



# **FORM 10-Q**

**ANNALY MORTGAGE MANAGEMENT INC – NLY**

**Filed: May 12, 2000 (period: March 31, 2000)**

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

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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: MARCH 31, 2000

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  No   
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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 May 13, 2000
Common Stock, \$.01 par value	14,040,087

ANNALY MORTGAGE MANAGEMENT, INC.

FORM 10-Q

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ANNALY MORTGAGE MANAGEMENT, INC  
BALANCE SHEETS

	MARCH 31, 2000 (UNAUDITED)	DECEMBER 31, 1999
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 155,914	
Mortgage-Backed Securities, at fair value	1,436,388,533	\$ 71,918
Receivable for Mortgage-Backed Securities Sold	-	1,437,792,631
Accrued interest receivable	6,769,789	46,402,360
Other assets	216,191	6,857,683
		197,896
<b>Total assets</b>	<b>\$1,443,530,427</b>	<b>\$1,491,322,488</b>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	\$1,323,987,500	\$1,338,295,750
Payable for Mortgage-Backed Securities purchased	-	38,154,012
Accrued interest payable	5,439,793	6,682,687
Dividends payable	4,864,891	4,753,461
Accounts payable	271,895	164,100
<b>Total liabilities</b>	<b>1,334,564,079</b>	<b>1,388,050,010</b>
	-----	-----
Stockholders' Equity:		
Common stock: par value \$.01 per share; 100,000,000 Authorized, 13,899,689 and 13,581,316 shares issued and outstanding, respectively	138,997	135,813
Additional paid-in capital	142,714,586	140,262,657
Accumulated other comprehensive loss	(34,313,224)	(37,568,510)
Retained earnings	425,989	442,518
<b>Total stockholders' equity</b>	<b>108,966,348</b>	<b>103,272,478</b>
	-----	-----
<b>Total liabilities and stockholders' equity</b>	<b>\$1,443,530,427</b>	<b>\$1,491,322,488</b>
	=====	=====

See notes to financial statements

ANNALY MORTGAGE MANAGEMENT, INC  
INCOME STATEMENTS  
(UNAUDITED)

	FOR THE QUARTER ENDED MARCH 31, 2000	FOR THE QUARTER ENDED MARCH 31, 1999
	-----	-----
INTEREST INCOME:		
Mortgage-Backed Securities	\$24,615,767	\$22,014,921
Other interest income	1,015	20
	-----	-----
Total interest income	24,616,782	22,014,941
INTEREST EXPENSE:		
Repurchase agreements	19,292,954	17,151,041
	-----	-----
NET INTEREST INCOME	5,323,828	4,863,900
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	106,853	64,560
GENERAL AND ADMINISTRATIVE EXPENSES	582,319	610,004
	-----	-----
NET INCOME	4,848,362	4,318,456
	-----	-----
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-Sale securities	3,362,139	485,915
Less: reclassification adjustment for net gains included in net income	(106,853)	(64,560)
	-----	-----
Other comprehensive gain	3,255,286	421,355
	-----	-----
COMPREHENSIVE INCOME	\$8,103,648	\$4,739,811
	=====	=====
NET INCOME PER SHARE:		
Basic	\$0.35	\$0.34
	=====	=====
Diluted	\$0.35	\$0.33
	=====	=====
AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	13,660,539	12,657,884
	=====	=====
Diluted	13,971,112	12,952,822
	=====	=====

See notes to financial statements

ANNALY MORTGAGE MANAGEMENT, INC  
STATEMENT OF STOCKHOLDER'S EQUITY  
FOR THE QUARTER ENDED MARCH 31, 2000  
(UNAUDITED)

