, 2010, respectively. These interest rate caps are utilized to cap the interest rate on the CDOs at a fixed-rate when one month LIBOR exceeds a predetermined rate.

6. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its investment portfolio. The repurchase agreements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance. At March 31, 2011, the Company had repurchase agreements with an outstanding balance of \$46.6 million and a weighted average interest rate of 0.48%. As of December 31, 2010, the Company had repurchase agreements with an outstanding balance of \$35.6 million and a weighted average interest rate of 0.39%. At March 31, 2011 and December 31, 2010, securities pledged by the Company as collateral for repurchase agreements had estimated fair values of \$55.8 million and \$38.5 million, respectively. All outstanding borrowings under our repurchase agreements mature within 30 days. As of March 31, 2011, the average days to maturity for all repurchase agreements are 24 days.

The following table summarizes outstanding repurchase agreement borrowings secured by portfolio investments, which are included in financing arrangements, portfolio investments on the condensed consolidated balance sheets, as of March 31, 2011 and December 31, 2010, respectively (dollar amount in thousands):

Repurchase Agreements by Counterparty		
	March 31, 2011	December 31, 2010
Counterparty Name		
Cantor Fitzgerald	\$ 4,310	\$ 4,990
Credit Suisse First Boston LLC	12,072	12,080
Jefferies & Company, Inc.	9,225	9,476
JPMorgan Chase & Co.	13,009	—
South Street Securities LLC	7,947	9,086
Total Financing Arrangements, Portfolio Investments	<u>\$ 46,563</u>	<u>\$ 35,632</u>

As of March 31, 2011, the outstanding balance under our repurchase agreements was funded at an advance rate of 86% that implies an average haircut of 14%. The weighted average “haircut” related to our repurchase agreement financing for our Agency IOs and other Agency RMBS was approximately 35% and 6%, respectively, for a total weighted average “haircut” of 14%. As of March 31, 2011, the Company had \$8.4 million in cash and \$51.7 million in unencumbered investment securities to meet additional haircut or market valuation requirements, including \$21.4 million of RMBS, of which \$14.6 million are Agency RMBS. The \$8.4 million of cash and the \$21.4 million in RMBS (which, collectively, represents 64.0% of our financing arrangements, portfolio investments) are liquid and could be monetized to pay down or collateralize the liability immediately.

7. 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 March 31, 2011 and December 31, 2010, the Company had CDOs outstanding of \$215.3 million and \$220.0 million, respectively. As of March 31, 2011 and December 31, 2010, the current weighted average interest rate on these CDOs was 0.63% and 0.65%, respectively. The CDOs are collateralized by ARM loans with a principal balance of \$224.4 million and \$229.3 million at March 31, 2011 and December 31, 2010, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations and, as of March 31, 2011 and December 31, 2010, had a net investment in the securitization trusts, after loan loss reserves and including real estate owned, of \$8.6 million and \$8.9 million, respectively.

The CDO transactions include amortizing interest rate cap contracts with an aggregate notional amount of \$71.9 million as of March 31, 2011 and an aggregate notional amount of \$76.0 million as of December 31, 2010 which are recorded as an asset of the Company. The interest rate caps are carried at fair value and totaled \$0 as of March 31, 2011 and December 31, 2010, respectively. The interest rate caps reduce interest rate risk exposure on these transactions.

8. Discontinued Operation

In connection with the sale of our mortgage origination platform assets during the quarter ended March 31, 2007, we classified our mortgage lending segment as a discontinued operation. As a result, we have reported revenues and expenses related to the segment as a discontinued operation for all periods presented in the accompanying condensed consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as the subordinated debentures 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. Assets and liabilities related to the discontinued operation are \$4.0 million and \$0.6 million, respectively, at March 31, 2011 and December 31, 2010, and are included in receivables and other assets and accrued expenses and other liabilities in the condensed consolidated balance sheets.

Statements of Operations Data

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

	Three Months Ended March 31,	
	2011	2010
Revenues	\$ 44	\$ 360
Expenses	49	49
Income (loss) from discontinued operation-net of tax	<u>\$ (5)</u>	<u>\$ 311</u>

9. Commitments and Contingencies

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

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 March 31, 2011, we had a total of \$2.0 million of unresolved repurchase requests that management concluded may reasonably be deemed to have merit and 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 March 31, 2011, 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.

10. Concentrations of Credit Risk

At March 31, 2011 and December 31, 2010, respectively, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within the mortgage loans held in the securitization trusts and the real estate owned as follows:

	March 31, 2011	December 31, 2010
New York	38.4%	37.9%
Massachusetts	25.0%	25.0%
New Jersey	8.9%	8.7%
Florida	5.8%	5.6%

11. 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, prior to December 31, 2010, was based on management's valuation determined using a discounted future cash flows model that management believes would be used by market participants to value similar financial instruments. At March 31, 2011 and December 31, 2010, respectively, the fair value of the CLO notes was based on quoted prices provided by dealers who make markets in similar financial instruments. The CLO notes were previously classified as Level 3 fair values and were re-classified as Level 2 fair values in the fourth quarter of 2010.
- c. *Investment Securities Available for Sale (Midway)* - The fair value of other investment securities available for sale, such as IOs and U.S. Treasury securities, was based on quoted prices provided by dealers who make markets in similar financial instruments. The Company's IOs and U.S. Treasury securities are classified as Level 2 fair values.
- d. *Derivative Instruments* - The fair value of interest rate swaps, caps and TBAs are based on 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.

All other derivative and hedging assets and liabilities are valued based on the income or market approach using Level 2 inputs.

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, respectively, on the Company's condensed consolidated balance sheets (dollar amounts in thousands):

Measured at Fair Value on a Recurring Basis at March 31, 2011				
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investment securities available for sale:				
Agency RMBS	\$ —	\$ 77,287	\$ —	\$ 77,287
Non-Agency RMBS	—	6,780	—	6,780
CLO	—	30,262	—	30,262
U.S. Treasury securities	—	4,993	—	4,993
Derivative Asset	—	5,902	—	5,902
Total	\$ —	\$ 125,224	\$ —	\$ 125,224
Liabilities carried at fair value:				
Derivative liabilities (interest rate swaps)	\$ —	\$ 827	\$ —	\$ 827
U.S. Treasury securities sold short, at fair value	—	81,918	—	81,918
Total	\$ —	\$ 82,745	\$ —	\$ 82,745

Measured at Fair Value on a Recurring Basis at December 31, 2010				
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Investment securities available for sale:				
Agency RMBS	\$ —	\$ 47,529	\$ —	\$ 47,529
Non-Agency RMBS	—	8,985	—	8,985
CLO	—	29,526	—	29,526
Total	\$ —	\$ 86,040	\$ —	\$ 86,040
Liabilities carried at fair value:				
Derivative liabilities (interest rate swaps)	\$ —	\$ 1,087	\$ —	\$ 1,087
Total	\$ —	\$ 1,087	\$ —	\$ 1,087

The following table details changes in valuation for the Level 3 assets for the three months ended March 31, 2011 and 2010, respectively (amounts in thousands):

Investment securities available for sale: CLO

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	\$ —	\$ 17,599
Total gains (realized/unrealized)		
Included in earnings (1)	—	458
Included in other comprehensive income/(loss)	—	3,575
Balance at the end of period (2)	\$ —	\$ 21,632

(1) - Amounts included in interest income.

(2) - The CLOs were re-classified from Level 3 to Level 2 fair values during the fourth quarter of 2010 due to management determining that there is a reliable market for these assets based upon quoted prices provided by dealers who make markets in similar investments.

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 in the future 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 March 31, 2011 and December 31, 2010, respectively, on the Company's condensed consolidated balance sheets (dollar amounts in thousands):

Assets Measured at Fair Value on a Non-Recurring Basis at March 31, 2011				
	Level 1	Level 2	Level 3	Total
Mortgage loans held for investment	\$ —	\$ —	\$ 2,590	\$ 2,590
Mortgage loans held for sale – included in discontinued operations (net)	—	—	3,801	3,801
Mortgage loans held in securitization trusts – impaired loans (net)	—	—	8,657	8,657
Real estate owned held in securitization trusts	—	—	565	565

Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2010				
	Level 1	Level 2	Level 3	Total
Mortgage loans held for investment	\$ —	\$ —	\$ 7,460	\$ 7,460
Mortgage loans held for sale – included in discontinued operations (net)	—	—	3,808	3,808
Mortgage loans held in securitization trusts – impaired loans (net)	—	—	6,576	6,576
Real estate owned held in securitization trusts	—	—	740	740

The following table presents losses incurred for assets measured at fair value on a non-recurring basis for the three months ended March 31, 2011 and 2010, respectively, on the Company's condensed consolidated statements of operations (dollar amounts in thousands):

Three Months Ended		
	March 31, 2011	March 31, 2010
Mortgage loans held in securitization trusts – impaired loans (net)	\$ 405	\$ 2

The following table presents the carrying value and estimated fair value of the Company's financial instruments at March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 8,436	\$ 8,436	\$ 19,375	\$ 19,375
Restricted cash	10,264	10,264	—	—
Investment securities available for sale	119,322	119,322	86,040	86,040
Mortgage loans held in securitization trusts (net)	223,271	198,391	228,185	206,560
Derivative asset	5,902	5,902	—	—
Assets related to discontinued operation-mortgage loans held for sale (net)	3,801	3,801	3,808	3,808
Mortgage loans held for investment	2,590	2,590	7,460	7,460
Receivable under reverse repurchase agreements	40,252	40,252	—	—
Receivable for securities sold	45,750	45,750	5,653	5,653
Financial liabilities:				
Financing arrangements, portfolio investments	\$ 46,563	\$ 46,563	\$ 35,632	\$ 35,632
Securities sold short, at fair value	81,918	81,918	—	—
Collateralized debt obligations	215,260	181,547	219,993	185,609
Derivative liabilities	827	827	1,087	1,087
Payable for securities purchased	17,450	17,450	—	—
Subordinated debentures (net)	45,000	38,287	45,000	36,399

12. Capital Stock and Earnings per Share

The Company had 400,000,000 shares of common stock, par value \$0.01 per share, authorized, with 9,442,537 and 9,425,442 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively.

The following table presents cash dividends declared by the Company on its common stock with respect to each of the quarterly periods commencing January 1, 2010 and ended March 31, 2011:

Period	Declaration Date	Record Date	Payment Date	Cash Dividend Per Share
First Quarter 2011	March 18, 2011	March 31, 2011	April 26, 2011	\$ 0.18
Fourth Quarter 2010	December 20, 2010	December 30, 2010	January 25, 2011	0.18
Third Quarter 2010	October 4, 2010	October 14, 2010	October 25, 2010	0.18
Second Quarter 2010	June 16, 2010	July 6, 2010	July 26, 2010	0.18
First Quarter 2010	March 16, 2010	April 1, 2010	April 26, 2010	0.25

The Company calculates basic net income (loss) per share by dividing net income (loss) for the period by 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.

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

	For the Three Months Ended	
	March 31,	
	2011	2010
Numerator:		
Net income – Basic	\$ 2,514	\$ 2,668
Net income from continuing operations	2,519	2,357
Net (loss) income from discontinued operations (net of tax)	(5)	311
Effect of dilutive instruments:		
Convertible preferred debentures	—	662
Net income – Dilutive	2,514	3,330
Net income from continuing operations	2,519	3,019
Net (loss) income from discontinued operations (net of tax)	\$ (5)	\$ 311
Denominator:		
Weighted average basis shares outstanding	9,433	9,418
Effect of dilutive instruments:		
Convertible preferred debentures	—	2,500
Weighted average dilutive shares outstanding	9,433	11,918
EPS:		
Basic EPS	\$ 0.27	\$ 0.28
Basic EPS from continuing operations	0.27	0.25
Basic EPS from discontinued operations (net of tax)	—	0.03
Dilutive EPS	\$ 0.27	\$ 0.28
Dilutive EPS from continuing operations	0.27	0.25
Basic EPS from discontinued operations (net of tax)	—	0.03

13. Related Party Transactions

Advisory Agreements

On January 18, 2008, the Company entered into an advisory agreement (the “Prior Advisory Agreement”) with Harvest Capital Strategies LLC (“HCS”) (formerly known as JMP Asset Management LLC), pursuant to which HCS was responsible for implementing and managing the Company’s investments in certain real estate-related and financial assets. The Company entered into the Prior Advisory Agreement concurrent and in connection with its private placement of Series A Preferred Stock to JMP Group Inc. and certain of its affiliates. HCS is a wholly-owned subsidiary of JMP Group Inc. Pursuant to SEC filings as of March 16, 2011, HCS and JMP Group Inc. collectively beneficially owned approximately 15.2% of the Company’s common stock. In addition, until its redemption on December 31, 2010, HCS and JMP Group Inc. collectively beneficially owned 100% of the Company’s Series A Preferred Stock. The Company’s Series A Preferred Stock matured on December 31, 2010, at which time it redeemed all the outstanding shares at the \$20.00 per share liquidation preference plus accrued dividends of \$0.5 million.

Pursuant to the Prior Advisory Agreement, HCS managed investments made by HC and NYMF (other than certain RMBS that are held in these entities for regulatory compliance purposes) as well as any additional subsidiaries that were acquired or formed to hold investments made on the Company’s behalf by HCS. The Company sometimes refers to these subsidiaries in its periodic reports filed with the Securities and Exchange Commission as the “Managed Subsidiaries.” The Prior Advisory Agreement provided for the payment to HCS of a base advisory fee that was equal to 1.50% per annum of the “equity capital” (as defined in the advisory agreement) of the Managed Subsidiaries; and an incentive fee upon the Managed Subsidiaries achieving certain investment hurdles. HCS was also eligible to earn an incentive fee on the managed assets. The Prior Advisory Agreement incentive fee was 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 payable by us to HCS in cash, quarterly in arrears; *provided, however*, that a portion of the incentive compensation may be paid in shares of our common stock. The Prior Advisory Agreement was terminated effective July 26, 2010 upon execution and effectiveness of an amended and restated advisory agreement among the Company, HC, NYMF and HCS (the “HCS Advisory Agreement”).

Pursuant to the HCS Advisory Agreement, HCS provides investment advisory services to the Company and manages on the Company’s behalf “new program assets” acquired after the date of the HCS Advisory Agreement. The terms for new program assets, including the compensation payable thereunder to HCS by the Company, will be negotiated on a transaction-by-transaction basis. For those new program assets identified as “Managed Assets”, HCS will be (A) entitled to receive a quarterly base advisory fee (payable in arrears) in an amount equal to the product of (i) $\frac{1}{4}$ of the amortized cost of the Managed Assets as of the end of the quarter, and (ii) 2%, and (B) eligible to earn incentive compensation on the Managed Assets for each fiscal year during the term of the Agreement in an amount (not less than zero) equal to 35% of the GAAP net income attributable to the Managed Assets for the full fiscal year (including paid interest and realized gains), after giving effect to all direct expenses related to the Managed Assets, including but not limited to, the annual consulting fee (described below) and base advisory fees, that exceeds a hurdle rate of 13% based on the average equity of the Company invested in Managed Assets during that particular year. For those new program assets identified as Scheduled Assets, HCS will receive the compensation, which may include base advisory and incentive compensation, agreed upon between the Company and HCS and set forth in a term sheet or other documentation related to the transaction. HCS will continue to be eligible to earn incentive compensation on those assets held by the Company as of the effective date of the HCS Advisory Agreement that are deemed to be managed assets under the Prior Advisory Agreement. Incentive compensation for these “legacy assets” will be calculated in the manner prescribed in the Prior Advisory Agreement. Lastly, during the term of the HCS Advisory Agreement, the Company will pay HCS an annual consulting fee equal to \$1 million, subject to reduction under certain circumstances, payable on a quarterly basis in arrears, for consulting and support services related to finance, capital markets, investment and other strategic activities of the Company.

For the three months ended March 31, 2011 and 2010, HCS earned aggregate base advisory and consulting fees of approximately \$0.3 million and \$0.2 million, respectively, and an incentive fee of approximately \$0.7 million and \$0.3 million, respectively. As of March 31, 2011, HCS was managing approximately \$49.5 million of assets on the Company’s behalf. As of March 31, 2011 and December 31, 2010, the Company had a management fee payable totaling \$1.0 million and \$0.7 million, respectively, included in accrued expenses and other liabilities.

The HCS Advisory Agreement has an initial term that expires on June 30, 2012, subject to automatic annual one-year renewals thereafter. The Company may terminate the Agreement or elect not to renew the Agreement, subject to certain conditions and subject to paying a termination fee equal to the product of (A) 1.5 and (B) the sum of (i) the average annual base advisory fee earned by HCS during the 24-month period preceding the effective termination date, and (ii) the annual consulting fee.

JMP and its affiliates have, at times, co-invested with the Company and/or made debt or equity investments in investees they introduced to the Company. James J. Fowler, the Company’s Chairman and the Chief Investment Officer of HC and NYMF, is a portfolio manager for HCS and a managing director of JMP Group Inc.

14. Income Taxes

At March 31, 2011, the Company had approximately \$58 million of net operating loss carryforwards which may be used to offset future taxable income. The carryforwards will expire in 2024 through 2029. 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. In connection with a prior transaction, 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, however, the Company may be required to pay income taxes under certain circumstances.

15. Stock Incentive Plan

In May 2010, the Company's stockholders approved the Company's 2010 Stock Incentive Plan (the "2010 Plan"), with such stockholder action resulting in the termination of the Company's 2005 Stock Incentive Plan (the "2005 Plan"). The terms of the 2010 Plan are substantially the same as the 2005 Plan. However, any outstanding awards under the 2005 Plan will continue in accordance with the terms of the 2005 Plan and any award agreement executed in connection with such outstanding awards. At March 31, 2011, there are 43,083 shares of restricted stock outstanding under the 2010 and 2005 Plan.

Pursuant to the 2010 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 and other equity awards under the 2010 Plan. The maximum number of shares that may be issued under the 2010 Plan is 1,190,000. The Company's directors have been issued 10,188 shares under the 2010 Plan in lieu of cash compensation as of March 31, 2011.

During the three months ended March 31, 2011 and 2010, the Company recognized non-cash compensation expense of approximately \$47,000 and \$48,000, respectively. Dividends are paid on all restricted stock issued, whether those shares have vested or not. Notwithstanding certain exceptions, non-vested restricted stock is forfeited upon the recipient's termination of employment.

A summary of the activity of the Company's non-vested restricted stock for the three months ended March 31, 2011 and March 31, 2010, respectively, are presented below:

	2011		2010	
	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value ⁽¹⁾	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value ⁽¹⁾
Non-vested shares at January 1	28,999	\$ 5.43	60,665	\$ 5.28
Granted	14,084	7.10	4,000	7.50
Forfeited	—	—	—	—
Vested	—	—	—	—
Non-vested shares as of March 31	43,083	\$ 5.98	64,665	\$ 5.42
Weighted-average fair value of restricted stock granted during the period	14,084	\$ 7.10	4,000	\$ 7.50

(1) The grant date fair value of restricted stock awards is based on the closing market price of the Company's common stock at the grant date.

At March 31, 2011 and 2010, the Company had unrecognized compensation expense of \$0.1 million and \$0.2 million, respectively, related to the non-vested shares of restricted common stock. The unrecognized compensation expense at March 31, 2011 is expected to be recognized over a weighted average period of 2.1 years. The total fair value of restricted shares vested during the three months ended March 31, 2011 and 2010 was \$0.

16. Subsequent Event

On April 5, 2011, we entered into a multi-year investment management agreement with RiverBanc LLC ("RiverBanc"), a privately owned investment management and specialty finance company focused on high-yielding investments in the commercial real estate arena. Under

the investment management agreement, RiverBanc will source, structure and manage investments secured by commercial real estate that will be funded by a subsidiary of NYMT on a flow basis. As part of this transaction, NYMT is also eligible to receive a minority ownership interest in RiverBanc, alongside RiverBanc’s management team and Harvest Capital Strategies LLC, which also serves as an external advisor to NYMT.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements included or implied in this Quarterly Report on Form 10-Q constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “goal,” “objective,” “potential,” “project,” “should,” “will” and “would” or the negative of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently in our possession. These beliefs, assumptions and expectations may change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, the performance of our portfolio and our business, financial condition, liquidity and results of operations may vary materially from those expressed, anticipated or contemplated in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements:

- changes in our business and strategies;
- our ability to successfully diversify our investment portfolio and identify suitable assets to invest in;
- the effect of the Federal Reserve's and the U.S. Treasury's actions and programs, including future purchases or sales of Agency RMBS by the Federal Reserve or Treasury, on the liquidity of the capital markets and the impact and timing of any further programs or regulations implemented by the U.S. Government or its agencies;
- any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac or Ginnie Mae and the U.S. Government;
- increased prepayments of the mortgages and other loans underlying our investment securities;
- the volatility of the markets for our targeted assets;
- increased rates of default and/or decreased recovery rates on our assets;
- mortgage loan modification programs and future legislative action;
- the degree to which our hedging strategies may or may not protect us from, or expose us to, credit, prepayment or interest rate risk;
- changes in the availability, terms and deployment of capital;
- changes in interest rates and interest rate mismatches between our assets and related borrowings;
- our ability to maintain existing financing agreements, obtain future financing arrangements and the terms of such arrangements;
- changes in economic conditions generally and the mortgage, real estate and debt securities markets specifically;
- legislative or regulatory changes;
- changes to GAAP; 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, 2010 and any other documents we file with the SEC.

We cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements, which apply only as of the date of this report. We do not intend and disclaim any duty or obligation to update or revise any industry information or forward-looking statements set forth in this report to reflect new information, future events or otherwise, except as

required under the U.S. federal securities laws.

In this Quarterly Report on Form 10-Q we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as “we,” “us,” “Company,” or “our,” unless we specifically state otherwise or the context indicates otherwise. We refer to Hypotheca Capital, LLC, our wholly-owned taxable REIT subsidiary (“TRS”) as “HC,” and New York Mortgage Funding, LLC, our wholly-owned qualified REIT subsidiary (“QRS”) as “NYMF.” In addition, the following defines certain of the commonly used terms in this report: “RMBS” refers to residential adjustable-rate, hybrid adjustable-rate and fixed-rate mortgage-backed securities; “Agency RMBS” refers to RMBS that are issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “non-Agency RMBS” refers to RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) mortgage loans; “CMOs” refers to collateralized mortgage obligations, “REMICs” refers to real estate mortgage investment conduits, “IOs” refers to interest only securities, including inverse interest only securities, “POs” refers to principal-only securities, “ARMs” refers to adjustable-rate residential mortgage loans; “prime ARM loans” refers to prime credit quality residential ARM loans (“prime ARM loans”) held in securitization trusts; and “CMBS” refers to commercial mortgage-backed securities.

