



FORM 10-Q

ANNALY MORTGAGE MANAGEMENT INC – NLY

Filed: November 15, 1999 (period: September 30, 1999)

Quarterly report which provides a continuing view of a company's financial position

Table of Contents

PART II.

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

EX-27

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 1999

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: 1-13447

ANNALY MORTGAGE MANAGEMENT, INC.
(Exact name of Registrant as specified in its Charter)

MARYLAND
(State or other
jurisdiction of
incorporation or organization)

22-3479661
(IRS Employer
Identification No.)

12 EAST 41ST STREET, SUITE 700
NEW YORK, NEW YORK
(Address of principal executive offices)

10017
(Zip Code)

(212) 696-0100
(Registrant's telephone number, including area code)

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

Yes X No _____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the last practicable date:

Class	Outstanding at November 12, 1999
Common Stock, \$.01 par value	13,344,408

Annaly Mortgage Management, Inc.

FORM 10-Q

INDEX

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements:	
Balance Sheets - September 30, 1999 (Unaudited) and December 31, 1998	1
Statements of Operations (Unaudited) for the quarters ended September 30, 1999 and 1998 and for the nine months ended September 30, 1999 and 1998	2
Statements of Stockholders' Equity (Unaudited) for the quarter ended September 30, 1999	3
Statements of Cash Flows (Unaudited) for the quarters ended September 30, 1999 and 1998 and for the nine months ended September 30, 1999 and 1998	4
Notes to Financial Statements (Unaudited)	5-10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11-23
Item 3. Quantitative and Qualitative Disclosure about Market Risk	24-25
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	26
Item 2. Changes in Securities and Use of Proceeds	26
Item 3. Defaults Upon Senior Securities	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits and Reports on Form 8-K	26
SIGNATURES	27

ANNALY MORTGAGE MANAGEMENT, INC
BALANCE SHEETS

	SEPTEMBER 30, 1999 (UNAUDITED)	DECEMBER 31, 1998
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 77,101	\$ 69,020
Mortgage-Backed Securities, at fair value	1,401,770,037	1,520,288,762
Accrued interest receivable	6,730,525	6,782,043
Other assets	308,562	212,214
	-----	-----
Total assets	\$1,408,886,225	\$1,527,352,039
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	\$1,283,762,000	\$1,280,510,000
Payable for Mortgage-Backed Securities purchased		111,921,205
Accrued interest payable	6,977,480	5,052,626
Dividends payable	4,587,243	3,857,663
Accounts payable	485,033	139,236
	-----	-----
Total liabilities	1,295,811,756	1,401,480,730
	-----	-----
Stockholders' Equity:		
Common stock: par value \$.01 per share; 100,000,000 Authorized, 13,216,008 and 12,758,024 shares issued and outstanding, respectively	132,160	127,580
Additional paid-in capital	136,866,156	132,770,175
Accumulated other comprehensive loss	(23,775,832)	(6,404,275)
Treasury stock at cost (109,600 shares)	(903,163)	(903,163)
Retained earnings	755,148	280,992
	-----	-----
Total stockholders' equity	113,074,469	125,871,309
	-----	-----
Total liabilities and stockholders' equity	\$1,408,886,225	\$1,527,352,039
	=====	=====

See notes to financial statements

ANNALY MORTGAGE MANAGEMENT, INC
INCOME STATEMENTS
(UNAUDITED)

	For the Quarter Ended September 30, 1999	For the Quarter Ended September 30, 1998	For the Nine Months Ended September 30, 1999	For the Nine Months Ended September 30, 1998
INTEREST INCOME:				
Mortgage-Backed Securities	\$22,152,280	\$24,008,528	\$66,432,013	\$67,849,165
Other interest income	8,992	39	9,130	76
Total interest income	22,161,272	24,008,567	66,441,143	67,849,241
INTEREST EXPENSE:				
Repurchase agreements	17,232,085	20,765,301	51,248,950	57,256,355
NET INTEREST INCOME	4,929,187	3,243,266	15,192,193	10,592,886
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	97,656	993,630	188,069	2,716,589
GENERAL AND ADMINISTRATIVE EXPENSES	513,599	528,240	1,684,613	1,506,139
NET INCOME	4,513,244	3,708,656	13,695,649	11,803,336
OTHER COMPREHENSIVE INCOME				
Unrealized gain (loss) on available-for-Sale securities	(4,249,848)	799,319	(17,183,488)	(1,411,879)
Less: reclassification adjustment for net gains included in net income	(97,656)	(993,630)	(188,069)	(2,716,589)
Other comprehensive loss	(4,347,504)	(194,311)	(17,371,557)	(4,128,468)
COMPREHENSIVE INCOME (LOSS)	\$165,740	\$3,514,345	(\$3,675,908)	\$7,674,868
NET INCOME PER SHARE:				
Basic	\$0.35	\$0.29	\$1.08	\$0.93
Diluted	\$0.35	\$0.29	\$1.05	\$0.91
AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	12,745,416	12,704,194	12,721,670	12,729,673
Diluted	13,025,096	12,785,765	13,004,490	13,028,970

See notes to financial statements

ANNALY MORTGAGE MANAGEMENT, INC
STATEMENT OF STOCKHOLDER'S EQUITY
FOR THE QUARTER ENDED SEPTEMBER 30, 1999
(UNAUDITED)

	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Comprehensive Income	Retained Earnings	Other Comprehensive Income	Total
BALANCE, JUNE 30, 1999	\$128,071	\$132,966,180	(\$903,163)		\$829,147	(\$19,428,328)	\$113,591,907
Net Income				\$4,513,244	4,513,244		
Other comprehensive income:							
Unrealized net losses on securities, net of reclassification adjustment				(4,347,504)		(4,347,504)	
Comprehensive income				\$ 165,740			165,740
Proceeds from direct purchase	4,089	3,899,976					3,904,065
Dividends declared for the quarter ended September 30, 1999, \$0.35 per average share					(4,587,243)		(4,587,243)
BALANCE, SEPTEMBER 30, 1999	\$132,160	\$136,866,156	(\$903,163)		\$755,148	(\$23,775,832)	\$113,074,469

Disclosure of reclassification amount:

Unrealized holding losses arising during the period	(\$4,249,848)
Less: reclassification adjustment for gains included in net income	(97,656)
Net unrealized losses on securities	(\$4,347,504)