	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	COMPREHENSIVE INCOME	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME	TOTAL
BALANCE, DECEMBER 31, 1999	\$135,813	\$140,262,657		\$442,518	(\$37,568,510)	\$103,272,478
Net Income			\$4,848,362	4,848,362		
Other comprehensive income:						
Unrealized net losses on securities, net of reclassification adjustment			3,255,286		3,255,286	
Comprehensive income			\$8,103,648			8,103,648
Exercise of stock options	346	138,150				138,496
Proceeds from direct purchase	2,838	2,313,779				2,316,617
Dividends declared for the quarter ended March 31, 2000, \$0.35 per average share				(4,864,891)		(4,864,891)
BALANCE, MARCH 31, 2000	\$138,997	\$142,714,586		\$425,989	(\$34,313,224)	\$108,966,348

Disclosure of reclassification amount:

Unrealized holding gains arising during the period	\$3,362,139
Less: reclassification adjustment for gains included in net income	(106,853)
Net unrealized gains on securities	\$3,255,286

See notes to financial statements

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

	FOR THE QUARTER ENDED MARCH 31, 2000	FOR THE QUARTER ENDED MARCH 31, 1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$4,848,362	\$4,318,456
Adjustments to reconcile net income to net cash Provided by operating activities:		
Amortization of mortgage premiums and discounts, net	474,706	2,164,643
Gain on sale of mortgage-backed securities	(106,853)	(64,560)
Decrease (increase) in accrued interest receivable	87,894	(637,120)
Decrease (increase) in other assets	(18,295)	(19,417)
Increase (decrease) in accrued interest payable	(1,242,894)	4,530,047
Increase in accounts payable	107,795	190,667
	-----	-----
Net cash provided by operating activities	4,150,715	10,482,716
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Mortgage-Backed Securities	(88,428,685)	(255,168,532)
Proceeds from sale of Mortgage-Backed Securities	69,782,632	31,769,366
Principal payments of Mortgage-Backed Securities	31,185,932	125,492,931
	-----	-----
Net cash provided (used) in investing activities	12,539,879	(97,906,235)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	3,101,832,500	2,652,589,000
Principal payments on repurchase agreements	(3,116,140,750)	(2,561,243,000)
Proceeds from exercise of stock options	138,496	195,496
Proceeds from direct purchase	2,316,617	
Dividends paid	(4,753,461)	(3,857,663)
	-----	-----
Net cash provided (used) by financing activities	(16,606,598)	87,683,833
	-----	-----
Net increase in cash and cash equivalents	83,996	260,314
Cash and cash equivalents, beginning of period	71,918	69,020
	-----	-----
Cash and cash equivalents, end of period	\$155,914	\$ 329,334
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$20,535,848	\$12,620,994
	=====	=====
Noncash financing activities:		
Net change in unrealized losses on available-for-sale securities	\$3,255,286	\$421,355
	=====	=====
Dividends declared, not yet paid	\$4,864,891	\$4,190,108
	=====	=====

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 three 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, 1999. 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 three months ended March 31, 2000 and the year ended December 31, 1999.

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 March 31, 2000 and December 31, 1999, 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 March 31, 2000 and December 31, 1999, 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.

2. MORTGAGE-BACKED SECURITIES

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of March 31, 2000, 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	\$ 498,978,700	\$ 854,642,639	\$ 95,254,532	\$ 1,448,875,871
Unamortized discount	(231,632)	(941,420)	--	(1,173,052)
Unamortized premium	8,333,835	12,952,898	1,712,205	22,998,938
Amortized cost	507,080,903	866,654,117	96,966,737	1,470,701,757
Gross unrealized gains	497,301	822,704		1,320,005
Gross unrealized losses	(11,375,541)	(21,334,985)	(2,922,703)	(35,633,229)
Estimated fair value	\$ 496,202,663	\$ 846,141,836	\$ 94,044,034	\$ 1,436,388,533

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of December 31, 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	\$ 454,711,462	\$ 900,782,563	\$ 97,423,038	\$ 1,452,917,063
Unamortized discount	(171,241)	(964,133)	--	(1,135,374)
Unamortized premium	8,454,547	13,359,448	1,765,457	23,579,452
Amortized cost	462,994,768	913,177,878	99,188,495	1,475,361,141
Gross unrealized gains	359,888	1,171,250		1,531,138
Gross unrealized losses	(12,091,145)	(22,966,353)	(4,042,150)	(39,099,648)
Estimated fair value	\$ 451,263,511	\$ 891,382,775	\$ 95,146,345	\$ 1,437,792,631

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 March 31, 2000, and December 31, 1999, the weighted average lifetime cap was 10.6% and 10.3% respectively.