General

We are a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets. 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 our leveraged assets and our operating costs, which we refer to as our net interest income. We intend to achieve this objective by investing in a broad class of mortgage-related and financial assets that in aggregate will generate what we believe are attractive risk-adjusted total returns for our stockholders. Our targeted assets currently include Agency RMBS consisting of pass-through certificates, CMOs, REMICs, IOs and POs, non-Agency RMBS, which may include non-Agency IOs and POs, prime ARM loans held in securitization trusts, CMBS, commercial mortgage loans and other commercial real estate-related debt investments. We also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them.

Since 2009, we have repositioned our investment portfolio away from one primarily focused on leveraged Agency RMBS and prime ARM loans held in securitization trusts, to a more diversified portfolio that includes elements of credit risk with reduced leverage, as evidenced by our investments in residential mortgage loans in 2010 and our establishment and initial funding of the Midway Residential Mortgage Portfolio in February 2011. In-line with our diversification strategy and focus on asset performance, we intend to pursue investment opportunities in the commercial mortgage market through our relationship with RiverBanc LLC (“RiverBanc”), a privately owned investment management and specialty finance company focused on high-yielding investments in the commercial real estate arena. We anticipate contributing capital to both our residential mortgage strategy, particularly the Midway Residential Mortgage Portfolio, and our commercial mortgage strategy, in the future, such that these investments will become significant contributors to our revenues and earnings and will represent a significant portion of our total assets in the future. For more information regarding our Midway Residential Mortgage Portfolio strategy and our relationship with Riverbanc, see “—Recent and Subsequent Events” below.

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

Recent and Subsequent Events

Initial Funding of Midway Residential Mortgage Portfolio Managed by The Midway Group

As previously disclosed, on February 11, 2011, we entered into an investment management agreement (the “Midway Management Agreement”) with The Midway Group, L.P. (“Midway”), pursuant to which Midway serves as investment manager of a separate account established and owned by us. We refer to this separate account as the Midway Residential Mortgage Portfolio.

On February 28, 2011, we provided \$24.5 million of initial funding to the Midway Residential Mortgage Portfolio. As of the date of this report, we have provided an additional \$10.0 million of funding to the Midway Residential Mortgage Portfolio and we expect to contribute additional capital to the Midway Residential Mortgage Portfolio in the future, subject to various conditions. For more information regarding our Midway Residential Mortgage Portfolio strategy, including our investment, financing and hedging strategies for this portfolio, see “Item 1 — Business” in our Annual Report on Form 10-K for the year ended December 31, 2010. Additional information regarding the performance and balance sheet characteristics of the Midway Residential Mortgage Portfolio (see “ – Midway Residential Mortgage Portfolio” below).

Commercial Mortgage Portfolio Strategy Development

On April 11, 2011, we announced that one of our wholly-owned subsidiaries, RB Commercial Mortgage LLC (“RBCM”), had entered into a multi-year investment management agreement with RiverBanc (the “RiverBanc Management Agreement”). Under the investment management agreement, RiverBanc will source, structure and manage investments secured by commercial real estate that will be funded by RBCM on a flow basis. The investment program is expected to provide both mezzanine loans and preferred equity for all commercial property types on a nationwide basis. RiverBanc will focus on middle market opportunities and pursue on behalf of RBCM transactions in amounts as low as \$2 million secured by properties valued at \$10 million or greater. RBCM will also participate in structured investments such as the acquisition of seasoned or distressed loan portfolios, net leased properties or subordinate commercial mortgage-backed securities.

The RiverBanc Management Agreement has a term that will expire on April 5, 2013, subject to automatic annual one-year renewals thereafter. Pursuant to the terms of the RiverBanc Management Agreement, RiverBanc will receive a monthly base management fee in arrears in a cash amount equal to the product of (i) 1.50% per annum of our invested capital in RBCM as of the last business day of the previous month, multiplied by (ii) 1/12th. In addition, RiverBanc will be entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon the average invested capital in RBCM during the fiscal quarter, subject to a high water mark equal to a 9% return on invested capital, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the RiverBanc Management Agreement) attributable to the invested capital in RBCM, on a calendar 12-month basis and before accounting for any incentive fees payable to RiverBanc, exceeds an annual 12% rate of return on invested capital. The RiverBanc Management Agreement has a term that will expire on April 5, 2013, subject to automatic annual one-year renewals thereafter. We may terminate the RiverBanc Management Agreement or elect not to renew the agreement, subject to certain conditions and subject, in certain cases, to paying a termination fee equal to the product of (A) 24 and (B) the monthly base management earned by RiverBanc during the month immediately preceding the month in which the termination occurs.

As part of this transaction, subject to our funding of RBCM at various thresholds, we are eligible, through our TRS, to receive an ownership interest in RiverBanc of up to 17.5%, alongside RiverBanc’s management team and Harvest Capital Strategies LLC, which also serves as an external advisor to our company.

Disposition of Portion of CLOs in Our Portfolio

For the period April 1, 2011 to the date of this report, we opportunistically sold the highest rated and lowest yielding tranche of CLOs from our portfolio, realizing a net profit before incentive fee of approximately \$2.5 million.

Current Market Conditions and Commentary

Recent Government Actions. Since 2008, the U.S. Government and the Federal Reserve and other governmental regulatory bodies have taken significant actions to stabilize or improve market and economic conditions in the U.S. While the impact from many of these programs has not been as extensive as initially anticipated, a number of these programs have impacted and may in the future continue to impact our portfolio and our results of operations. A description of recent government actions that we believe are most relevant to our operations and business is included below:

- In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed by the U.S. Congress. This

legislation aims to restore responsibility and accountability to the financial system. It is unclear how this legislation may impact the borrowing environment, investing environment for RMBS and other targeted assets, interest rate swaps and other derivatives as much of the legislation's implementation has not yet been defined by regulators.

- In November 2010, the U.S. Federal Reserve announced a program to purchase an additional \$600 billion of longer-term U.S. Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. One of the effects of this program may be to increase the price of Agency RMBS. Once the program is terminated it may cause a decrease in demand for these securities, which likely would reduce their market price.
- As part of its plan to sell off a \$142 billion portfolio of mortgage-backed securities it purchased during the financial crisis, in March 2011, the U.S. Treasury Department announced plans to begin selling those securities. The U.S. Treasury's investments are primarily 30-year, fixed-rate mortgage securities guaranteed by either Fannie Mae or Freddie Mac that were purchased in late 2008 and 2009. The U.S. Treasury is aiming to sell off about \$10 billion each month (in addition to principal pay-downs) and made the decision to begin selling these securities in light of the general improvement in the U.S. economy.

Developments at Fannie Mae and Freddie Mac . Payments on the Agency RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. As broadly publicized, Fannie Mae and Freddie Mac have experienced significant losses in recent years, causing the U.S. Government to place Fannie Mae and Freddie Mac under federal conservatorship. In February 2011, the U.S. Department of the Treasury along with the U.S. Department Housing and Urban Development released a much-awaited report titled “Reforming America’s Housing Finance Market”, which outlines recommendations for reforming the U.S. housing system, specifically the roles of Fannie Mae and Freddie Mac and transforming the government’s involvement in the housing market. It is unclear how future legislation may impact the housing finance market and the investing environment for mortgage-related securities and more specifically, Agency RMBS and non-Agency RMBS, as the method of reform is undecided and has not yet been defined by the regulators. The scope and nature of the actions that the U.S. Government will ultimately undertake with respect to the future of Fannie Mae and Freddie Mac are unknown and will continue to evolve. New regulations and programs related to Fannie Mae and Freddie Mac may adversely affect the pricing, supply, liquidity and value of RMBS and otherwise materially harm our business and operations. For more information regarding specific developments at Fannie Mae and Freddie Mac in 2010, see this same section in our Annual Report on Form 10-K for the year ended December 31, 2010.

Mortgage and Other Asset Values . During the first quarter of 2011, we continued to observe strong demand and high prices for Agency RMBS. Market demand for non-Agency RMBS during the first quarter of 2011 remains strong. We expect market values for certain of our other targeted assets, such as CMBS, CLOs, and residential and commercial whole loans to improve as the economic outlook in the U.S. and abroad improves.

Credit Quality. U.S. residential mortgage delinquency rates have continued to remain at high levels for various types of mortgage loans during the 2011 first quarter. Recent months have seen some stabilization or improvement of certain measures of credit quality, although this stabilization and/or improvement may ultimately prove to be temporary. While RMBS backed by subprime mortgages and option ARMs are experiencing the highest delinquency and loss rates, our portfolio of prime ARM loans held in securitization trusts continue to experience high delinquency rates. More recently, however, there is a growing concern that the increasing supply of unsold homes as a result of foreclosure delays has put renewed downward pressure on home pricing, which may lead to further delinquency and loss rates on various RMBS.

Financing markets and liquidity. The availability of repurchase agreement financing is stable with interest rates between 0.27% and 0.30% for 30-90 day repurchase agreements. The 30-day LIBOR, which was 0.24% at March 31, 2011, has remained relatively unchanged since December 31, 2010. While we expect interest rates to rise over the longer term, we believe that interest rates, and thus our financing costs, are likely to remain at these historically low levels until such time as the economic data begin to confirm a sustainable improvement in the overall economy.

Over the past year, many investment banks have resumed making term financing available for non-Agency RMBS. The return of financing availability and the stabilization of borrowing costs have somewhat improved liquidity in the market for these securities, although such financing is currently available only in limited amounts and with respect to only certain types of those securities, so such improved liquidity is likely to be limited in the near term.

As of March 31, 2011, the weighted average “haircut” related to our repurchase agreement financing for our Agency IOs and other Agency RMBS was approximately 35% and 6%, respectively, for a total weighted average “haircut” of 14%. As of March 31, 2011, the Company had available cash of \$8.4 million to meet short term liquidity requirements.

Prepayment rates. As a result of various government initiatives and the reduction in intermediate and longer-term treasury yields, rates on conforming mortgages continue to be historically low. While these trends have historically resulted in higher rates of refinancing and thus higher prepayment speeds, we have observed little impact from refinancing on the CPR for our portfolio. However, the CPR on our RMBS portfolio was negatively impacted during the three months ended March 31, 2010, by repurchase programs implemented by Freddie Mac and Fannie Mae. Hence, the CPR on our RMBS portfolio for the first quarter of 2011 has declined from 2010 levels. See “– Summary of Operations – Prepayment Experience” below.

Significance of Estimates and Critical Accounting Policies

A summary of our critical accounting policies is included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2010 and “Note 1 – Summary of Significant Accounting Policies” to the condensed consolidated financial statements included therein. In 2011, the Company elected the fair value option for its investments in the Midway Residential Mortgage Portfolio, which measures unrealized gains and losses through earnings in the condensed consolidated statements of operations.

Summary of Operations

Net Interest Spread . For the three months ended March 31, 2011, 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, IOs, U.S. Treasury securities, mortgage loans held in securitization trusts and mortgage loans held for sale. The net interest spread on our investment portfolio was 368 basis points for the quarter ended March 31, 2011, as compared to 353 basis points for the quarter ended December 31, 2010, and 425 basis points for the quarter ended March 31, 2010.

Financing. During the quarter ended March 31, 2011, we continued to employ a balanced and diverse funding mix to finance our assets. At March 31, 2011, our Agency RMBS portfolio was funded with approximately \$46.6 million of repurchase agreement borrowing, which represents approximately 11.3% of our total liabilities, at a weighted average interest rate of 0.48%. The increase in the borrowing rate was due to the addition of the Midway Residential Mortgage Portfolio which includes Agency IOs. The borrowing rate for the Agency IOs was approximately 86 basis points as compared to 34 basis points for the other Agency RMBS. The Company’s weighted average haircut on its repurchase borrowings was approximately 14% at March 31, 2011. As of March 31, 2011, our wholly owned subsidiary, HC, had trust preferred securities outstanding of \$45.0 million, which represents approximately 10.9% of our total liabilities, at a weighted average interest rate of 4.1%. As of March 31, 2011, the loans held in securitization trusts were permanently financed with approximately \$215.3 million of CDOs, which represents approximately 52.4% of our total liabilities, at an average interest rate of 0.63%. The Company has a net equity investment of \$8.6 million in the securitization trusts as of March 31, 2011.

At March 31, 2011 our leverage ratio for our RMBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by stockholders’ equity, was less than 1 to 1. We have continued to utilize significantly less leverage than our previously targeted leverage due to the ongoing repositioning of our investment portfolio from one primarily focused on leveraged Agency RMBS and prime ARM loans held in securitization trusts to a more diversified portfolio with reduced leverage.

Prepayment Experience. The CPR on our overall mortgage portfolio averaged approximately 9.6% during the three months ended March 31, 2011, as compared to 13.8% for the three months ended December 31, 2010. CPRs on our purchased portfolio of RMBS for the three months ended March 31, 2011 were 16.9%, as compared to 21.0% for the three months ended December 31, 2010. The CPRs on our mortgage loans held in securitization trusts averaged approximately 7.0% during the three months ended March 31, 2011, as compared to 11.5% for the three months ended December 31, 2010. When prepayment expectations over the remaining life of assets increase, we amortize premiums over a shorter time period, which results in a reduced yield to maturity on our investment assets. Conversely, if prepayment expectations decrease, the premium is 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 March 31, 2011, we had approximately \$482.2 million of total assets, as compared to approximately \$374.3 million of total assets as of December 31, 2010.

Balance Sheet Analysis

Investment Securities Available for Sale - The following tables set forth the balances of our investment securities as of March 31, 2011 (dollar amounts in thousands):

	Par Value	Carrying Value	% of Portfolio
March 31, 2011			
Agency RMBS	\$ 315,473	\$ 77,287	64.8%
Non-Agency RMBS	8,776	6,780	5.7%
CLO	40,950	30,262	25.4%
U.S. Treasury securities	5,000	4,993	4.1%
Total	<u>\$ 370,199</u>	<u>\$ 119,322</u>	<u>100.0%</u>

Securities included in investment securities available for sale held in our Midway Residential Mortgage Portfolio that are measured at fair value through earnings as of March 31, 2011 are as follows (dollar amounts in thousands):

	Par Value	Carrying Value	% of Portfolio
March 31, 2011			
Interest only securities included in Agency RMBS:			
Fannie Mae	\$ 110,287	\$ 17,468	46.6%
Freddie Mac	62,248	8,640	23.1%
Ginnie Mae	100,509	6,380	17.0%
U.S. Treasury securities	5,000	4,993	13.3%
Total	<u>\$ 278,044</u>	<u>\$ 37,481</u>	<u>100.0%</u>

The following table sets forth the balances of our investment securities as of December 31, 2010 (dollar amounts in thousands):

	Par Value	Carrying Value	% of Portfolio
December 31, 2010			
Agency RMBS	\$ 45,042	\$ 47,529	55.3%
Non-Agency RMBS	11,104	8,985	10.4%
CLO	45,950	29,526	34.3%
Total	<u>\$ 102,096</u>	<u>\$ 86,040</u>	<u>100.0%</u>

Detailed Composition of Loans Securitizing Our CLOs

The following tables summarize the loans securitizing our CLOs grouped by range of outstanding balance and industry as of March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Range of Outstanding Balance	As of March 31, 2011			As of December 31, 2010		
	Number of Loans	Maturity Date	Total Principal	Number of Loans	Maturity Date	Total Principal
\$0 - \$500	16	11/2014 – 2/2018	\$ 6,988	11	11/2014 - 11/2017	\$ 5,404
\$500 - \$2,000	85	6/2013 – 9/2019	120,094	72	5/2013 - 12/2017	95,704
\$2,000 - \$5,000	89	10/2012 – 3/2018	272,499	88	8/2012 - 11/2017	276,265
\$5,000 - \$10,000	9	11/2011 – 3/2016	59,180	11	11/2011 - 3/2016	77,366
+\$10,000	—	—	—	—	—	—
Total	<u>199</u>		<u>\$ 458,761</u>	<u>182</u>		<u>\$ 454,739</u>

March 31, 2011

Industry	Number of Loans	Outstanding Balance	% of Outstanding Balance
Healthcare, Education and Childcare	22	\$ 60,155	13.11%
Retail Store	14	36,007	7.85%
Telecommunications	16	29,262	6.38%
Electronics	11	26,291	5.73%
Leisure, Amusement, Motion Pictures & Entertainment	10	21,916	4.78%
Chemicals, Plastics and Rubber	11	21,852	4.76%
Personal, Food & Misc. Services	12	21,391	4.66%
Beverage, Food & Tobacco	8	17,779	3.88%
Hotels, Motels, Inns and Gaming	5	17,296	3.77%
Utilities	5	16,992	3.70%
Aerospace & Defense	9	16,559	3.61%
Diversified Conglomerate Service	9	16,133	3.52%
Diversified/Conglomerate Mfg	6	14,751	3.22%
Personal & Non-Durable Consumer Products	5	14,351	3.13%
Cargo Transport	3	14,159	3.09%
Insurance	3	14,083	3.07%
Printing & Publishing	4	11,091	2.42%
Automobile	5	9,169	2.00%
Banking	3	8,734	1.90%
Buildings and Real Estate	4	8,343	1.82%
Farming & Agriculture	4	7,901	1.72%
Finance	4	7,745	1.69%
Containers, Packaging and Glass	4	7,620	1.66%
Machinery (Non-Agriculture, Non-Construction & Non-Electric)	4	7,450	1.62%
Personal Transportation	3	7,080	1.54%
Ecological	3	6,293	1.37%
Textiles & Leather	4	4,855	1.06%
Mining, Steel, Iron and Non-Precious Metals	2	4,461	0.97%
Grocery	2	2,980	0.65%
Broadcasting & Entertainment	2	2,450	0.53%
Diversified Natural Resources, Precious Metals and Minerals	1	2,244	0.49%
Oils & Gas	1	1,368	0.30%
	<u>199</u>	<u>\$ 458,761</u>	<u>100.00%</u>

December 31, 2010

Industry	Number of Loans	Outstanding Balance	% of Outstanding Balance
Healthcare, Education and Childcare	19	\$ 52,537	11.55%
Retail Store	10	29,388	6.46%
Electronics	10	29,148	6.41%
Telecommunications	13	26,410	5.81%
Leisure, Amusement, Motion Pictures & Entertainment	10	22,316	4.91%
Personal, Food & Misc. Services	10	21,179	4.66%
Chemicals, Plastics and Rubber	9	20,962	4.61%
Beverage, Food & Tobacco	9	18,666	4.10%
Utilities	5	17,035	3.75%
Aerospace & Defense	7	16,468	3.62%
Insurance	3	16,245	3.57%
Hotels, Motels, Inns and Gaming	5	15,389	3.38%
Farming & Agriculture	5	14,983	3.29%
Cargo Transport	3	14,372	3.16%
Diversified/Conglomerate Mfg	6	13,914	3.06%
Personal & Non-Durable Consumer Products	5	13,774	3.03%
Printing & Publishing	4	11,944	2.63%
Diversified/Conglomerate Service	5	10,841	2.38%
Broadcasting & Entertainment	4	10,037	2.21%
Ecological	4	8,763	1.93%
Finance	3	7,803	1.72%
Containers, Packaging and Glass	4	7,635	1.68%
Machinery (Non-Agriculture, Non-Construction & Non-Electronic)	4	7,482	1.65%
Personal Transportation	3	7,306	1.61%
Buildings and Real Estate	3	6,970	1.53%
Banking	2	6,750	1.48%
Automobile	5	6,544	1.44%
Mining, Steel, Iron and Non-Precious Metals	3	5,466	1.20%
Textiles & Leather	3	4,359	0.96%
Grocery	2	3,994	0.88%
Oil & Gas	3	3,808	0.84%
Diversified Natural Resources, Precious Metals and Minerals	1	2,251	0.49%
	<u>182</u>	<u>\$ 454,739</u>	<u>100.00%</u>

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 and that we subsequently securitized. Since our formation, we have completed four securitizations; three of which were classified as financings and one of which, New York Mortgage Trust 2006-1, qualified as a sale and resulted in the recording of residual assets and mortgage servicing rights.

The following table details mortgage loans held in securitization trusts at March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

	<u># of Loans</u>	<u>Par Value</u>	<u>Coupon</u>	<u>Carrying Value</u>
March 31, 2011	546	\$ 224,436	2.98%	\$ 223,271
December 31, 2010	559	\$ 229,323	3.16%	\$ 228,185

At March 31, 2011, mortgage loans held in securitization trusts totaled approximately \$223.3 million, or 46.3% of our total assets. Of this mortgage loan investment portfolio, 100% are traditional ARMs or hybrid ARMs, 81.3% of which are ARM loans that are interest only for a period of typically 10 years. None of the mortgage loans held in securitization trusts are payment option-ARMs or ARMs with negative amortization.

