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AMERICAN HOME MORTGAGE INVESTMENT CORP  
Form 10-Q  
May 10, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004.

OR

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

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

Commission File Number: 001-31916

AMERICAN HOME MORTGAGE INVESTMENT CORP.

-----  
(Exact Name of Registrant as Specified in its Charter)

Maryland 20-0103914

-----  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

520 Broadhollow Road, Melville, New York 11747

-----  
(Address of Principal Executive Offices) (Zip Code)

(516) 949-3900

-----  
(Registrant's telephone number, including area code)

-----  
(Former name, former address and former fiscal year, if  
changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 4, 2004, there were 39,891,698 shares of the registrant's common  
stock, par value \$0.01 per share, outstanding.

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## AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES TABLE OF CONTENTS

### PART I-FINANCIAL INFORMATION

	Page
	----
Item 1. Financial Statements	
Consolidated Balance Sheets as of March 31, 2004 and December 31, 2003	1
Consolidated Statements of Income for the Three Months Ended March 31, 2004 and 2003 .....	2
Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2004 and 2003 .....	3
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2004 and 2003 .....	4
Notes to Consolidated Financial Statements .....	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk .....	32
Item 4. Controls and Procedures .....	33

### PART II-OTHER INFORMATION

Item 1. Legal Proceedings .....	34
Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities .....	34
Item 3. Defaults Upon Senior Securities .....	34
Item 4. Submission of Matters to a Vote of Security Holders .....	34
Item 5. Other Information .....	34
Item 6. Exhibits and Reports on Form 8-K .....	35

SIGNATURES

INDEX TO EXHIBITS

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

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	March 31, 2004
	-----
Assets:	
Cash and cash equivalents	\$ 97,557
Accounts receivable and servicing advances	80,426
Mortgage-backed securities (including securities pledged of \$3,574,125 and \$1,426,477 as of March 31, 2004 and December 31, 2003, respectively)	4,003,079
Mortgage loans held for sale, net	1,371,048
Derivative assets	24,151
Mortgage servicing rights, net	113,519
Premises and equipment, net	41,234
Goodwill	83,752
Other assets	12,213
	-----
Total assets	\$ 5,826,979
	=====
Liabilities and Stockholders' Equity:	
Liabilities:	
Warehouse lines of credit	\$ 1,251,845
Drafts payable	64,310
Reverse repurchase agreements	3,394,941
Payable for securities purchased	134,647
Derivative liabilities	21,295
Accrued expenses and other liabilities	58,648
Notes payable	106,423
Income taxes payable	53,689
	-----
Total liabilities	5,085,798
	-----
Commitments and contingencies	--
Stockholders' Equity:	
Preferred stock, \$0.01 per share par value, 10,000,000 shares authorized, none issued and outstanding	--
Common stock, \$0.01 per share par value, 100,000,000 shares authorized, 39,875,524 and 25,270,100 shares issued and outstanding as of March 31, 2004 and December 31, 2003, respectively	399
Additional paid-in capital	623,953
Retained earnings	125,504
Accumulated other comprehensive loss	(8,675)
	-----
Total stockholders' equity	741,181
	-----
Total liabilities and stockholders' equity	\$ 5,826,979
	=====

See notes to consolidated financial statements.

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(Dollars in thousands, except per share amounts)

	Three Months En
	----- 2004 -----
Net interest income:	
Interest income	\$ 34,050
Interest expense	(21,278)
	-----
Total net interest income	12,772
	-----
Non-interest income:	
Gain on sales of mortgage loans and mortgage-backed securities	80,133
Loan servicing fees	10,318
Amortization	(7,346)
Impairment reserve provision	(12,584)
	-----
Net loan servicing fees (loss)	(9,612)
	-----
Other non-interest income	978
	-----
Total non-interest income	71,499
	-----
Non-interest expenses:	
Salaries, commissions and benefits, net	39,782
Occupancy and equipment	8,094
Data processing and communications	3,213
Office supplies and expenses	3,118
Marketing and promotion	2,212
Travel and entertainment	2,577
Professional fees	2,428
Other	5,438
	-----
Total non-interest expenses	66,862
	-----
Net income before income tax (benefit) expense	17,409
Income tax (benefit) expense	(3,814)
	-----
Net income	\$ 21,223
	=====
Per share data:	
Basic	\$ 0.71
	=====
Diluted	\$ 0.70
	=====

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Weighted average number of shares - basic	30,030,248
Weighted average number of shares - diluted	30,507,818

See notes to consolidated financial statements.

- 2 -

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)  
THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(Dollars in thousands)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance at December 31, 2002	16,717,459	\$ 167	\$ 95,785	\$ 68,144
Comprehensive income:				
Net income	--	--	--	16,313
Comprehensive income				
Issuance of common stock, earnouts	13,827	--	142	--
Issuance of common stock, 1999 Omnibus Stock Incentive Plan	43,627	1	325	--
Dividends declared	--	--	--	(837)
Balance at March 31, 2003	16,774,913	\$ 168	\$ 96,252	\$ 83,620
Balance at December 31, 2003	25,270,100	\$ 252	\$ 281,432	\$ 121,029
Comprehensive income:				
Net income	--	--	--	21,223
Net unrealized gain on mortgage-backed securities available for sale	--	--	--	--
Gross unrealized loss on interest rate swaps	--	--	--	--
Comprehensive income				
Issuance of common stock, offering	14,375,000	144	339,647	--
Issuance of common stock, earnouts	4,758	--	109	--
Issuance of common stock, 1999 Omnibus Stock Incentive Plan	225,666	3	1,166	--
Tax benefit from stock options exercised	--	--	1,599	--
Dividends declared	--	--	--	(16,748)
Balance at March 31, 2004	39,875,524	\$ 399	\$ 623,953	\$ 125,504

See notes to consolidated financial statements.

- 3 -

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(Dollars in thousands, except per share amounts)

	Three Months En
	-----
	2004
	-----
Cash flows from operating activities:	
Net income	\$ 21,223
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	1,977
Amortization and impairment of mortgage servicing rights	19,930
Origination of mortgage loans held for sale	(4,413,174)
Proceeds on sales and securitizations of mortgage loans	4,265,953
(Decrease) increase in income taxes payable	(13,113)
Amortization of mortgage-backed securities premiums, net	2,952
Unrealized gain on securities held in trading	(18,909)
Capitalization of mortgage servicing rights	(15,665)
Other	60
(Increase) decrease in operating assets:	
Accounts receivable	3,885
Derivative assets	(3,314)
Other assets	1,703
Increase (decrease) in operating liabilities:	
Accrued expenses and other liabilities	(10,656)
Derivative liabilities	(3,245)
	-----
Net cash used in operating activities	(160,393)
	-----
Cash flows from investing activities:	
Purchases of premises and equipment, net	(1,473)
Purchases and additions to mortgage-backed securities	(3,066,588)
Sales of mortgage-backed securities	789,589
Principal repayments on mortgage-backed securities	63,719
Other	(353)
	-----
Net cash used in investing activities	(2,215,106)
	-----
Cash flows from financing activities:	
Increase in warehouse lines of credit	130,085
Increase in reverse repurchase agreements	2,050,614
Decrease in payable for securities purchased	(125,054)
Increase in drafts payable	38,685
Proceeds from issuance of capital stock	341,882
Dividends paid	(23,072)
Increase (decrease) in notes payable	6,768
	-----
Net cash provided by financing activities	2,419,908
	-----
Net increase in cash and cash equivalents	44,409

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Cash and cash equivalents, beginning of year	53,148
	-----
Cash and cash equivalents, end of year	\$ 97,557
	=====
Supplemental disclosure of cash flow information:	
Interest paid	\$ 13,254
Income taxes paid	6,361

See notes to consolidated financial statements.

- 4 -

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

AHM Investment is a mortgage REIT focused on earning net interest income from purchased and self-originated mortgage-backed securities, and through its taxable subsidiaries, on earning income from originating and selling mortgage loans and servicing mortgage loans for institutional investors. Mortgages are originated through a network of 279 loan origination offices as well as through mortgage brokers and are serviced at the Company's Columbia, Maryland servicing center.

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

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

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

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

When the fair value of an available for sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security (e.g., whether the security will be sold prior to the recovery of fair value). If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment).