During the three months ended March 31, 2000 and 1999, the Company's realized \$106,853 and \$64,560 in gains from sales of Mortgage-Backed Securities, respectively. During the year ended December 31, 1999, the Company realized \$563,259 in gains for sales of Mortgage-Backed Securities. There were no losses on sales of Mortgage-Backed Securities for the quarter ended March 31, 2000. Losses totaled \$108,477 for the year ended December 31, 1999.

3. REPURCHASE AGREEMENTS

As of March 31, 2000, the Company had outstanding \$1,323,987,500 of repurchase agreements with a weighted average borrowing rate of 5.96%. The weighted average remaining maturity was 31 days and a weighted average original term was 55 days. As of December 31, 1999, the Company had outstanding \$1,338,295,750 of repurchase agreements with a weighted average borrowing rate of 5.26%. The weighted average remaining maturity was 20 days.

At March 31, 2000 and December 31, 1999, the repurchase agreements had the following remaining maturities:

	March 31, 2000	December 31, 1999
Within 30 days	\$ 604,121,000	\$ 1,197,416,250
30 to 59 days	604,512,500	25,767,000
60 to 89 days	--	--
90 to 119 days	115,354,000	115,112,500
	\$ 1,323,987,500	\$ 1,338,295,750

4. COMMON STOCK

Options were exercised and the direct purchase was implemented during the three month period ending March 31, 2000 increasing the total number of shares outstanding to 13,899,689. The number of stock options exercised was 34,624, with an aggregate purchase price of \$138,496. The number of shares issued in the direct purchase plan was 283,749 with an aggregate purchase price of \$2,316,617. During the year ended December 31, 1999, 57,204 options were exercised at an aggregate price of \$233,276. Also, 875,688 shares were purchased in direct offering, total \$8,170,602.

During the three months ending March 31, 2000, the Company declared dividends to shareholders totaling \$4,864,891, or \$0.36 per weighted average share, of which \$4,864,891 was paid on April 28, 2000. During the Company's year ending December 31, 1999, the Company declared dividends to shareholders totaling \$17,977,754, or \$1.39 per weighted average share, of which \$13,224,293 was paid during the period and \$4,753,461 was paid on January 27, 2000. For Federal income tax purposes dividends paid for the year ended December 31, 1999 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 three months ended March 31, 2000 the reconciliation is as follows:

FOR THE THREE MONTHS ENDED  
MARCH 31, 2000

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
Net income	\$ 4,848,362		
Basic EPS	4,848,362	13,660,539	\$ 0.35
Effect of dilutive securities:			
Dilutive stock options	--	310,573	
Diluted EPS	\$ 4,848,362	13,971,112	\$ 0.35

Options to purchase 354,256 shares were outstanding during the quarter and dilutive, as the exercise price (between \$4.00 and \$8.125) was less than the average stock price for the three month period for the Company of \$8.26. Options to purchase 455,176 shares of stock were outstanding during the period and are not considered dilutive. The exercise price (between \$8.63 and \$11.25) was greater than the average stock price for the three month period of \$8.26.

6. 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 March 31, 2000 and December 31, 1999 held securities classified as available-for-sale. At March 31, 2000 and December 31, 1999, the net unrealized losses totaled \$34,313,224 and \$37,568,510, 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:

2000	95,299
2001	97,868
2002	100,515
2003	110,261
2004 through 2007	472,145
	-----
Total lease obligation	\$ 876,088
	=====

8. RELATED PARTY TRANSACTIONS

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.