The following tables set forth the characteristics of our portfolio of mortgage loans held in securitization trusts as of March 31, 2011 (dollar amounts in thousands):

	<u>Average</u>	<u>High</u>	<u>Low</u>
General Loan Characteristics:			
Original Loan Balance (dollar amounts in thousands)	\$ 443	\$ 2,950	\$ 48
Current Coupon Rate	2.98%	7.25%	1.38%
Gross Margin	2.37%	4.13%	1.13%
Lifetime Cap	11.28%	13.25%	9.13%
Original Term (Months)	360	360	360
Remaining Term (Months)	289	297	256
Average Months to Reset	3	11	1
Original Average FICO Score	729	818	593
Original Average LTV	70.47%	95.00%	13.94%

	<u>% of Outstanding Loan Balance</u>	<u>Weighted Average Gross Margin (%)</u>
Index Type/Gross Margin:		
One Month LIBOR	3%	1.69%
Six Month LIBOR	73%	2.40%
One Year LIBOR	16%	2.26%
One Year Constant Maturity Treasury	8%	2.65%
Total	<u>100%</u>	

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

Description			Interest Rate %			Final Maturity							Principal Amount of Loans Subject to Delinquent Principal or Interest
Property Type	Balance	Loan Count	Max	Min	Avg	Min	Max	Periodic Payment Terms (months)	Prior Liens	Original Amount of Principal	Current Amount of Principal		
Single	<= \$100	12	3.88	2.63	3.11	12/1/1934	11/1/1935	360	N/A	\$ 1,508	\$ 887	\$	-
Family	<= \$250	70	4.88	2.63	3.21	9/1/1932	12/1/1935	360	N/A	14,837	12,654		591
	<= \$500	98	4.13	2.63	3.03	7/1/1933	1/1/1936	360	N/A	37,389	34,080		7,436
	<= \$1,000	38	3.63	1.5	2.86	8/1/1933	12/1/1935	360	N/A	30,577	28,639		3,411
	> \$1,000	21	3.25	2.75	2.91	1/1/1935	11/1/1935	360	N/A	37,357	36,842		10,162
	Summary	239	4.88	1.5	3.05	9/1/1932	1/1/1936	360	N/A	121,668	113,102		21,600
2-4	<= \$100	1	3.75	3.75	3.75	2/1/1935	2/1/1935	360	N/A	80	73		75
FAMILY	<= \$250	7	3.75	2.75	3.18	12/1/1934	7/1/1935	360	N/A	1,415	1,213		-
	<= \$500	15	7.25	2.13	3.25	9/1/1934	1/1/1936	360	N/A	5,554	5,227		254
	<= \$1,000	-	-	-	-	01/00/00	01/00/00	360	N/A	-	-		-
	> \$1,000	-	-	-	-	01/00/00	01/00/00	360	N/A	-	-		-
	Summary	23	7.25	2.13	3.25	9/1/1934	1/1/1936	360	N/A	7,049	6,513		329
Condo	<= \$100	15	3.5	2.75	2.93	1/1/1935	12/1/1935	360	N/A	1,912	923		55
	<= \$250	73	3.88	2.75	3.14	2/1/1934	1/1/1936	360	N/A	14,272	12,684		551
	<= \$500	64	3.88	1.5	3	9/1/1932	12/1/1935	360	N/A	21,957	20,751		272
	<= \$1,000	21	3.88	1.63	2.86	8/1/1933	10/1/1935	360	N/A	15,489	14,512		-
	> \$1,000	10	3.13	2.75	2.86	1/1/1935	9/1/1935	360	N/A	14,914	14,643		-
	Summary	183	3.88	1.5	3.03	9/1/1932	1/1/1936	360	N/A	68,544	63,513		878
CO-OP	<= \$100	4	3	2.63	2.78	10/1/1934	8/1/1935	360	N/A	443	325		-
	<= \$250	18	3.38	2.25	2.9	10/1/1934	12/1/1935	360	N/A	4,011	3,235		212
	<= \$500	26	4	1.38	2.9	8/1/1934	12/1/1935	360	N/A	10,724	9,501		-
	<= \$1,000	12	3	2.75	2.78	12/1/1934	10/1/1935	360	N/A	9,089	8,881		-
	> \$1,000	4	2.75	2.25	2.63	11/1/1934	12/1/1935	360	N/A	5,659	5,315		-
	Summary	64	4	1.38	2.84	8/1/1934	12/1/1935	360	N/A	29,926	27,257		212
PUD	<= \$100	1	2.75	2.75	2.75	7/1/1935	7/1/1935	360	N/A	100	91		-
	<= \$250	17	3.5	2.63	2.99	1/1/1935	12/1/1935	360	N/A	3,512	3,326		113
	<= \$500	12	3.5	2.63	3.04	8/1/1932	12/1/1935	360	N/A	4,234	3,969		770
	<= \$1,000	4	3.5	2.75	3.13	5/1/1934	7/1/1935	360	N/A	2,832	2,625		-
	> \$1,000	3	3.01	2.75	2.92	4/1/1934	12/1/1935	360	N/A	4,148	4,040		-
	Summary	37	3.5	2.63	3.01	8/1/1932	12/1/1935	360	N/A	14,826	14,051		883
Summary	<= \$100	33	3.88	2.63	3	10/1/1934	12/1/1935	360	N/A	4,043	2,299		130
	<= \$250	185	4.88	2.25	3.13	9/1/1932	1/1/1936	360	N/A	38,047	33,112		1,467
	<= \$500	215	7.25	1.38	3.03	8/1/1932	1/1/1936	360	N/A	79,858	73,528		8,732
	<= \$1,000	75	3.88	1.5	2.86	8/1/1933	12/1/1935	360	N/A	57,987	54,657		3,411
	> \$1,000	38	3.25	2.25	2.87	4/1/1934	12/1/1935	360	N/A	62,078	60,840		10,162
	Grand Total	546	7.25	1.38	2.98	8/1/1932	1/1/1936	360	N/A	\$ 242,013	\$ 224,436	\$	23,902

The following table details activity for loans held in securitization trusts for the three months ended March 31, 2011 (dollar amounts in thousands):

	Current Principal	Premium	Loan Reserve	Net Carrying Value
Balance, January 1, 2011	\$ 229,323	\$ 1,451	\$ (2,589)	\$ 228,185
Principal repayments	(4,453)	—	—	(4,453)
Provision for loan losses	—	—	(425)	(425)
Transfer to real estate owned	—	—	—	—
Charge-offs	(434)	—	434	—
Amortization for premium	—	(36)	—	(36)
Balance, March 31, 2011	<u>\$ 224,436</u>	<u>\$ 1,415</u>	<u>\$ (2,580)</u>	<u>\$ 223,271</u>

Investment in Limited Partnership - The following table details loan summary information for the mortgage loans held in the limited partnership in which our interest in the limited partnership is accounted for under the equity method as of March 31, 2011 and December 31, 2010, respectively (dollar amounts in thousands):

Loan Summary	March 31, 2011
Number of Loans	122
Aggregate Current Loan Balance	\$ 20,737
Average Current Loan Balance	\$ 170
Weighted Average Original Term (Months)	374
Weighted Average Remaining Term (Months)	323
Weighted Average Gross Coupon (%)	6.75%
Weighted Average Original Loan-to-Value of Loan (%)	85.81%
Average Cost-to-Principal of Asset at Funding (%)	70.17%
Fixed Rate Mortgages (%)	69.24%
Adjustable Rate Mortgages (%)	30.76%
First Lien Mortgages (%)	100.00%

Loan Summary	December 31, 2010
Number of Loans	159
Aggregate Current Loan Balance	\$ 26,953
Average Current Loan Balance	\$ 170
Weighted Average Original Term (Months)	377
Weighted Average Remaining Term (Months)	326
Weighted Average Gross Coupon (%)	6.80%
Weighted Average Original Loan-to-Value of Loan (%)	86.60%
Average Cost-to-Principal of Asset at Funding (%)	66.99%
Fixed Rate Mortgages (%)	69.63%
Adjustable Rate Mortgages (%)	30.37%
First Lien Mortgages (%)	100.00%

Cash and cash equivalents – We had unrestricted cash and cash equivalents of \$8.4 million at March 31, 2011.

Restricted cash – We had restricted cash of \$10.3 million at March 31, 2011 which was designated for investments in our Midway Residential Mortgage Portfolio.

Receivables and other assets – Receivables and other assets totaled \$9.8 million as of March 31, 2011, and consist primarily of \$4.0 million of assets related to discontinued operations, \$1.9 million of restricted cash held by third parties, \$1.5 million related to escrow advances, \$0.8 million of accrued interest receivable, \$0.6 million of real estate owned (“REO”) in securitization trusts, \$0.6 million of capitalization expenses related to equity and bond issuance cost, \$0.2 million of prepaid expenses and \$0.1 million of deferred tax asset. The restricted cash held by third parties of \$1.9 million includes \$1.7 million held by counterparties as collateral for hedging instruments and \$0.2 million as collateral for a letter of credit related to the lease of the Company’s corporate headquarters.

Financing Arrangements, Portfolio Investments – As of March 31, 2011, there were approximately \$46.6 million of repurchase borrowings outstanding. Our repurchase agreements typically have terms of 30 days or less. As of March 31, 2011, the current weighted

average borrowing rate on these financing facilities was 0.48%. The increase in the borrowing rate was due to the addition of the Midway Residential Mortgage Portfolio which includes Agency IOs. The borrowing rate for the Agency IOs was approximately 86 basis points as compared to 34 basis points for the other Agency RMBS. For the three months ended March 31, 2011, the ending balance, quarterly average and maximum balance at any month-end of the repurchase agreements, which are included in financing arrangements, portfolio investments on the condensed consolidated balance sheet, were \$46.6 million, \$38.7 million and \$46.6 million, respectively.

Collateralized Debt Obligations – As of March 31, 2011, we had \$215.3 million of collateralized debt obligations, or CDOs, outstanding with a weighted average interest rate of 0.63%. The CDOs permanently finance our loans held in securitization trusts.

Subordinated Debentures – As of March 31, 2011, we have trust preferred securities outstanding of \$45.0 million that bear an average interest rate of 4.14%. These securities have a weighted average interest rate equal to three month LIBOR plus 3.84%. The Company had previously paid interest at a fixed rate of 8.35% on \$20 million of these securities through July 30, 2010. The securities are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment, and mature in 2035. These securities are classified as subordinated debentures in the liability section of our condensed consolidated balance sheets.

Derivative Assets and Liabilities - We generally hedge the risk related to changes in the benchmark interest rates used in the variable rate index, usually a London Interbank Offered Rate ("LIBOR"), as well as prepayment risk associated with our Midway Residential Mortgage Portfolio.

In order to reduce our interest rate risk, we may utilize various hedging instruments, such as interest rate swap agreements whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting our short term repurchase agreement borrowing or CDOs to a fixed rate. We have also entered 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. At March 31, 2011, the Company had \$32.6 million of notional amount of interest rate swaps outstanding with a fair market value of \$0.8 million. In addition, the Company had \$71.9 million of notional amount of outstanding interest rate caps with a fair market value of \$0. Both the interest rate swaps and interest rate caps qualify as cash flow hedges for purposes of reporting.

In addition to utilizing interest rate swaps and caps, we may purchase or sell short U.S. Treasury securities or enter into Eurodollar futures contracts to help mitigate the potential impact of changes in interest rates on the performance of our Midway Residential Mortgage Portfolio. We may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. We account for the securities borrowing transactions as a receivable under reverse repurchase agreements on our condensed consolidated balance sheet. The short sales of U.S. Treasury securities are accounted for as securities sold short, at fair value on our condensed consolidated balance sheet. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized through earnings in the condensed consolidated statements of operations.

As of March 31, 2011, we had \$81.9 million of U.S. Treasury securities sold short, at fair value. We borrowed securities to cover the short sales of U.S. Treasury securities under reverse repurchase agreements from which we received total proceeds of \$82.0 million.

The Company uses TBAs to hedge interest rate risk and the aggregate risk of prepayments associated with its Midway Residential Mortgage Portfolio. For example, we may utilize TBAs to hedge the interest rate or yield spread risk inherent in our long Agency RMBS by taking short positions in TBAs that are similar in character. In a TBA transaction, we would agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable. Because we have not designated these forward commitments as hedging instruments, realized and unrealized gains and losses associated with these TBAs are recognized through earnings in the condensed consolidated statements of operations.

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. In addition, we regularly monitor the potential risk of loss with any one party resulting from this type of credit risk. Accordingly, we do not expect any material losses as a result of default by other parties, but cannot guarantee we do not have counterparty failures.

The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price.

We enter into derivative transactions solely for risk management purposes. The decision of whether or not a given transaction, or a 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 and our third party advisors, 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.

Balance Sheet Analysis - Stockholders' Equity

Stockholders' equity at March 31, 2011 was \$71.2 million and included \$19.6 million of net unrealized gains, \$0.8 million in unrealized derivative losses related to cash flow hedges and \$20.4 million in unrealized gains primarily related to our CLOs presented as accumulated other comprehensive income (loss).

Midway Residential Mortgage Portfolio

The Company has an investment in a wholly owned account referred to as the Midway Residential Mortgage Portfolio. The Midway Residential Mortgage Portfolio investments include IOs, U.S. Treasury securities and a TBA security, which is included in the Company's condensed consolidated balance sheet. The Company has elected the fair value option for these investment securities which measures unrealized gains and losses through earnings in the condensed consolidated statements of operations.

Additionally as of March 31, 2011, the Company had \$81.9 million of U.S. Treasury securities sold short, at fair value. We borrowed securities to cover the short sales of U.S. Treasury securities under reverse repurchase agreements from which we received total proceeds of \$82.0 million.

The condensed balance sheet of the Midway Residential Mortgage Portfolio included in the Company's condensed consolidated balance sheet at March 31, 2011 is as follows (dollar amounts in thousands):

Assets

Investment securities available for sale, at fair value (including pledged securities of \$19,961)	\$	37,481
Restricted cash		10,264
Receivable under reverse repurchase agreements		40,252
Receivable for securities sold		41,958
Derivative asset		5,902
Receivables and other assets		1,307
Total Assets	\$	<u>137,164</u>

Liabilities & Equity

Liabilities:		
Financing arrangements, portfolio investments	\$	13,009
Securities sold short, at fair value		81,918
Payable for securities purchased		17,450
Accrued expenses and other liabilities		85
Total Liabilities		<u>112,462</u>

Equity		24,702
Total Equity		<u>24,702</u>
Total Liabilities and Equity	\$	<u>137,164</u>

The condensed statement of operations of the Midway Residential Mortgage Portfolio included in the Company's condensed consolidated statement of operations for the three months ended March 31, 2011 is as follows (dollar amounts in thousands):

Statement of Operations

Interest income	\$	281
Interest expense		29
Net Interest Income		<u>252</u>
Other income (expense)		
Realized gain on investment securities and related hedge		40
Unrealized loss on investment securities and related hedges		(40)
General, administrative and other expenses		50
Net Income	\$	<u>202</u>

Results of Operations

Overview of Performance

For the three months ended March 31, 2011, we reported net income of \$2.5 million, as compared to net income of \$2.7 million for the same period in 2010. The main components of the change in net income for the three months ended March 31, 2011 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 Ended March 31,		
	2011	2010	Difference
Net interest income	\$ 2,510	\$ 3,408	\$ (898)
Total other income	2,302	805	1,497
General, administrative and other expenses	2,293	1,856	437
Income from continuing operations	2,519	2,357	162
Income from discontinued operation - net of tax	(5)	311	(316)
Net income	\$ 2,514	\$ 2,668	\$ (154)
Basic income per common share	\$ 0.27	\$ 0.28	\$ (0.01)
Diluted income per common share	\$ 0.27	\$ 0.28	\$ (0.01)

The decrease in net income of \$0.2 million for the quarter ended March 31, 2011 as compared to the same period in the previous year was due primarily to a \$0.9 million decrease in net interest margin on the investment portfolio and loans held in securitization trusts, a \$0.4 million increase in provision for loan loss for the loans held in securitization trusts, a \$0.2 million increase in loan loss to fully write-off our investment in New Bridger Holdings LLC, a \$0.3 million decrease in income from discontinued operations – net of tax, and a \$0.4 million increase in general, administrative and other expenses, partially offset by an increase of \$1.4 million in net realized gain on securities and an increase of \$0.8 million in income from investment in limited partnership. The decline in net interest income during the quarter ended March 31, 2011, as compared to the quarter ended March 31, 2010, was primarily due to a \$114.9 million decrease in our average interest earning assets to approximately \$310.2 million for the three months ended March 31, 2011 and a decline in net interest income spread, which was partially offset by a decline in debt and interest rates on debt. Net income for the quarter ended March 31, 2011 included a realized gain of \$2.2 million from the sale of CLO investments during the quarter.

Comparative Expenses (dollar amounts in thousands)

General, Administrative and Other Expenses:	For the Three Months Ended March 31,		
	2011	2010	% Change
Salaries and benefits	\$ 458	\$ 533	(14.1)%
Professional fees	336	282	19.1%
Management fees	1,040	464	124.1%
Other	459	577	(20.5)%
Total	\$ 2,293	\$ 1,856	23.5%

The general, administrative and other expenses increase of \$0.4 million for the quarter ended March 31, 2011 as compared to the same period in 2010 was due primarily to a \$0.6 million increase in management fees to HCS, \$0.4 million of which resulted from an increase in incentive management fees payable under the HCS Advisory Agreement, which was due, in part, to the sale by the Company in 2011 of certain CLO investments that were deemed managed assets under the Prior Advisory Agreement and the performance of other managed assets, and partially offset by a \$0.2 million decrease in salaries and benefits and other expenses.

Comparative Net Interest Income

Our results of operations for our investment portfolio during a given period typically reflects the net interest spread earned on our investment portfolio of Agency RMBS, non-Agency RBMS, prime ARM loans held in securitization trusts, loans held for sale, CLOs, IOs and U.S. Treasury securities (our “Interest Earning Assets”). The net interest spread is impacted by factors such as our cost of financing, the interest rate that our investments bear and our interest rate hedging strategies. Furthermore, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments. The following tables set forth the changes in net interest income, yields earned on our Interest Earning Assets and rates on financial arrangements for each of the three months ended March 31, 2011 and 2010, respectively (dollar amounts in thousands, except as noted):

	For the Three Months Ended March 31,					
	2011			2010		
	Average Balance (1) (\$ Millions)	Amount	Yield/ Rate (2)	Average Balance (1) (\$ Millions)	Amount	Yield/ Rate (2)
Interest income:						
Interest earning assets	\$ 369.6	\$ 2,952	3.19%	\$ 474.2	\$ 5,340	4.50%
Amortization of net discount	(59.4)	742	1.57%	(49.1)	881	1.35%
Total	\$ 310.2	\$ 3,694	4.76%	\$ 425.1	\$ 6,221	5.85%
Interest expense:						
Investment securities and loans	\$ 266.2	\$ 718	1.08%	\$ 344.3	\$ 1,392	1.60%
Subordinated debentures	45.0	466	4.14%	45.0	759	6.67%
Convertible preferred debentures	—	—	—%	20.0	662	13.09%
Interest expense	\$ 311.2	1,184	1.52%	\$ 409.3	\$ 2,813	2.72%
Net interest income		\$ 2,510	3.24%		\$ 3,408	3.13%

- (1) Our average balance of Interest Earning Assets is calculated each period as the daily average balance for the period of our Interest Earning Assets, excluding unrealized gains and losses. Our average balance of interest bearing liabilities is calculated each period as the daily average balance for the period of our financing arrangements (portfolio investments), CDOs, subordinated debentures and convertible preferred debentures.
- (2) Our net yield on Interest Earning Assets is calculated by dividing our interest income from our Interest Earning Assets for the period by our average Interest Earning Assets during the same period. Our interest expense rate is calculated by dividing our interest expense from our interest bearing liabilities for the period by our average interest bearing liabilities. The interest expense includes interest incurred on interest rate swaps.

Comparative Net Interest Income-Interest Earning Assets

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

Quarter Ended	Average Interest Earning Assets (1) (\$ millions)	Weighted Average Coupon (2)	Weighted Average Cash Yield on Interest Earning Assets (3)	Cost of Funds (4)	Net Interest Spread (5)	Constant Prepayment Rate (CPR) (6)
March 31, 2011	\$ 310.2	3.19%	4.76%	1.08%	3.68%	9.6%
December 31, 2010	\$ 318.0	3.24%	4.98%	1.45%	3.53%	13.8%
September 30, 2010	\$ 343.5	3.76%	5.29%	1.66%	3.63%	21.1%
June 30, 2010	\$ 393.8	4.22%	5.28%	1.58%	3.70%	20.5%
March 31, 2010	\$ 425.1	4.50%	5.85%	1.60%	4.25%	18.6%
December 31, 2009	\$ 476.8	4.75%	5.78%	1.45%	4.33%	18.1%
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%

- (1) Our average Interest Earning Assets is calculated each quarter as the daily average balance of our Interest Earning Assets for the quarter, excluding unrealized gains and losses.
- (2) The Weighted Average Coupon reflects the weighted average rate of interest paid on our Interest Earning Assets for the quarter, net of fees paid. The percentages indicated in this column are the interest rates that will be effective through the interest rate reset date, where applicable, and have not been adjusted to reflect the purchase price we paid for the face amount of the security.
- (3) Our Weighted Average Cash Yield on Interest Earning Assets was calculated by dividing our annualized interest income from Interest Earning Assets for the quarter by our average Interest Earning Assets.
- (4) Our Cost of Funds was calculated by dividing our annualized interest expense from our Interest Earning Assets for the quarter by our average financing arrangements, portfolio investments and CDOs.
- (5) Net Interest Spread is the difference between our Weighted Average Cash Yield on Interest Earning Assets and our Cost of Funds.
- (6) Our Constant Prepayment Rate, or CPR, is the proportion of principal of our pool of loans that were paid off during each quarter.

Comparative Net Interest Spread — Core Interest Earning Assets, a Non-GAAP Financial Measure

Net Interest Spread—Core Interest Earning Assets is a non-GAAP financial measure and is defined as GAAP Net Interest Spread plus unconsolidated investments in interest earning assets, such as our investment in limited partnership. Our investment in limited partnership represents our equity investment in a limited partnership that owns a pool of residential whole mortgage loans and from which we receive distributions equal to principal and interest payments and sales net of certain administrative expenses. Because the income we receive from our investment in limited partnership includes interest from the pool of mortgage loans, management considers the investment to be a functional equivalent to its Interest Earning Assets under GAAP. In order to evaluate the effective Net Interest Income of our investments, management uses Net Interest Spread—Core Interest Earning Assets to reflect the net interest spread of our investments as adjusted to reflect the addition of unconsolidated investments in interest earning assets. Management believes that Net Interest Spread—Core Interest Earning Assets provides useful information to investors as the income stream from this unconsolidated investment is similar to the net interest spread for the majority of our assets. Net Interest Spread—Core Interest Earning Assets should not be considered a substitute for our GAAP-based calculation of Net Interest Spread.

The following tables reconcile our GAAP Net Interest Spread for our portfolio of Interest Earning Assets for the three months ended March 31, 2011 and December 31, 2010, respectively, to our non-GAAP measure of Net Interest Spread—Core Interest Earning Assets. We acquired our unconsolidated investment in a limited partnership during the third and fourth quarters of 2010.