See notes to financial statements

ANNALY MORTGAGE MANAGEMENT, INC
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Quarter Ended September 30, 1999	For the Quarter Ended September 30, 1999	For the Nine Months Ended September 30, 1999	For the Nine Months Ended September 30, 1998
Cash flows from operating activities:				
Net income	\$4,513,244	\$3,708,656	\$13,695,649	\$11,803,336
Adjustments to reconcile net income to net cash Provided by operating activities:				
Amortization of mortgage premiums and discounts, net	1,271,863	2,239,747	5,322,779	6,093,183
Gain on sale of mortgage-backed securities	(97,656)	(993,630)	(188,069)	(2,716,589)
Decrease (increase) in accrued interest receivable	671,840	41,076	51,518	(2,199,406)
Decrease (increase) in other assets	94,603	14,394	(96,348)	(118,950)
Increase (decrease) in accrued interest payable	(1,790,341)	2,537,065	1,924,854	8,444,993
Increase in accounts payable	54,704	117,600	345,796	42,056
Net cash provided by operating activities	4,718,257	7,664,908	21,056,179	21,348,623
Cash flows from investing activities:				
Purchase of Mortgage-Backed Securities	(89,718,550)	(241,286,923)	(446,469,606)	(1,203,070,837)
Proceeds from sale of Mortgage-Backed Securities	65,334,991	83,224,377	113,547,357	308,163,885
Principal payments of Mortgage-Backed Securities	81,208,078	121,339,783	317,013,503	353,474,359
Net cash provided (used) in investing activities	56,824,519	(36,722,763)	(15,908,745)	(541,432,593)
Cash flows from financing activities:				
Proceeds from repurchase agreements	3,183,769,500	2,288,511,000	8,455,952,500	7,530,044,000
Principal payments on repurchase agreements	(3,244,747,500)	(2,254,398,000)	(8,452,700,500)	(6,998,532,000)
Proceeds from exercise of stock options			196,496	193,700
Proceeds from direct purchase Purchase of treasury stock	3,904,065	(903,163)	3,904,065	(903,163)
Additional cost of initial public offering				(130,248)
Dividends paid	(4,444,142)	(4,082,456)	(12,491,913)	(10,961,970)
Net cash provided (used) by financing activities	(61,518,077)	29,127,381	(5,139,352)	519,710,319
Net increase (decrease) in cash and cash equivalents	24,699	69,526	8,081	(373,651)
Cash and cash equivalents, beginning of period	52,402	10,325	69,020	511,172
Cash and cash equivalents, end of period	\$ 77,101	\$ 79,851	\$ 77,101	\$ 137,521
Supplemental disclosure of cash flow information:				
Interest paid	\$19,022,426	\$18,318,236	\$49,324,096	\$48,811,362
Noncash financing activities:				
Net change in unrealized losses on available-for-sale securities	(\$4,347,504)	(\$194,311)	(\$17,371,557)	(\$4,128,468)
Dividends declared, not yet paid	\$4,587,243	\$3,414,980	\$4,587,243	\$3,414,980

See notes to financial statements

ANNALY MORTGAGE MANAGEMENT, INC
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Annaly Mortgage Management, Inc. (the "Company") was incorporated in Maryland on November 25, 1996. The Company commenced its operations of purchasing and managing Mortgage-Backed Securities on February 18, 1997, upon receipt of the net proceeds from the private placement of equity capital. An initial public offering was completed on October 14, 1997.

A summary of the Company's significant accounting policies follows:

Basis of Presentation - The accompanying unaudited financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. The interim financial statements for the nine month periods are unaudited; however, in the opinion of the Company's management, all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations have been included. These unaudited financials statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on form 10-K for the year ended December 31, 1998. The nature of the Company's business is such that the results of any interim period are not necessarily indicative of results for a full year.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and money market funds. The carrying amounts of cash equivalents approximate their value.

Mortgage-Backed Securities - The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans (collectively, "Mortgage-Backed Securities").

Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), requires the Company to classify its investments as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally intends to hold most of its Mortgage-Backed Securities until maturity, it may, from time to time, sell any of its Mortgage-Backed Securities as part of its overall management of its balance sheet. Accordingly, this flexibility requires the Company to classify all of its Mortgage-Backed Securities as available-for-sale. All assets classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

Unrealized losses on Mortgage-Backed Securities that are considered other than temporary, as measured by the amount of decline in fair value attributable to factors other than temporary, are recognized in income and the cost basis of the Mortgage-Backed Securities is adjusted. There were no such adjustments for the nine months ended September 30, 1999 and the year ended December 31, 1998.

Interest income is accrued based on the outstanding principal amount of the Mortgage-Backed Securities and their contractual terms. Premiums and discounts associated with the purchase of the Mortgage-Backed Securities are amortized into interest income over the lives of the securities using the effective yield method.

Mortgage-Backed Securities transactions are recorded on the date the securities are purchased or sold. Purchases of newly issued securities are recorded when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. Realized gains and losses on Mortgage-Backed Securities transactions are determined on the specific identification basis.

Credit Risk - At September 30, 1999 and December 31, 1998, the Company has limited exposure to credit losses on its portfolio of Mortgage-Backed Securities by only purchasing securities from Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), or Government National Mortgage Association ("GNMA"). The payment of principal and interest on the FHLMC and FNMA Mortgage-Backed Securities are guaranteed by those respective agencies and the payment of principal and interest on the GNMA Mortgage-Backed Securities are backed by the full-faith-and-credit of the U.S. government. At September 30, 1999 and December 31, 1998, all of the Company's Mortgage-Backed Securities have a "AAA" rating or an implied a "AAA" rating.

Income Taxes - The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") and intends to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") with respect thereto. Accordingly, the Company will not be subjected to Federal income tax to the extent of its distributions to shareholders and as long as certain asset, income and stock ownership tests are met.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MORTGAGE-BACKED SECURITIES

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of September 30, 1999, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage-Backed Securities
Mortgage-Backed Securities, gross	\$423,671,222	\$878,226,387	\$100,667,612	\$1,402,565,221
Unamortized discount	(153,429)	(963,983)		(1,117,412)
Unamortized premium	8,414,616	13,839,332	1,844,111	24,098,059
Amortized cost	431,932,409	891,101,736	102,511,723	1,425,545,868
Gross unrealized gains	85,395	912,225		997,620
Gross unrealized losses	(7,702,536)	(14,414,967)	(2,655,948)	(24,773,451)
Estimated fair value	\$424,315,268	\$877,598,994	\$99,855,775	\$1,401,770,037

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of December 31, 1998, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage-Backed Securities
Mortgage-Backed Securities, gross	\$449,433,408	\$955,650,670	\$97,330,495	\$1,502,414,573
Unamortized discount	(184,996)	(423,583)	-	(608,579)
Unamortized premium	8,852,370	14,264,277	1,770,397	24,887,044
Amortized cost	458,100,782	969,491,364	99,100,892	1,526,693,038
Gross unrealized gains	659,557	2,092,119	549,900	3,301,576
Gross unrealized losses	(3,487,784)	(5,692,759)	(525,309)	(9,705,852)
Estimated fair value	\$455,272,555	\$965,890,724	\$99,125,483	\$1,520,288,762

The adjustable rate Mortgage-Backed Securities are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months) and lifetime caps. At September 30, 1999, the weighted average lifetime cap was 10.8%. At December 31, 1998, the weighted average lifetime cap was 10.6%.

During the nine months ended September 30, 1999 and 1998, the Company's realized \$188,069 and \$2,716,589 in gains from sales of Mortgage-Backed Securities, respectively. During the year ended December 31, 1998, the Company realized \$3,344,070 in gains for sales of Mortgage-Backed Securities.

3. REPURCHASE AGREEMENTS

As of September 30, 1999, the Company had outstanding \$1,283,762,000 of repurchase agreements with a weighted average borrowing rate of 5.31%. The weighted average remaining maturity was 24 days and a weighted average original term was 63 days. As of December 31, 1998, the Company had outstanding \$1,280,510,000 of repurchase agreements with a weighted average borrowing rate of 5.21%. The weighted average remaining maturity was 29 days and the weighted average original term was 48 days.