ITEM 2. 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 upon 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 quarter ended March 31, 1999 totaled \$1.5 billion. As a result, the comparison of net income for the period ended February 18, 1997 and the quarter ended March 31, 1999 may show changes that may not be indicative of future periods.

RESULTS OF OPERATIONS: FOR THE QUARTER ENDED MARCH 31, 2000 AND 1999

NET INCOME SUMMARY

For the quarter ended March 31, 2000, our GAAP net income was \$4.8 million, or \$.35 basic earnings per average share, as compared to \$4.3 million, or \$.34 basic earnings per average share, for the quarter ended March 31, 1999. 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 13,660,539 for the quarter ended March 31, 2000 and 12,657,884 for the quarter ended March 31, 1999. Dividends per weighted average number of shares outstanding for the quarter ended March 31, 2000 was \$.35 per share, or \$4.9 million in total. Dividends per weighted average number of shares outstanding for the quarter ended March 31, 1999 was \$.33 per share, or \$4.2 million in total. Our return on average equity was 18.28% for the quarter ended March 31, 2000 and 13.70% for the quarter ended March 31, 1999.

NET INCOME SUMMARY

	Quarter ended March 31, 2000	Quarter ended March 31, 1999
	-----	-----
Interest Income	\$ 24,617	\$ 22,015
Interest Expense	19,293	17,151
	-----	-----
Net Interest Income	5,324	4,864
Gain on Sale of Mortgage-Backed Securities	106	64
General and Administrative Expenses	582	610
	-----	-----
Net Income	\$ 4,848	\$ 4,318
	=====	=====
Average Number of Basic Shares Outstanding	13,660,539	12,657,884
Average Number of Diluted Shares Outstanding	13,971,112	12,952,822
Basic Net Income Per Share	\$ .35	\$ .34
Diluted Net Income Per Share	\$ .35	\$ .33
Average Total Assets	\$1,455,521	\$1,520,582
Average Equity	\$106,119	\$126,120
Annualized Return on Average Assets	1.33%	1.13%
Annualized Return on Average Equity	18.28%	13.70%

## Interest Income and Average Earning Asset Yield

We had average earning assets of \$1.4 billion and \$1.5 billion for the quarter ended March 31, 2000 and 1999, respectively. Our primary source of income for the quarters ended March 31, 2000 and 1999 was interest income. A portion of our income was generated by gains on the sales of our mortgage-backed securities. Our interest income was \$24.6 million for the quarter ended March 31, 2000 and \$22.0 million for the quarter ended March 31, 1999. Our yield on average earning assets was 6.80% and 5.87% for the same respective periods. Our average earning asset balance decreased by \$54.2 million for the quarter ended March 31, 2000 as compared to the quarter ended March 31, 1999. Interest income increased by \$2.6 million for the quarter ended March 31, 2000 over the quarter ended March 31, 1999, due to the decline in the portfolio CPR. 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 March 31, 2000 and 1999.

### AVERAGE EARNING ASSET YIELD

	Average Cash Equivalents	Average Mortgage- Backed Securities	Average Earning Assets	Yield on Average Cash Equivalents	Yield on Average Mortgage- Backed Securities	Yield on Average Earning Assets	Interest Income
(dollars in thousands)							
For the Quarter ended March 31, 2000	\$226	\$1,448,148	\$1,448,374	1.79%	6.80%	6.80%	\$24,617
For the Year Ended December 31, 1999	\$221	\$1,461,033	\$1,461,254	4.10%	6.15%	6.15%	\$89,812
For the Quarter Ended December 31, 1999	\$2	\$1,420,308	\$1,420,310	4.05%	6.58%	6.58%	\$23,371
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 June 30, 1999	\$2	\$1,496,793	\$1,496,795	4.30%	5.95%	5.95%	\$22,265
For the Quarter Ended March 31, 1999	\$2	\$1,502,627	\$1,502,629	4.01%	5.87%	5.87%	\$22,015