Mortgage Loans Held for Sale - Mortgage loans held for sale are carried at the lower of cost or aggregate market value. The cost basis includes the capitalized value of the interest rate lock commitments ("IRLCs") related to the mortgage loans and any net deferred origination costs. For mortgage loans held for sale that are hedged with forward sale commitments, the carrying value is adjusted for the change in market during the time the hedge was deemed to be highly effective. The market value is determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate basis.

Mortgage Servicing Rights - Mortgage servicing rights ("MSRs") are carried at the lower of cost or fair value, based on defined risk strata and are amortized in proportion to and over the period of estimated net servicing income. When the Company sells certain loans and

- 5 -

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

The Company estimates the fair value of its MSRs by obtaining market information from one of the primary mortgage servicing rights brokers. When the book value of capitalized MSRs exceeds their fair value, impairment is recognized through a valuation allowance. In determining impairment, the mortgage servicing portfolio is stratified by the predominant risk characteristic of the underlying mortgage loans. The Company has determined that the predominant risk characteristic is the interest rate on the underlying loans. The Company measures impairment for each stratum by comparing the estimated fair value to the recorded book value. Temporary impairment is recorded through a valuation allowance and amortization expense in the period of occurrence. In addition, the Company periodically



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evaluates its MSRs for other than temporary impairment to determine if the carrying value before the application of the valuation allowance is recoverable. The Company receives a sensitivity analysis of the estimated fair value of its MSRs assuming a 200-basis-point instantaneous increase in interest rates from an independent mortgage servicing rights broker. The fair value estimate includes changes in market assumptions that would be expected given the increase in mortgage rates (e.g., prepayment speeds would be lower). The Company believes this 200-basis-point increase in mortgage rates to be an appropriate threshold for determining the recoverability of the temporary impairment because that size rate increase is foreseeable and consistent with historical mortgage rate fluctuations. When using this instantaneous change in rates, if the fair value of the strata of MSRs is estimated to increase to a point where all of the impairment would be recovered, the impairment is considered to be temporary. When the Company determines that a portion of the MSRs is not recoverable, the related MSRs and the previously established valuation allowance are correspondingly reduced to reflect other than temporary impairment.

**Premises and Equipment** - Premises and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over their estimated service lives. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method. Depreciation and amortization are recorded within occupancy and equipment expense within the consolidated financial statements.

**Goodwill** - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions and which were being amortized over their initial estimated lives, generally 20 years. Effective January 1, 2002, the Company no longer amortizes goodwill, but instead tests for impairment at least annually. The Company will test for impairment more frequently if events or circumstances indicate that an asset may be impaired. The Company tests for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to the Company's loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to the Company's mortgage-backed securities holdings segment includes a forecast of the expected future net interest income, gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies.

- 6 -

**Reverse Repurchase Agreements** - The Company has entered into reverse repurchase agreements to finance certain of its investments. These agreements are secured by a portion of the Company's investments and bear interest rates that have historically moved in close relationship to LIBOR. Reverse repurchase agreements are accounted for as short-term borrowings and recorded as a liability on the balance sheet.

**Drafts Payable** - Drafts payable represent outstanding mortgage loan disbursements that the Company has provided to its customers for the purchase of a home. The amounts outstanding do not bear interest and are transferred into the warehouse facility when they are presented to a bank.

**Derivative Financial Instruments** - The Company has developed risk management programs and processes designed to manage market risk associated with normal business activities.

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Interest Rate Lock Commitments. The Company's mortgage committed pipeline includes IRLCs that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. The Company classifies and accounts for the IRLCs as free-standing derivatives. Accordingly, IRLCs are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSR, net of estimated net costs to originate the loan. In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 105 ("SAB No. 105"), which will change the timing of recognition of MSR for IRLCs initiated after March 31, 2004. See "Recently Issued Accounting Standards" in this note.

Forward Delivery Commitments Used to Hedge IRLCs. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

Forward Delivery Commitments Used to Hedge Mortgage Loans Held for Sale. The Company's risk management objective for its mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value. The Company's strategy is to engage in a risk management program involving the use of mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of its agency-eligible conforming loans and most of its non-conforming loans held for sale. At the inception of the hedge, the Company formally documents the relationship between the forward delivery contracts and the mortgage inventory as well as its objective and strategy for undertaking the hedge transactions. For conventional conforming fixed-rate loans, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to the Company. The Company classifies and accounts for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

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

Interest Rate Swap Agreements - All swap agreements are designated as cash flow hedges against the benchmark interest rate risk associated with the Company's borrowings. Although the terms and characteristics of the Company's swap agreements and hedged borrowings are nearly identical, due to the explicit requirements of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company does not account for these hedges under a method defined in SFAS No. 133 as the "shortcut" method, but rather the Company calculates the effectiveness of these hedges on an ongoing basis, and, to date, has calculated effectiveness of

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approximately 100%. All changes in the unrealized gains and losses on swap agreements have been recorded in "accumulated other comprehensive loss" and are reclassified to earnings as interest expense is recognized on the Company's hedged borrowings. If it becomes probable that the forecasted transaction, which in this case refers to interest payments to be made under the Company's short-term borrowing agreements, will not occur by the end of the originally specified time period, as documented at the inception of the hedging relationship, or within an additional two-month time period thereafter, then the related gain or loss in accumulated other comprehensive loss would be reclassified to income.

Termination of Hedging Relationships. The Company employs a number of risk management monitoring procedures to ensure that the designated hedging relationships are demonstrating, and are expected to continue to demonstrate, a high level of effectiveness. Hedge

- 7 -

accounting is discontinued on a prospective basis if it is determined that the hedging relationship is no longer highly effective or expected to be highly effective in offsetting changes in fair value of the hedged item. Additionally, the Company may elect to de-designate a hedge relationship during an interim period and re-designate upon the rebalancing of a hedge profile and the corresponding hedge relationship. When hedge accounting is discontinued, the Company continues to carry the derivative instruments at fair value with changes in their value recorded in earnings.

Gain on Sale of Loans - The Company recognizes gain on sale of loans for the difference between the sales price and the adjusted book value of the loans at the time of sale. The adjusted book value of the loans includes the original principal amount plus adjustments related to previously recognized income plus deferrals of fees and points received and direct loan origination costs.

Loan Origination Fees and Direct Origination Costs - The Company records loan fees, discount points and certain direct origination costs as an adjustment of the cost of the loan or security and such amounts are included in revenues when the loan or security is sold. When loans are securitized and held, net deferred origination costs are amortized over the life of the security using the level-yield method and such amounts are included in interest income. Gain on sales of mortgage loans and salaries, commissions and benefits have been reduced by \$20.7 million and \$16.3 million due to direct loan origination costs, including commission costs, incurred for the three months ended March 31, 2004 and 2003, respectively.

Interest Recognition - The Company accrues interest income as it is earned. Loans are placed on a nonaccrual status when any portion of the principal or interest is 90 days past due or earlier when concern exists as to the ultimate collectibility of principal or interest. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible. Interest expense is recorded on outstanding lines of credit at a rate based on a spread to the LIBOR.

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

Marketing and Promotion - The Company charges the costs of marketing, promotion and advertising to expense in the period incurred.

Income Taxes - The Company accounts for income taxes in conformity with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability

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approach for accounting and reporting of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences ("temporary differences") attributable to the differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided for deferred tax assets where realization is not considered "more likely than not." The Company recognizes the effect of changes in tax laws or rates on deferred tax assets and liabilities in the period that includes the enactment date.

Stock Option Plans - In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). The Company has elected to account for its stock option plan using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and to provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value based method, as required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," had been applied. Had compensation cost been determined based on the fair value at the grant dates for awards under the Plan, the Company's net income would have been \$21.0 million and \$16.2 million for the three months ended March 31, 2004 and 2003, respectively. Basic earnings per share would have been \$0.70 and \$0.97 for 2004 and 2003, respectively. Diluted earnings per share would have been \$0.69 and \$0.95 for 2004 and 2003, respectively.