At September 30, 1999 and December 31, 1998, the repurchase agreements had the following remaining maturities:

	September 30, 1999	December 31, 1998
Within 30 days	\$ 821,311,000	\$1,222,542,000
30 to 59 days	420,534,000	31,346,000
60 to 89 days	25,530,000	26,622,000
90 to 119 days	16,387,000	
	-----	-----
	\$1,283,762,000	\$1,280,510,000
	=====	=====

4. COMMON STOCK

Options were exercised and the direct purchase was implemented during the nine month period ending September 30, 1999 increasing the total number of shares outstanding to 13,106,408. The number of stock options exercised was 49,124, with an aggregate purchase price of \$196,496. The number of shares issued in the direct purchase plan was 408,860, with an aggregate purchase price of \$3,904,065. During the year ended December 31, 1998, 44,124 options were exercised at an aggregate price of \$195,100. Stock buybacks during the year ended December 31, 1999 totaled 109,600 shares at a cost of \$903,163.

During the nine months ending September 30, 1999, the Company declared dividends to shareholders totaling \$13,221,493, or \$1.03 per weighted average share, of which \$4,587,243 was paid on October 27, 1999. During the Company's year ending December 31, 1998, the Company declared dividends to shareholders totaling \$15,437,554, or \$1.22 per weighted average share, of which \$11,579,891 was paid during the period and \$3,857,663 was paid on January 25, 1999. For Federal income tax purposes dividends paid for the year ended December 31, 1998 are ordinary income to the Company stockholders.

5. EARNINGS PER SHARE (EPS)

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting No. 128, Earnings Per Share (SFAS No. 128), which requires dual presentation of Basic EPS and Diluted EPS on the face of the income statement for all entities with complex capital structures. SFAS No. 128 also requires a reconciliation of the numerator and denominator of Basic EPS

and Diluted EPS computation. For the nine months ended September 30, 1999 the reconciliation is as follows:

	For the Nine Months Ended September 30, 1999		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	\$ 13,695,648		
Basic EPS	13,695,648	12,721,670	\$ 1.08
Effect of dilutive securities:			
Dilutive stock options	-	282,820	
Diluted EPS	\$ 13,695,648	13,004,490	\$ 1.05

Options to purchase 416,460 shares were outstanding during the quarter and dilutive, as the exercise price (between \$4.00 and \$8.94) was less than the average stock price for the nine month period for the Company of \$9.86. Options to purchase 135,676 shares of stock were outstanding during the period and are not considered dilutive. The exercise price (between \$10.00 and \$11.25) was greater than the average stock price for the nine month period of \$9.86.

For the nine months ended September 30, 1998, the reconciliation is as follows:

	For the Nine Months Ended September 30, 1998		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	\$ 11,803,336		
Basic EPS	11,803,336	12,729,673	\$ 0.93
Effect of dilutive securities:			
Dilutive stock options	-	299,297	
Diluted EPS	\$ 11,803,336	13,028,970	\$ 0.91

Options to purchase 312,226 shares were outstanding during the quarter and dilutive as the exercise price (between \$4.00 and \$10.00) was less than the average stock price for the nine month period for the Company of \$10.66. Options to purchase 2,426 shares of stock were outstanding and not considered dilutive. The exercise price of \$11.25 was greater than the average stock price of for the quarter of \$10.66.

COMPREHENSIVE INCOME

The Company adopted FASB Statement no. 130, Reporting Comprehensive Income, Statement no. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The Company at September 30, 1999 and December 31, 1998 held securities classified as available-for-sale. At September 30, 1999 and December 31, 1998, the net unrealized losses totaled \$23,775,832 and \$6,404,275, respectively.

7. LEASE COMMITMENTS

The Corporation has non-cancelable lease for office space, which commenced in April 1998 and expires in December 2007.

The Corporation's aggregate minimum lease payments are as follows:

1999	92,804
2000	95,299
2001	97,868
2002	100,515
2003 through 2007	582,406

Total lease obligation	\$968,892
	=====

8. RELATED PARTY TRANSACTION

Included in "Other Assets" on the Balance sheet is an investment in Annaly International Money Management, Inc. On June 24, 1998, the Company acquired 99,960 nonvoting shares, at a cost of \$49,980. The officers and directors of Annaly International Money Management Inc. are also officers and directors of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a real estate investment trust that owns and manages a portfolio of mortgage-backed securities. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our mortgage-backed securities and the costs of borrowing to finance our acquisition of mortgage-backed securities.

We commenced operations on February 18, 1997 upof the consummation of a private placement. We completed our initial public offering on October 14, 1997.

The 317-day period ended December 31, 1997 was a short operating period and not a full twelve months. Also, average assets for the period ended December 31, 1997 totaled \$476.9 million, whereas average assets for the year ended December 31, 1998 totaled \$1.5 billion. As a result, the comparison of net income for the period ended February 18, 1997 and the year ended December 31, 1998 may show changes that may not be indicative of future periods.

Results of Operations: For the Quarters Ended September 30, 1999 and 1998

Net Income Summary

For the quarter ended September 30, 1999, our GAAP net income was \$4.5 million, or \$0.35 basic earnings per average share, as compared to \$3.7 million, or \$0.29 basic earnings per average share, for the quarter ended September 30, 1998. We compute our GAAP net income per share by dividing net income by the weighted average number of shares of outstanding common stock during the period, which was 12,745,416 for the quarter ended September 30, 1999 and 12,704,194 for the quarter ended September 30, 1998. Dividends per weighted average number of shares outstanding for the quarter ended September 30, 1999 was \$0.35 per share, or \$4.6 million in total. Dividends per weighted average number of shares outstanding for the quarters ended September 30, 1998 was \$0.27 per share, or \$3.4 million in total. Our return on average equity was 15.93% on an annualized basis for the quarter ended September 30, 1999 and 11.31% on an annualized basis for the quarter ended September 30, 1998.

	Quarter Ended September 30, 1999	Quarter Ended September 30, 1998
	-----	-----
Interest Income	\$ 22,161	\$ 24,008
Interest Expense	17,232	20,765
	-----	-----
Net Interest Income	4,929	3,243
Gain on Sale of Mortgage-Backed Securities	98	994
General and Administrative Expenses	513	528
	-----	-----
Net Income	\$ 4,513	\$ 3,709
	=====	=====
Average Number of Shares Outstanding	12,745,416	12,704,194
Basic Net Income Per Share	\$ 0.35	\$ 0.29
Diluted Net Income Per Share	\$ 0.35	\$ 0.29
	-----	-----
Average Total Assets	\$ 1,427,502	\$ 1,554,123
Average Equity	\$ 113,333	\$ 131,148
	-----	-----
Annualized Return on Average Assets	1.26%	0.95%
Annualized Return on Average Equity	15.93%	11.31%

Taxable Income and GAAP Income

For the quarters ended September 30, 1999 and 1998, our income as calculated for tax purposes (taxable income) differed from income as calculated according to GAAP (GAAP income). Our taxable income for the quarter ended September 30, 1999 was approximately \$5.0 million, or \$0.39 per share, as compared to taxable income of \$4.0 million, or

\$0.32 per share, for the quarter ended September 30, 1998. The differences were in the calculations of premium and discount amortization, gains on sale of mortgage-backed securities, and general and administrative expenses.