The constant prepayment rate (or CPR) on our mortgage-backed securities for the quarter ended March 31, 2000 was 9.6% and for the quarter ended March 31, 1999 was 23%. 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 March 31, 2000 and 1999 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 \$19.3 million for the quarter ended March 31, 2000. We had average borrowed funds of \$1.4 billion and total interest expense of \$17.1 million for the quarter ended March 31, 1999. Our average cost of funds was 5.80% for the quarter ended March 31, 2000 and 4.97% for the quarter ended March 31, 1999. The cost of funds rate increased 0.83% and the average borrowed funds declined by \$52 million for the quarter ended March 31, 2000 when compared to the quarter ended March 31, 1999; consequently, interest expense increased by 12.5%.

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 0.12% below one-month LIBOR for the quarter ended March 31, 2000 and 0.01% above average one-month LIBOR for the quarter ended March 31, 1999. 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 March 31, 2000, average one-month LIBOR, was 5.92%, which was 0.40% lower than average six-month LIBOR, which was 6.32%. During the quarter ended March 31, 1999, average

one-month LIBOR, was 4.96%, 0.09% lower than average six-month LIBOR, which was 5.05%.

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 quarter ended March 31, 2000, the year ended December 31, 1999 and the four quarters in 1999.

#### 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 March 31, 2000	\$1,329,900	\$19,293	5.80%	5.92%	6.32%	(0.40%)	(0.12%)	(0.52%)
For the Year Ended December 31, 1999	\$1,350,230	\$69,846	5.17%	5.25%	5.53%	(0.28%)	(0.08%)	(0.36%)
For the Quarter Ended December 31, 1999	\$1,324,326	\$18,597	5.61%	5.78%	6.08%	(0.30%)	(0.17%)	(0.47%)
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 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%)

#### 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 \$5.3 million for the quarter ended March 31, 2000 and \$4.9 million for the quarter ended March 31, 1999. Our net interest income increased because of lower amortization costs for the quarter. 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 1.00% for the quarter ended March 31, 2000 as compared to 0.90% for the quarter ended March 31, 1999. This 0.10% increase in spread income is reflected in the \$460,000 increase in net interest income. Net interest margin, which equals net interest income divided by average total assets, was 1.47% on an annualized basis for the quarter ended March 31, 2000 and 1.27% for the quarter ended March 31, 1999. The principal reason that 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 to date.

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 quarter ended March 31, 2000, the year ended December 31, 1999, and the four quarters in 1999.

## GAAP NET INTEREST INCOME

(DOLLARS IN THOUSANDS)

	Amortized Cost of Average 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 March 31, 2000	\$1,448,148	\$24,616	\$226	\$24,617	6.80%	\$1,329,900	\$19,293	5.80%	\$4,848
For the Year Ended December 31, 1999	\$1,461,033	\$89,801	\$221	\$89,812	6.15%	\$1,350,230	\$69,846	5.17%	\$19,966
For the Quarter Ended December 31, 1999	\$1,420,308	\$23,372	\$2	\$23,372	6.58%	\$1,324,326	\$18,597	5.61%	\$4,774
For the Quarter Ended September 30, 1999	\$1,416,525	\$22,151	\$877	\$22,160	6.26%	\$1,320,776	\$17,232	5.22%	\$4,929
For the Quarter Ended June 30, 1999	\$1,493,532	\$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

## GAINS AND LOSSES ON SALES OF MORTGAGE-BACKED SECURITIES

For the quarter ended March 31, 2000, we sold mortgage-backed securities with an aggregate historical amortized cost of \$23.3 million for an aggregate gain of \$106,853. For the quarter ended March 31, 1999, we sold mortgage-backed securities with an aggregate historical amortized cost of \$31.7 million for an aggregate gain of \$64,560. 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 \$582,319 for the quarter ended March 31, 2000 and \$610,004 for the quarter ended March 31, 1999. G&A expenses as a percentage of average assets was 0.16% and 0.16% for the quarters ended March 31, 2000 and 1999, respectively. The Company is internally managed and continues to be a low cost provider. G&A expenses decreased by \$27,685 for March 31, 2000, when compared to March 31, 1999.