- 8 -

	Three Months En
(In thousands, except per share data)	2004
Net income, as reported	\$ 21,223
Less: Total stock-based employee compensation expense determined under fair value based method for all rewards, net of related tax effects	(187)
Pro forma net income	\$ 21,036 =====
Earnings per share:	
Basic - as reported	\$ 0.71
Basic - pro forma	\$ 0.70
Diluted - as reported	\$ 0.70
Diluted - pro forma	\$ 0.69

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

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stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Cash Flows - Cash and cash equivalents are demand deposits and short-term investments with a maturity of 90 days or less.

Recently Issued Accounting Standards - On March 9, 2004, the SEC issued SAB No. 105, which provides guidance regarding loan commitments that are accounted for as derivative instruments under SFAS No. 133 (as amended), "Accounting for Derivative Instruments and Hedging Activities". In SAB No. 105, the SEC stated that the value of expected future cash flows related to servicing rights should be excluded when determining the fair value of derivative interest rate lock commitments. This guidance must be applied to rate locks initiated after March 31, 2004. Under the new policy, the value of the expected future cash flow related to servicing rights is not recognized until the underlying loans are sold. The impact that this new policy will have on the Company's results of operations in the second quarter of 2004 will be influenced by that quarter's amount of rate lock volume associated with loans expected to be sold and by the timing of when loan sales are executed. The Company estimates that the second quarter of 2004 results of operations will be diminished \$34 million pre-tax by its adoption of SAB No. 105. As rate lock volume is highly sensitive to changes in interest rates and the timing of loan sales may be affected by market conditions, the Company's actual results may be materially different from the estimate of future results.

- 9 -

### NOTE 2 - MORTGAGE-BACKED SECURITIES

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

(In thousands)	March 31, 2004		
	Trading Securities	Securities Available for Sale	Total Securities
Principal amount	\$ 1,091,714	\$ 2,814,285	\$ 3,905,999
Unamortized premium	4,244	59,142	63,386
Adjusted cost	1,095,958	2,873,427	3,969,385
Gross unrealized gains	22,181	13,528	35,709
Gross unrealized losses	--	(2,015)	(2,015)
Fair value	\$ 1,118,139	\$ 2,884,940	\$ 4,003,074

(In thousands)	December 31, 2003		
	Trading Securities	Securities Available for Sale	Total Securities
	-----	-----	-----

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Principal amount	\$	473,424	\$	1,259,700	\$	1,733,
Unamortized premium		3,117		22,823		25,
		-----		-----		-----
Adjusted cost		476,541		1,282,523		1,759,
Gross unrealized gains		3,382		1,969		5,
Gross unrealized losses		(110)		(677)		(
		-----		-----		-----
Fair value	\$	479,813	\$	1,283,815	\$	1,763,
		=====		=====		=====

During the quarter ended March 31, 2004, the Company sold \$789.6 million of mortgage-backed securities and realized \$9.4 million in gains and \$879 thousand in losses.

The Company's mortgage-backed securities with gross unrealized losses at March 31, 2004 have been in an unrealized loss position for less than two months.

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

March 31, 2004				
(in thousands)				
Delinquency Status	Loan Count	Loan Balance	Percent of Total Securitizations	Percent of Total Assets
-----	-----	-----	-----	-----
60 to 89 days	7	\$ 1,353	0.10%	0.02%
	-----	-----	-----	-----
	7	\$ 1,353	0.10%	0.02%
	=====	=====	=====	=====

- 10 -

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

As of March 31, 2004 the Company had a payable for securities purchased of

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\$134.6 million of mortgage-backed securities.

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

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

(In thousands)	March 31, 2004	December 31, 2003
	-----	-----
Mortgage loans held for sale	\$ 1,330,349	\$ 1,187,314
FAS 133 basis adjustments	10,965	16,489
Deferred origination costs, net	29,884	22,324
Forward delivery contracts	(150)	(2,300)
	-----	-----
Mortgage loans held for sale, net	\$ 1,371,048	\$ 1,223,827
	=====	=====

### NOTE 4 - DERIVATIVE ASSETS AND LIABILITIES

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

(In thousands)	March 31, 2004	December 31, 2003
	-----	-----
Derivative Assets:		
Interest rate lock commitments	\$ 24,151	\$ 20,837
	-----	-----
Derivative assets	\$ 24,151	\$ 20,837
	=====	=====
Derivative Liabilities:		
Forward delivery contracts - loan commitments	\$ 699	\$ 4,358
Forward delivery contracts - loans held for sale(1)	150	2,300
Interest rate swaps	20,596	6,036
	-----	-----
Derivative liabilities	\$ 21,445	\$ 12,694
	=====	=====

(1) This amount is included in mortgage loans held for sale, net (see Note 3).

At March 31, 2004, the notional amount of forward delivery contracts and interest rate swaps amounted to approximately \$1.4 billion and \$1.3 billion, respectively. The forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness recognized in hedging loans held for sale recorded on the balance sheet was insignificant as of March 31, 2004.

- 11 -

### NOTE 5 - MORTGAGE SERVICING RIGHTS, NET

The following table presents the activity in the Company's mortgage servicing rights, net, for the three months ended March 31, 2004 and 2003:

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(In thousands)	Three Months Ended March 31,	
	2004	2003
Mortgage Servicing Rights:		
Balance at beginning of period	\$ 121,652	\$ 119,225
Additions	15,665	5,832
Amortization	(7,346)	(12,769)
Balance at end of period	\$ 129,971	\$ 112,288
Impairment Allowance:		
Balance at beginning of period	\$ (3,868)	\$ (10,202)
Impairment provision	(12,584)	(5,713)
Balance at end of period	\$ (16,452)	\$ (15,915)
Mortgage servicing rights, net	\$ 113,519	\$ 96,373

Aggregate Amortization Expense

Three months ended March 31, 2004 \$ 7,346

Estimated Amortization Expense

Year ended March 31, 2005	30,373
Year ended March 31, 2006	21,934
Year ended March 31, 2007	16,122
Year ended March 31, 2008	12,207
Year ended March 31, 2009	9,469
Thereafter	39,866

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

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

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

March 31, 2004	December 31, 2003
----------------	-------------------



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Weighted average prepayment speed (PSA)	573	397
Weighted average discount rate	10.04%	9.82%
Weighted average default rate	3.00%	4.02%

- 12 -

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

	March 31, 2004	December 31, 2003
	-----	-----
	(Dollars in thousands)	
Loan servicing portfolio - loans sold or securitized	\$ 8,956,144	\$ 8,272,294
Average loan size	\$ 127	\$ 120
Weighted average servicing fee	0.363%	0.347%
Weighted average note rate	5.58%	5.72%
Weighted average remaining term (in months)	313	298
Weighted average age (in months)	26	27

NOTE 6 - GOODWILL

The following table presents the activity in the Company's goodwill for the three months ended March 31, 2004:

(In thousands)	Loan Origination Segment	Mortgage-Backed Securities Holdings Segment	Total
	-----	-----	-----
Balance at December 31, 2003	\$ 58,605	\$ 24,840	\$ 83,445
Earnouts from previous acquisitions	307	--	307
Balance at March 31, 2004	\$ 58,912	\$ 24,840	\$ 83,752

NOTE 7 - WAREHOUSE LINES OF CREDIT

As of March 31, 2004, the Company has a committed bank syndicated facility led by Residential Funding Corporation ("RFC") and a pre-purchase facility with UBS Real Estate Securities Inc. (formerly Paine Webber Real Estate Securities Inc.) ("UBS"). The Company also has committed facilities with CDC IXIS Capital Markets North America Inc. ("CDC"), Morgan Stanley Bank ("Morgan Stanley") and Credit Lyonnais. In addition, the Company has a gestation facility with Greenwich Capital Financial Products, Inc. The RFC facility is for \$450 million, the UBS facility is for \$1.2 billion, the CDC facility is for \$450 million, the Morgan Stanley facility is for \$350 million, the Credit Lyonnais facility is for \$200 million and the Greenwich Capital Market facility is for \$200 million. The interest rate on outstanding balances fluctuates daily based on a spread to the LIBOR and interest is paid monthly.

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The lines of credit are secured by mortgage loans and other assets of the Company. The lines contain various covenants pertaining to maintenance of net worth and working capital. At March 31, 2004, the Company was in compliance with the loan covenants.

Included within the RFC line of credit, the Company has a working capital sub-limit that allows for borrowings up to \$35 million at a rate based on a spread to the LIBOR that may be adjusted for earnings on compensating balances on deposit at creditors' banks. As of March 31, 2004, borrowings under the working capital line of credit were \$26 million.