The distinction between taxable income and GAAP income is important to our stockholders because dividends are declared on the basis of taxable income. While we do not pay taxes so long as we satisfy the requirements for exemption from taxation pursuant to the REIT provisions of the Internal Revenue Code, each year we complete a corporate tax form on which taxable income is calculated as if we were to be taxed. This taxable income level determines the amount of dividends we can pay out over time. The table below presents the major differences between our GAAP and taxable income for the quarters ended September 30, 1999 and 1998, June 30, 1999, March 31, 1999, the year ended December 31, 1998, and the period ended December 31, 1997.

Taxable Income

	GAAP Net Income -----	Taxable General & Administrative Differences -----	Taxable Mortgage Amortization Differences -----	Taxable Gain on Sale of Securities Differences -----	Taxable Net Income -----
(dollars in thousands)					
For the Quarter Ended September 30, 1999	\$4,513	\$5	\$744	(\$224)	\$5,038
For the Quarter Ended September 30, 1998	\$3,709		\$228	\$83	\$4,020
For the Quarter Ended June 30, 1999	\$4,864	\$2	\$230	(\$1)	\$5,095
For the Quarter Ended March 31, 1999	\$4,318	-	\$98	-	\$4,416

For the Year Ended December 31, 1998	\$15,489	\$6	\$959	\$23	\$16,477
For the Period Ended December 31, 1997	\$4,919	\$3	(\$92)	\$54	\$4,884

Interest Income and Average Earning Asset Yield

We had average earning assets of \$1.4 billion for the quarter ended September 30, 1999 and \$1.5 billion for the quarter ended September 30, 1998. Our primary source of income for the quarters ended September 30, 1999 and 1998 was interest income. A portion of our income was generated by gains on the sales of our mortgage-backed securities. Our interest income was \$22.2 million for the quarter ended September 30, 1999 and \$24.0 million for the quarter ended September 30, 1998. Our yield on average earning assets was 6.26% and 6.22% for the same respective periods. Our average earning asset balance decreased by \$126.5 million for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 1998. Interest income decreased for the quarter ended September 30, 1999 over the same period in 1998, even though the yield increased by 0.04%. The decline in interest income is due to the significant decline in average earning assets. The table below shows our average balance of cash equivalents and mortgage-backed securities, the yields we earned on each type of earning assets, our yield on average earning assets and our interest income for the quarters ended September 30, 1999 and 1998, June 30, 1999, March 31, 1999, the year ended December 31, 1998, and the period ended December 31, 1997.

Average Earning Asset Yield

	Average Cash Equivalents -----	Average Amortized Cost of Mortgage- Backed Securities -----	Average Earning Assets -----	Yield on Average Cash Equivalents -----	Yield on Average Amortized Cost of Mortgage- Backed Securities -----	Yield on Average Earning Assets -----	Interest Income -----
(dollars in thousands)							
For the Quarter Ended September 30, 1999	\$877	\$1,416,525	\$1,417,404	4.10%	6.26%	6.25%	\$22,161
For the Quarter Ended September 30, 1998	\$2	\$1,543,010	\$1,543,012	4.20%	6.22%	6.22%	\$24,008
For the Quarter Ended June 30, 1999	\$2	\$1,504,669	\$1,504,671	4.30%	5.92%	5.92%	\$22,265
For the Quarter Ended March 31, 1999	\$2	\$1,502,627	\$1,502,629	4.01%	5.87%	5.87%	\$22,015
For the Year Ended December 31, 1998	\$2	\$1,461,789	\$1,461,791	4.32%	6.16%	6.16%	\$89,986
For the Period Ended December 31, 1997	\$30	\$448,276	\$448,306	4.20%	6.34%	6.34%	\$24,713

The constant prepayment rate (or CPR) on our mortgage-backed securities for the quarter ended September 30, 1999 was 18% and for the quarter ended September 30, 1998 was 21%. CPR is an assumed rate of prepayment for our mortgage-backed securities, expressed as an annual rate of prepayment relative to the outstanding principal balance of our mortgage-backed securities. CPR does not purport to be either a historical description of the prepayment experience of our mortgage-backed securities or a prediction of the anticipated rate of prepayment of our mortgage-backed securities.

Principal prepayments had a negative effect on our earning asset yield for the quarters ended September 30, 1999 and 1998 because we adjust our rates of premium amortization and discount accretion monthly based upon the effective yield method, which takes into consideration changes in prepayment speeds.

Interest Expense and the Cost of Funds

We anticipate that our largest expense will be the cost of borrowed funds. We had average borrowed funds of \$1.3 billion and total interest expense of \$17.2 million for the quarter ended September 30, 1999. We had average borrowed funds of \$1.5 billion and total interest expense of \$20.8 million for the quarter ended September 30, 1998. Our average cost of funds was 5.22% for the quarter ended September 30, 1999 and 5.68% for the quarter ended September 30, 1998. The cost of funds rate declined 0.46% and the average borrowed funds declined by \$177 million for the quarter ended September 30, 1999 when compared to the quarter ended September 30, 1998; consequently, interest expense decreased by 17% for the same time period.

With our current asset/liability management strategy, changes in our cost of funds are expected to be closely correlated with changes in short-term LIBOR, although we may choose to extend the maturity of our liabilities at any time. Our average cost of funds was 0.06% below one-month LIBOR for the quarter ended September 30, 1999 and 0.06% above one-month LIBOR for the quarter ended September 30, 1998. We generally have structured our borrowings to adjust with one-month LIBOR because we believe that one-month LIBOR may continue to be lower than six-month LIBOR in the present interest rate environment. During the quarter ended September 30, 1999, average one-month LIBOR, which was 5.28%, was 0.52% lower than average six-month LIBOR, which was 5.80%. During the quarter ended September 30, 1998, average one-month LIBOR, which was 5.62%, was 0.01% lower than average six-month LIBOR, which was 5.63%.

The table below shows our average borrowed funds and average cost of funds as compared to average one-month and average six-month LIBOR for the quarters ended September 30, 1999 and 1998, June 30, 1999, March 31, 1999, the year ended December 31, 1998, and period ended December 31, 1997.

Average Cost of Funds

	Average Borrowed Funds -----	Interest Expense -----	Average Cost of Funds -----	Average One- Month LIBOR -----	Average Six- Month LIBOR -----	Average One-Month LIBOR Relative to Average Six-Month LIBOR -----	Average Cost of Funds Relative to Average One-Month LIBOR -----	Average Cost of Funds Relative to Average Six-Month LIBOR -----
	(dollars in thousands)							
For the Quarter Ended September 30, 1999	\$1,320,776	\$17,232	5.22%	5.28%	5.80%	(0.52%)	(0.06%)	(0.58%)
For the Quarter Ended September 30, 1998	\$1,460,612	\$20,765	5.68%	5.62%	5.63%	(0.01%)	0.06%	0.05%
For the Quarter Ended June 30, 1999	\$1,374,154	\$16,865	4.91%	4.96%	5.19%	(0.23%)	(0.05%)	(0.28%)
For the Quarter Ended March 31, 1999	\$1,381,663	\$17,151	4.97%	4.96%	5.05%	(0.09%)	0.01%	(0.08%)
For the Year Ended December 31, 1998	\$1,360,040	\$75,735	5.57%	5.57%	5.54%	0.03%	-	0.03%
For the Period Ended December 31, 1997	\$404,140	\$19,677	5.61%	5.67%	5.87%	(0.20%)	(0.06%)	(0.26%)

Net Interest Rate Agreement Expense

We have not entered into any interest rate agreements to date. As part of our asset/liability management process, we may enter into interest rate agreements such as interest rate caps, floors or swaps. These agreements would be entered into with the intent to reduce interest rate or prepayment risk and would be designed to provide us income and capital appreciation in the event of certain changes in interest rates. However, even after entering into these agreements, we would still be exposed to interest rate and prepayment risks. We review the need for interest rate agreements on a regular basis consistent with our capital investment policy.