GAAP G&A EXPENSES AND OPERATING EXPENSE RATIOS

	Cash and Benefits Expense	GA Expenses	Total GA Expenses	Total GA Assets (annualized)	Total GA Equity (annualized)	Compensation	Other
	(dollars in thousands)						
For the Quarter Ended March 31, 2000	\$385	\$197	\$582	0.16%	2.19%		
For the Year Ended December 31, 1999	\$1,312	\$969	\$2,281	0.15%	1.94%		
For the Quarter Ended December 31, 1999	\$304	\$292	\$596	0.16%	2.21%		
For the Quarter Ended September 30, 1999	\$337	\$177	\$514	0.14%	1.81%		
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%		

NET INCOME AND RETURN ON AVERAGE EQUITY

Our net income was \$4.8 million for the quarter ended March 31, 2000 and \$4.3 million for the quarter ended March 31, 1999. Our return on average equity was 18.3% for the quarter ended March 31, 2000 and 13.7% for the quarter ended March 31, 1999. The increase in net income is a direct result of an increase in spread income. As previously mentioned, the substantial decline in amortization 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 March 31, 2000, the year ended December 31, 1999, and for the four quarters in 1999.

COMPONENTS OF RETURN ON AVERAGE EQUITY

(RATIOS FOR ALL QUARTERS AND THE YEAR ENDED DECEMBER 31, 1999 AND THE PERIOD ENDED MARCH 31, 2000)

	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 March 31, 2000	20.07%	0.40%	2.19%	18.28%
For the Year Ended December 31, 1999	16.97%	0.38%	1.94%	15.41%
For the Quarter Ended December 31, 1999	17.65%	0.99%	2.21%	16.43%
For the Quarter Ended September 30, 1999	17.40%	0.34%	1.81%	15.93%
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%

FINANCIAL CONDITION

MORTGAGE-BACKED SECURITIES

All of our mortgage-backed securities at March 31, 2000 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 March 31, 2000 and 1999, we had on our balance sheet a total of \$1.2 million and \$1.1 million 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 \$23.0 million and \$27.2 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 \$31.0 million for the quarter ended March 31, 2000 and \$125.5 million for the quarter ended March 31, 1999. 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 March 31, 2000, December 31, 1999, September 30, 1999, June 30, 1999, and March 31, 1999.

#### 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 March 31, 2000	\$1,448,875	\$21,826	\$1,470,701	101.51%	\$1,436,389	99.14%	7.02%
At December 31, 1999	\$1,452,917	\$22,444	\$1,475,361	101.54%	\$1,437,793	98.96%	6.77%
At September 30, 1999	\$1,402,565	\$22,981	\$1,425,546	101.64%	\$1,401,770	99.94%	6.41%
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%

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 March 31, 2000	\$957,419	7.18%	5.63%	1.55%	10 months	10.59%	7.006%	66.08%
At December 31, 1999	\$951,839	7.33%	5.84%	1.49%	11 months	10.30%	7.64%	65.51%
At September 30, 1999	\$889,293	6.76%	5.13%	1.63%	9 months	10.82%	6.14%	63.40%
At June 30, 1999	\$941,559	6.67%	4.96%	1.71%	11 months	11.00%	5.84%	64.12%
At March 31, 1999	\$1,036,947	6.63%	4.97%	1.66%	11 months	11.01%	5.64%	67.88%

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 March 31, 2000	\$491,456	6.58%	7.04%	33.92%
At December 31, 1999	\$501,078	6.58%	7.01%	34.49%
At September 30, 1999	\$513,272	6.58%	6.91%	36.60%
At June 30, 1999	\$526,988	6.58%	6.88%	35.88%
At March 31, 1999	\$490,583	6.54%	6.37%	32.12%

At March 31, 2000 and December 31, 1999 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.