- 13 -

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

(Dollars in thousands)	March 31, 2004		December 31, 2003	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
CDC	\$ 402,310	1.95 %	\$ 406,444	1.98 %
UBS	376,764	3.12	128,345	3.21
Credit Lyonnais	187,736	1.84	200,702	1.88
Morgan Stanley	161,243	1.89	92,925	1.92
RFC	123,792	2.54	293,344	2.06
	-----		-----	
Warehouse lines of credit	\$1,251,845	2.34 %	\$ 1,121,760	2.12 %
	=====		=====	

### NOTE 8 - REVERSE REPURCHASE AGREEMENTS

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with 13 different financial institutions and on March 31, 2004 had borrowed funds from five of these firms. Because the Company borrows money under these agreements based on the fair value of its mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, the Company's borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of the Company's mortgage-backed securities declines for other reasons.

As of March 31, 2004, the Company had \$3.4 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.24% and a weighted-average remaining maturity of 4.4 months. As of December 31, 2003, the Company had \$1.3 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.26% and a weighted-average remaining maturity of 6.9 months.

At March 31, 2004 and December 31, 2003, the reverse repurchase agreements had the following remaining maturities:

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	March 31, 2004	December 31, 2003
	-----	-----
(In thousands)		
Within 30 days	\$ 1,062,719	\$ 184,302
31 to 89 days	544,442	--
90 to 365 days	1,787,780	1,160,025
	-----	-----
Reverse repurchase agreements	\$ 3,394,941	\$ 1,344,327
	=====	=====

- 14 -

NOTE 9 - EARNINGS PER SHARE

The following is a reconciliation of the denominators used in the computations of basic and diluted earnings per share for the three months ended March 31, 2004 and 2003:

	Three Months Ended March 31,	
	2004	2003
	-----	-----
(Dollars in thousands, except per share amounts)		
Numerator for basic earnings per share - Net income	\$ 21,223	\$ 16,313
	=====	=====
Denominator:		
Denominator for basic earnings per share		
Weighted average number of common shares		
outstanding during the period	30,030,248	16,750,960
Net effect of dilutive stock options	477,570	264,721
	-----	-----
Denominator for diluted earnings per share	30,507,818	17,015,681
	=====	=====
Net income per share:		
Basic	\$ 0.71	\$ 0.97
	=====	=====
Diluted	\$ 0.70	\$ 0.96
	=====	=====

NOTE 10 - STOCK OPTION PLANS

In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). Pursuant to the Plan, eligible employees, officers and directors are offered the opportunity to acquire the Company's common stock through the grant of options and the award of restricted stock under the Plan. The total number of shares that may be optioned or awarded under the Plan is 3,000,000 shares of common stock. The Plan provides for the granting of options

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at the fair market value on the date of grant. The options issued primarily vest 50% on the two-year anniversary of the grant date and 50% on the three-year anniversary of the grant date, and expire ten years from the grant date.

As of March 31, 2004, the Company has awarded 182,259 shares of restricted stock under the Plan. During the quarters ended March 31, 2004 and 2003, the Company recognized compensation expense of \$188 thousand and \$123 thousand, respectively, relating to shares of restricted stock. At March 31, 2004, 96,799 shares are vested. In general, unvested restricted stock is forfeited upon the recipient's termination of employment.

The Plan is a compensatory stock option plan. There was no intrinsic value of the options when granted, as the exercise price was equal to the quoted market price at the grant date. No compensation cost has been recognized for the three months ended March 31, 2004 and 2003.

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

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

- 15 -

The weighted-average fair value per share of options granted during the three months ended March 31, 2004 was \$5.62. There were no options granted during the three months ended March 31, 2003. The fair value of the options granted is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the grants:

	Three Months Ended March 31, 2004 -----
Dividend yield	7.0 %
Expected volatility	49.0 %
Risk-free interest rate	5.0 %
Expected life	3 years

### NOTE 11 - ACQUISITIONS

Apex Mortgage Capital, Inc.

On December 3, 2003, AHM Holdings completed its merger with Apex, a Maryland corporation that operated and elected to be treated as a REIT. Immediately prior to the merger, under the terms of the reorganization agreement between AHM Holdings and AHM Investment, AHM Holdings reorganized through a reverse triangular merger that caused AHM Investment, a newly formed Maryland

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corporation that operates and will elect to be treated as a REIT for federal income tax purposes, to become AHM Holdings' parent. The shares issued to former Apex stockholders in the merger were valued at \$177.3 million.

The following table summarizes the required disclosures of the pro forma combined entity, as if the acquisition occurred at the beginning of the year for the three months ended March 31, 2003:

	Three Months Ended
(In thousands, except per share amounts)	March 31, 2003
Revenue	\$102,541
Income before income taxes	34,189
Net income	\$ 22,612 =====
Earnings per share - basic	\$ 0.93 =====
Earnings per share - diluted	\$ 0.92 =====

Valley Bancorp, Inc.

In August 2001, AHM Holdings entered into an agreement to acquire Valley Bancorp, Inc. ("Valley Bancorp") and its wholly-owned subsidiary, Valley Bank of Maryland ("Valley Bank"), a federal savings bank located in suburban Baltimore, Maryland, for a combination of cash and stock, subject to certain adjustments. Under the terms of the definitive agreement, the Company will pay 1.25 times Valley Bancorp's book value, or approximately \$5.8 million. The acquisition agreement between AHM Holdings and Valley Bancorp has been extended through July 31, 2004. This transaction is subject to regulatory approval and no assurance can be given that such approval will be obtained or that the acquisition agreement with Valley Bancorp will be further extended if necessary.

- 16 -

### NOTE 12 - SEGMENTS AND RELATED INFORMATION

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

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

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The Loan Origination segment includes unrealized gains or losses that exist on the date of securitization of self-originated loans that are classified as trading securities.

- 17 -

	Three Months Ended March 31, 2017		
	(in thousands)		
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment	Loan Servicing Segment
Net interest income:			
Interest income	\$ 15,149	\$ 18,901	\$
Interest expense	(9,412)	(10,962)	
Total net interest income	5,737	7,939	
Non-interest income:			
Gain on sales of mortgage loans and mortgage-backed securities	12,651	67,482	
Loan servicing fees	--	--	
Amortization	--	--	
Impairment reserve provision	--	--	
Net loan servicing fees (loss)	--	--	
Other non-interest income	--	978	
Total non-interest income	12,651	68,460	
Non-interest expenses:			
Salaries, commissions and benefits, net	50	38,600	
Occupancy and equipment	--	7,935	
Data processing and communications	2	3,181	
Office supplies and expenses	--	2,747	
Marketing and promotion	--	2,212	
Travel and entertainment	2	2,462	
Professional fees	71	2,213	
Other	1,045	3,324	
Total non-interest expenses	1,170	62,674	
Net income before income tax expense (benefit)	17,218	13,725	
Income tax expense (benefit)	--	1,735	
Net income	\$ 17,218	\$ 11,990	\$

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	March 31, 2004		
Segment assets	\$ 4,074,086	\$ 1,613,620	\$ 1

- 18 -

	Three Months Ended March 31,		
	(in thousands)		
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment	Loan Ser Seg
Net interest income:			
Interest income	\$ --	\$ 20,976	\$ --
Interest expense	--	(9,421)	--
Total net interest income	--	11,555	--
Non-interest income:			
Gain on sales of mortgage loans	--	88,211	--
Loan servicing fees	--	--	--
Amortization	--	--	--
Impairment reserve provision	--	--	--
Net loan servicing fees (loss)	--	--	--
Other non-interest income	--	2,928	--
Total non-interest income	--	91,139	--
Non-interest expenses:			
Salaries, commissions and benefits, net	--	43,841	--
Occupancy and equipment	--	5,492	--
Data processing and communications	--	3,052	--
Office supplies and expenses	--	2,664	--
Marketing and promotion	--	2,797	--
Travel and entertainment	--	1,986	--
Professional fees	--	1,709	--
Other	--	3,259	--
Total non-interest expenses	--	64,800	--
Net income before income tax expense (benefit)	--	37,894	--

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Income tax expense (benefit)	--	15,584
Net income	\$ --	\$ 22,310
		December 31, 2003
Segment assets	\$ 1,865,414	\$ 1,372,976

- 19 -

ITEM 2.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

Regarding Forward-Looking Statements

This report, including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains certain forward-looking statements within the meaning of the federal securities laws. Some of the forward-looking statements can be identified by the use of forward-looking words. When used in this report, statements which are not historical in nature, including the words "anticipate," "may," "estimate," "should," "seek," "expect," "plan," "believe," "intend," and similar words, or the negatives of those words, are intended to identify forward-looking statements. Statements which also contain a projection of revenues, earnings (loss), capital expenditures, dividends, capital structure or other financial terms are intended to be forward-looking statements. Certain statements regarding the following particularly are forward-looking in nature:

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

It is important to note that the description of our business in general, and our mortgage-backed securities holdings in particular, is a statement about our operations as of a specific point in time. It is not meant to be construed as an investment policy, and the types of assets we hold, the amount of leverage we use, the liabilities we incur and other characteristics of our assets and liabilities are subject to reevaluation and change without notice.