	Average Core Interest Earning Assets (1) (\$ millions)	Weighted Average Coupon (2)	Weighted Average Cash Yield on Core Interest Earning Assets (3)	Cost of Funds (4)	Net Interest Spread (5)
Quarter Ended March 31, 2011					
Net Interest Spread – Interest Earning Assets	\$ 310.2	3.19%	4.76%	1.08%	3.68%
Investment in Limited Partnership	\$ 15.8	6.75%	10.33%	—%	10.33%
Net Interest Spread – Core Interest Earning Assets	\$ 326.0	3.40%	5.03%	1.08%	3.95%

	Average Core Interest Earning Assets (1) (\$ millions)	Weighted Average Coupon (2)	Weighted Average Cash Yield on Core Interest Earning Assets (3)	Cost of Funds (4)	Net Interest Spread (5)
Quarter Ended December 31, 2010					
Net Interest Spread – Interest Earning Assets	\$ 318.0	3.24%	4.98%	1.45%	3.53%
Investment in Limited Partnership	\$ 11.1	7.06%	12.19%	—%	12.19%
Net Interest Spread – Core Interest Earning Assets	\$ 329.1	3.41%	5.22%	1.45%	3.77%

- (1) Our average Core Interest Earning Assets is calculated each quarter as the daily average balance of our Core Interest Earning Assets for the quarter, excluding unrealized gains and losses.
- (2) The Weighted Average Coupon reflects the weighted average rate of interest paid on our Core Interest Earning Assets for the quarter, net of fees paid. The percentages indicated in this column are the interest rates that will be effective through the interest rate reset date, where applicable, and have not been adjusted to reflect the purchase price we paid for the face amount of the security.
- (3) Our Weighted Average Cash Yield on Core Interest Earning Assets was calculated by dividing our annualized interest income from Core Interest Earning Assets for the quarter by our average Core Interest Earning Assets.
- (4) Our Cost of Funds was calculated by dividing our annualized interest expense from our Core Interest Earning Assets for the quarter by our average financing arrangements, portfolio investments and CDOs.
- (5) Net Interest Spread is the difference between our Weighted Average Cash Yield on Core Interest Earning Assets and our Cost of Funds.

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, comply with margin requirements, fund our operations, pay management, incentive and consulting fees, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available for our operating businesses and to meet these potential cash requirements. Our investments and assets generate liquidity on an ongoing basis through principal and interest payments, prepayments, net earnings retained prior to payment of dividends and distributions from unconsolidated investments. 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 March 31, 2011, not including assets in our Midway Residential Mortgage Portfolio, we had cash balances of \$8.4 million and a receivable for securities sold of \$3.8 million. In addition, the Company has \$51.7 million in unencumbered securities, including \$21.4 million of RMBS, of which \$14.6 million are Agency RMBS, and borrowings of \$46.6 million under outstanding repurchase agreements. At March 31, 2011, not including liabilities in our Midway Residential Mortgage Portfolio, we also had longer-term debt, including CDOs outstanding of \$215.3 million and subordinated debt of \$45.0 million. The CDOs are collateralized by the mortgage loans held in securitization trusts. Based on our current investment portfolio, new investment initiatives, 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.

Our leverage ratio for our RMBS investment portfolio, which we define as our outstanding indebtedness under repurchase agreements divided by stockholders' equity, was less than 1 to 1. We have continued to utilize significantly less leverage than our previously targeted leverage due to the ongoing repositioning of our investment portfolio to a more diversified portfolio that includes elements of credit risk with reduced leverage.

As of March 31, 2011, we have provided \$24.5 million to the Midway Residential Mortgage Portfolio, and we anticipate contributing additional capital to this strategy as well as our commercial mortgage strategy in the future, such that the investment in these strategies will become significant contributors to our revenues and earnings and will represent a significant portion of our total assets in the future. As of the date of this report, we have provided an additional \$10 million of funding to the Midway Residential Mortgage Portfolio.

We had outstanding repurchase agreements, a form of collateralized short-term borrowing, with five different financial institutions. These agreements are secured by certain of our Agency 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 mortgage backed securities 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 renew the outstanding balance at its maturity into a new repurchase agreement, we would be required to repay the outstanding balance with cash or proceeds received from a new counterparty or to surrender the 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, we would expect to 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 March 31, 2011, we had \$32.6 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. At March 31, 2011, the Company pledged \$1.0 million in cash margin to cover decreased valuations for our interest rate swaps. The weighted average maturity of the swaps was 1.4 years at March 31, 2011.

In addition to our use of interest rate caps, we may purchase or sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates on the performance of the Midway Residential Mortgage Portfolio, and we may borrow U.S. Treasury securities to cover short sales of U.S. Treasury securities. As of March 31, 2011, we had \$81.9 million of U.S. Treasury securities sold short, at fair value. We

borrowed securities to cover the short sales of U.S. Treasury securities under reverse repurchase agreements from which we received total proceeds of \$82.0 million.

Similarly, we may also use Eurodollar futures contracts to hedge interest rate risk associated with our Midway Residential Mortgage Portfolio. With respect to a Eurodollar futures contract, initial margin deposits will be made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day's trading. We may be required to satisfy variation margin payments periodically, depending upon whether unrealized gains or losses are incurred. As of March 31, 2011, we were not a party to any Eurodollar futures contracts.

Finally, we use TBAs to hedge interest rate risk and the aggregate risk of prepayments associated with our Midway Residential Mortgage Portfolio. Since delivery for these securities extends beyond the typical settlement dates for most non-derivative investments, these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and thereby are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties.

We also own approximately \$3.8 million of loans held for sale, which are included in discontinued operations. 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. Most recently, we have addressed these requests by negotiating 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 March 31, 2011, we had a total of \$2.0 million of unresolved repurchase requests that management concluded may reasonably be deemed to have merit, against which we had a reserve of approximately \$0.3 million.

On March 18, 2011, we declared a 2011 first quarter cash dividend of \$0.18 per common share. The dividend was paid on April 26, 2011 to common stockholders of record as of March 31, 2011. These dividends were paid out of the Company's working capital. We expect to continue to pay quarterly cash dividends on our common stock during the near term. However, our Board of Directors will continue to evaluate our dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the need to maintain our REIT status, our financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends, 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 minimize or avoid corporate income tax and the nondeductible excise tax.

Investment Management and Advisory Agreements

We currently are a party to two investment management agreements and one advisory agreement with third parties, pursuant to which we have agreed to pay these third parties a combination of base management, consulting or incentive fees in exchange for certain management, advisory or consulting and support services. We may in the future enter into joint ventures or additional external management agreements with third parties that have special expertise or investment sourcing capabilities to the extent we believe such relationships will contribute to our achievement of our investment objectives. Information regarding the RiverBanc Management Agreement is set forth under the caption "—General—Recent and Subsequent Events."

HCS Advisory Agreement

We have certain contractual obligations under the Advisory Agreement between HCS, HC, NYMF and us. See footnote 13 to the condensed consolidated financial statements included under Item 1 of this Form 10-Q for more information regarding the terms of the HCS Advisory Agreement.

For the three months ended March 31, 2011 and 2010, HCS earned aggregate base advisory and consulting fees of approximately \$0.3 million and \$0.2 million, respectively, and incentive fees of approximately \$0.7 million and \$0.3 million, respectively. As of March 31, 2011, HCS was managing approximately \$49.5 million of assets on the Company's behalf. As of March 31, 2011 and December 31, 2010, the Company had a management fee payable totaling \$1.0 million and \$0.7 million, respectively, included in accrued expenses and other liabilities.

Midway Management Agreement

We pay Midway a base management fee monthly in arrears in a cash amount equal to the product of (i) 1.50% per annum of our invested capital in the Midway Residential Mortgage Portfolio as of the last business day of the previous month, multiplied by (ii) 1/12th. In addition, pursuant to the terms of the Midway Management Agreement, Midway is entitled to a quarterly incentive fee (the "Midway Incentive Fee") that is calculated monthly and paid in cash in arrears. The Midway Incentive Fee is based upon the total market value of the net invested capital in the Midway Residential Mortgage Portfolio on the last business day of the quarter, subject to a high water mark equal to a 10% return on invested capital (the "High Water Mark"), and shall be payable in an amount equal to 40% of the dollar amount by which adjusted net income (as defined below) attributable to the Midway Residential Mortgage Portfolio, on a calendar 12-month basis and before accounting for the Midway Incentive Fee, exceeds an annual 15% rate of return on invested capital (the "Hurdle Rate").

The return rate for each calendar 12-month period (the "Calculation Period") is determined by dividing (i) the adjusted net income for the Calculation Period by (ii) the weighted average of the invested capital paid into the Midway Residential Mortgage Portfolio during the Calculation Period. For the initial 12 months, adjusted net income will be calculated on the basis of each of the previously completed months on an annualized basis. Like the Hurdle Rate, which is calculated on a calendar 12 month basis, the High Water Mark is calculated on a calendar 12 month basis, and will reset every 24 months. The High Water Mark will be a static dollar figure that Midway will be required to recoup, to the extent there was a deficit in the prior High Water Mark calculation period before it can receive a Midway Incentive Fee.

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

For the three months ended March 31, 2011, Midway earned base management and incentive fees of \$15,000 and \$35,000, 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. The impact of inflation is primarily reflected in the increased costs of our operations. Virtually all our assets and liabilities are financial in nature. Our consolidated financial statements and corresponding notes thereto have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. As a result, interest rates and other factors influence our performance far more than inflation. Inflation affects our operations primarily through its effect on interest rates, since interest rates typically increase during periods of high inflation and decrease during periods of low inflation. During periods of increasing interest rates, demand for mortgages and a borrower's ability to qualify for mortgage financing in a purchase transaction may be adversely affected. During periods of decreasing interest rates, borrowers may prepay their mortgages, which in turn may adversely affect our yield and subsequently the value of our portfolio of mortgage assets.

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
- 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 the financial assets 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 and other securities or instruments we use to hedge our portfolio. As a result, our net interest income is particularly affected by changes in interest rates.

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.

For example, we hold hybrid ARM assets that 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. Thus, it is likely that 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. In addition, the interest rates on our hybrid ARM 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.

In addition, changes in interest rates can directly impact prepayment speeds, thereby affecting our net return on hybrid ARM assets. 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.

We seek to manage interest rate risk in the portfolio by utilizing interest rate swaps, caps, Eurodollar futures and U.S. Treasury securities with the goal of optimizing the earnings potential while seeking to maintain long term stable portfolio values. We continually monitor the duration of our mortgage assets and have a policy to hedge the financing such that the net duration of the assets, our borrowed funds related to such assets, and related hedging instruments, are less than one year. In addition, we utilize TBAs to mitigate the risks associated with changes in prepayment speeds on our long Agency RMBS positions in our Midway Residential Mortgage Portfolio. All of our interest rate sensitive assets, liabilities and related derivative positions are managed with a long term perspective and are not for trading purposes.

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, instantaneous changes in interest rates would have the following effect on net interest income for the three months ended March 31, 2011 (dollar amounts in thousands):

Changes in Net Interest Income			
Changes in Interest Rates		Changes in Net Interest Income	
+200		\$	(871)
+100		\$	(4)
-100		\$	(924)

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. That said, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.

Liquidity Risk

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

Our principal sources of liquidity are the repurchase agreements on our 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 March 31, 2011 consisted of approximately \$224.4 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 original average loan-to-value (“LTV”) ratio at origination of approximately 70.5%, and an original average borrower FICO score of approximately 729. In addition, approximately 65.0% 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 March 31, 2011, we owned approximately \$6.8 million on non-Agency RMBS senior securities. The non-Agency RMBS has a weighted average amortized purchase price of approximately 90.3% of current par value as of March 31, 2011. Management believes the purchase price discount coupled with the credit support within the bond structure protects us from principal loss under most stress scenarios for these non-Agency RMBS. In addition, as of March 31, 2011 we own approximately \$30.3 million of notes issued by a CLO at a discounted purchase price equal to 25.2% of par. The securities are backed by a portfolio of middle market corporate loans.

Fair Value Risk

Changes in interest rates also expose us to market risk that the market value (fair value) on our assets may decline. While the fair value of all of our current assets that are measured on a recurring basis are determined using Level 1 or Level 2 fair values, we have owned in the past and may own in the future certain financial instruments for which fair values may not be readily available if there are no active trading markets for the instruments. In such cases, fair values would only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. Our fair value estimates and assumptions are indicative of the interest rate environments as of March 31, 2011, 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 cash flows, future expected loss experience and other factors.

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

The 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 in determining the fair value of these loans at March 31, 2011 and December 31, 2010.

The fair value of our CDOs is based on discounted cash flows as well as market pricing on comparable CDOs.

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 March 31, 2011, 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.

Market Value Changes		
Changes in Interest Rates	Changes in Market Value	Net Duration
	(Amount in thousands)	
+200	\$ (5,188)	1.28 years
+100	\$ (1,426)	1.13 years
Base	—	1.03 years
-100	\$ (8,115)	0.81 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 March 31, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

Changes in Internal Control over Financial Reporting - There has been no change in our internal control over financial reporting during the quarter ended March 31, 2011 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

We previously disclosed risk factors under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010. In addition to those risk factors and the other information included elsewhere in this report, you should also carefully consider the risk factors discussed below. The risks described below and in our Annual Report on Form 10-K for the year ended December 31, 2010 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

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

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

CMOs may be subject to greater risks than whole-pool Agency RMBS.

We may invest in CMOs through our Midway Residential Mortgage Portfolio or otherwise. CMOs are securitizations issued by a government agency or a GSE that are collateralized by Agency RMBS that are divided into various tranches that have different characteristics (such as different maturities or different coupon payments), and, therefore, may carry greater risk than an investment in whole-pool Agency RMBS. For example, certain CMO tranches, such as IOs, POs, support securities and securities purchased at a significant premium, are more sensitive to prepayment risks than other tranches or whole-pool Agency RMBS. In addition, the yield on floating rate and inverse floating rate tranches are sensitive to changes in the interest rate index used to calculate the coupon on such classes. If we were to invest in CMO tranches that were more sensitive to prepayment risks relative to other CMO tranches or whole-pool Agency RMBS, we may increase our portfolio-wide prepayment and interest rate risk.

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: May 5, 2011

By: /s/ Steven R. Mumma

Steven R. Mumma

Chief Executive Officer and President

(Principal Executive Officer)

Date: May 5, 2011

By: /s/ Fredric S. Starker

Fredric S. Starker

Chief Financial Officer

(Principal Financial and Accounting 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	Bylaws of New York Mortgage Trust, Inc., as amended (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 4, 2011).
4.1	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 333-111668), effective June 23, 2004).
4.2(a)	Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated September 1, 2005. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 6, 2005).
4.2(b)	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	Investment Management Agreement, by and between New York Mortgage Trust, Inc. and The Midway Group, LP dated as of February 11, 2011.*
10.2	Management Agreement, by and between RB Commercial Mortgage LLC and RiverBanc LLC dated as of April 5, 2011.*
31.1	Section 302 Certification of Chief Executive Officer.*
31.2	Section 302 Certification of Chief Financial Officer.*
32.1	Section 906 Certification of Chief Executive Officer and Chief Financial Officer.**

* Filed herewith.

** Furnished herewith. Such certification shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

INVESTMENT MANAGEMENT AGREEMENT

THIS INVESTMENT MANAGEMENT AGREEMENT (the “**Agreement**”) is effective as of the 11th day of February 2011 (the “**Effective Date**”), by and between New York Mortgage Trust Inc., a Maryland corporation (“**NYMT**”), and The Midway Group, LP, a Delaware limited Partnership (“**Midway**” or the “**Investment Manager**”).

W I T N E S S E T H

WHEREAS, NYMT has entered into an agreement with JP Morgan Chase, N.A. to serve as trustee or custodian (the “**Custodian**”) with respect to certain of NYMT’s assets that will be held in a separate account (the “**Separate Account**”); and

WHEREAS, NYMT wishes to appoint Midway to manage the investment and reinvestment of all of the assets held in the Separate Account subject to the investment guidelines set forth in this Agreement, and Midway desires to accept such appointment, all subject to the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises contained herein, and other good and valuable consideration as set forth herein, the parties agree as follows:

(1) Appointment of Midway as Investment Manager.

NYMT hereby appoints Midway as its investment manager with respect to the assets contained in the Separate Account. As the investment manager for the Separate Account, Midway has the authority to buy, sell and trade, and engage in other transactions in, financial instruments for NYMT’s account. Midway agrees to perform each of the duties set forth herein in good faith and in accordance with commercially reasonable standards. Subject to the terms and conditions set forth in this Agreement, which includes the Schedules attached hereto, Midway hereby accepts such appointment.

(2) Duties and Authority of Investment Manager.

(a) Midway will provide NYMT with investment management services in accordance with the terms and conditions contained in this Agreement and the requirements of the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) and other applicable laws and regulations. Under this Agreement, Midway shall have complete discretion and authority to manage the assets in the Separate Account on NYMT’s behalf and at NYMT’s risk, subject to the written guidelines governing the Separate Account set forth in Paragraph (3) of this Agreement (the “**Investment Guidelines**”) and the other terms and conditions in this Agreement, and is hereby appointed NYMT’s agent and Attorney-in-Fact for that purpose. As such, Midway is authorized to perform the following, at NYMT’s expense, without further approval from NYMT, except as expressly required by this Agreement or as required by law: (i) to make all investment decisions; (ii) to buy, sell and otherwise trade in securities; and (iii) to select brokers or dealers to execute securities transactions. Midway shall be responsible solely for the investment and reinvestment of assets in the Separate Account and shall have no duty to inquire into or review the management or investment of other assets of NYMT. NYMT hereby authorizes Midway to open brokerage accounts and to execute documents in the name of, binding against and on behalf of NYMT for all purposes necessary or desirable in Midway’s view to perform its obligations under this Agreement. Midway agrees to provide NYMT with a copy of any agreement that Midway executes on NYMT’s behalf within five (5) Business Days (as defined herein) after execution by both parties.

(b) In performing its duties and obligations under this Agreement, Midway may contract with other entities, on commercially reasonable terms, to provide services and/or support for the Separate Account.

(3) Investment Guidelines and Pari Passu Trading.

(a) Midway will invest the Separate Account assets as described in the section entitled “ **Investment Objective and Strategy** ” in the Private Placement Memorandum (“ **PPM** ”) for the Midway Market Neutral Fund (the “ **Fund** ”), a copy of which is set forth on Exhibit A attached hereto (the “ **Investment Guidelines** ”), subject to modification at NYMT’s direction to ensure NYMT’s continuous compliance with applicable requirements under the United States Internal Revenue Code and the rules and regulations thereunder for NYMT to maintain its status as a real estate investment trust (“ **REIT** ”) and under the Investment Company Act of 1940, as amended (the “ **Investment Company Act** ”) and the rules and regulations thereunder for NYMT and its subsidiaries to maintain their exemption from regulation as an investment company (such REIT and Investment Company Act compliance requirements as referred to herein as the “ **Compliance Requirements** ”). To the extent that, in order to meet such Compliance Requirements, NYMT directs Midway to sell any security that has already been purchased in the Separate Account, such instruction to sell must be received by Midway no later than five (5) Business Days prior to the settlement date for the transaction. Midway agrees to use its best efforts to comply with the Investment Guidelines. NYMT acknowledges and agrees that, subject to the provisions of Paragraph (15) herein, its only recourse should Midway fail to meet the Investment Guidelines is termination of this Agreement pursuant to Paragraph (7) of this Agreement. If Midway makes any changes to the Investment Guidelines, it shall provide NYMT with the same notice and disclosure regarding such changes in the Investment Guidelines as Midway provides to investors in the Fund regarding such changes. Except to the extent necessary to comply with any applicable law, Midway shall not make any material change to the Investment Guidelines unless it has given NYMT at least seven (7) days prior written notice. Notwithstanding any changes made to the Investment Guidelines for the Fund, no changes with respect to the Investment Guidelines for the Separate Account shall be implemented unless NYMT has consented to such changes in writing, with such consent not to be unreasonably withheld. NYMT acknowledges that its failure to consent to changes that Midway implements to the Investment Guidelines relating to the Fund will result in Midway being unable to manage the Separate Account pari passu with the Fund. NYMT further agrees to indemnify exculpate, and hold harmless Midway from and against any loss or expense suffered or sustained as a result of or in connection with Midway’s following NYMT’s directive to trade, or not to trade in accordance with the Investment Guidelines.

(b) Subject to Paragraph (3)(a) above, Midway will manage the Separate Account assets pari passu with its management of the Fund to the extent reasonably practicable and consistent with the Investment Guidelines and Compliance Requirements for the Fund and NYMT, and the size of the Separate Account. Trades shall be allocated among NYMT, the Fund, any/or other fund or investment vehicle managed by Midway as set forth in Paragraph (9) below.

(c) The Investment Guidelines set forth in Paragraph (3)(a), including any modifications directed by NYMT in order to satisfy the Compliance Requirements, shall be applied at the time a transaction is entered into, regardless of later market movements, and shall not be deemed breached as a result of changes in the value or status of an investment following its acquisition. In the event that the Separate Account, or any investment in the Separate Account, exceeds or otherwise fails to comply with the Investment Guidelines or any modifications directed by NYMT in order to satisfy the Compliance Requirements, Midway shall take such corrective action as it deems advisable; *provided, however*, that NYMT shall have the right to direct Midway to take any corrective action that NYMT deems necessary or appropriate with respect to the Separate Account in order to ensure the continued compliance with the Compliance Requirements. NYMT agrees to indemnify exculpate, and hold harmless Midway from and against any loss or expense suffered or sustained as a result of or in connection with Midway's following NYMT's directive to take such corrective action.

(4) Funding of the Separate Account.

(a) Initial Funding

The Separate Account shall initially be capitalized with a \$24 million capital contribution by NYMT (the “ **Initial Investment** ”). The Initial Investment shall be made on the first Business Day of the month immediately following the execution of this Agreement. A Business Day is defined as any day on which the New York Stock Exchange is open for business.

(b) Subsequent Funding

NYMT intends to invest a total of \$200 million, including the Initial Investment, in the Separate Account (the “ **Capital Commitment** ”) prior to the end of the Initial Term (as defined below). NYMT will use its commercially reasonable efforts to fund the Capital Commitment (each such funding a “ **Capital Payment** ”) ratably over a two-year period in amounts of \$25 million per quarter (the “ **Capital Commitment Schedule** ”), subject to the investment performance, capital raising, compliance and Board approval conditions described herein (the “ **Capital Payment Conditions** ”). Subject to the Capital Payment Conditions, each Capital Payment will be made on the first Business Day of each calendar quarter, with the first such payment (after the Initial Investment) expected to occur on April 1, 2011. The cumulative amount of Capital Payments, together with the Initial Investment, that are funded shall be referred to as “ **Invested Capital** .” Notwithstanding the foregoing, for the purposes of calculating the Management Fee, Adjusted Net Income, the weighted average of the Invested Capital, the High Water Mark and the Incentive Fee (as each such term is defined herein), the Initial Investment and each Capital Payment thereafter shall be treated as if the first 50% of such Capital Payment was invested on the first Business Day of the calendar month of the quarter in which such Capital Payment is funded and the remaining 50% of such Capital Payment was invested on the first Business Day of the second calendar month of the quarter in which such Capital Payment is funded; *provided*, that for Capital Payments in amounts larger than \$25 million, Midway and NYMT will reach an agreement on the timing of the investment of such funds prior to funding by NYMT of the Capital Payment.