ADJUSTABLE-RATE MORTGAGE-BACKED SECURITIES BY INDEX  
MARCH 31, 2000

	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.	16 mo.	34 mo.
Weighted Average Annual Period Cap	None	1.00%	1.93%	2%	1.35%
Weighted Average Lifetime Cap at March 31, 2000	9.17%	11.36%	12.29%	13.26%	12.05%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at March 31, 2000	36.83%	2.03%	21.64%	4.94%	0.64%

ADJUSTABLE-RATE MORTGAGE-BACKED SECURITIES BY INDEX  
DECEMBER 31, 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.	2 mo.	25 mo.	16 mo.	36 mo.
Weighted Average Annual Period Cap	None	1.00%	1.93%	1.57%	1.35%
Weighted Average Lifetime Cap at December 31, 1999	9.20%	11.36%	11.19%	13.23%	11.68%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 1999	34.89%	2.12%	22.62%	5.22%	0.66%

## 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 March 31, 2000, we had established uncommitted borrowing facilities in this market with twenty-two 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 March 31, 2000 and 1999, the term to maturity of our borrowings ranged from one day to 3 months, with a weighted average original term to maturity of 55 days at March 31, 2000. At March 31, 2000, the weighted average cost of funds for all of our borrowings was 5.96% and the weighted average term to next rate adjustment was 31 days. At March 31, 1999, the term to maturity ranged from one day to one year, with a weighted average original term of 63 days. The weighted average cost of funds for all of our borrowings was 4.85% and weighted average term to the next adjustment was 13 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 March 31, 2000 was \$108.9 million, or \$7.84 per share. If we had used historical amortized cost accounting, our equity base at March 31, 2000 would have been \$143.3 million, or \$10.31 per share. Our equity base at March 31, 1999 was \$126.7 million, or \$9.97 per share. If we had used historical amortized cost accounting, our equity base at March 31, 1999 would have been \$132.6 million, or \$10.44 per share. During the quarter ended March 31, 2000, the Company raised additional capital in the amount of \$2.3 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 March 31, 2000	At December 31, 1999	At September 30, 1999	At June 30, 1999	At March 31, 1999
Unrealized Gain	\$ 1,320	\$ 1,531	\$ 998	\$ 1,744	\$ 2,801
Unrealized Loss	(35,633)	(39,100)	(24,773)	(21,172)	(8,784)
Net Unrealized (Loss)	(\$34,313)	(\$37,569)	(\$23,775)	(\$19,428)	(\$5,983)
Net Unrealized (Loss) as % of Mortgage- Backed Securities Principal Value	(2.37%)	(2.59%)	(1.70%)	(1.32%)	(0.39%)
Net Unrealized (Loss) as % of Mortgage- Backed Securities Amortized Cost	(2.33%)	(2.54%)	(1.68%)	(1.30%)	(0.39%)

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 \$34.3 million, or 2.33% of the amortized cost of our mortgage-backed securities at March 31, 2000. "Unrealized Losses on Available for Sale Securities" was \$6.0 million or 0.39% of the amortized cost of our mortgage-backed securities at March 31, 1999.

The table below shows our equity capital base as reported and on a historical amortized cost basis at March 31, 2000, December 31, 1999, September 30, 1999, June 30, 1999 and March 31, 1999. 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 Base	Net Unrealized Gains on Assets Available for Sale	GAAP Reported Equity Base (Book Value)	Historical Amortized Cost Equity Per Share	GAAP Reported Equity (Book Value) Per Share
	(dollars in thousands, except per share data)				
At March 31, 2000	\$143,279	(\$34,313)	\$108,966	\$10.31	\$7.84
At December 31, 1999	\$140,841	(\$37,569)	\$103,272	\$10.37	\$7.60
At September 30, 1999	\$136,850	(\$23,776)	\$113,074	\$10.44	\$8.63
At June 30, 1999	\$133,020	(\$19,428)	\$113,592	\$10.48	\$8.95
At March 31, 1999	\$132,599	(\$5,983)	\$126,617	\$10.44	\$9.97

LEVERAGE

Our debt-to-GAAP reported equity ratio at March 31, 2000 and, 1999 was 12:1 and 10:1, 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.