The forward-looking statements in this report are based on our management's beliefs, assumptions, and expectations of our future economic performance, taking into account the information currently available to it. These statements are not statements of historical fact. Forward-looking statements are subject to a number of factors, risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial position. These factors include, without limitation:



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

In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this report might not occur, and we qualify any and all of our forward-looking statements entirely by these cautionary factors. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements are inherently uncertain, and actual results may differ from expectations.

- 20 -

We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

### Critical Accounting Policies and Estimates

Our accounting policies are described in Note 1 to the Consolidated Financial Statements. We have identified the following accounting policies that are critical to the presentation of our financial statements and that require critical accounting estimates by management.

**Mortgage-Backed Securities** - We record our mortgage-backed securities at fair value. The fair values of our mortgage-backed securities are generally based on market prices provided by certain dealers who make markets on these financial instruments or third-party pricing services. If the fair value of a mortgage-backed security is not reasonably available, management estimates the fair value, which requires management's judgment and may not be indicative of the amounts we could realize in a current market exchange.

**Mortgage Loans Held for Sale** - The hedged mortgage loans held for sale are carried at the lower of cost or aggregate market value. The cost basis includes the capitalized value of the IRLCs related to the mortgage loans and any net deferred origination costs. For mortgage loans held for sale that are hedged

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with forward sale commitments, the carrying value is adjusted for the change in market during the time the hedge was deemed to be highly effective. The market value is determined by outstanding commitments from investors or current yield requirements calculated on an aggregate basis.

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

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

**Derivative Assets and Derivative Liabilities** - Our mortgage-committed pipeline includes IRLCs that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. IRLCs are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSR, net of estimated net costs remaining to originate the loan. In March 2004, the SEC issued SAB No. 105, which provides industry guidance that will change the timing of recognition of MSR for IRLCs initiated after March 31, 2004. See "Recently Issued Accounting Standards" in Note 1 to the Consolidated Financial Statements.

We use other derivative instruments, including mortgage forward delivery contracts and treasury futures options, to economically hedge the IRLCs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

We use mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of our agency-eligible conforming fixed-rate loans and most of our non-conforming fixed-rate loans held for sale. At the inception of

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the hedge, we formally document the relationship between the forward delivery contracts and the mortgage inventory, as well as our objective and strategy for undertaking the hedge transactions. In the case of our conventional conforming fixed rate loan products, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially

- 21 -

eliminate interest rate and price risk to us. We classify and account for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed to be highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

We enter into interest rate swap agreements to manage our interest rate exposure when financing our adjustable-rate mortgage loans and mortgage-backed securities. The swap agreements are accounted for as cash flow hedges and carried on the balance sheet at fair value. The fair values of our swap agreements are generally based on market prices provided by certain dealers who make markets on these financial instruments or third-party pricing services. If the fair value of a trading security is not reasonably available, management estimates the fair value, which requires management's judgment and may not be indicative of the amounts we could realize in a current market exchange.

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets stemming from business acquisitions, including identifiable intangibles. We test for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to our loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to our Mortgage-Backed Securities Holdings segment includes a forecast of the expected future net interest income, gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies. We further test to ensure that the fair value of all our business units does not exceed our total market capitalization.

- 22 -

### Financial Condition

At March 31, 2004, 68.7% of our total assets were mortgage-backed securities and 23.5% were mortgage loans held for sale, compared to 51.8% and 36.0%, respectively, at December 31, 2003.

Total assets increased \$2.4 billion to \$5.8 billion at March 31, 2004 from \$3.4 billion at December 31, 2003. The increase primarily reflects an increase in mortgage-backed securities of \$2.2 billion and a \$0.1 billion rise in mortgage loans held for sale. The growth in mortgage-backed securities was primarily funded by an increase in reverse repurchase agreements of \$2.1 billion. The increase in loans held for sale was funded by a \$0.1 billion rise in warehouse lines of credit.

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

	March 31, 2004				
	Trading Securities		Securities Available for Sale		Total
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value
			(Dollars in thousands)		
Agency securities	\$ 614,219	54.9%	\$ 935,458	32.4%	\$1,549,677
Privately issued:					
AAA	160,474	14.4	1,858,699	64.4	2,019,173
AA	330,699	29.6	34,027	1.2	364,726
A	6,277	0.5	21,287	0.7	27,564
BBB	--	--	10,867	0.4	10,867
Unrated (1)	6,470	0.6	24,602	0.9	31,072
<b>Total</b>	<b>\$1,118,139</b>	<b>100.0%</b>	<b>\$2,884,940</b>	<b>100.0%</b>	<b>\$4,003,078</b>

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

	December 31, 2003				
	Trading Securities		Securities Available for Sale		Total
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value
			(Dollars in thousands)		
Agency securities	\$ 287,577	60.0%	\$ 713,790	55.6 %	\$1,001,367
Privately issued:					
AAA	167,974	35.0	570,025	44.4	737,999
AA	11,322	2.4	--	--	11,322
A	6,470	1.3	--	--	6,470
Unrated (1)	6,470	1.3	--	--	6,470
<b>Total</b>	<b>\$ 479,813</b>	<b>100.0%</b>	<b>\$1,283,815</b>	<b>100.0 %</b>	<b>\$1,763,628</b>

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

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- 23 -

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

	March 31, 2004				
	Trading Securities		Securities Available for Sale		
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value
			(Dollars in thousands)		
Index:					
One-month LIBOR	\$ 312,162	27.9%	\$ 108,486	3.8%	\$ 420,000
Six-month LIBOR	191,906	17.2	1,239,865	43.0	1,431,000
One-year LIBOR	593,901	53.1	1,207,428	41.9	1,801,000
One-year constant maturity treasury	20,170	1.8	329,161	11.3	349,000
Total	\$1,118,139	100.0%	\$2,884,940	100.0%	\$4,003,000

	December 31, 2003				
	Trading Securities		Securities Available for Sale		
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value
			(Dollars in thousands)		
Index:					
One-month LIBOR	\$ 189,772	39.6%	\$ --	--%	\$ 189,772
Six-month LIBOR	--	--	517,248	40.3	517,248
One-year LIBOR	261,548	54.5	610,963	47.6	878,511
One-year constant maturity treasury	28,493	5.9	155,604	12.1	189,170
Total	\$ 479,813	100.0%	\$1,283,815	100.0%	\$1,776,691

- 24 -

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

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	March 31, 2004					
	Trading Securities		Securities Available for Sale		Total	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
	(Dollars in thousands)					
Product:						
1 month ARM	\$ 184,200	16.5%	\$ --	--%	\$ 184,200	4
6 month ARM	--	--	577,013	20.0	577,013	14
1 x 1 ARM	127,961	11.4	184,098	6.4	312,059	7
3/1 Hybrid ARM	418,082	37.4	640,850	22.2	1,058,932	26
5/1 Hybrid ARM	387,896	34.7	1,482,979	51.4	1,870,875	46
Total	\$1,118,139	100.0%	\$2,884,940	100.0%	\$4,003,079	100

	December 31, 2003					
	Trading Securities		Securities Available for Sale		Total	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
	(Dollars in thousands)					
Product:						
1 month ARM	\$ 189,771	39.6%	\$ --	--%	\$ 189,771	10
6 month ARM	--	--	182,559	14.2	182,559	10
1 x 1 ARM	--	--	30,338	2.4	30,338	1
3/1 Hybrid ARM	133,019	27.7	415,674	32.4	548,693	31
5/1 Hybrid ARM	133,140	27.7	619,688	48.2	752,828	42
7/1 Hybrid ARM	23,883	5.0	35,556	2.8	59,439	3
Total	\$ 479,813	100.0%	\$1,283,815	100.0%	\$1,763,628	100

During the quarter ended March 31, 2004, we purchased \$2.1 billion of mortgage-backed securities and added \$1.0 billion of self-originated mortgage-backed securities.