Net Interest Income

Our net interest income, which equals interest income less interest expense, totaled \$4.9 million for the quarter ended September 30, 1999 and \$3.2 million for the quarter ended September 30, 1998. Our net interest income increased because of lower funding costs for the period and a higher yield on average assets. Our net interest spread, which equals the yield on our average assets for the period less the average cost of funds for the period, was 1.04% for the quarter ended September 30, 1999 as compared to 0.54% for the quarter ended September 30, 1998. This 0.50% increase in spread income is reflected in the \$1.7 million increase in net interest income. Net interest margin, which equals net interest income divided by average interest earning assets, was 1.38% on an annualized basis for the quarter ended September 30, 1999 and 0.84% on an annualized basis for the quarter ended September 30, 1998. The principal reason that annualized net interest margin exceeded net interest spread is that average interest earning assets exceeded average interest bearing liabilities. A portion of our assets is funded with equity rather than borrowings. We did not have any interest rate agreement expenses for the quarters ended September 30, 1999 and 1998.

The table below shows our interest income by earning asset type, average earning assets by type, total interest income, interest expense, average repurchase agreements, average cost of funds, and net interest income for the quarters ended September 30, 1999 and 1998, June 30, 1999, March 31, 1999, the year ended December 31, 1998, and the period ended December 31, 1997.

GAAP Net Interest Income

	Average Amortized Cost of Mortgage-Backed Securities Held -----	Interest Income on Mortgage-Backed Securities -----	Average Cash Equivalents -----	Total Interest Income -----	Yield on Average Interest Earning Assets -----	Average Balance of Repurchase Agreements -----	Interest Expense -----	Average Cost of Funds -----	Net Interest Income -----
For the Quarter Ended September 30, 1999	\$1,416,525	\$22,151	\$2	\$22,161	6.26%	\$1,320,776	\$17,232	5.22%	\$4,929
For the Quarter Ended September 30, 1998	\$1,543,010	\$24,009	\$2	\$24,009	6.22%	\$1,460,612	\$20,765	5.68%	\$3,244
For the Quarter Ended June 30, 1999	\$1,504,669	\$22,265	\$2	\$22,265	5.92%	\$1,374,154	\$16,865	4.91%	\$5,399
For the Quarter Ended March 31, 1999	\$1,502,629	\$22,015	\$2	\$22,015	5.87%	\$1,381,663	\$17,151	4.97%	\$4,864
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
For the Year Ended December 31, 1998	\$1,461,789	\$89,986	\$2	\$89,986	6.16%	\$1,360,040	\$75,735	5.57%	\$14,251
For the Period Ended December 31, 1997	\$448,276	\$24,682	\$30	\$24,713	6.34%	\$404,140	\$19,677	5.61%	\$5,036

Gains and Losses on Sales of Mortgage-Backed Securities

For the quarter ended September 30, 1999, we sold mortgage-backed securities with an aggregate historical amortized cost of \$65.2 million for an aggregate gain of \$98,000. For the quarter ended September 30, 1998, we sold mortgage-backed securities with an aggregate historical amortized cost of \$82.2 million for an aggregate gain of \$994,000. As stated above, our gain on the sale of assets declined substantially. For the quarter ended September 30, 1999, there was a greater emphasis on spread income and not gains. The difference between the sale price and the historical amortized cost of our mortgage-backed securities is a realized gain and increases income accordingly. We do not expect to sell assets on a frequent basis, but may from time to time sell existing assets to move into new assets, which our management believes might have higher risk-adjusted returns, or to manage our balance sheet as part of our asset/liability management strategy.

Credit Losses

We have not experienced credit losses on our mortgage-backed securities to date. We have limited our exposure to credit losses on our mortgage-backed securities by purchasing only securities, issued or guaranteed by FNMA, FHLMC or GNMA, which, although not rated, carry an implied "AAA" rating.

General and Administrative Expenses

G&A expenses were \$514,000 for the quarter ended September 30, 1999 and \$528,000 for the quarter ended September 30, 1998. G&A expenses increased as a percentage of average assets to 0.14% for the quarter ended September 30, 1999 compared to 0.13% for the same period in the previous year. Even though G&A expenses decreased in total, the decline in average assets was proportionately larger. So, G&A expenses as a percent of average asset increased by 0.01%.

GAAP GA Expenses and Operating Expense Ratios

	Cash Compensation Benefits Expense	Other GA Expenses	Total GA Expenses	Total GA Assets (annualized)	Total GA Equity (annualized)
	(dollars in thousands)				
For the Quarter Ended September 30, 1999	\$337	\$177	\$514	0.14%	1.81%
For the Quarter Ended September 30, 1998	\$318	\$210	\$528	0.13%	1.61%
For the Quarter Ended June 30, 1999	\$338	\$223	\$561	0.15%	1.44%
For the Quarter Ended March 31, 1999	\$333	\$277	\$610	0.16%	1.93%
For the Year Ended December 31, 1998	\$1,210	\$896	\$2,106	0.14%	1.60%
For the Period Ended December 31, 1997	\$492	\$360	\$852	0.21%	1.61%

and

Net Income and Return on Average Equity

Our net income was \$4.5 million for the quarter ended September 30, 1999 and \$3.7 million for the quarter ended September 30, 1998. Our return on average equity was 15.93% on an annualized basis for the quarter ended September 30, 1999 and 11.31% on an annualized basis for the quarter ended September 30, 1998. The increase in net income is a direct result of an increase in spread income. As previously mentioned, the substantial decline in interest expense was the primary reason that our earnings increased. The table below shows our net interest income, gain on sale of mortgage-backed securities and G&A expenses each as a percentage of average equity, and the return on average equity for the quarters ended September 30, 1999 and 1998, June 30, 1999, March 31, 1999, the year ended December 31, 1998 and the period ended December 31, 1997.

Components of Return on Average Equity

(Ratios for the Quarters Ended September 30, 1999 and 1998, June 30, 1999, March 31, 1999 and the Period ended December 31, 1997 are annualized)

	Net Interest Income/Average Equity	Gain on Sale of Mortgage-Backed Securities/Average Equity	GA Expenses/Average Equity	Return on Average Equity
For the Quarter Ended September 30, 1999	17.40%	0.34%	1.81%	15.93%
For the Quarter Ended September 30, 1998	9.89%	3.03%	1.50%	11.31%
For the Quarter Ended June 30, 1999	17.99%	0.08%	1.87%	16.20%
For the Quarter Ended March 31, 1999	15.43%	0.20%	1.93%	13.70%
For the Year Ended December 31, 1998	10.85%	2.55%	1.60%	11.80%
For the Period Ended December 31, 1997	9.49%	1.39%	1.61%	9.27%

Dividends and Taxable Income

We have elected to be taxed as a REIT under the Internal Revenue Code. Accordingly, we have distributed substantially all of our taxable income for each year since inception to our stockholders, including income resulting from gains on sales of our mortgage-backed securities. From inception through September 30, 1999, earned taxable income exceeded dividend declarations by \$2.1 million, or \$0.16 per share, based on the number of shares of common stock outstanding at period end.