(c) Capital Payment Conditions

(i) Investment Performance Condition

If the annualized return on Invested Capital in the Separate Account for any calendar quarter falls below 15% (the “ **Preferred Return** ,” NYMT shall have the right to elect to forego the next quarterly Capital Payment (the “ **Investment Performance Condition** ”). For example, if the annualized return for the first quarter of 2011 falls below the Preferred Return, NYMT shall have the right to elect not to make its April 1, 2011 Capital Payment, but the July 1, 2011 Capital Payment will not be affected by the first quarter 2011 return on Invested Capital. NYMT may, in its discretion, but shall not be required to, contribute additional capital in subsequent quarters. For example, if NYMT elects to forego its April 1, 2011 Capital Payment due to the failure of the Separate Account to achieve the Preferred Return on an annualized basis for the first quarter of 2011, NYMT would, in its discretion, have the right to elect to invest additional capital above and beyond the \$25 million Capital Payment amount scheduled for July 1, 2011 if Midway generates an annualized return on Invested Capital in the Separate Account equal to or greater than the Preferred Return in the second quarter of 2011. An example of the Investment Performance Condition calculation is set forth on Exhibit B.

(ii) Market Conditions, Regulatory Constraints and Board Approval

In addition to the Investment Performance Condition, the obligations of NYMT to make Capital Payments in order to fund its Capital Commitment in accordance with the Capital Commitment Schedule are subject to (a) NYMT successfully raising sufficient equity capital to allow NYMT to meet the Capital Commitment Schedule; (b) compliance by NYMT and its subsidiaries with the Compliance Requirements; and (c) approval by NYMT’s Board of Directors of the use of proceeds raised from any capital raising transaction undertaken or completed by NYMT to fund NYMT’s Capital Commitment, it being understood that the Board of Directors shall have the discretion, in the exercise of its fiduciary duties, to limit the amount of net proceeds raised by NYMT in any capital raising transaction invested by NYMT in the Separate Account.

(d) Capital Commitment Cancellation

If the cumulative return on Invested Capital within any calendar year declines by 20%, or more, NYMT shall have the right to opt out of the remaining portion of its Capital Commitment. While NYMT may opt out of its remaining Capital Commitment, it agrees that the Separate Account will not be liquidated and that NYMT will confer with Midway on the appropriate disposition of the assets in the Separate Account. Midway and NYMT must agree on the best course of action to liquidate the portfolio, a process which is not disruptive to the markets or to Midway.

(e) Reduction of Capital

NYMT will have the right to redeem Invested Capital in an amount equal to the lesser of 10% of the Invested Capital or \$10,000,000 as of the last calendar day of the month, upon not less than seventy-five (75) days written notice; provided that NYMT may not make more than one such redemption request in any seventy-five (75) day period. Midway will have corresponding rights to reduce and return capital in the Separate Account. All amounts returned to NYMT pursuant to this provision shall be returned in cash, and Midway shall have the sole discretion to determine which securities in the Separate Account shall be liquidated to meet the redemption. The redemption rights specified above will not be applicable to the Initial Investment during the Initial Term. However, any subsequent Capital Payments will be subject to the above redemption rights.

(5) Brokerage Services.

(a) General

Midway will utilize the same broker-dealers, banks and other counterparties (the “**Counterparties**”) as used from time to time for the Fund when executing transactions for the Separate Account and will have sole discretion over the selection of such Counterparties. Midway and any broker-dealer engaged by Midway is authorized to combine purchase or sale orders on behalf of the Separate Account together with orders for the Fund and/or any other funds or accounts managed by Midway (including accounts in which Midway, the broker-dealer, their respective affiliates, and/or their personnel have an interest), and to allocate the securities or other assets so purchased or sold, on an average price basis or other fair and consistent basis, among such accounts in accordance with and subject to the provisions of Paragraph (9). In selecting a broker-dealer, Midway will use its reasonable efforts to obtain best execution and will take into account such relevant factors as (i) price; (ii) the broker-dealer’s facilities, reliability and financial responsibility; and (iii) the ability of the broker-dealer to effect securities transactions, particularly with regard to such aspects as timing, order size and execution of orders.

(b) Agency Cross Trades

Cross transactions are transactions between the Separate Account, on the one hand, and the Fund or another fund or account that is managed or advised by Midway or one of Midway’s other investment advisory affiliates, on the other hand (each a “**Cross Transaction**”). Midway is authorized to execute Cross Transactions in accordance with applicable law and Midway’s internal compliance policies. Midway agrees that it will only execute Cross Transactions when it believes that the Cross Transaction is in the best interest of both parties to the transaction. NYMT may at any time, upon written notice to Midway, revoke its consent to Midway to execute Cross Transactions. In addition, unless approved in advance by NYMT, all Cross Transactions must be effected at then-prevailing market prices.

(c) Custodian

The Manager shall not be liable to NYMT for any act or omission of the Custodian. NYMT has directed Midway to use JP Morgan Chase, N.A. as custodian for the Separate Account. The Custodian shall hold the assets in a segregated account. At no time will Midway have custody or physical control of the assets in the Separate Account. NYMT will instruct the Custodian to provide Midway with statements of account on a monthly basis. In addition, Midway shall have no responsibility or liability with respect to any of the trustee/custodial arrangements or the acts, omissions, or other conduct of the Custodian. Midway will provide reasonable assistance to the Custodian in providing confirmations and periodic reports on Separate Account activity to NYMT. Unless NYMT directs otherwise, these confirmations and statements may be provided in an electronic format.

(6) Representations and Warranties.

(a) Of both parties.

Each of NYMT and Midway represents and warrants to the other that:

(i) It is duly formed, validly existing and in good standing under the laws of its jurisdiction of formation and is qualified to transact business and is in good standing in each other jurisdiction in which the nature or conduct of its business requires such qualification and good standing, except where the failure to be so qualified and in good standing would not materially and adversely affect the rights, power and authority of the party to enter into this Agreement and perform its obligations hereunder.

(ii) It has full power and authority to execute and deliver this Agreement and perform its obligations hereunder. This Agreement has been duly and validly authorized, executed and delivered on its behalf and is a binding and enforceable agreement in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general application affecting the rights and remedies of creditors and general principles of equity. Neither its entry into this Agreement nor its performance of its obligations hereunder is or will be in violation or conflict with its organizational documents or any provision of any applicable law, regulation, rule or policy, or any agreement, indenture or any other instrument to which it is a party or by which it is bound.

(iii) It has all governmental and regulatory licenses, registrations, consents, permits and approvals required to perform its obligations under this Agreement, other than any such approval as may be expressly specified herein as a condition to the performance of any of its obligations to be performed hereunder after the date hereof, and has at all times complied and will continue to comply with all laws, regulations and rules applicable to its business. Notwithstanding the foregoing, NYMT acknowledges that Midway is not currently registered with the Securities and Exchange Commission as an investment adviser under the Advisers Act; however, it does intend to so register as an investment adviser in 2011.

(iv) There are no pending or, to such party's knowledge, threatened actions, suits, proceedings or investigations before or by any court, governmental or administrative authority or agency, board of trade, self-regulatory body, securities exchange or arbitration panel to which it or any of its subsidiaries or principals is a party or to which its assets or business are subject, which could reasonably be expected to have a material and adverse effect on its condition (financial or otherwise), business or prospects or which could reasonably be expected to materially impair its ability to perform its obligations hereunder.

(v) If, at any time during the term of this Agreement, it discovers any facts or circumstances that would make any of the foregoing representations and warranties inaccurate, untrue or incomplete in any material respect, it will provide prompt written notification to the other party of such facts or circumstances in reasonable detail.

(b) Of Midway.

Midway represents and warrants to NYMT that:

(i) It is currently in the process of revising the PPM regarding the Fund. Midway represents and warrants to NYMT that such revisions will not materially alter the Investment Strategy as currently described therein. Midway further represents and warrants that, once the revisions to the PPM are completed, all information contained in the PPM regarding Midway and the Investment Strategy will be true and complete as of the date on the cover page of the PPM. Midway shall have no ongoing obligation to update and/or revise the PPM after that date.

(ii) It will not undertake trading of commodities until any necessary registrations have been obtained.

(c) Of NYMT.

NYMT represents and warrants to Midway that:

(i) It has such experience and knowledge in financial and business matters that it is capable of evaluating the merits and risks of its investments and is able to bear such risks, and has obtained, in its judgment, sufficient information to evaluate the risks and merits of its own investments. NYMT has evaluated the risks of the Investment Guidelines, including but not limited to those disclosed in the PPM under "Risk Factors," and has determined for itself that such investments are suitable.

(ii) NYMT is an "accredited investor" as defined under Regulation D under the Securities Act of 1933, as amended, and a "qualified eligible person" as defined in Rule 4.7 promulgated under the Commodity Exchange Act, as amended (the "CE Act"), and an "eligible contract participant" as defined in Section 1a(12) of the CE Act.

(iii) None of its assets are considered assets of an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended.

(iv) It has adopted and implemented anti-money laundering policies, procedures and controls in order to comply with, and will continue to comply in all respects with, the requirements of applicable anti-money laundering laws, rules and regulations (including, but not limited to, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (“ **USA Patriot** ”) Act of 2001 and the Bank Secrecy Act of 1970, as amended) and will provide a copy thereof to Midway upon request. NYMT is not involved in any anti-money laundering schemes, and the performance by Midway hereunder will not breach any applicable laws, rules and regulations designed to avoid money laundering. NYMT will deliver any further documentation reasonably requested by Midway in connection with Midway’s efforts to comply with applicable anti-money laundering laws, rules and regulations and the U.S. Government’s anti-terrorism policy as set out in the recently adopted USA Patriot Act.

(v) It understands the methods of compensation under this Agreement and acknowledges that this Agreement constitutes an arm’s length agreement with respect to the receipt by Midway of the Management Fee and the Incentive Fee.

(vi) It has not relied upon any information or statements at variance with, or contrary to, anything set forth either in this Agreement or in sections of the PPM expressly referred to herein in deciding to execute this Agreement and to open the Separate Account; it understands that information in the PPM other than those sections expressly referred to herein should not be considered applicable to the Separate Account and that Midway is available to answer any questions NYMT may have prior to operating or during the trading of the Separate Account.

(vii) Because all assets in the Separate Account will be assets of NYMT, NYMT will have full responsibility for the payment of all taxes due with respect to investment gains and income earned in the Separate Account.

(7) Term and Termination.

(a) Term and Termination

This Agreement shall continue in full force and effect from the Effective Date for a period of two (2) years (the “ **Initial Term** ”). Thereafter, the Agreement shall automatically renew for successive one (1) year terms (each a “ **Renewal Term** ”, and collectively with the Initial Term, referred to herein as the “ **Term** ”), unless either party provides the other with at least six (6) months advance written notice of its intent to terminate the Agreement at the end of the then current Term. The termination of this Agreement shall not affect any obligation incurred or liability of any of the parties hereto with respect to any transaction entered into, or liability or obligation incurred or assumed hereunder or otherwise, in each case, in good faith prior to such termination.

(b) Transition of Separate Account Upon Termination

If the Agreement is terminated by NYMT, Midway will liquidate the assets in the Separate Account in an orderly fashion, in its sole discretion. If the Agreement is terminated by Midway, Midway will, at NYMT's direction, either (i) liquidate the assets in the Separate Account in an orderly fashion; (ii) transfer the assets in the Separate Account to another investment manager designated by NYMT; or (iii) transfer the assets in the Separate Account to an NYMT account designated by NYMT. The Incentive Fee (as defined in Paragraph (8)(b) below) payable by NYMT will be payable as follows: (i) in the event of an orderly liquidation by Midway of the assets in the Separate Account, the Incentive Fee shall be based upon the net sale proceeds received from the liquidation of all such assets; and (ii) in the event the assets in the Separate Account are transferred to another investment manager or to NYMT, the Incentive Fee shall be based upon the fair market value of the assets as of the date of the effective date of the termination as determined in accordance with the valuation procedures provided below with respect to quarterly performance numbers. For the avoidance of doubt the Preferred Return and the Hurdle Rate shall cease to accrue as of the date notice of termination is given. Midway will continue to receive Management Fees on that portion of the capital that is still invested (as opposed to liquidated).

(8) Fees and Expenses.

(a) Management Fee

NYMT will pay Midway a monthly management fee (the “ **Management Fee** ”) for its investment management services. The Management Fee shall be paid monthly in arrears in an amount equal to the product of (i) 1.50% of the amount of Invested Capital in the Separate Account on the last Business Day of the previous month, multiplied by (ii) 1/12th. As set forth in Paragraph (4)(b), for the purposes of determining the Invested Capital in the Separate Account at any given time, the parties agree that the Capital Commitment Schedule set forth therein shall govern. Client authorizes the Custodian of the assets in the Separate Account to pay the Management Fee for each month directly to Midway. Midway will submit to NYMT a copy of its statement for the Management Fee at the same time the statement is submitted to the Custodian. The statement will reflect the amount of the fee, the value of NYMT's Invested Capital on which the fee was based, and the manner in which the fee was calculated. Midway will also instruct the Custodian to send to NYMT a statement, at least monthly, indicating all amounts disbursed from the Separate Account including the Management Fee paid to Midway. NYMT is responsible for verifying the accuracy of the fee calculation, and for advising Midway within fifteen (15) days of its receipt of such statement if it believes that the Management Fee is not correct. If NYMT does not object in writing to the calculation within fifteen (15) Business Days of receipt, the calculation shall be deemed accepted.

(b) Incentive Fee

Midway will be entitled to a quarterly incentive fee (the “ **Incentive Fee** ”) that is calculated monthly and payable quarterly in arrears. The Incentive Fee calculation shall be based upon the total market value of the net Invested Capital in the Separate Account on the last Business Day of the quarter, subject to a high water mark equal to a 10% return on Invested Capital (the “ **High Water Mark** ”), and shall be payable in an amount equal to 40% of the dollar amount by which Adjusted Net Income (as defined below) attributable to the Separate Account, on a calendar 12-month basis and before the Incentive Fee, exceeds an annual 15% rate of return on Invested Capital (the “ **Hurdle Rate** ”), with the return rate for each calendar 12-month period (the “ **Calculation Period** ”) determined by dividing (i) the Adjusted Net Income for the Calculation Period by (ii) the weighted average of the Invested Capital paid into the Separate Account during the Calculation Period. For the initial twelve (12) months, Adjusted Net Income will be calculated on the basis of each of the previously completed months on an annualized basis.

“ **Adjusted Net Income** ” is defined as net income (loss) calculated in accordance with generally accepted accounting principles in the United States (“ **GAAP** ”), excluding any unrealized gains and losses, after giving effect to all expenses as set forth in Paragraphs (8)(c) and (8)(d) below.

All securities held in the Separate Account shall be valued in accordance with GAAP, and in a manner consistent with the PPM for the Fund. As set forth in Paragraph (4)(b), for the purposes of determining the Invested Capital in the Separate Account at any given time, the parties agree that the Capital Commitment Schedule set forth herein shall govern.

Like the Hurdle Rate, which is calculated on a calendar twelve (12) month basis, the High Water Mark is calculated on a calendar twelve (12) month basis, and shall reset every twenty-four (24) months. The High Water Mark will be a static dollar figure that Midway will be required to recoup, to the extent there was a deficit in the prior High Water Mark calculation period before it can receive an Incentive Fee. For example, if in 2011, NYMT earns a return on Invested Capital in the Separate Account of 8%, which is 2% short of the High Water Mark, and this 2% deficit is equivalent to a dollar amount of \$2 million, Midway would have to earn net profit of \$2 million to get above the High Water Mark before it would be eligible again to receive an Incentive Fee. This is independent of the new High Water Mark, which will have to be reached in the following year(s). An illustration of how the High Water Mark is calculated is included on Exhibit B.

(c) Setup Expenses

NYMT will pay for all Separate Account setup costs including account fee setup costs, repurchase agreement establishment costs, legal, software and other start-up type costs. All expenses above \$50,000 will be approved by NYMT prior to incurrence. Upon request, Midway shall provide NYMT with commercially reasonable written support for expenses incurred.

(d) On-Going Expenses

NYMT acknowledges that the Separate Account will be charged for all direct operating and transaction costs and expenses incurred in connection with the management and administration of the Separate Account, including clerical, mailing, printing, duplication and other operational expenses, clearing fees, broker fees, repurchase interest expense, interest and commitment fees incurred in connection with other investment-related financing costs and other similar costs, as well as a pro rata portion of portfolio management software expenses and data fees incurred by Midway, allocated based on Invested Capital under management.

(9) Other Clients and Financial Activities.

Midway's services are not exclusive. In addition to managing the Separate Account, Midway manages the Fund and other private investment vehicles and either Midway or an affiliate may, in the future, manage other private investment funds or separate accounts. Midway and/or its affiliates may also have an economic interest in other accounts. Some of these accounts or entities may seek to acquire securities of an issuer in which the Separate Account has invested and holds an interest or to acquire from the Separate Account some or all of the securities of a particular issuer or may seek to dispose of securities the Separate Account is seeking to acquire. Other accounts and persons advised by Midway may have different investment objectives or considerations than the Separate Account. Decisions as to purchases and sales for each account are made separately and independently in light of the objectives and purposes of each account and may differ, depending on the account. In addition, Midway does not devote its full time to the management of any account and devotes such time and attention to any account as it, in its sole discretion, deems necessary for the management of such account.

Although Midway seeks to allocate investment opportunities in a manner which it believes to be in the best interests of all the accounts involved and seeks to allocate investment opportunities believed to be appropriate for both the Separate Account, the Fund and the other investment funds and/or accounts that are managed by Midway on an equitable basis, there can be no assurance that a particular investment opportunity will be allocated in any particular manner.

NYMT understands that the ability of Midway or its affiliates to effect and/or recommend certain transactions may be restricted by applicable regulatory requirements in the United States and/or other countries or jurisdictions.

Notwithstanding the foregoing, during the Initial Term, Midway agrees not to establish a separate account with any other publicly-listed residential or commercial mortgage REIT as long as NYMT has capital invested in the Separate Account.

(10) Performance Reports.

Monthly performance numbers for the Separate Account will be supplied to NYMT within ten (10) Business Days after month end. These performance numbers do not require any independent marks. Quarterly performance numbers will be supplied to NYMT within twenty (20) days after quarter end. For illiquid securities, at least 70% will have at least two (2) independent dealer marks, and up to 30% can have one (1) independent dealer mark. Annual performance numbers for the Separate Account will be supplied to NYMT within thirty (30) days after year-end. Each of the illiquid securities must have at least two (2) independent dealer marks.

To assist institutional equity investors in understanding the basic nature of the strategy employed in the Separate Account, Midway agrees to make a senior portfolio manager available periodically, with at least five (5) Business Days' advance notice, to participate in conference calls.

(11) IPO Right of First Refusal

From the Effective Date of this Agreement, until the Agreement is terminated by either party, NYMT will have a right of first refusal to serve as the primary sponsor of Midway, or an external vehicle wholly or partially managed by Midway, in any initial public offering, should Midway in its sole discretion elect to make such an offering.

(12) Confidentiality

NYMT agrees that it and its directors, officers, shareholders and employees (its “ **affiliates** ”) will keep confidential and will not disclose to any third party, other than NYMT’s accountants, legal counsel, financial advisors, consultants and other representatives (“ **Representatives** ”) whom NYMT determines have a need to know such information and then only to the extent such representatives agree to keep the information confidential, the details of or any other information pertaining to this Agreement, the terms of the Agreement, Midway’s identity as a party to this Agreement, Midway’s trading or investment advice or activities pertaining to the Separate Account (including, without limitation, the Investment Guidelines of the PPM for the Fund, positions held or taken and financial instruments traded in the Separate Account) or the dollar amount committed to the Separate Account (the “Confidential information”), except to the extent NYMT determines that such disclosure is (a) required in order to enable NYMT to comply with its disclosure and reporting obligations under the federal securities laws or to the extent otherwise required by law or (b) advisable, based on the advice of NYMT’s underwriters or financial advisors, for marketing purposes in connection with any capital raising transaction undertaken by NYMT. NYMT further agrees that NYMT and its affiliates will not otherwise use such information for its or their own gain or benefit (other than as provided in the previous sentence), including trading for its or their own account. If NYMT determines that such disclosure is required or advisable pursuant to the first sentence of this paragraph, it will, to the extent legally permitted to do so, provide Midway with reasonable advance notice of its intent to make the disclosure, which in no event shall be less than two (2) Business Days, and will consult with Midway regarding the purpose and content of such disclosure, subject to the understanding and agreement of the parties hereto that NYMT shall have sole discretion to make the final determination regarding such disclosure. NYMT agrees that, unless required by law, judicial order, subpoena or in connection with any regulatory investigation or inquiry, NYMT and its affiliates will not disclose to any third party, other than NYMT’s Representatives whom NYMT determines have a need to know such information and then only to the extent such Representatives agree to keep the information confidential, information regarding individual trades or trading activity or strategies pertaining to the Separate Account (as distinguished from the broader investment strategy relating to the Separate Account) undertaken by Midway in the Separate Account. For the avoidance of doubt, except to the extent set forth in the first sentence of this Paragraph (12), with respect to the Investment Guidelines of the PPM for the Fund, under no circumstances shall NYMT disclose any information regarding the Fund and/or any other fund managed by Midway.

To the extent that NYMT elects to disclose the performance of the Separate Account, it shall either do so using only materials prepared or approved by Midway or, if it elects not to use materials prepared or approved by Midway, then NYMT agrees to indemnify, exculpate, and hold harmless Midway from and against any loss, damages or expense suffered or sustained as a result of or in connection with NYMT's disclosure of such performance.

NYMT expressly agrees that the obligations set forth herein are necessary and reasonable to protect Midway, and further agrees to notify Midway of any breach of its obligations under Paragraph (12) within two (2) Business Days of becoming aware of the same. NYMT expressly agrees and acknowledges that monetary damages may be inadequate to compensate Midway for any breach of any covenant or agreement set forth in this Paragraph (12). NYMT hereby agrees and acknowledges that any such violation or threatened violation may cause irreparable injury to Midway and that, in addition to any other remedies that may be available, in law, in equity or otherwise, Midway will be entitled to injunctive relief against any breach or threatened breach of any terms set forth in this Paragraph (12) or the continuation of any such breach, without the necessity of proving actual damages. NYMT further agrees that it will indemnify and hold harmless Midway for any losses, costs, damages, liabilities or expenses (including reasonable fees and expenses of counsel) caused by or resulting from any use or disclosure by NYMT or its affiliates of the confidential information.