During the quarter ended March 31, 2004, we sold \$789.6 million of mortgage-backed securities.

The average cost basis of our mortgage-backed securities, excluding unrealized gains and losses, was 101.6% of par as of March 31, 2004 and 101.5% of par as of December 31, 2003.

We had payables for securities purchased of \$134.6 million and \$259.7 million as

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of March 31, 2004 and December 31, 2003, respectively.

As of May 6, 2004, we held \$5.4 billion of mortgage-backed securities and we project our mortgage-backed securities to reach approximately \$6.5 billion by June 30, 2004.

- 25 -

Results of Operations - Comparison of the Three Months Ended March 31, 2004 and 2003

	Three Months Ended March		
	(in thousands)		
	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment	Loan
Net interest income:			
Interest income	\$ 15,149	\$ 18,901	\$
Interest expense	(9,412)	(10,962)	
Total net interest income	5,737	7,939	
Non-interest income:			
Gain on sales of mortgage loans and mortgage-backed securities	12,651	67,482	
Loan servicing fees	--	--	
Amortization	--	--	
Impairment reserve provision	--	--	
Net loan servicing fees (loss)	--	--	
Other non-interest income	--	978	
Total non-interest income	12,651	68,460	
Non-interest expenses:			
Salaries, commissions and benefits, net	50	38,600	
Occupancy and equipment	--	7,935	
Data processing and communications	2	3,181	
Office supplies and expenses	--	2,747	
Marketing and promotion	--	2,212	
Travel and entertainment	2	2,462	
Professional fees	71	2,213	
Other	1,045	3,324	
Total non-interest expenses	1,170	62,674	
Net income before income tax expense (benefit)	17,218	13,725	

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Income tax expense (benefit) -- 1,735

Net income \$ 17,218 \$ 11,990 \$

March 31, 2004

Segment assets \$ 4,074,086 \$ 1,613,620 \$

- 26 -

Three Months Ended March 31,

(in thousands)

	Mortgage-Backed Securities Holdings Segment	Loan Origination Segment	Loan Ser Segm
Net interest income:			
Interest income	\$ --	\$ 20,976	\$
Interest expense	--	(9,421)	
Total net interest income	--	11,555	
Non-interest income:			
Gain on sales of mortgage loans	--	88,211	
Loan servicing fees	--	--	
Amortization	--	--	
Impairment reserve provision	--	--	
Net loan servicing fees (loss)	--	--	
Other non-interest income	--	2,928	
Total non-interest income	--	91,139	
Non-interest expenses:			
Salaries, commissions and benefits, net	--	43,841	
Occupancy and equipment	--	5,492	
Data processing and communications	--	3,052	
Office supplies and expenses	--	2,664	
Marketing and promotion	--	2,797	
Travel and entertainment	--	1,986	
Professional fees	--	1,709	
Other	--	3,259	



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Total non-interest expenses	--	64,800	
-----			
Net income before income tax expense (benefit)	--	37,894	
-----			
Income tax expense (benefit)	--	15,584	
-----			
Net income	\$ --	\$ 22,310	\$
=====			
December 31, 2003			
-----			
Segment assets	\$ 1,865,414	\$ 1,372,976	\$
=====			

- 27 -

Mortgage-Backed Securities Holdings Segment

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

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

(Dollars in thousands)	Three Months Ended March 31,		
	2004		
	Average Balance	Interest	Average Yield/Cost
	-----	-----	-----
Mortgage-backed securities, net	\$ 1,958,339	\$ 15,149	3.09%
	-----	-----	-----
Reverse repurchase agreements (1)	1,795,332	9,412	2.10%
	-----	-----	-----
Net interest income		\$ 5,737	
		=====	
Interest rate spread			0.99%
			=====
Net interest margin			1.17%
			=====

(1) Includes net interest expense on interest rate swaps

Revenues. Total revenues for the Mortgage-Backed Securities Holdings segment were \$18.4 million, consisting entirely of \$12.7 million of gain on mortgage-backed securities and \$5.7 million of net interest income.

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### Loan Origination Segment

The Loan Origination segment's primary business is the origination and sale of primarily one-to-four family residential mortgage loans. Total loan originations for the quarter ended March 31, 2004 were \$4.4 billion compared to \$4.3 billion for the first quarter of 2003, a 2.3% increase. At March 31, 2004, the segment had 279 loan origination offices and 2,757 employees compared with 272 loan origination offices and 2,791 employees at December 31, 2003.

**Gain on Sales of Mortgage Loans and Mortgage-Backed Securities.** The Loan Origination segment's primary source of revenue is the gain on sales of mortgage loans originated by the segment. Gain on sales of mortgage loans for the first quarter of 2004 totaled \$52.7 million compared with \$88.2 million for the first quarter of 2003.

**Net Interest Income.** Total interest income for the quarter ended March 31, 2004 on our Loan Origination segment's mortgages held for sale was \$18.9 million, compared to interest income for the quarter ended March 31, 2003 of \$21.0 million, a decrease of \$2.1 million, or 9.9%. The decrease was primarily due to lower average yield in 2004. Our Loan Origination segment funds its loan inventory primarily through borrowing facilities with several mortgage warehouse lenders. Total interest expense for the quarter ended March 31, 2004 was \$11.0 million, compared to interest expense for the quarter ended March 31, 2003 of \$9.4 million, a 16.4% increase, which was primarily due to increased borrowings to fund our large loan inventory.

**Other Revenue.** Other revenue totaled \$1.0 million for the quarter ended March 31, 2004 compared to \$2.9 million for the quarter ended March 31, 2003. For the quarter ended March 31, 2004, other income primarily includes revenue from title services of \$0.2 million, rental income of \$0.6 million and premiums earned totaling approximately \$0.1 million. For the quarter ended March 31, 2003, other income primarily consists of Principal Fulfillment Fees of \$1.9 million, revenue from title services of \$0.5 million and volume incentive bonuses received from loan purchasers totaling approximately \$0.4 million. The fulfillment fees represent non-recurring fees received from Principal Residential Mortgage, Inc. ("PRM") for loans closed by us on behalf of PRM. As part of the agreement to acquire the retail branches of PRM (the "Principal Branches"), we agreed to assume the costs incurred to close out PRM's application pipeline as of the date of the agreement on behalf of PRM for a per loan fee.

- 28 -

**Expenses.** Total expenses of our Loan Origination segment for the quarter ended March 31, 2004 were \$62.6 million, compared to \$64.6 million for the quarter ended March 31, 2003.

Our operating expenses represent costs that are not eligible to be added to the book value of the loans because they are not considered direct origination costs under the rules of SFAS No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Costs of Leases." Direct origination costs are added to the book value of loans and either reduce the gain on sale of loans if the loans are sold or are amortized over the life of the loan.

Salaries, commissions and benefits for the quarter ended March 31, 2004 were \$38.6 million, or 87 basis points of total loan originations, compared to \$43.8 million, or 102 basis points of total loan originations, for the quarter ended March 31, 2003.

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Operating expenses, excluding salaries, commissions and benefits, were 54 basis points of total loan originations for the quarter ended March 31, 2004 and 48 basis points for the quarter ended March 31, 2003.

Income Tax Expense. Income tax expense decreased to \$1.7 million for the quarter ended March 31, 2004 from \$15.6 million for the quarter ended March 31, 2003, a decrease of \$13.9 million, or 89.1%. The effective tax rate for the Loan Origination segment is 12.6%, which includes permanent book-to-tax differences related to activity within the REIT and the transactions between the taxable REIT subsidiary ("TRS") and qualified REIT subsidiary ("QRS").