Dividend Summary

	Taxable Net Income	Weighted Average Common Shares Outstanding	Taxable Net Income Per Share	Dividends Declared Per Share	Total Dividends	Dividend Pay-out Ratio	Cumulative Undistributed Taxable Income
(dollars in thousands, except per share data)							
For the Quarter Ended September 30, 1999	\$5,038	12,745,416	\$0.39	\$0.35	\$4,587	91.1%	\$2,562
For the Quarter Ended September 30, 1998	\$4,020	12,704,194	\$0.32	\$0.27	\$3,415	85.0%	\$1,035
For the Quarter Ended June 30, 1999	\$5,095	12,697,338	\$0.40	\$0.35	\$4,444	87.1%	\$2,111
For the Quarter Ended March 31, 1999	\$4,416	12,657,884	\$0.35	\$0.33	\$4,190	94.9%	\$1,460
For the Year Ended December 31, 1998	\$16,477	12,709,116	\$1.30	\$1.21	\$15,437	93.7%	\$1,234
For the Period Ended December 31, 1997	\$4,884	5,952,123	\$0.82	\$0.79	\$4,690	96.0%	\$194

Financial Condition

Mortgage-Backed Securities

All of our mortgage-backed securities at September 30, 1999 were adjustable-rate or fixed-rate mortgage-backed securities backed by single-family mortgage loans. All of the mortgage assets underlying these mortgage-backed securities were secured with a first lien position on the underlying single-family properties. All our mortgage-backed securities were FHLMC, FNMA or GNMA mortgage pass-through certificates or CMOs, which carry an implied "AAA" rating. We mark-to-market all of our earning assets at liquidation value.

We accrete discount balances as an increase in interest income over the life of discount mortgage-backed securities and we amortize premium balances as a decrease in interest income over the life of premium mortgage-backed securities. At September 30, 1999 and 1998, we had on our balance sheet a total of \$1.1 million and \$972,000 respectively, of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of our mortgage-backed securities acquired at a price below principal value) and a total of \$24.1 million and \$25.2 million, respectively, of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of our mortgage-backed securities acquired at a price above principal value).

We received mortgage principal repayments of \$81.2 million for the quarter ended September 30, 1999 and \$121.3 million for the quarter ended September 30, 1998. Given our current portfolio composition, if mortgage principal prepayment rates were to increase over the life of our mortgage-backed securities, all other factors being equal, our net interest income would decrease during the life of these mortgage-backed securities as we would be required to amortize our net premium balance into income over a shorter time period. Similarly, if mortgage principal prepayment rates were to decrease over the life of our mortgage-backed securities, all other factors being equal, our net interest income would increase during the life of these mortgage-backed securities as we would amortize our net premium balance over a longer time period.

The table below summarizes our mortgage-backed securities at September 30, 1999 and 1998, June 30, 1999, March 31, 1999 and December 31, 1998, and December 31, 1997.

Mortgage-Backed Securities							
	Principal Value	Net Premium	Amortized Cost	Amortized Cost/Principal Value	Estimated Fair Value	Estimated Fair Value/Principal Value	Weighted Average Yield
(dollars in thousands)							
At September 30, 1999	\$1,402,565	\$22,981	\$1,425,546	101.64%	\$1,401,770	99.94%	6.41%
At September 30, 1998	\$1,461,056	\$24,244	\$1,485,300	101.66%	\$1,483,195	101.52%	6.49%
At June 30, 1999	\$1,468,547	\$24,985	\$1,493,532	101.70%	\$1,474,104	100.38%	6.21%
At March 31, 1999	\$1,527,530	\$26,071	\$1,553,601	101.71%	\$1,547,618	101.32%	5.94%
At December 31, 1998	\$1,502,414	\$24,278	\$1,526,692	101.62%	\$1,520,289	101.19%	6.43%
At December 31, 1997	\$1,138,365	\$21,390	\$1,159,755	101.88%	\$1,161,779	102.06%	6.57%

The tables below set forth certain characteristics of our mortgage-backed securities. The index level for adjustable-rate mortgage-backed securities is the weighted average rate of the various short-term interest rate indices, which determine the coupon rate.

Adjustable-Rate Mortgage-Backed Security Characteristics							
Principal Value	Weighted Average Coupon Rate	Weighted Average Index Level	Weighted Average Net Margin	Weighted Average Term to Next Adjustment	Weighted Average Lifetime Cap	Weighted Average Asset Yield	Principal Value at Period End as % of Total Mortgage-Backed Securities
(dollars in thousands)							
At September 30, 1999	\$889,293	6.76%	5.13%	1.63%	9 months	10.82%	6.14%
At September 30, 1998	\$1,050,177	6.78%	5.20%	1.68%	13 months	10.42%	6.51%
At June 30, 1999	\$941,559	6.67%	5.18%	1.71%	11 months	11.00%	6.42%
At March 31, 1999	\$1,036,947	6.63%	4.97%	1.66%	11 months	11.01%	5364%
At December 31, 1998	\$1,030,654	6.84%	5.18%	1.66%	12 months	10.63%	6.42%
At December 31, 1997	\$994,653	7.13%	5.52%	1.61%	22 months	10.78%	6.50%

Fixed-Rate Mortgage-Backed Security Characteristics				
Principal Value	Weighted Average Coupon Rate	Weighted Average Asset Yield	Principal Value as % of Total Mortgage-Backed Securities	
(dollars in thousands)				
At September 30, 1999	\$513,272	6.58%	6.91%	36.60%
At September 30, 1998	\$410,879	6.69%	6.47%	28.12%
At June 30, 1999	\$526,988	6.58%	6.88%	35.88%
At March 31, 1999	\$401,002	6.82%	6.65%	26.02%
At December 31, 1998	\$471,760	6.55%	6.47%	31.40%
At December 31, 1997	\$143,712	7.50%	7.08%	12.62%

At September 30, 1999 and December 31, 1998 we held Mortgage-Backed Securities with coupons linked to the one-year, three-year, and five-year Treasury Indices, one-month LIBOR and the six-month CD rate. At September 30, 1998 we held Mortgage-Backed Securities with coupons linked to one-year and three-year Treasury Indices, one-month LIBOR and the six-month CD rate.