#### INFLATION

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

#### OTHER MATTERS

We calculate that our qualified REIT assets, as defined in the Internal Revenue Code, are 99.5% of our total assets at March 31, 2000 and 1999, as compared to the Internal Revenue Code requirement that at least 75% of our total assets be qualified REIT assets. We also calculate that 99.5% and 99.5% of our 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 years ended March 31, 2000 and 1999, respectively. We also met all REIT requirements regarding the ownership of our common stock and the distribution of our net income. Therefore, as of March 31, 2000 and 1999, we believe that we qualified as a REIT under the Internal Revenue Code.

We at all times intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. If we were to become regulated as an investment company, then our 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 SEC, in order to qualify for this exemption, we must maintain at least 55% of our assets directly in qualifying interests. In addition, unless certain mortgage securities represent all the certificates issued with respect to an underlying pool of mortgages, the mortgage-backed 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. We calculate that as of March 31, 2000 and 1999 we were 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 we are 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 our control. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of our mortgage-backed securities and our ability to realize gains from the sale of these assets. We 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 our operations. If we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of securities and that the losses may exceed the amount we invested in the instruments. To date, we have not purchased any hedging instruments.

Our profitability and the value of our portfolio 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 200 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 March 31, 2000 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	48%	4%
-100 Basis Points	23%	2%
-50 Basis Points	12%	1%
Base Interest Rate		
+50 Basis Points	(13%)	(1%)
+100 Basis Points	(27%)	(2%)
+200 Basis Points	(54%)	(5%)

## ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. We attempt to control risks associated with interest rate movements. Methods for evaluating interest rate risk include an analysis of our interest rate sensitivity "gap", which is 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 result in an increase in net interest income, while a positive 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 our interest-earning assets and interest-bearing liabilities at March 31, 2000. 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 that were estimated based on analyses of broker estimates, the results of a

prepayment model that we utilized and empirical data. Our management believes that these assumptions approximate actual experience and considers them reasonable; however, the interest rate sensitivity of our 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.

(IN THOUSANDS)

	Within 3 Months	4-12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
	----- (in thousands) -----				
Rate Sensitive Assets:					
Mortgage-Backed Securities	\$ 578,752	\$ 151,338	\$142,520	\$576,266	\$1,448,876
Rate Sensitive Liabilities:					
Repurchase Agreements	1,323,988				\$1,323,988
	-----				
Interest rate sensitivity gap	(\$745,236)	\$151,338	\$142,520	\$576,266	\$ 124,888
	-----				
Cumulative rate sensitivity gap	(\$ 745,236)	(\$593,898)	(\$451,378)	\$124,888	
	-----				
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(51%)	(41%)	(31%)	9%	

Our analysis of risks is based on management's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in the above tables and in this report. These analyses contain certain forward-looking statements and are subject to the safe harbor statement set forth under the heading, "Special Note Regarding Forward-Looking Statements."

#### PART II. OTHER INFORMATION

##### Item 6. Exhibits and Reports on Form 8-K

###### (a) Exhibits

Exhibit 1 - Financial Data Schedule

###### (b) Reports

None

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: May 13, 2000

By: /s/ Michael A.J. Farrell

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

Dated: May 13, 2000

By: /s/ Kathryn F. Fagan

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MARCH 31, 2000 QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH

1,000

3-MOS		
	DEC-31-2000	
	JAN-01-2000	
	MAR-31-2000	
	1,436,389	156
	0	
	0	
	0	
	1,443,453	56
	0	
	1,443,530	
	1,334,564	0
	0	
	0	
	143,279	
108,966	(34,313)	0
	24,617	0
	0	
	582	
	0	
	19,293	
	4,848	
	0	
	4,848	
	0	
	0	
	0	0
	4,848	
	0.35	
	0.35	