### Loan Servicing Segment

The Loan Servicing segment total revenues for the quarter ended March 31, 2004 were a loss of \$10.5 million compared to a loss of \$8.1 million for the quarter ended March 31, 2003, a decrease of \$2.4 million, or 29.6%.

Net loan servicing fees were a loss of \$9.6 million for the quarter ended March 31, 2004, compared to a loss of \$7.4 million for the quarter ended March 31, 2003.

Loan servicing fees decreased to \$10.3 million for the quarter ended March 31, 2004 from \$11.1 million for the quarter ended March 31, 2003, a decrease of \$0.8 million, or 7.2%. Included in loan servicing fees are gains on Ginnie Mae early buy-out sales of \$2.4 million for the quarter ended March 31, 2004 compared to \$3.6 million for the quarter ended March 31, 2003, a decrease of \$1.2 million, or 33.3%.

Amortization decreased to \$7.3 million for the quarter ended March 31, 2004 from \$12.8 million for the quarter ended March 31, 2003, a decrease of \$5.5 million, or 43.0%.

We recognized a temporary impairment provision of \$12.6 million for the quarter ended March 31, 2004 versus a temporary impairment provision of \$5.7 million for the quarter ended March 31, 2003, resulting in a decrease in net loan servicing fees of \$6.9 million. The increase in impairment provision in the quarter ended March 31, 2004 is due to a decrease in the fair value of servicing rights attributable to an increase in estimated future prepayment speeds. The increase in estimated future prepayment speeds was a result of a reduction of interest rates in the quarter ended March 31, 2004. Given the current level of interest rates, the Company expects amortization to slow and expects to recover its impairment reserve, net of taxes, in the quarter ended June 30, 2004.

Expenses. Total expenses of our Loan Servicing segment for the quarter ended March 31, 2004 were \$3.0 million, compared to \$1.9 million for the quarter ended March 31, 2003.

Income Tax Benefit. Income tax benefit increased to \$5.5 million for the quarter ended March 31, 2004 from a \$4.0 million benefit for the quarter ended March 31, 2003, an increase of \$1.5 million, or 37.5%.

### Liquidity and Capital Resources

We have arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with 13 different financial institutions and on March 31, 2004 had borrowed funds from five of these firms. Because we borrow money under these agreements based on the fair value of our mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, our borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of our mortgage-backed securities declines for other reasons.

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As of March 31, 2004, we had \$3.4 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.24% before the impact of interest rate swaps and a weighted-average remaining maturity of 4.4 months.

- 29 -

To originate a mortgage loan, we draw against a \$1.2 billion pre-purchase facility with UBS Real Estate Securities Inc. (formerly Paine Webber Real Estate Securities Inc.) ("UBS"), a \$450 million bank syndicated facility led by Residential Funding Corporation ("RFC"), a \$450 million facility with CDC IXIS Capital Markets North America Inc. ("CDC"), a facility of \$350 million with Morgan Stanley Bank ("Morgan Stanley") and a facility of \$200 million with Credit Lyonnais. In addition, the Company has a gestation facility with Greenwich Capital Financial Products, Inc. These facilities are secured by the mortgages owned by us and by certain of our other assets. Advances drawn under the facilities bear interest at rates that vary depending on the type of mortgages securing the advances. These loans are subject to sublimits, advance rates and terms that vary depending on the type of securing mortgages and the ratio of the Company's liabilities to its tangible net worth. At May 4, 2004, the aggregate outstanding balance under the warehouse facilities was \$1.9 billion, the aggregate outstanding balance in drafts payable was \$49.7 million and the aggregate maximum amount available for additional borrowings was \$604.8 million.

The documents governing our warehouse facilities contain a number of compensating balance requirements and restrictive financial and other covenants that, among other things, require us to adhere to a maximum ratio of total liabilities to tangible net worth and maintain a minimum level of tangible net worth and liquidity, as well as to comply with applicable regulatory and investor requirements. The facility agreements also contain covenants limiting the ability of our subsidiaries to transfer or sell assets other than in the ordinary course of business and to create liens on the collateral without obtaining the prior consent of the lenders, which consent may not be unreasonably withheld.

In addition, under our warehouse facilities, we cannot continue to finance a mortgage loan that we hold if:

- o the loan is rejected as "unsatisfactory for purchase" by the ultimate investor and has exceeded its permissible 120-day warehouse period;
- o we fail to deliver the applicable mortgage note or other documents evidencing the loan within the requisite time period;
- o the underlying property that secures the loan has sustained a casualty loss in excess of 5% of its appraised value; or
- o the loan ceases to be an eligible loan (as determined pursuant to the applicable warehousing agreement).

As of March 31, 2004, our aggregate warehouse facility borrowings were \$1.3 billion (including \$26 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$64.3 million, compared to \$1.1 billion (including \$29 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were \$25.6 million as of December 31, 2003. At March 31, 2004, our loans held for sale were \$1.4 billion compared to \$1.2 billion at December 31, 2003.

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In addition to the UBS, CDC, RFC, Morgan Stanley, and Credit Lyonnais warehouse facilities, we have a purchase and sale agreement with UBS. This agreement allows us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facility. Amounts sold and being held under this agreement at March 31, 2004 and December 31, 2003 were \$234 million and \$236 million, respectively. The amount so held under this agreement at May 3, 2004 was \$263 million. This agreement is not a committed facility and may be terminated at the discretion of the counterparty.

We make certain representations and warranties under the purchase and sale agreements regarding, among other things, the loans' compliance with laws and regulations, their conformity with the ultimate investors' underwriting standards and the accuracy of information. In the event of a breach of these representations or warranties or in the event of an early payment default, we may be required to repurchase the loans and indemnify the investor for damages caused by that breach. We have implemented strict procedures to ensure quality control and conformity to underwriting standards and minimize the risk of being required to repurchase loans. From time to time we have been required to repurchase loans that we sold; however, the liability for the fair value of those obligations has been immaterial.

We also have a \$100 million term loan facility with a bank syndicate led by RFC which we use to finance our MSR's. The term loan facility expires on May 28, 2004. Interest is based on a spread to the LIBOR and may be adjusted for earnings on escrow balances. At March 31, 2004 and December 31, 2003, borrowings under our term loan facility were \$76.5 million and \$71.5 million, respectively.

Cash and cash equivalents increased to \$97.6 million at March 31, 2004 from \$53.1 million at December 31, 2003.

Our primary sources of cash and cash equivalents during the quarter ended March 31, 2004, were as follows:

- o \$ 2.1 billion increase in reverse repurchase agreements;
- o \$ 341.9 million proceeds from issuance of capital stock; and

- 30 -

- o \$ 130.1 million increase in warehouse lines of credit.

Our primary uses of cash and cash equivalents during the quarter ended March 31, 2004, were as follows:

- o \$ 2.2 billion net increase in mortgage-backed securities; and
- o \$ 147.2 million net increase in mortgage loans held for sale.

### Commitments

The Company had the following commitments (excluding derivative financial instruments) at March 31, 2004:

Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years
-----	-----	-----	-----
		(in thousands)	

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Warehouse facilities	\$ 1,251,845	\$ 1,251,845	\$	--	\$	--
Operating leases	48,218	11,396		28,897		7,286
Notes payable	106,423	80,320		697		780
Reverse repurchase agreements	3,394,941	3,394,941		--		--
Payable for securities purchased	134,647	134,647		--		--

- 31 -

### ITEM 3.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Movements in interest rates can pose a major risk to the Company in either a rising or declining interest rate environment. The Company depends on substantial borrowings to conduct its business. These borrowings are all done at variable interest rate terms which will increase as short term interest rates rise. Additionally, when interest rates rise, loans held for sale and any applications in process with locked-in rates decrease in value. To preserve the value of such fixed-rate loans or applications in process with locked-in rates, agreements are executed for mandatory loan sales to be settled at future dates with fixed prices. These sales take the form of forward sales of mortgage-backed securities.

When interest rates decline, fallout may occur as a result of customers withdrawing their applications. In those instances, the Company may be required to purchase loans at current market prices to fulfill existing mandatory loan sale agreements, thereby incurring losses upon sale. The Company uses an interest rate hedging program to manage these risks. Through this program, mortgage-backed securities are purchased and sold forward and options are acquired on treasury futures contracts.