Adjustable-Rate Mortgage-Backed Securities by Index
September 30, 1999

	One-Month LIBOR -----	Six-Month CD Rate -----	1-Year Treasury Index -----	3-Year Treasury Index -----	5-Year Treasury Index -----
Weighted Average Adjustment Frequency	1 mo.	6 mo.	12 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	17 mo.	16 mo.	12 mo.
Weighted Average Annual Period Cap	None	1.00%	1.60%	1.78%	1.34%
Weighted Average Lifetime Cap at September 30, 1999	9.14%	11.35%	11.71%	13.17%	11.64%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at September 30, 1999	28.94%	2.32%	25.53%	5.85%	0.76%

Adjustable-Rate Mortgage-Backed Securities by Index
December 31, 1998

	One-Month LIBOR -----	Six-Month CD Rate -----	1-Year Treasury Index -----	3-Year Treasury Index -----	5-Year Treasury Index -----
Weighted Average Adjustment Frequency	1 mo.	6 mo.	12 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	23 mo.	9 mo.	2 mo.
Weighted Average Annual Period Cap	None	1.00%	1.83%	2.00%	2.00%
Weighted Average Lifetime Cap at December 31, 1998	9.16%	11.04%	11.76%	13.07%	11.57%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 1998	29.60%	3.73%	33.33%	1.62%	0.32%

Adjustable-Rate Mortgage-Backed Securities by Index
September 30, 1998

	One-Month LIBOR -----	Six-Month CD Rate -----	1-Year Treasury Index -----	3-Year Treasury Index -----
Weighted Average Adjustment Frequency	1 mo.	6 mo.	12 mo.	36 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	14 mo.	9 mo.
Weighted Average Annual Period Cap	None	1.00%	2.00%	2.00%
Weighted Average Lifetime Cap at September 30, 1998	9.14%	10.95%	11.82%	14.16%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at September 30, 1998	36.55%	4.44%	30.88%	0.01%

Interest Rate Agreements

Interest rate agreements are assets that are carried on a balance sheet at estimated liquidation value. We have not entered into any interest rate agreements since our inception.

Borrowings

To date, our debt has consisted entirely of borrowings collateralized by a pledge of our mortgage-backed securities. These borrowings appear on our balance sheet as repurchase agreements. At September 30, 1999, we had established uncommitted borrowing facilities in this market with twenty-three lenders in amounts, which we believe, are in excess of our needs. All of our mortgage-backed securities are currently accepted as collateral for these borrowings. However, we limit our borrowings, and thus our potential asset growth, in order to maintain unused borrowing capacity and thus increase the liquidity and strength of our balance sheet.

For the quarters ended September 30, 1999 and 1998, the term to maturity of our borrowings ranged from one day to one year, with a weighted average original term to maturity of 63 days for the quarter ended September 30, 1999 and 87 days for the quarter ended September 30, 1998. At September 30, 1999, the weighted average cost of funds for all of our borrowings was 5.31% and the weighted average term to next rate adjustment was 24 days. At September 30, 1998, the weighted average cost of funds for all of our borrowings was 5.59% and the weighted average term to next rate adjustment was 29 days.

Liquidity

Liquidity, which is our ability to turn non-cash assets into cash, allows us to purchase additional mortgage-backed securities and to pledge additional assets to secure existing borrowings should the value of our pledged assets decline. Potential immediate sources of liquidity for us include cash balances and unused borrowing capacity. Unused borrowing capacity will vary over time as the market value of our mortgage-backed securities varies. Our balance sheet also generates liquidity on an on-going basis through mortgage principal repayments and net earnings held prior to payment as dividends. Should our needs ever exceed these on-going sources of liquidity plus the immediate sources of liquidity discussed above, we believe that our mortgage-backed securities could in most circumstances be sold to raise cash. The maintenance of liquidity is one of the goals of our capital investment policy. Under this policy, we limit asset growth in order to preserve unused borrowing capacity for liquidity management purposes.

Stockholders' Equity

We use "available-for-sale" treatment for our mortgage-backed securities; we carry these assets on our balance sheet at estimated market value rather than historical amortized cost. Based upon this "available-for-sale" treatment, our equity base at September 30, 1999 was \$113.0 million, or \$8.63 per share. If we had used historical amortized cost accounting, our equity base at September 30, 1999 would have been \$136.9 million, or \$10.44 per share. Our equity base at September 30, 1998 was \$131.1 million, or \$10.28 per share. If we had used historical amortized cost accounting, our equity base at September 30, 1998 would have been \$131.0 million, or \$10.30 per share. During the quarter ended September 30, 1999, the Company raised additional capital in the amount of \$3.9 million through its direct purchase program.

With our "available-for-sale" accounting treatment, unrealized fluctuations in market values of assets do not impact our GAAP or taxable income but rather are reflected on our balance sheet by changing the carrying value of the asset and stockholders' equity under "Accumulated Other Comprehensive Income (Loss)." By accounting for our assets in this manner, we hope to provide useful information to stockholders and creditors and to preserve flexibility to sell assets in the future without having to change accounting methods.

As a result of this mark-to-market accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used historical amortized cost accounting. As a result, comparisons with companies that use historical cost accounting for some or all of their balance sheet may not be meaningful.

The table below shows unrealized gains and losses on the mortgage-backed securities in our portfolio.

Unrealized Gains and Losses

(dollars in thousands)

	At September 30, 1999	At September 30, 1998	At June 30, 1999	At March 31, 1999	At December 31, 1998
Unrealized Gain	\$ 998	\$7,060	\$ 1,744	\$2,801	\$3,302
Unrealized Loss	(24,773)	(9,164)	(21,172)	(8,784)	(9,706)
Net Unrealized Loss	(\$23,775)	(\$2,104)	(\$19,428)	(\$5,983)	(\$6,404)
Net Unrealized Loss as % of Mortgage-Backed Securities Principal Value	(1.70%)	(0.14%)	(1.32%)	(0.39%)	(0.43%)
Net Unrealized Loss as % of Mortgage-Backed Securities Amortized Cost	(1.68%)	(0.14%)	(1.30%)	(0.39%)	(0.42%)

Unrealized changes in the estimated net market value of mortgage-backed securities have one direct effect on our potential earnings and dividends: positive market-to-market changes increase our equity base and allow us to increase our borrowing capacity while negative changes tend to limit borrowing capacity under our capital investment policy. A very large negative change in the net market value of our mortgage-backed securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses upon sale. "Unrealized Losses on Available for Sale Securities" was \$23.8 million, or 1.68% of the amortized cost of our mortgage-backed securities at September 30, 1999. "Unrealized Losses on Available for Sale Securities" was \$2.1 million or 0.14% of the amortized cost of our mortgage-backed securities at September 30, 1998.

The table below shows our equity capital base as reported and on a historical amortized cost basis at September 30, 1999 and 1998, June 30, 1999, March 31, 1999, December 31, 1998 and December 31, 1997. Issuances of common stock, the level of GAAP earnings as compared to dividends declared, and other factors influence our historical cost equity capital base. The GAAP reported equity capital base is influenced by these factors plus changes in the "Net Unrealized Losses on Assets Available for Sale" account.

	Stockholders' Equity			Historical Amortized Cost Equity Per Share	GAAP Reported Equity (Book Value) Per Share
	Historical Amortized Cost Equity Base	Net Unrealized Gains on Assets Available for Sale	GAAP Reported Equity Base (Book Value)		
	(dollars in thousands, except per share data)				
At September 30, 1999	\$136,850	(\$23,776)	\$113,074	\$10.44	\$8.63
At September 30, 1998	\$132,446	(\$2,105)	\$130,342	\$10.47	\$10.30
At June 30, 1999	\$133,020	(\$19,428)	\$113,592	\$10.48	\$8.95
At March 31, 1999	\$133,055	(\$1,910)	\$131,145	\$10.43	\$10.28
At December 31, 1998	\$132,275	(\$6,404)	\$125,871	\$10.46	\$9.95
At December 31, 1997	\$133,062	\$2,024	\$135,086	\$10.47	\$10.62

Leverage

Our debt-to-GAAP reported equity ratio at September 30, 1999 and, 1998 was 11.3:1 and 11.1:1, respectively. We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from this range from time to time based upon various factors, including our management's opinion of the level of risk of our assets and liabilities, our liquidity position, our level of unused borrowing capacity and over-collateralization levels required by lenders when we pledge assets to secure borrowings.