In connection with any representative client listing, marketing and/or similar materials, Midway may include NYMT's name, the material terms of this Agreement and the investment products/strategies provided by Midway to NYMT provided that Midway provides NYMT with reasonable advance notice, which in no event shall be less than two (2) Business Days, of its intent to make such disclosure and consults with NYMT regarding the purpose and content of such disclosure, subject to the understanding and agreement of the parties hereto that Midway shall have discretion to make the final determination regarding such disclosure. In addition, if either NYMT has itself publicly disclosed the material terms of this Agreement, or Midway, in its sole discretion, determines that it is required to make such disclosure to satisfy its own regulatory obligations, Midway shall also be permitted to disclose the amount of NYMT's assets under management in the Separate Account, in either case provided that it provides NYMT with reasonable advance notice, which in no event shall be less than two (2) Business Days, of its intent to make such disclosure and consults with NYMT regarding the purpose and content of such disclosure, subject to the understanding and agreement of the parties hereto that Midway shall have discretion to make the final determination regarding such disclosure.

Unless NYMT instructs Midway otherwise, communications and other documents and/or reports may be provided to NYMT in an electronic format. NYMT may revoke this consent at any time upon written notice to Midway.

(13) Track Record

NYMT acknowledges that Midway owns all rights and interest in the historic performance of the Separate Account achieved from the Effective Date of this Agreement, that this is the performance history of Midway and/or its affiliates, and NYMT and its affiliates hereby release Midway and its affiliates from any claims that it owns, is responsible for generating or, subject to the provisions of Paragraph (12) hereof, is otherwise entitled to use such performance history.

Notwithstanding the foregoing, if Midway elects to disclose the investment performance of the Separate Account in any marketing materials at any time during the Term of the Agreement, it shall have full discretion to do so, provided that it provides NYMT with reasonable advance notice, which in no event shall be less than two (2) Business Days, of its intent to make such disclosure and consults with NYMT regarding the purpose and content of such disclosure, subject to the understanding and agreement of the parties hereto that Midway shall have discretion to make the final determination regarding such disclosure.

(14) Proxy Voting

Unless otherwise agreed in writing, Midway shall be responsible for exercising any voting rights, consents, authorizations, elections or tender decisions, for securities held in the Separate Account, provided that Midway timely receives proxies or similar materials relating to such securities. Midway may use an external service provider in fulfilling its obligations under this section. Midway will not advise or act for NYMT in legal proceedings, including class action litigations and bankruptcies, involving securities purchased in the Separate Account.

(15) Liability and Indemnification

(a) Neither Midway nor any of its partners, officers, affiliates, employees and agents or the legal representatives of any of them (the “**Manager Parties**”) shall be liable to NYMT hereunder for any action taken or omitted to be taken or any judgment made honestly and in good faith, in the absence of gross negligence, fraud or willful misconduct. The Manager Parties shall not be liable for the negligence, dishonesty or bad faith of any agent, provided that such agent was selected, engaged or retained by the Manager with reasonable care. The Manager may consult with counsel and accountants in respect of its obligations under this Agreement and be fully protected and justified in any action or inaction which is taken in accordance with the advice or opinion of such counsel or accountants. All trading activity on behalf of the Separate Accounts shall be for the account and risk of NYMT, and, except as otherwise provided herein, Midway and its affiliates and their respective officers, directors, managers, members, employees and agents (the “**Manager Parties**”) shall not incur any liability for trading profits or losses resulting therefrom, or any expenses related thereto. This Paragraph 15 shall be in addition to, and not limit, any other provision of this Agreement which relieves Midway of any liability.

(b) NYMT will exculpate, indemnify and hold harmless the Manager Parties (each, a “ **Manager Indemnified Person** ”) from and against any loss or expense suffered or sustained as a result of or in connection with Midway’s or their performance of Midway’s or their obligations hereunder, including, without limitation, any judgment, settlement, reasonable attorneys’ fees and other costs and expenses incurred in connection with the defense of any actual or threatened action or proceeding (collectively, “ **Losses** ”), provided such Manager Indemnified Person acted honestly and in good faith, and, in the case of criminal proceedings, the Manager Indemnified Person had no reasonable cause to believe such action or inaction was unlawful. No indemnification may be made and each Manager Indemnified Person shall reimburse NYMT to the extent of any indemnification previously made in respect of any claim, issue or matter as to which the Manager Indemnified Person shall have been adjudged to be liable for gross negligence, fraud or willful misconduct in the performance of its duties to NYMT hereunder or would not otherwise be entitled to be held harmless under Paragraph 15 hereof unless, and only to the extent that, the court in which or the panel before which such action or suit was brought determines that in view of all the circumstances of the case, despite the adjudication of liability the indemnified party is fairly and reasonably entitled to indemnity for those expenses which the court deems proper.

(c) Promptly after receipt by an Indemnified Person of notice of the commencement of an action, claim or proceeding as to which a claim for indemnification under this Paragraph 15 may be made, the Indemnified Person shall notify the Indemnifying Person in writing of the commencement of such action, claim or proceeding; but the omission so to notify the Indemnifying Person shall not relieve the Indemnifying Person from any liability which it may have to the Indemnified Party unless the failure to so notify the Indemnifying Person has a materially prejudicial effect against the Indemnifying Person.

(16) Notices

Any communication, notice or demand which any party may be required or may desire to give or serve upon the other party shall be in writing and delivered by courier service, postage prepaid mail or fax to the address set forth below or a substituted address for which notice has been given in accordance with this provision and shall be effective when delivered by hand via courier service, three (3) days after being mailed by certified mail, and in the instance of fax notice, when the transmitting machine signals the successful transmission of the fax between 9:00 a.m. and 5:00 p.m. on a Business Day or at 9:00 a.m. on the following Business Day if transmission is not within such hours on a Business Day. In addition, any communication, notice or demand which any party may be required or may desire to give or serve upon the other party may be made or given in electronic .pdf form through an email transmission addressed to the email address shown below for the recipient, provided the sender does not receive any message indicating that the email transmission was not delivered successfully.

If to Midway:

Omar Qaiser

Chief Financial Officer

The Midway Group, LP

33 Whitehall Street, 22nd Floor

New York, New York 10004

Telephone: Facsimile: (212) 509-2570

E-Mail: Omar@themidwaygroup.com

With a copy to: Wendy A. Lurie, Esq., General Counsel

E-Mail: Wlurie@comcast.net

If to NYMT:

Steven R. Mumma

Chief Executive Officer

New York Mortgage Trust, Inc.

52 Vanderbilt Avenue Suite 403

New York New York 10017

Telephone: (212)792-1019

Facsimile: (212)655-6269

Email: smumma@nymtrust.com

With a copy to: Daniel M. LeBey, Esq. of Email: dlebey@hunton.com

(17) Governing Law

This Agreement shall be governed by and construed under the laws of the State of New York without regard to choice of law principles

(18) Entire Agreement; Severability

This Agreement represents the entire Agreement between the parties and supersedes all prior agreements with regard to the matters described herein and may not be modified or amended except by writing signed by all parties. In the event that any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid by a court with jurisdiction over the parties to this Agreement, and the subject matter of this Agreement, (i) such provision will be deemed to be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and (ii) the remaining terms, provisions, covenants and restrictions of this Agreement will remain in full force and effect.

(19) Arbitration

Any controversy or dispute between the parties arising out of any of the terms or conditions of this Agreement shall be submitted to an independent professional arbitration association in New York. Any arbitrator(s) selected must have significant arbitration experience relating to the securities industry. The parties shall select an arbitrator by mutual agreement within thirty (30) days of the date of the demand for arbitration. If the parties are unable to agree on the selection of an arbitrator within such time, each party shall select an arbitrator and the two arbitrators shall select a third arbitrator. Any of the two of the three arbitrators that agree shall decide the matter. The cost of the arbitration shall be borne equally by the parties, unless the arbitrator(s) order otherwise. The arbitration shall be binding with no right of appeal.

(20) Paragraph Headings

Paragraph headings are for convenience only and shall not be relied upon in construing this Agreement.

(21) Independence

Except as expressly provided herein, Midway is an independent contractor and this Agreement does not establish a joint venture or partnership between Midway and NYMT nor does it authorize any party to act as general agent, or to enter into any contract or other agreement on behalf of any other party except as specifically provided herein.

(22) Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed a single agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the date first set forth above.

THE MIDWAY GROUP, LP

By: /s/ Omar Qaiser

Omar Qaiser

Chief Financial Officer

NEW YORK MORTGAGE TRUST, INC.

By: /s/ Steven R. Mumma

Steven R. Mumma

Chief Executive Officer

Exhibit A

PPM Investment Guidelines

As of August 2008

INVESTMENT OBJECTIVE AND STRATEGY

The methods and strategies described below are intended as generalities, are not comprehensive, and are intended to give the Manager broad discretion in identifying investment and trading opportunities. The Manager has the right to alter its investment and trading strategies and priorities without prior notice to the Company and the Members if it believes that such changes are appropriate in view of the current or expected market, business or economic conditions .

Investment Objective

The Master Fund's (and through its investment in the Master Fund, the Company's) investment objective is to achieve long-term capital appreciation while emphasizing preservation of capital through the investment in fixed-income securities and other related Financial Instruments.

The Master Fund will invest primarily in mortgage-related securities, contract rights and derivatives, including mortgage-backed securities, CMOs, REMICs, SMBSs (such as agency and non-agency IOs and POs) and other derivative instruments. The Master Fund may also invest a portion of its assets in other types of U.S. and non-U.S. sovereign debt instruments and other investment-grade debt instruments and their related currencies as well as lower-grade securities. The Master Fund may utilize other securities, options, cash instruments, interest rate swaps, mortgage servicing rights, futures and other derivatives for hedging purposes.

Due to the nature of the Master Fund's investment program, the Master Fund may be unable to immediately invest its cash in Financial Instruments. Uninvested cash will be held in an interest-bearing account or otherwise be invested in highly-liquid cash equivalents.

Description of Investments

Mortgage-Related Securities . A mortgage-related security is an interest in a pool of mortgages. Most mortgage-related securities are mortgage pass-through securities, which means that they provide investors with payments consisting of both interest and principal as the mortgages in the underlying mortgage pool are paid off. Other mortgage-related securities include collateralized mortgage obligations, securities issued through REMICs and SMBSs.

Mortgage Pass-Through Securities. Mortgage pass-through securities may be issued or guaranteed by U.S. government agencies or instrumentalities, such as the Government National Mortgage Association (“**Ginnie Mae**” or “**GNMA**”), the Federal National Mortgage Association (“**Fannie Mae**” or “**FNMA**”) and the Federal Home Loan Mortgage Corporation (“**Freddie Mac**” or “**FHLMC**”), or by private originators of or investors in mortgage loans, such as banks, mortgage lenders and other financial institutions. Payments of principal and interest on Certificates issued by GNMA (but not the market value of the Certificates themselves) are guaranteed by the full faith and credit of the U.S. Government. FNMA and FHLMC obligations are not backed by the full faith and credit of the U.S. Government, but are supported by the instrumentalities’ right to borrow from the U.S. Treasury. Mortgage pass-through securities issued by private (non-agency) issuers may have other forms of credit enhancement.

Collateralized Mortgage Obligations. A CMO is a debt security that is backed by a portfolio of mortgages or mortgage-backed securities. The issuer’s obligation to make interest and principal payments is secured by the underlying portfolio of mortgages or mortgage-backed securities. Also included within the category of CMOs are PAC (Planned Amortization Class) Bonds, which are a type of CMO tranche or series designed to provide relatively predictable payments of principal provided that, among other things, the actual prepayment experience on the underlying mortgage loans falls within a predefined range.

Real Estate Mortgage Investment Conduits. A REMIC is a trust, partnership, corporation, association or segregated pool of mortgages which has elected and qualified to be treated as a REMIC under applicable U.S. tax rules. A REMIC must consist of one or more classes of “regular interests,” some of which may be adjustable rate, and a single class of “residual interests.” The different classes may have different payment terms and rankings in terms of priority. To qualify as a REMIC, substantially all the assets of the entity must be assets principally secured, directly or indirectly, by interests in real property.

Stripped Mortgage-Backed Securities. SMBs are securities representing interests in a pool of mortgages the cash flow of which has been separated into its interest and principal components. IOs (interest only securities) receive the interest portion of the cash flow while POs (principal only securities) receive the principal portion. SMBs may be issued by U.S. government agencies or by private (non-agency) issuers similar to those described with respect to CMOs and REMICs.

CMO Residuals. The cash flow generated by the mortgage loans underlying a series of CMOs is applied first to make required payments of principal of and interest on the CMOs and second, if applicable, to pay the related administrative expenses of the issuer. The residual in a CMO structure generally represents the interest in any excess cash flow remaining after making the foregoing payments, including mortgage servicing contracts. The Master Fund may fail to recoup fully its initial investment in a CMO residual. Some CMO residuals are subject to certain restrictions on transferability and may have adverse tax consequences if held by a non-U.S. person. Ownership of certain CMO residuals imposes liability on the purchaser for certain of the expenses of the related CMO issuer.

Other Derivative Instruments. It is likely that other forms of mortgage-related securities will be developed in the future. The Manager also expects that markets for mortgage-related securities and derivatives outside the United States will develop further. The Master Fund has complete flexibility to invest in any such securities and derivative instruments which may be developed and which may involve additional risks not described herein.

Reverse Repurchase Agreements . The Master Fund leverages its investments by entering into reverse repurchase agreements with respect to the types of securities in which it invests. A reverse repurchase agreement arises when the Master Fund sells a security to a bank or brokerage firm and simultaneously agrees to repurchase it on an agreed-upon future date. The repurchase price is greater than the sale price, reflecting an agreed-upon market rate which is effective for the period of time the buyer's money is invested in the security and which is not related to the coupon rate on the purchased security. The Master Fund might suffer a loss in the event of a bankruptcy or default of a bank or brokerage firm with which the Master Fund entered into a reverse repurchase agreement.

Financial Futures Contracts . The Master Fund may purchase and sell financial futures contracts from time to time in order to hedge all or part of its underlying portfolio of mortgage-related securities, although it is not obligated to do so. Financial futures contracts are contracts for the future delivery of a financial instrument, such as a U.S. Treasury bill or bond. Financial futures contracts combine the features of traditional commodity futures trading with trading in government securities and other interest rate sensitive instruments. The Master Fund may hedge against the possibility of an increase or decrease in interest rates adversely affecting the value of securities held in its portfolio by purchasing or selling a futures contract on a specific debt security whose price is expected to reflect changes in interest rates. However, if the Master Fund anticipates an increase in interest rates and rates decrease instead, the Master Fund will lose part or all of the benefit of the increased value of the securities which it has hedged because it will have offsetting losses in its futures position. In addition, in such situations, if the Master Fund has insufficient cash, it may have to sell Financial Instruments to meet daily variation margin requirements at a time when it may be disadvantageous to do so.

Option Trading . In general, an option gives the trader the right to acquire ("call option") or dispose of ("put option") a security or commodity futures contract at a fixed price before a specified date in the future. The Master Fund may, but is not obligated to, purchase call options on financial futures contracts to hedge against a decline in interest rates and/or purchase put options on financial futures contracts to hedge its portfolio securities against the risk of rising interest rates, although no assurance can be given that there will be a correlation between price movements in the options on financial futures and price movements in the portfolio securities of the Master Fund which are the subject of the hedge. Option trading is highly leveraged, since the option buyer must put up only the premium, normally a small amount relative to the value of the underlying security or commodity futures contract, in order to buy an option contract. A commodity option that is "out-of-the-money" and is not offset by the time it expires becomes valueless.

Other Investments; Future Developments . The Master Fund may enter into interest rate swap contracts and invest and trade in other debt securities and cash instruments. The Master Fund may also take advantage of other opportunities in the area of options, futures contracts and other synthetic or derivative instruments which are not presently contemplated or which are not currently available but which may be developed in the future and which may involve risks not described herein.

Modification of Trading Program . The Master Fund intends to maintain maximum flexibility in its trading and investment strategy and may modify the Master Fund's investment objective and strategies if it believes that it is in the Fund's best interests to do so, without notice to, or prior consent of, the Members.

Leverage

The Master Fund intends to borrow money from banks and other lenders and to trade on margin to leverage its investments. The Master Fund may pledge its assets as security for its borrowings. The leverage used on the Master Fund's investments (other than investments made for hedging purposes) generally will not exceed 3:1; however, there may be occasional short-term increases in the amount of leverage used due to major moves in the markets. Most of the Master Fund's borrowing will be short-term (less than 6 months) at commercial rates of interest. The Master Fund may increase or decrease the amount of leverage it uses at any time.

There can be no assurance that the Fund's investment objective will be realized. The success of the Fund depends on the ability of the Manager to select Financial Instruments.

MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT (this “Agreement”) is made as of the 5th day of April, 2011 (the “Effective Date”), by and between RB Commercial Mortgage LLC, a Delaware limited liability company (the “Company”), and RiverBanc LLC, a North Carolina limited liability company (the “Manager”).

RECITALS

WHEREAS, the Company is a Delaware limited liability company and a wholly-owned subsidiary of New York Mortgage Trust, Inc., a Maryland corporation (“NYMT”), that (i) intends to invest principally in commercial mortgage-backed securities, subordinate debt, preferred equity, new whole loans, seasoned whole loans and other assets that meet in all material respects the Company’s Guidelines (as hereinafter defined) and (ii) may determine to qualify as a real estate investment trust for federal income tax purposes and elect to receive the tax benefits accorded by Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”); and

WHEREAS, the Company desires to retain the Manager to administer the business activities and day-to-day operations of the Company and to perform services for the Company in the manner and on the terms set forth herein and the Manager wishes to be retained to provide such services.

NOW, THEREFORE, in consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Manager agree as follows:

1. Definitions. Capitalized terms used in this Agreement, and not otherwise defined, shall have the respective meanings assigned to them below:

1.1 “Adjusted Net Income” has the meaning set forth in Section 5.3.

1.2 “Affiliate” means, when used with reference to a specified Person, any Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by, or is under common Control with the specified Person.

1.3 “Agreement” has the meaning set forth in the Preamble.

1.4 “A-Note” means a senior tranche of a commercial first mortgage loan originated or acquired by the Company that is structured in such a manner for sale.

1.5 “Base Management Fee” has the meaning set forth in Section 5.2.

1.6 “Calculation Period” has the meaning set forth in Section 5.3.1.

1.7 “Cause” has the meaning set forth in Section 9.5.

1.8 “Change of Control” means the occurrence of any of the following:

(i) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the assets of the Manager, taken as a whole, to any Person other than one of its Affiliates; or

(ii) the acquisition by any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other than one of the Manager’s Affiliates (including, without limitation, Harvest Capital Strategies LLC or Hypotheca Capital, LLC and their Affiliates), in a single transaction or in a related series of transactions, by way of merger, consolidation or other business combination or purchase of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision) of 50% or more of the total voting power of the voting capital interests of the Manager.

1.9 “Company” has the meaning set forth in the Preamble.

1.10 “Code” has the meaning set forth in the recitals.

1.11 “Compliance Requirements” has the meaning set forth in Section 2.1.

1.12 “Control” (including the correlative meanings of the terms “Controls,” “Controlled by” and “under common Control with”), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities, partnership interests or other equity interests, by contract or other means.

1.13 “Deal Fee” has the meaning set forth in Section 5.4.

1.14 “Donlon” means Kevin Donlon, the Chief Executive Officer of the Manager.

1.15 “Effective Date” has the meaning set forth in the Preamble.

1.16 “Equity” means, for the purpose of calculating the Management Fee, the Invested Capital of the Company.

1.17 “Exchange Act” means the Securities Exchange Act of 1934, as amended.

1.18 “GAAP” means United States generally accepted accounting principles.

1.19 “Governing Instruments” means, with regard to any entity, the articles of incorporation and bylaws in the case of a corporation, certificate of limited partnership (if applicable) and the partnership agreement in the case of a general or limited partnership, the articles of formation and the operating agreement in the case of a limited liability company, the trust instrument in the case of a trust, or similar governing documents, in each case as amended from time to time.

- 1.20 “ Guidelines ” has the meaning set forth in Section 2.1.
- 1.21 “ Hurdle Rate ” has the meaning set forth in Section 5.3.1.
- 1.22 “ Incentive Management Fee ” has the meaning set forth in Section 5.3.1.
- 1.23 “ Incentive Tail Assets ” shall have the meaning set forth in Section 9.4.
- 1.24 “ Independent Directors ” means a director who is not affiliated, directly or indirectly, with the Manager or the Company, whether by ownership of, ownership interest in, employment by, or any material business or professional relationship with the Manager or the Company (other than solely in the capacity of a director for the Company or NYMT). The foregoing definition shall only apply in the event the Company is reincorporated in the State of Maryland in the future.
- 1.25 “ Initial Term ” has the meaning set forth in Section 9.1.
- 1.26 “ Investment Advisers Act ” means the Investment Advisers Act of 1940, as amended from time to time.
- 1.27 “ Investments ” means the investments of the Company.
- 1.28 “ Invested Capital ” means the cumulative amount of capital payments contributed to the Company.
- 1.29 “ Losses ” has the meaning set forth in Section 5.5.
- 1.30 “ Management Fee ” has the meaning set forth in Section 5.1.
- 1.31 “ Manager ” has the meaning set forth in the Preamble.
- 1.32 “ NYMT ” has the meaning forth in the recitals.
- 1.33 “ Person ” means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.
- 1.34 “ REIT ” means real estate investment trust as defined under Section 856 of the Code.
- 1.35 “ REIT Provisions of the Code ” means Sections 856 through 860 of the Code.
- 1.36 “ Renewal Term ” has the meaning set forth in Section 9.1.
- 1.37 “ Sole Member ” means New York Mortgage Trust, Inc. or any of its majority-owned subsidiaries.
- 1.38 “ Termination Date ” shall have the meaning set forth in Section 9.3.

- 1.39 “Termination Fee” has the meaning set forth in Section 9.2.
- 1.40 “Termination Notice” has the meaning set forth in Section 9.6.3.
- 1.41 “Termination Without Cause” has the meaning set forth in Section 9.6.3.
- 1.42 “Third Parties” has the meaning set forth in Section 3.2.