In the event that the Company does not deliver into the forward delivery commitments or exercise its option contracts, the instruments can be settled on a net basis. Net settlement entails paying or receiving cash based upon the change in market value of the existing instrument. All forward delivery commitments and option contracts to buy securities are to be contractually settled within six months of the balance sheet date.

The Company's hedging program contains an element of risk because the counterparties to its mortgage and treasury securities transactions may be unable to meet their obligations. While the Company does not anticipate nonperformance by any counterparty, it is exposed to potential credit losses in the event the counterparty fails to perform. The Company's exposure to credit risk in the event of default by a counterparty is the difference between the contract and the current market price. The Company minimizes its credit risk exposure by limiting the counterparties to well-capitalized banks and securities dealers who meet established credit and capital guidelines. Movements in interest rates also impact the value of MSR's. When interest rates decline, the loans underlying the MSR's are generally expected to prepay faster, which reduces the market value of the MSR's. The Company considers the expected increase in loan origination volumes and the resulting additional origination related income as a natural hedge against the expected change in the value of MSR's. Lower mortgage rates generally reduce the fair value of the MSR's, as increased prepayment speeds are highly correlated with lower levels of mortgage interest rates.

The Company enters into interest rate swap agreements ("Swap Agreements") to manage its interest rate exposure when financing its adjustable-rate loans and its mortgage-backed securities. The Company generally borrows money based on

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short-term interest rates, by entering into borrowings with maturity terms of less than one year, and frequently six to 12 months. The Company's adjustable-rate loans and mortgage-backed securities financing vehicles generally have an interest rate that reprices based on frequency terms of one to 12 months. The Company's mortgage-backed securities have an initial fixed interest rate period of three to five years. When the Company enters into a Swap Agreement, it generally agrees to pay a fixed rate of interest and to receive a variable interest rate, generally based on LIBOR. These Swap Agreements have the effect of converting the Company's variable-rate debt into fixed-rate debt over the life of the Swap Agreements. These instruments are used as a cost-effective way to lengthen the average repricing period of the Company's variable-rate and short-term borrowings such that the average repricing of the borrowings more closely matches the average repricing of the Company's mortgage-backed securities. The Company's duration gap was less than one month on March 31, 2004.

- 32 -

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

	March 31, 2004		
	Notional Amount	Carrying Amount	Estimated Fair Value
	(In thousands)		
<b>Assets:</b>			
Mortgage-backed securities	\$ 3,969,385	\$ 4,003,079	\$ 4,003,079
Interest rate lock commitments	2,097,828	24,151	24,151
Mortgage loans held for sale, net	1,330,349	1,371,048	1,375,686
Mortgage servicing rights, net	8,956,144	113,519	113,519
<b>Liabilities:</b>			
Forward delivery commitments- Loan commitments	\$ 430,019	\$ 699	\$ 699
Forward delivery commitments - Loans held for sale (1)	944,000	150	150
Interest rate swaps	1,270,000	20,596	20,596

	December 31, 2003		
	Notional Amount	Carrying Amount	Estimated Fair Value
	(In thousands)		
<b>Assets:</b>			
Mortgage-backed securities	\$ 1,759,064	\$ 1,763,628	\$ 1,763,628
Interest rate lock commitments	1,140,350	20,837	20,837
Mortgage loans held for sale, net	1,187,314	1,223,827	1,226,141
Mortgage servicing rights, net	8,272,294	117,784	117,784
<b>Liabilities:</b>			

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Forward delivery commitments- Loan commitments	\$ 477,863	\$ 4,358	\$ 4,358
Forward delivery commitments - Loans held for sale (1)	1,161,217	2,300	2,300
Interest rate swaps	755,000	6,036	6,036

(1) This amount is included in mortgage loans held for sale, net (see Note 3).

The Company had total commitments to lend at March 31, 2004 and December 31, 2003 of \$7.3 billion and \$4.0 billion, respectively.

### ITEM 4.

#### CONTROLS AND PROCEDURES

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this quarterly report. The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the first quarter of 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the first quarter of 2004.

- 33 -

### PART II-OTHER INFORMATION

#### ITEM 1.

##### LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is at times subject to various legal proceedings. 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 or financial condition.

A multitude of class action lawsuits have been filed against companies in the mortgage banking industry, which allege, among other things, violations of the terms of the mortgage loan documents and certain laws, rules and regulations (including, without limitation, consumer protection laws). These lawsuits may result in similar suits being filed against the Company. In addition, the publicity generated by such lawsuits may result in legislation that affects the manner in which the Company conducts its business and its relationships with mortgage brokers, correspondents and others. Any of these developments may materially and adversely affect the Company's business, financial condition and results of operations.

#### ITEM 2.

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



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The following is a description of the Company's securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), which were sold during the quarter ended March 31, 2004.

The Company acquired First Home Mortgage Corp. ("First Home") on June 30, 2000. In addition to the shares paid to former First Home shareholders as initial consideration, the Company is required to issue unregistered shares of common stock to the former shareholders as additional consideration under the earnout provisions of the merger agreement. On January 1, 2004, pursuant to these earnout provisions, the Company issued an aggregate of 2,304 shares of common stock to such shareholders as additional consideration. In addition, on February 15, 2004, the Company issued 2,454 shares of common stock to such shareholders. These securities were exempt from registration under Section 4(2) of the Securities Act because they were issued pursuant to the terms of a private transaction rather than through a public offering.

### ITEM 3.

#### DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4.

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

None.

### ITEM 5.

#### OTHER INFORMATION

None.

- 34 -

### ITEM 6.

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

##### (a) Exhibits.

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

- Exhibit 10.1 Amendment to Amended and Restated Master Repurchase Agreement, dated as of January 1, 2004, by and between American Home Mortgage Corp. and CDC Mortgage Capital Inc.
- Exhibit 10.2 Guarantee, dated as of January 1, 2004, made by the Company, as Guarantor, on behalf of American Home Mortgage Corp. in favor of CDC Mortgage Capital Inc.
- Exhibit 10.3 Amended and Restated Mortgage Loan Purchase Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated.
- Exhibit 10.4 Amended and Restated Mortgage Loan Repurchase Agreement, dated as

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of February 6, 2004, by and among UBS Real Estate Securities Inc., the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated.

- Exhibit 10.5 Amended and Restated Mortgage Loan Custodial Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., Deutsche Bank National Trust Company, the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated.
- Exhibit 10.6 Amended and Restated Mortgage Loan Participation Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated.
- Exhibit 10.7 Amended and Restated Custodial Agreement, dated as of February 6, 2004, by and among UBS Real Estate Securities Inc., Deutsche Bank National Trust Company, the Company, American Home Mortgage Acceptance, Inc., American Home Mortgage Holdings, Inc., American Home Mortgage Corp. and Columbia National, Incorporated.
- Exhibit 10.8 Amended and Restated Employment Agreement, dated as of April 27, 2004, by and between American Home Mortgage Holdings, Inc. and John A. Johnston.
- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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### (b) Reports on Form 8-K.

During the fiscal quarter ended March 31, 2004, the Company filed with the SEC the following Current Reports on Form 8-K:

- o Current Report on Form 8-K, dated February 12, 2004, and filed on February 12, 2004, which reported the commencement of a proposed offering of 10 million shares of the Company's common stock pursuant to a universal shelf registration statement on Form S-3, and announced the declaration of two special dividends in lieu of one regular dividend at the end of the first quarter of 2004.

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- o Current Report on Form 8-K, dated January 29, 2004, and furnished to the SEC on January 29, 2004, which disclosed that the Company had issued a press release announcing its financial results for the fiscal quarter and year ended December 31, 2003.
- o Current Report on Form 8-K, dated January 12, 2004, and filed with the SEC on January 12, 2004, which reported that the Company would report its financial results for the fiscal quarter and year ended December 31, 2003 on January 29, 2004, and announced that the Company's universal shelf registration statement on Form S-3 was declared effective by the SEC on January 12, 2004.

- 36 -

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN HOME MORTGAGE INVESTMENT CORP.  
(Registrant)

Date: May 10, 2004

By: /s/ Michael Strauss

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

Date: May 10, 2004

By: /s/ Stephen A. Hozie

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

- 37 -

### INDEX TO EXHIBITS

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