Our target debt-to-GAAP reported equity ratio is determined under our capital investment policy. Should our actual

debt-to-equity ratio increase above the target level due to asset acquisition or market value fluctuations in assets, we will cease to acquire new assets. Our management will, at that time, present a plan to our Board of Directors to bring us back to our target debt-to-equity ratio; in many circumstances, this would be accomplished in time by the monthly reduction of the balance of our mortgage-backed securities through principal repayments.

Asset/Liability Management and Effect of Changes in Interest Rates

We continually review our asset/liability management strategy with respect to interest rate risk, mortgage prepayment risk, credit risk and the related issues of capital adequacy and liquidity. We seek attractive risk-adjusted stockholder returns while maintaining a strong balance sheet.

We seek to manage the extent to which our net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, although we have not done so to date, we may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in our portfolio of mortgage-backed securities by entering into interest rate agreements such as interest rate caps and interest rate swaps.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on mortgage-backed securities. We will seek to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets we purchase at a premium with assets we purchase at a discount. To date, the aggregate premium exceeds the aggregate discount on our mortgage-backed securities. As a result, prepayments, which result in the expensing of unamortized premium, will reduce our net income compared to what net income would be absent such prepayments.

Status of Year 2000 Compliance

We have made an ongoing effort to protect against the year 2000 risk. The year 2000 risk arises because certain computer programs have been written using two digits rather than four to define the applicable years. Consequently, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of operations.

We have engaged a consultant to assist us in protecting against the year 2000 risk. With the assistance of the consultant, we have reviewed the ability of our computers and computer programs to recognize properly and handle dates in the year 2000 and have completed upgrades, as appropriate. In addition, we have reviewed all the date fields embedded in our internally developed spreadsheets, databases and other programs and have determined that these programs are using four-digit years in reference to dates. Therefore, we believe that all of our equipment and internal systems are year 2000 compliant. To date, we have incurred minimal costs to become year 2000 compliant.

We believe that most of our exposure to year 2000 issues involves the readiness of third parties. Each third party is subject to the year 2000 risk. We have surveyed pertinent third parties for their compliance. As a result of communications with these third parties, we believe that they are spending the appropriate and necessary resources to try to identify year 2000 issues and to resolve them or mitigate their impact to the best of their ability as they are identified.

Inflation

Virtually all of the Company's assets and liabilities are financial in nature. As a result, interest rates and other factors drive the Company's performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. The Company's financial statements are prepared in accordance with GAAP and the Company's dividends are determined by the Company's net income as calculated for tax purposes; in each case, the Company's activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

Other Matters

The Company calculated its qualified REIT Assets, as defined in the Internal Revenue Code of 1986, as amended (the "Code"), to be 99.5% of its total assets at September 30, 1999 and 1998, as compared to the Code requirement that at least 75% of its total assets must be qualified REIT Assets. The Company also calculates that 99.6% and 96.2% of its revenue qualifies for the 75% source of income test and 100% of its revenue qualifies for the 95% source of income test under the REIT rules for the quarters ended September 30, 1999 and 1998, respectively. The Company also met all REIT requirements regarding the ownership of its Common Stock and the distributions of its net income. Therefore, as of September 30, 1999 and 1998, the Company believes that it qualified as a REIT under the provisions of the Code.

The Company at all times intends to conduct its business so as not to become regulated as an investment company under the Investment Company Act of 1940. If the Company were to become regulated as an investment company, then the Company's use of leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under current interpretation of the staff of the Commission, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. In addition, unless certain mortgage securities represent all the certificates issued with respect to an underlying pool of mortgages, such mortgage securities may be treated as securities separate from the underlying mortgage loans and, thus, may not be considered Qualifying Interests for purposes of the 55% requirement. As of September 30, 1999 and 1998, the Company calculates that it is in compliance with this requirement.

MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which the Company is exposed is interest rate risk which is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of the Company. Changes in the general level of interest rates can affect the Company's net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with its interest-bearing liabilities, by affecting the spread between the Company's interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's Mortgage-Backed Securities and its ability to realize gains from the sale of such assets. The Company may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of interest rates on its operations. The use of these types of derivatives to hedge interest-earning assets and/or interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of securities and, indeed, that such losses may exceed the amount invested in such instruments. Currently, the Company has not purchased hedging instruments. The profitability of the Company may be adversely affected during any period as a result of changing interest rates. The following table quantifies the potential changes in net interest income and portfolio value should interest rates go up or down 300 basis points, assuming the yield curves of the rate shocks will be parallel to each other and the current yield curve. All changes in income and value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at September 30, 1999 and various estimates regarding prepayment and all activities are made at each level of rate shock. Actual results could differ significantly from these estimates.

Change in Interest Rate	Projected Percentage Change in Net Interest Income	Projected Percentage Change in Portfolio Value
-200 Basis Points	41%	2%
-100 Basis Points	10%	1%
-50 Basis Points	3%	0%
Base Interest Rate		
+50 Basis Points	(23%)	(2%)
+100 Basis Points	(35%)	(3%)
+200 Basis Points	(65%)	(5%)

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate movements. Methods for evaluating interest rate risk include an analysis of the Company's interest rate sensitivity "gap", which is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category. The following table sets forth the estimated maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at September 30, 1999. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except adjustable-rate loans, and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature. Mortgage-Backed Securities reflect estimated prepayments, which were estimated based on analyses of broker estimates, the results of a prepayment model utilized by the Company and empirical data. Management believes that these assumptions approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the Company's assets and liabilities in the table could vary substantially if different assumptions were used or actual experience differs from the historical experience on which the assumptions are based.

	Within 3 Months	4-12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
Rate Sensitive Assets:					
Mortgage-Backed Securities	\$ 444,467	\$ 259,658	\$112,536	\$585,904	\$1,402,565
Rate Sensitive Liabilities:					
Repurchase Agreements	1,267,375	16,387			\$1,283,762
Interest rate sensitivity gap	(\$ 22,908)	\$ 243,271	\$112,536	\$585,904	\$ 118,803
Cumulative rate sensitivity gap	(\$ 822,908)	(\$579,637)	(\$467,101)	\$118,803	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(59%)	(41%)	(33%)	8%	

The Company's analysis of risks is based on management's experience, estimates, models and assumptions. These analysis rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by Management may produce results that differ significantly from the estimates and assumptions used in the company's models and the projected results shown in the above tables and in this report. These analysis contain certain "forward-looking statements" and are subject to the Safe Harbor statement contained in Private Securities Litigation Reform Act of 1995.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
Exhibit 1 - Financial Data Schedule
- (b) Reports
None

26

SIGNATURES

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

ANNALY MORTGAGE MANAGEMENT, INC.

Dated: November 12, 1999 By: /s/ Michael A.J. Farrell

Michael A.J. Farrell
Chairman of the Board and Chief Executive Officer
(authorized officer of registrant)

Dated: November 12, 1999 By: /s/ Kathryn F. Fagan

Kathryn F. Fagan
Chief Financial Officer and Treasurer
(principal accounting officer)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM SEPTEMBER 30, 1999 QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH

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	3-MOS	
	DEC-31-1999	
	JUL-01-1999	
	SEP-30-1999	
	77	
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113,074		
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	0.35	