2. General Duties of the Manager.

2.1 Services to be Provided by the Manager. The Manager will provide the Company with investment management services in accordance with the terms and conditions contained in this Agreement and other applicable laws and regulations. Under this Agreement, the Manager shall have complete discretion and authority to manage the assets of the Company, subject to the written investment guidelines set forth in Exhibit A to this Agreement (the “Guidelines”) and the other terms and conditions in this Agreement, and is hereby appointed the Company’s agent and Attorney-in-Fact for that purpose. As such, the Manager is authorized to perform the following, at the Company’s expense, without further approval from the Company, except as expressly required by this Agreement or as required by law: (i) to make all investment decisions; (ii) to buy, sell and otherwise trade in securities; and (iii) to select brokers or dealers to execute securities transactions. Notwithstanding the foregoing, the Manager’s activities hereunder shall at all times be subject to modification at the Sole Member’s direction to ensure the Sole Member’s continuous compliance with applicable requirements under the United States Internal Revenue Code and the rules and regulations thereunder for the Sole Member to maintain its status as a REIT and under the Investment Company Act of 1940, as amended (the “Investment Company Act”) and the rules and regulations thereunder for the Sole Member and the Company and its subsidiaries to maintain their exemption from regulation as an investment company (collectively, the “Compliance Requirements”). The Manager shall be responsible solely for the investment of assets of the Company and shall have no duty to inquire into or review the management or investment of other assets of the Sole Member of the Company and its other affiliates. The Manager agrees to perform its duties set forth herein in good faith and in accordance with commercially reasonable standards, including, without limitation:

2.1.1 serving as the Company’s consultant with respect to the formulation of the Guidelines and any modifications thereto, which shall be negotiated and approved in good faith by each of the Manager and the Sole Member of the Company, and other policies for approval by the Sole Member of the Company. The Guidelines set forth in Exhibit A hereto, including any modifications directed by the Sole Member in order to satisfy the Compliance Requirements, shall be applied at the time a transaction is entered into, regardless of later market movements, and shall not be deemed breached as a result of changes in the value or status of an investment following its acquisition.

2.1.2 investigating, analyzing and selecting possible investment opportunities;

2.1.3 representing the Company in connection with the purchase, sale, commitment to purchase or sell, sourcing, structuring, and closing upon commercial mortgage-backed securities, subordinate debt, preferred equity, new whole loans, seasoned whole loans and other assets that meet in all material respects the Company’s Guidelines, and managing the Company’s portfolio of assets;

- 2.1.4 advising the Company and negotiating counterparty agreements, including with third-party lenders for borrowing and hedging transactions;
- 2.1.5 making available to the Company price information, statistical and economic research, data and analysis regarding the Company's activities and the services performed for the Company by the Manager;
- 2.1.6 investing any of the Company's money in accordance with the Company's Guidelines, policies and procedures;
- 2.1.7 advising the Company in connection with investment and related policy decisions to be made by the Sole Member of the Company;
- 2.1.8 assisting the Company in qualifying to do business in all applicable jurisdictions and assisting the Company with obtaining and maintaining all appropriate licenses;
- 2.1.9 assisting the Company to retain qualified experts as and when needed;
- 2.1.10 advising the Company in its compliance with all federal, state and local regulatory requirements applicable to the Company and its Affiliates in respect of its business activities, including disclosure associated with periodic reporting under the Exchange Act;
- 2.1.11 advising the Company and its Affiliates, if reasonably requested by the Company, in their compliance with federal, state and local tax filings and reports;
- 2.1.12 advising the Company as to its capital structure and capital raising activities;
- 2.1.13 evaluating and recommending to the Sole Member hedging strategies for the Company;
- 2.1.14 monitoring the operating performance of the Investments and providing periodic reports with respect thereto to the Sole Member of the Company, including comparative information with respect to such operating performance and budgeted or projected operating results;
- 2.1.15 assisting the Company with the resolution of all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Company may be involved or to which the Company may be subject arising out of the Company's day-to-day operations, subject to the request and approval of the Company;
- 2.1.16 using commercially reasonable efforts to cause expenses incurred by or on behalf of the Company to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by the Sole Member of the Company from time to time; and

2.1.17 using commercially reasonable efforts to cause the Company to comply with all applicable laws.

2.2 Obligations of the Manager; Restrictions.

2.2.1 Verify Conformity with Acquisition Criteria. The Manager shall refrain from any action that does not comply with the Guidelines adopted by the Sole Member of the Company as in effect from time to time during the term hereof. The Sole Member of the Company will periodically review the Guidelines and the Company's portfolio of Investments, each in consultation with the Manager, but will not review each proposed investment. If the Sole Member of the Company determines in its periodic review of transactions that a particular transaction does not comply with the Guidelines, then the Sole Member of the Company will consider what corrective action, if any, can be taken and the Manager will undertake such corrective action as directed by the Sole Member of the Company.

2.2.2 Restrictions. The Manager acknowledges that the Company intends to conduct its operations in accordance with the Compliance Requirements and the Manager agrees to use commercially reasonable efforts to cooperate with the Company's efforts to conduct its operations in accordance with the Compliance Requirements. The Manager shall refrain from any action which, in its sole judgment made in good faith in consultation with legal counsel, (A) would adversely affect the status of the Company or, if applicable, any Affiliate of the Company as a REIT, (B) would adversely affect the Company's, or any Affiliate's of the Company, exclusion from status as an investment company under the Investment Company Act, (C) is not in compliance with the Guidelines or (D) would violate any material law, rule or regulation of any governmental body or agency having jurisdiction over the Company or any such Affiliate or which would otherwise not be permitted by the Company's or such Affiliate's Governing Instruments or any agreements provided to the Manager. If the Manager is directed to take any such action by the Sole Member of the Company (including, without limitation, any corrective action directed to be taken pursuant to Section 2.2.1), the Manager shall promptly notify the Company of the Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation or the Governing Instruments; operating policies adopted by the Company; or any agreements provided to the Manager.

2.2.3 Interested Transactions. Except as set forth in this Agreement, the Manager shall not (i) consummate any transaction which would involve the acquisition by the Company of an asset in which the Manager or any Affiliate thereof has an ownership interest or the sale by the Company of an asset to the Manager or any Affiliate thereof, (ii) cause the Company to pay, or become liable to the Manager for, any amounts not specifically provided for herein, or (iii) under circumstances where the Manager is subject to an actual or potential conflict of interest, in the reasonable judgment of the Manager, because it manages both the Company and another Person (not an Affiliate of the Company) with which the Company has a contractual relationship, take any action constituting the granting to such Person of a waiver, forbearance or other relief, or the enforcement against such Person of remedies, under or with respect to the applicable contract, unless such transaction or action, as the case may be and in each case, is approved by the Sole Member.

2.2.4 Portfolio Transactions. In placing portfolio transactions and selecting brokers or dealers, the Manager shall obtain on behalf of the Company commercially reasonable terms. In assessing commercially reasonable terms for any transaction, the Manager shall consider all factors it deems relevant, including the breadth of the market in the security, the price of the security, the financial condition and execution capability of the broker or dealer, and the reasonableness of the commission, if any, both for the specific transaction and on a continuing basis.

2.2.5 Reports. The Manager shall prepare regular reports for the Sole Member of the Company to enable the Sole Member of the Company to review the Company's acquisitions, portfolio composition and characteristics, credit quality, performance and compliance with the investment criteria and policies approved by the Sole Member of the Company.

2.2.6 Fidelity Bond. Starting as soon as commercially feasible and during the term of this Agreement, the Manager shall obtain and maintain a fidelity bond in such amount and with an issuer as the Manager shall determine (subject to the reasonable approval of the Sole Member of the Company), which shall cover, among other things, losses resulting directly from dishonest or fraudulent acts committed by an employee of the Manager and certain other losses. The premium for such bond shall be paid by the Manager.

2.2.7 Insurance Coverage. Starting as soon as commercially feasible and during the term of this agreement, the Manager shall maintain reasonable and customary "errors and omissions" insurance coverage and other customary insurance coverage. The premium for such insurance shall be paid by the Manager or its Affiliates.

2.3 Cooperation of the Company. The Company agrees to take all actions reasonably required to permit the Manager to carry out its duties and obligations under this Agreement. The Company further agrees to make available to the Manager all materials reasonably requested by the Manager to enable the Manager to satisfy its obligations to the Company. Upon request by the Manager and provided funds have been contributed to the Company pursuant to an NYMT Contribution (as defined in the Limited Liability Company Agreement of the Manager, dated as of the date hereof), the Company shall promptly make sufficient funds available to the Manager to fund any Investment that satisfies the Guidelines.

3. Devotion of Time; Additional Activities of the Manager and its Affiliates.

3.1 Devotion of Time. The Manager will devote such of its time in connection with the investment management services to be provided hereunder as the Sole Member of the Company and the Manager reasonably deem necessary and appropriate, commensurate with the level of activity of the Company from time to time.

3.2 Other Activities; Competition. The Manager, or any Affiliate of the Manager, may act as manager for any other persons, firms or corporations other than the Company (hereinafter collectively referred to as “Third Parties”), the investment objectives or policies of which are similar to those of the Company. The Manager or any such Affiliate may buy, sell or trade any securities or commodities or real estate for the Manager’s own accounts or for the accounts of others for whom the Manager or any such Affiliate may be acting. Notwithstanding the foregoing, until the termination of this Agreement, for so long as NYMT or Donlon own directly or indirectly any Class A Common Interests (as such term is defined in the Limited Liability Company Agreement of the Manager, dated as of the date hereof) of the Manager, the Manager shall not act as manager for, sponsor, support or source investments, or otherwise provide services similar to the services contemplated by this Agreement, to any Third Parties that are, or who have Affiliates that are, organized to qualify as a REIT or public partnership, other than the Company and its Affiliates; provided, however, that in the event the Company and the Manager are unable to reach agreement on any changes to the Guidelines pursuant to Section 2.1.1 hereof within 60 days following the commencement of negotiations related thereto the restrictions set forth in this sentence shall have no further force or effect. The Company shall have the benefit of the Manager’s best judgment and effort in rendering services and, in furtherance of the foregoing, the Manager shall not undertake activities which, in its good faith judgment, will substantially and adversely affect the performance of its obligations under this Agreement.

3.3 Allocation of Investment Opportunities and Aggregation Policy.

3.3.1 The Company and the Manager agree that to the extent the Manager provides management services to Third Parties with investment objectives similar to the Company, and the Manager identifies an investment opportunity or opportunities suitable for the Company and one or more Third Parties, and such investment is of a size that requires an allocation of such investment between the Company and one or more Third Parties, the Manager will allocate such investment in a fair and equitable manner and will take into account the following considerations: (i) the primary investment strategy and the particular stage in portfolio development within each company managed by the Manager; (ii) the effect of the potential acquisition on the diversification of each company’s portfolio’s investments by coupon, purchase price, size, prepayment characteristics, and leverage; (iii) the cash requirements of each company’s portfolio; (iv) the anticipated cash flow of each company’s portfolio; and (iv) the amount of funds available to each company’s portfolio and the length of time such funds have been available for investment. The parties hereto acknowledge that information and recommendations provided by the Manager to the Company may be different from the information and recommendations supplied by the Manager or its Affiliates to Third Parties. The Company shall be entitled to equitable treatment under the circumstances in receiving information, recommendations and any other services, but the Company recognizes that it is not entitled to receive preferential treatment as compared with the treatment given by the Manager to any Third Parties. On a quarterly basis, subject to preexisting contractual confidentiality obligations owed by the Manager to Third Parties, the Manager will provide to the Sole Member of the Company all information available or reasonably requested by the Sole Member of the Company with respect to allocation decisions the Manager has made to allocate investment opportunities between the Company and Third Parties, if any, and discuss with the Sole Member of the Company the portfolio needs of each managed company for the next quarter to determine prospectively whether any asset allocation conflict is likely to occur and the proposed resolution of any such conflict.

3.3.2 The parties hereto agree that (i) the Manager may aggregate transactions by the Company and other clients of the Manager and its affiliates in circumstances where the Manager reasonably believes such aggregation would result in best execution, (ii) no account will be favored over any other account and each account that participated in aggregated orders will participate at the average price acquired for all transactions on a given business day, (iii) each account's books and records will separately reflect, where orders are aggregated, the securities held by and bought and sold for each account, (iv) funds of participating accounts whose orders are aggregated will be deposited with one or more banks or broker/dealers, and any cash attributable to the accounts will not be held collectively for the respective owners any longer than is commercially necessary to settle the purchase or sale in question on a delivery versus payment basis and (v) no party will receive additional compensation or remuneration of any kind as a result of the aggregation procedure.

4. Records; Confidentiality. The Manager shall maintain appropriate books of account and records relating to services performed under this Agreement, and such books of account and records shall be accessible for inspection by representatives of the Company or any subsidiary of the Company at any time during normal business hours. Except in the ordinary course of business of the Company, the Manager shall keep confidential any and all information it obtains from time to time in connection with the services it renders under this Agreement and shall not disclose any portion thereof to non-affiliated third parties, except with the prior written consent of the Company.

5. Compensation of the Manager.

5.1 Management Fee. For the Manager's services rendered under this Agreement, the Company shall pay the Manager a management fee (the Base Management Fee, Incentive Management Fee and Deal Fee, each as hereinafter defined, are collectively referred to as, the "Management Fee").

5.2 Computation of Base Management Fee. The Manager shall earn a base management fee that shall be calculated and paid monthly in arrears, equal to 1/12th of 1.50% (per annum) of Equity (such amount being hereinafter referred to as, the "Base Management Fee"). For purposes of calculating the Base Management Fee, Equity shall be determined as of the last day of the applicable month. The Manager shall compute the Base Management Fee within fifteen (15) business days after the end of each month and shall promptly deliver such calculation to the Sole Member for review. The Company is obligated to pay any undisputed portion of the Base Management Fee within five (5) business days following the delivery to the Company of the Manager's written statement setting forth the computation of the Base Management Fee for such month.

5.3 Incentive Fee.

5.3.1 The Manager will be entitled to an incentive fee (the “Incentive Management Fee”) that shall be calculated quarterly and payable within 60 days after the end of each fiscal quarter during the Initial Term and each Renewal Term of this Agreement. For each of the first three quarters of each calendar twelve (12) month period during the term of this Agreement, the Incentive Management Fee calculation shall be based upon the average Equity invested in the Company during the fiscal quarter, and shall be payable in an amount equal to 35% of the dollar amount by which Adjusted Net Income (as defined below) attributable to invested Equity of the Company, before the Incentive Management Fee, exceeds an annualized 12% rate of return on such invested Equity (the “Hurdle Rate”). For the fourth fiscal quarter of each calendar twelve (12) month period during the term of this Agreement, the Incentive Management Fee shall be payable in an amount equal to the excess, if any, of (x) 35% of the dollar amount by which Adjusted Net Income attributable to invested Equity of the Company during the calendar twelve (12) month period, before the Incentive Management Fee, exceeds the Hurdle Rate, over (y) the total Incentive Management Fees paid for the first three quarters of each calendar twelve (12) month period during the term of this Agreement. The return on Equity for each calendar twelve (12) month period or quarter, as applicable, during the term of this Agreement (the “Calculation Period”) shall be determined by dividing (i) the Adjusted Net Income for the Calculation Period by (ii) the average invested Equity of the Company during the Calculation Period. “Adjusted Net Income” for purposes hereof is defined as net income (loss) calculated in accordance GAAP, excluding all unrealized gains and losses and after giving effect to all expenses paid to or on behalf of the Manager in connection with the Equity of the Company invested in Investments or incurred as part of the Investment cost, including amortization of capitalized costs of Investments, but not including any costs capitalized. Further for purposes hereof, the calculation of the return on Equity for Investments that utilize leverage to finance such Investments shall be calculated utilizing the Company’s hedged cost of funding under GAAP for such investment plus a 4.0% risk premium. An illustration of how the Incentive Management Fee is calculated is included in Exhibit B.

5.3.2 Any Incentive Management Fee payment will be subject to a 9.0% minimum return (the “High Water Mark”). Like the Hurdle Rate, which is calculated on a calendar twelve (12) month basis, the High Water Mark is calculated on a calendar twelve (12) month basis and shall reset every twenty-four (24) months. The High Water Mark will be a static dollar figure that the Manager will be required to recoup, to the extent there was a deficit in the prior High Water Mark calculation period before it can receive an Incentive Management Fee. For example, if in the first quarter of 2011, the Company earns an annualized return on Equity of 7%, which is 2% short of the High Water Mark, and this 2% deficit is equivalent to a dollar amount of \$2 million, the Manager would have to earn net profit of \$2 million in subsequent quarters to get above the High Water Mark before it would be eligible again to receive an Incentive Management Fee. This is independent of the new High Water Mark, which will have to be reached in the following quarter(s). An illustration of how the High Water Mark is calculated is included on Exhibit B.

5.4 Deal Fees. The Company agrees that it may, with the assistance of the Manager, charge borrowers origination fees on loans originated by the Company or earn profits on the sale of loans owned by the Company. All (x) origination fees and (y) profits on the sale of A-Notes will be split on a 50/50 basis between the Manager and the Company (the “Deal Fee”).

5.5 Fee Offset. In the event the Company incurs, accrues or otherwise suffers any losses under GAAP (“Losses”) as a result of the Manager’s (i) failure to materially adhere to the Company’s Guidelines or (ii) breach of any term or condition hereof, without limiting any other rights and remedies the Company may have in law or in equity against the Manager, any Management Fee that would otherwise be due and owing hereunder (whether accrued and unpaid or in the future) shall be offset against the amount of such Losses on a dollar for dollar basis.

6. Expenses of the Manager and the Company .

6.1 Expenses of the Manager . Without regard to the compensation received under this Agreement by the Manager, the Manager shall bear the following expenses:

6.1.1 employment expenses of the personnel employed by the Manager and/or its Affiliates (including, but not limited to, officers of the Company employed by the Manager and/or its Affiliates), including, but not limited to, salaries, wages, payroll taxes and the cost of employee benefit plans of such personnel.

6.1.2 rent, telephone, utilities, office furniture, equipment, machinery, and other office expenses of the Manager and/or its Affiliates.

6.2 Expenses of the Company . The Company or any subsidiary of the Company shall pay all of its expenses except those that are the responsibility of the Manager pursuant to Section 6.1 of this Agreement, and without limiting the generality of the foregoing, it is specifically agreed that the following expenses of the Company or any subsidiary of the Company shall be paid by the Company and shall not be paid by the Manager or Affiliates of the Manager:

6.2.1 expenses in connection with the issuance and transaction costs incident to the acquisition, disposition and financing of Investments, including those expenses that would customarily be capitalized as part of the Investment;

6.2.2 the compensation and expenses of the Company's directors and the cost of liability insurance to indemnify the Company's directors and officers;

6.2.3 costs associated with the establishment and maintenance of any of the Company's credit or other indebtedness (including commitment fees, accounting fees, legal fees, closing and other similar costs) or any of the Company's securities offerings;

6.2.4 expenses connected with communications to holders of the Company's securities or of its Affiliates and other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including, without limitation, all costs of preparing and filing required reports with the SEC, the costs payable by the Company to any transfer agent and registrar in connection with the listing and/or trading of the Company's or its Affiliate's stock on any exchange, the fees payable by the Company or its Affiliates to any such exchange in connection with its listing, costs of preparing, printing and mailing of the Company's or its Affiliates annual report to its stockholders and proxy materials with respect to any meeting of the stockholders of the Company;

6.2.5 costs associated with any computer software or hardware, electronic equipment or purchased information technology or analytical services from third-party vendors to the extent used for the Company and approved in advance by the Company;

6.2.6 expenses incurred by the Manager for reasonable travel on the Company's behalf and other reasonable out-of-pocket expenses incurred by personnel and agents of the Manager in connection with the purchase, financing, refinancing, sale or other disposition of an Investment;

6.2.7 costs and expenses incurred with respect to market information systems and publications, research publications and materials, and settlement, clearing and custodial fees and expenses to the extent used for the Company and approved in advance by the Company;

6.2.8 compensation and expenses of the Company's custodian and transfer agent, if any;

6.2.9 the costs of maintaining compliance with all federal, state and local rules and regulations or any other regulatory agency;

6.2.10 all taxes and license fees;

6.2.11 costs and expenses incurred in contracting with third parties, including Affiliates of the Manager;

6.2.12 all other costs and expenses relating to the Company's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of investments, including appraisal, reporting, audit and legal fees;

6.2.13 expenses relating to any office(s) or office facilities, including but not limited to disaster backup recovery sites and facilities, maintained for the Company or its investments separate from the office or offices of the Manager;

6.2.14 expenses connected with the payments of interest, dividends or distributions in cash or any other form authorized or caused to be made by the Sole Member of the Company to or on account of holders of the Company's securities or of its subsidiaries, including, without limitation, in connection with any dividend reinvestment plan;

6.2.15 any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against the Company, or against any trustee, director, partner, member or officer of the Company in his capacity as such for which the Company is required to indemnify such trustee, director, partner, member or officer by any court or governmental agency; and

6.3 Expense Reports; Reimbursement to the Manager. The Manager shall prepare a report documenting the reimbursable expenses incurred by the Manager on behalf of the Company during each month, and shall deliver such statement to the Sole Member within fifteen (15) business days after the end of each calendar month. Undisputed expenses incurred by the Manager on behalf of the Company shall be reimbursed monthly to the Manager on the last day of the month in which such report is properly submitted. Expense reimbursement to the Manager shall be subject to adjustment at the end of each fiscal year in connection with the annual audit of the Company. In the event the Company and the Manager are unable to reach agreement regarding any expenses submitted by the Manager hereunder within 60 days following the Manager's submission of such expenses pursuant to this Section 6.3, the Company and the Manager agree to submit such disputed expenses to a single, qualified and independent arbitrator, whose appointment shall be agreed upon between the parties, or failing agreement within fourteen (14) days, after either party has given to the other a written request to concur in the appointment of an arbitrator, by an arbitrator to be appointed by the President or a Vice President of the Chartered Institute of Arbitrators. The Company and the Manager hereby agree to evenly split the cost associated with the appointment of any such arbitrator.

7. Limits of Manager Responsibility. The Manager assumes no responsibility under this Agreement other than to render the services specifically called for under this Agreement and shall not be responsible for any action of the Company in following or declining to follow any advice or recommendations of the Manager, including as set forth in Section 2.2.2 of this Agreement. The Manager, its managers, officers, members and employees will not be liable to the Company, any issuer of Investments, any Affiliate of the Company, its stockholders or any of its Affiliate's stockholders or the Independent Directors for any acts or omissions, errors of judgment or mistakes of law by the Manager, its managers, officers, members or employees under or in connection with this Agreement, except by reason of acts or omissions, errors of judgment or mistakes of law constituting willful misconduct, gross negligence or fraud. The Company shall reimburse, indemnify and hold harmless the Manager, its managers, officers, members and employees of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including, without limitation, attorneys' fees) in respect of or arising from any acts or omissions, errors of judgment or mistakes of law of the Manager, its managers, officers, members and employees made in the performance of the Manager's duties under this Agreement or pursuant to any underwriting agreement or similar agreement to which Manager is a party in connection with any debt or equity sales of the Company's securities and not constituting willful misconduct, gross negligence or fraud. The Manager shall be further indemnified by the Company as an agent of the Company to the maximum extent permissible in accordance with the terms of the Company's Governing Instruments.

The Manager shall reimburse, indemnify and hold harmless the Company and the Sole Member and their members, managers, directors, officers, employees and stockholders from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including, without limitation, attorneys' fees) in respect of or arising from the Manager's willful misconduct, gross negligence or fraud.

8. No Joint Venture. The Company and the Manager are not partners or joint venturers with each other, and nothing in this Agreement shall be construed to make them such partners or joint venturers or impose any liability as such on any of them. The Manager is an independent contractor and, except as expressly provided or authorized in this Agreement, shall have no authority to act for or represent the Company.

9. Term; Renewal; Termination Fee; Termination.

9.1 Term. This Agreement shall commence on the Effective Date and shall continue in force until the second anniversary of the Effective Date (the “Initial Term”) and thereafter shall be automatically extended for additional one (1) year terms (each, a “Renewal Term”) without further action unless one party delivers written notice of non-renewal to the other party at least 180 days prior to the end of the then-applicable term.

9.2 Termination Fee. If this Agreement is terminated for any reason other than pursuant to Section 9.4.1 (but, in the case of Section 9.4.1 (i), only to the extent that the Manager’s actions caused the Company to become an investment company under the Investment Company Act), Section 9.5, Section 9.6.1 and Section 9.6.2 hereof, the Company shall pay the Manager a termination fee in an amount equal to 24 times the Base Management Fee earned by the Manager during the one month period immediately preceding the date of such termination (the “Termination Fee”) and shall further continue to pay the Manager the Incentive Management Fee until such time as the Company ceases to hold the Incentive Tail Assets (defined below).

9.3 Right of First Refusal Upon Termination. If this Agreement is terminated for any reason by the Company, including non-renewal, the Manager shall have the exclusive right of first refusal for a period of 180 days following the date on which the Manager shall cease to provide services hereunder (the “Termination Date”), which such right of first refusal shall be renewable in accordance with the last sentence of this Section 9.3, to purchase any of the Company’s investments, other than investment-grade securities that existed on the date of termination (the “ROFR Investments”). Upon effectiveness of the foregoing provision, in the event the Company receives a bona fide third party offer to purchase any ROFR Investment, the Company shall provide the Manager with written notice thereof detailing the terms of such sale. The Manager shall have 120 days following receipt of such written notice to exercise its right of first refusal and purchase the subject ROFR Investment on the same terms and conditions as set forth in the Company’s written notice to the Manager. In the event the Manager fails to exercise its right of first refusal and purchase the ROFR Investment within said 120 day period, the Company may sell the subject ROFR Investments to a third party on the same terms and conditions as were set forth in the original notice to the Manager within 180 days after the expiration of the aforesaid 120 day period. If the Company does not sell the ROFR Investments within such 180 day period, the Company shall again comply with the terms hereof prior to any such sale.

9.4 Termination by the Manager.

9.4.1 The Manager may terminate the Agreement if (i) the Company becomes an investment company under the Investment Company Act or (ii) the Manager declines to renew the Agreement by providing the Company with 60 days’ prior written notice. No Termination Fee shall be due and owing in the event the Manager terminates the Agreement in accordance with this Section 9.4.1. In the event this Agreement is terminated pursuant to this Section 9.4.1, from and after the Termination Date, the Manager will continue to be entitled to receive an Incentive Fee in accordance with the terms of this Agreement on all Investments held by the Company as of the Termination Date (the “Incentive Tail Assets”), until such time as such Incentive Tail Assets are disposed of by the Company or mature; *provided, however*, that the Manager shall not be entitled to an Incentive Fee on Incentive Tail Assets to the extent this Agreement is terminated pursuant to clause (i) of this subsection and the Manager’s actions are deemed to have caused the Company to become an investment company under the Investment Company Act.

9.4.2 The Manager may terminate the Agreement, which termination will trigger payment of the Termination Fee, if the Company has breached this Agreement in any material respect, the Manager provides 60 days' written notice of such breach and the Company fails to cure such breach within 60 days of receiving written notice.

9.5 Termination by Company for Cause. At the option of the Company, this Agreement shall be and become terminated upon 30 days' written notice of termination from the Company to the Manager if any of the following events shall occur (termination for any of such events shall constitute termination for "Cause"):

9.5.1 if Sole Member of the Company reasonably determines that the Manager has breached this Agreement in any material respect and, after written notice of such violation, the Manager has failed to cure such breach within 30 days;

9.5.2 the Manager engages in any act of fraud or embezzlement against the Company,

9.5.3 there is an event of any gross negligence or willful misconduct on the part of the Manager in the performance of its duties under this Agreement that is materially detrimental to the Company;

9.5.4 the Manager dissolves (unless the Sole Member of the Company has previously approved a successor);

9.5.5 if Kevin Donlon ceases to be a full-time employee of the Manager or its Affiliates (or any of its or their successors or assigns)

9.5.6 the Manager undergoes a Change of Control without consent of the Sole Member of the Company; or

9.5.7 there is entered an order for relief or similar decree or order with respect to the Manager by a court having competent jurisdiction in an involuntary case under the federal bankruptcy laws as now or hereafter constituted or under any applicable federal or state bankruptcy, insolvency or other similar laws; or the Manager (i) ceases, or admits in writing its inability, to pay its debts as they become due and payable, or makes a general assignment for the benefit of, or enters into any composition or arrangement with, creditors; (ii) applies for, or consents (by admission of material allegations of a petition or otherwise) to the appointment of a receiver, trustee, assignee, custodian, liquidator or sequestrator (or other similar official) of the Manager or of any substantial part of its properties or assets, or authorizes such an application or consent, or proceedings seeking such appointment are commenced without such authorization, consent or application against the Manager and continue undismissed for 30 days; (iii) authorizes or files a voluntary petition in bankruptcy, or applies for or consents (by admission of material allegations of a petition or otherwise) to the application of any bankruptcy, reorganization, arrangement, readjustment of debt, insolvency, dissolution, liquidation or other similar law of any jurisdiction, or authorizes such application or consent, or proceedings to such end are instituted against the Manager without such authorization, application or consent and are approved as properly instituted and remain undismissed for 30 days or result in adjudication of bankruptcy or insolvency; or (iv) permits or suffers all or any substantial part of its properties or assets to be sequestered or attached by court order and the order remains undismissed for 30 days; provided, however, that in the event the Manager becomes the subject of a case under federal bankruptcy or similar federal or state laws and remains in possession of its property and continues to operate its business (as a debtor in possession or otherwise), the Company shall not have the option to terminate this Agreement unless the Independent Directors determine in good faith that as a result of such proceeding the Manager cannot reasonably be expected to fulfill its obligations under this Agreement. If any of the events specified in this Section shall occur, the Manager shall give prompt written notice thereof to the Company upon the happening of such event.

9.6 Other Termination by Company .

9.6.1 Negative Return on Equity . In the event the Company realizes a negative 15% return on Equity, calculated in accordance with GAAP, in any fiscal year on Investments source or acquired on the Company's behalf by the Manager, the Company may terminate the Agreement by written notice to the Manager within 180 days following the fiscal year in which such negative return was realized. No Termination Fee shall be due and owing in the event the Company terminates the Agreement in accordance with this Section 9.6.1. In the event this Agreement is terminated pursuant to this Section 9.6.1, from and after the Termination Date, the Manager will continue to be entitled to receive an Incentive Fee in accordance with the terms of this Agreement on all Incentive Tail Assets, until such time as such Incentive Tail Assets are disposed of by the Company or mature.

9.6.2 Failure to Raise Capital or Obtain Investments . In the event the Company or NYMT have not raised an additional \$25.0 million of equity capital for the Company or the Manager has been unable to close on at least \$50.0 million of investments meeting the Investment Criteria by December 31, 2011, the Company may terminate this Agreement by providing written notice to the Company within 30 days following December 31, 2011. No Termination Fee shall be due and owing in the event the Company terminates the Agreement in accordance with this Section 9.6.2. In the event this Agreement is terminated pursuant to this Section 9.6.2, from and after the Termination Date, the Manager will continue to be entitled to receive an Incentive Fee in accordance with the terms of this Agreement on all Incentive Tail Assets, until such time as such Incentive Tail Assets are disposed of by the Company or mature.

9.6.3 Termination for any Other Reason Following Expiration of Initial Term . Notwithstanding any other provision of this Agreement to the contrary, upon the expiration of the Initial Term and upon 180 days' prior written notice to the Manager (the "Termination Notice"), the Company may, without Cause terminate this Agreement (a "Termination Without Cause"). The Termination Fee shall be due and owing in the event the Manager terminates the Agreement in accordance with this Section 9.6.3. In the event this Agreement is terminated pursuant to this Section 9.6.3, from and after the Termination Date, the Manager will continue to be entitled to receive an Incentive Fee in accordance with the terms of this Agreement on all Incentive Tail Assets, until such time as such Incentive Tail Assets are disposed of by the Company or mature. In connection with any termination of this Agreement, including Termination Without Cause, the Manager shall cooperate with the Company in executing an orderly transition of the management of the Company's assets to the Manager or such other Persons, as applicable.

10. Right of First Refusal for Securities Offerings by the Company. The Company agrees that during the Term of this Agreement and for such time as Harvest directly or indirectly owns Class A Common Interests of the Manager, the Company shall grant JMP Securities LLC with a right of first refusal to act as a co-lead managing underwriter for all underwritten securities offerings of the Company, with such material terms and conditions of any such arrangement as shall be unanimously approved by the holders of all outstanding Class A Common Interests of the Manager.

11. Assignments. This Agreement shall terminate automatically in the event of its assignment, by operation of law or otherwise, in whole or in part, by the Manager, unless such assignment is consented to in writing by the Company with the consent of a majority of the Independent Directors. Any such permitted assignment shall bind the assignee under this Agreement in the same manner as the Manager is bound. In addition, the assignee shall execute and deliver to the Company a counterpart of this Agreement naming such assignee as Manager. This Agreement shall not be assigned by the Company without the prior written consent of the Manager, except in the case of assignment by the Company to an entity which is a successor (by merger, consolidation or purchase of assets) to the Company, in which case such successor organization shall be bound under this Agreement and by the terms of such assignment in the same manner as the Company is bound under this Agreement.

12. Action Upon Termination. Upon termination of this Agreement, the Manager shall forthwith:

12.1 after deducting any accrued Management Fees not subject to offset in accordance with Section 5.5 and reimbursement for its expenses to which it is then entitled, pay over to the Company or any subsidiary of the Company all money collected and held for the account of the Company or any subsidiary of the Company pursuant to this Agreement;

12.2 deliver to the Company a full accounting, including a statement showing all payments collected by it and a statement of all money held by it, covering the period following the date of the last accounting furnished to the Company or any subsidiary of the Company; and

12.3 deliver to the Company all property and documents of the Company or any subsidiary of the Company then in the custody of the Manager.

13. Release of Money or Other Property Upon Written Request . The Manager agrees that any money or other property of the Company or any subsidiary of the Company held by the Manager under this Agreement shall be held by the Manager as custodian for the Company or such subsidiary, and the Manager's records shall be appropriately marked clearly to reflect the ownership of such money or other property by the Company or such subsidiary. Upon the receipt by the Manager of a written request signed by a duly authorized officer of the Company requesting the Manager to release to the Company or any subsidiary of the Company any money or other property then held by the Manager for the account of the Company or any subsidiary of the Company under this Agreement, the Manager shall release such money or other property to the Company or such subsidiary of the Company within a reasonable period of time, but in no event later than the later to occur of (i) three (3) business days following such request and (ii) the earliest time following such request that remittance will not cause the Manager to violate any law or breach any agreement to which it or the Company is a party. The Manager shall not be liable to the Company, any subsidiaries of the Company, the Independent Directors, or the Company's or its subsidiaries' stockholders for any acts performed or omissions to act by the Company or any subsidiary of the Company in connection with the money or other property released to the Company or any subsidiary of the Company in accordance with this Section 13 and not constituting willful misconduct, gross negligence or fraud. The Company and any subsidiary of the Company shall indemnify the Manager, its managers, officers, members and employees against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including, without limitation, attorneys' fees), which arise in connection with the Manager's release of such money or other property to the Company or any subsidiary of the Company in accordance with the terms of this Section 13 unless such expenses, losses, damages, liabilities, demands, charges and claims arise in connection with acts or omissions which constitute willful misconduct, gross negligence or fraud. Indemnification pursuant to this provision shall be in addition to any right of the Manager to indemnification under Section 7 of this Agreement.

14. Representations and Warranties .

14.1 Company in Favor of the Manager . The Company hereby represents and warrants to the Manager as follows:

14.1.1 Due Formation . The Company is duly organized, validly existing and in good standing under the laws of State of Delaware, has the power to own its assets and to transact the business in which it is now engaged. The Company does not do business under any fictitious business name.

14.1.2 Power and Authority . The Company has the power and authority to execute, deliver and perform this Agreement and all obligations required under this Agreement and has taken all necessary action to authorize this Agreement on the terms and conditions hereof and the execution, delivery and performance of this Agreement and all obligations required under this Agreement. Except as shall have been obtained, no consent of any other person, including, without limitation, stockholders, partners and creditors, as applicable, of Company, and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by the Company in connection with this Agreement or the execution, delivery, performance, validity or enforceability of this Agreement and all obligations required under this Agreement. This Agreement has been, and each instrument or document required under this Agreement will be, executed and delivered by a duly authorized officer of the Company, and this Agreement constitutes, and each instrument or document required under this Agreement when executed and delivered under this Agreement will constitute, the legally valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

14.1.3 Execution, Delivery and Performance. The execution, delivery and performance of this Agreement and the documents or instruments required under this Agreement will not violate any provision of any existing law or regulation binding on the Company, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on the Company, or the Governing Instruments of, or any securities issued by, the Company or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which the Company is a party or by which the Company or any of its assets may be bound, and will not result in, or require, the creation or imposition of any lien on any of its property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking.

14.2 Manager In Favor of Company. The Manager hereby represents and warrants to the Company as follows:

14.2.1 Due Formation. The Manager is duly organized, validly existing and in good standing under the laws of North Carolina, has the limited liability company power to own its assets and to transact the business in which it is now engaged. The Manager does not do business under any fictitious business name.

14.2.2 Power and Authority. The Manager has the corporate power and authority to execute, deliver and perform this Agreement and all obligations required under this Agreement and has taken all necessary limited liability company action to authorize this Agreement on the terms and conditions hereof and the execution, delivery and performance of this Agreement and all obligations required under this Agreement. No consent of any other person including, without limitation, members and creditors of the Manager, and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by the Manager in connection with this Agreement or the execution, delivery, performance, validity or enforceability of this Agreement and all obligations required under this Agreement. This Agreement has been and each instrument or document required under this Agreement will be executed and delivered by a duly authorized officer of the Manager, and this Agreement constitutes, and each instrument or document required under this Agreement when executed and delivered under this Agreement will constitute, the legally valid and binding obligation of the Manager enforceable against the Manager in accordance with its terms.

14.2.3 Execution, Delivery and Performance. The execution, delivery and performance of this Agreement and the documents or instruments required under this Agreement will not violate any provision of any existing law or regulation binding on the Manager, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on the Manager, or the governing instruments of, or any securities issued by, the Manager or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which the Manager is a party or by which the Manager or any of its assets may be bound, and will not result in, or require, the creation or imposition of any lien on any of its property, assets or revenues pursuant to the provisions of any such mortgage indenture, lease, contract or other agreement, instrument or undertaking.

15. Notices. Unless expressly provided otherwise in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when (1) delivered by hand, (2) otherwise delivered against receipt therefor, or (3) upon actual receipt of registered or certified mail, postage prepaid, return receipt requested. The parties may deliver to each other notice by electronically transmitted facsimile copies, provided that such facsimile notice is followed within twenty-four (24) hours by any type of notice otherwise provided for in this Section 15. Any notice shall be duly addressed to the parties as follows:

(a) If to the Company:

Hypotheca Capital LLC
c/o New York Mortgage Trust, Inc.
52 Vanderbilt Avenue
New York, NY 10017
Attention: Chief Executive Officer
Telecopy: (732) 559-8250

with a copy to:

Hunton & Williams LLP
Bank of America Plaza, Suite 4100
600 Peachtree Street, NE
Atlanta, GA 30308
Attention: Christopher C. Green
Email: cgreen@hunton.com

(b) If to the Manager:

RiverBanc LLC
200 South Tyron Street, Suite 1200
Charlotte, NC 28202
Attention: Kevin Donlon
Email: kdonlon@riverbanc.com

with a copy to:

Cadwalader, Wickersham & Taft LLP
227 West Trade Street, Suite 2400
Charlotte, NC 28202
Attention: James P. Carroll, Esq.
Email: james.carroll@cwt.com

Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 15 for the giving of notice.

16. Binding Nature of Agreement; Successors and Assigns . This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns as provided in this Agreement.

17. Entire Agreement . This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof. This Agreement may not be modified or amended other than by an agreement in writing.

18. Controlling Law . This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of New York, notwithstanding any New York or other jurisdiction's conflict of law provisions to the contrary.

19. Indulgences, Not Waivers . Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

20. Titles Not to Affect Interpretation . The titles of paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation hereof.

21. Execution in Counterparts . This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

22. Gender . Words used herein regardless of the number and gender specifically used shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

23. Attorneys' Fees . Should any action or other proceeding be necessary to enforce any of the provisions of this Agreement or the various transactions contemplated hereby, the prevailing party will be entitled to recover its actual reasonable attorneys' fees and expenses from the non- prevailing party.

24. Amendments . This Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to this Agreement, which agreement is executed by all of the parties. The parties hereto expressly acknowledge that no consent or approval of the Company's stockholders is required in connection with any amendment, modification or change to this Agreement.

25. Authority. Each signatory to this Agreement warrants and represents that he is authorized to sign on behalf of and to bind the party on whose behalf he, she or it is signing.

[*Signature Page Follows* .]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

“ COMPANY ”

/s/ Steven R. Mumma

Name: Steven R. Mumma

Title: CEO and President

“ MANAGER ”

/s/ Kevin Donlon

Name: Kevin Donlon

Title: Chief Executive Officer

EXHIBIT A

Investment Guidelines

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in that certain Management Agreement, dated as of April 5, 2011, as may be amended from time to time (the “Management Agreement”), by and between RB Commercial Mortgage LLC, a Delaware limited liability company corporation (the “Company”), and RiverBanc, LLC, a North Carolina limited liability company (the “Manager”).

1. The Company shall not make any investments other than:
 - a. commercial mortgage-backed securities;
 - b. subordinate debt;
 - c. preferred equity;
 - d. new whole loans; and
 - e. seasoned whole loans.
2. No investment shall be made that would cause the Company to fail to, or to be able to, as the case may be, qualify as a REIT under the Code.
3. No investment shall be made that would cause the Company to be regulated as an investment company under the Investment Company Act.
4. A majority of the independent directors (as such term is defined under the Sole Member’s Corporate Governance Guidelines) of the Sole Member must approve any transaction between the Company and/or any of its subsidiaries on the one hand and the Manager and/or any of its Affiliates on the other hand.
5. These Investment Guidelines may be amended, restated, modified, supplemented or waived by the Sole Member, after consultation with Manager, from time to time and at anytime.

EXHIBIT B

Section 5.3.1 Incentive Management Fee

At the end of each quarter the following calculation will be made:

Example Calculation Period: January 1st, 2013 through March 31st, 2013

Average amount of Equity invested in the Company during the Calculation Period: \$100 million

Adjusted Net Income during the Calculation Period (GAAP Basis): \$3,750,000

Hurdle Rate: 12% per annum

Amount Required to meet Hurdle Rate: (\$100 million X 12%) divided by 4 (quarterly) = \$3,000,000

Incentive Fee: Adjusted Net Income less Hurdle Rate Amount = \$750,000 X 35% Manager Split = \$262,500

5.3.2 High Water Mark

Measurement Period = April 1, 2011 through current end of quarter assumed to be March 31, 2013 (note that High Water Mark is on a rolling 24 month look-back, pro rata for first 24 months of this Agreement)

Average Equity invested in the Company during the 24 month look back period = \$100 million

Average Equity invested in the Company during the previous quarter (Calculation Period) = \$100 million

Total Adjusted Net Income over the preceding 24 months = \$16 million

Total Adjusted Net Income during the preceding quarter = \$5.5 million

High Water Mark = 9.00% annual rate X 2 years X \$100 million average Equity invested = \$18 million

High Water Mark shortfall = \$18 million less \$16 million = \$2 million shortfall

Adjusted Net Income for Calculation Period = \$5.5 million less \$2 million = \$3.5 million

Hurdle Rate: 12% per annum

Amount Required to meet Hurdle Rate: (\$100 million X 12%) divided by 4 (quarterly) = \$3.0 million

Adjusted Net Income less Hurdle return = \$3.5 million less \$3.0 million = \$500,000

Incentive Fee = \$500,000 X 35% Manager Split = \$175,000

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven R. Mumma, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2011 of New York Mortgage Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ Steven R. Mumma

Steven R. Mumma

Chief Executive Officer and President
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Fredric S. Starker, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2011 of New York Mortgage Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ Fredric S. Starker

Fredric S. Starker

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of New York Mortgage Trust, Inc, (the “Company”) on Form 10-Q for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2011

/s/ Steven R. Mumma

Steven R. Mumma
Chief Executive Officer and President
(Principal Executive Officer)

Date: May 5, 2011

/s/ Fredric S. Starker

Fredric S. Starker
Chief Financial Officer
(Principal Financial and Accounting Officer)