



FORM 10-Q

ANNALY MORTGAGE MANAGEMENT INC – NLY

Filed: May 13, 1999 (period: March 31, 1999)

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

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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: MARCH 31, 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 22-3479661
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

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

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 May 13, 1999
Common Stock, \$.01 par value	12,697,298

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ANNALY MORTGAGE MANAGEMENT, INC.

BALANCE SHEETS

	March 31, 1999 (unaudited)	December 31, 1998
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 329,334	\$ 69,020
MORTGAGE-BACKED SECURITIES - At fair value	1,547,618,299	1,520,288,762
ACCRUED INTEREST RECEIVABLE	7,419,163	6,782,043
OTHER ASSETS	231,631	212,214
TOTAL ASSETS	\$ 1,555,598,427	\$ 1,527,352,039
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	\$ 1,371,856,000	\$ 1,280,510,000
Payable for Mortgage-Backed Securities purchased	43,023,234	111,921,205
Accrued interest payable	9,582,673	5,052,626
Dividends payable	4,190,108	3,857,663
Accounts payable	329,904	139,236
Total liabilities	1,428,981,919	1,401,480,730
STOCKHOLDERS' EQUITY:		
Common stock: par value \$.01 per share; 100,000,000 authorized, 12,806,898 and 12,758,024 shares issued and outstanding, respectively	128,069	127,580
Additional paid-in capital	132,965,182	132,770,175
Accumulated other comprehensive income (loss)	(5,982,920)	(6,404,275)
Treasury stock at cost (109,600 shares)	(903,163)	(903,163)
Retained earnings	409,340	280,992
Total stockholders' equity	126,616,508	125,871,309
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,555,598,427	\$ 1,527,352,039

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.

STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarter Ended March 31, 1999	For the Quarter Ended March 31, 1998
	-----	-----
INTEREST INCOME:		
Mortgage-Backed Securities	\$ 22,014,921	\$ 20,078,691
Money market account	20	30
	-----	-----
Total interest income	22,014,941	20,078,721
INTEREST EXPENSE:		
Repurchase agreements	17,151,041	16,313,474
	-----	-----
NET INTEREST INCOME	4,863,900	3,765,247
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	64,560	1,427,084
GENERAL AND ADMINISTRATIVE EXPENSES	610,004	484,181
	-----	-----
NET INCOME	4,318,456	4,708,150
	-----	-----
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gain (loss) on available-for-sale securities	485,915	(2,685,224)
Less: reclassification adjustment for gains included in net income	(64,560)	(1,427,084)
	-----	-----
Other comprehensive gain (loss)	421,355	(4,112,308)
	-----	-----
COMPREHENSIVE INCOME	\$ 4,739,811	\$ 595,842
	=====	=====
NET INCOME PER SHARE:		
Basic	\$ 0.34	\$ 0.37
	=====	=====
Diluted	\$ 0.33	\$ 0.36
	=====	=====
AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	12,657,884	12,727,405
	=====	=====
Diluted	12,952,822	12,923,195
	=====	=====

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.

STATEMENT OF STOCKHOLDERS' EQUITY
 FOR THE QUARTER ENDED MARCH 31, 1999
 (UNAUDITED)

	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock	Comprehensive Income	Retained Earnings	Other Comprehensive Income
BALANCE, DECEMBER 31, 1998	\$ 127,580	\$132,770,175	\$ (903,163)		\$ 280,992	\$(6,404,275)
Net income	--	--		\$4,318,456	4,318,456	--
Other comprehensive income: Unrealized net losses on securities, net of reclassification adjustment	--	--		421,355	--	421,355
Comprehensive income				\$4,739,811		
Exercise of stock options	489	195,007			--	--
Dividends declared for the quarter ended March 31, 1999, \$0.33 per average share					(4,190,108)	--
BALANCE, MARCH 31, 1999	\$ 128,069	\$132,965,182	\$ (903,163)		\$ 409,340	\$(5,982,920)

Disclosure of reclassification amounts:

Unrealized holding gains arising during period	\$ 485,915
Less reclassification adjustment of gains included in net income	(64,560)
Net unrealized gains on securities	\$ 421,355

Total

BALANCE, DECEMBER 31, 1998	\$ 125,871,309
Net income	
Other comprehensive income: Unrealized net losses on securities, net of reclassification adjustment	
Comprehensive income	4,739,811
Exercise of stock options	195,496
Dividends declared for the quarter ended March 31, 1999, \$0.33 per average share	(4,190,108)
BALANCE, MARCH 31, 1999	\$ 126,616,508

Disclosure of reclassification amounts:

Unrealized holding gains arising during period	
Less reclassification adjustment of gains included in net income	
Net unrealized gains on securities	

See notes to financial statements.

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

	For the Quarter Ended March 31, 1999	For the Quarter Ended March 31, 1998
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,318,456	\$ 4,708,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage premiums and discounts, net	2,164,643	1,622,343
Gain on sale of Mortgage-Backed Securities	(64,560)	(1,427,084)
Increase in accrued interest receivable	(637,120)	(2,178,585)
Increase in other assets	(19,417)	(62,147)
Increase in accrued interest payable	4,530,047	5,065,225
Increase (decrease) in accounts payable	190,667	(56,565)
	-----	-----
Net cash provided by operating activities	10,482,716	7,671,337
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Mortgage-Backed Securities	(255,168,532)	(685,643,269)
Proceeds from sale of Mortgage-Backed Securities	31,769,366	143,782,573
Principal payments on Mortgage-Backed Securities	125,492,931	94,221,118
	-----	-----
Net cash used in investing activities	(97,906,235)	(447,639,578)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	2,652,589,000	2,632,120,000
Principal payments on repurchase agreements	(2,561,243,000)	(2,189,919,000)
Proceeds from exercise of stock options	195,496	193,700
Additional cost of initial public offering	--	(130,248)
Dividends paid	(3,857,663)	(2,797,058)
	-----	-----
Net cash provided by financing activities	87,683,833	439,467,394
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	260,314	(500,847)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	69,020	511,172
	=====	=====
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 329,334	\$ 10,325
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 12,620,994	\$ 11,248,249
	=====	=====
NONCASH FINANCING ACTIVITIES:		
Net unrealized gain (loss) on available-for-sale securities	\$ 421,355	\$ (4,112,308)
	=====	=====
Dividends declared, not yet paid	\$ 4,190,108	\$ 4,082,456
	=====	=====

See notes to financial statements.

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 an investment portfolio of Mortgage-Backed Securities on February 18, 1997, upon receipt of the net proceeds from the private placement of equity capital. On July 31, 1997, the Company received additional proceeds from a direct offering to officers and directors. 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 period 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 includes cash on hand and money market funds. The carrying amounts of cash equivalents approximates 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 quarter ended March 31, 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 March 31, 1999 and December 31, 1998, the Company has limited its 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, 1999 and December 31, 1998, all of the Company's Mortgage-Backed Securities have an implied "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, 1999, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage Assets
Mortgage-Backed Securities, gross	\$ 428,448,475	\$ 1,010,981,635	\$ 88,100,157	\$ 1,527,530,267
Unamortized discount	(171,760)	(914,424)	--	(1,086,184)
Unamortized premium	8,458,171	17,072,877	1,626,088	27,157,136
Amortized cost	436,734,886	1,027,140,088	89,726,245	1,553,601,219
Gross unrealized gains	490,807	1,983,325	326,711	2,800,843
Gross unrealized losses	(2,976,884)	(5,492,002)	(314,877)	(8,783,763)
Estimated fair value	\$ 434,248,809	\$ 1,023,631,411	\$ 89,738,079	\$ 1,547,618,299

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 Assets
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 March 31, 1999, the weighted average lifetime cap was 11.01%. At December 31, 1998, the weighted average lifetime cap was 10.6%.

During the quarter ended March 31, 1999, the Company realized \$64,560 in gains from the sales of Mortgage-Backed Securities. During the year ended December 31, 1998, the Company realized \$3,344,070 in gains from sales of Mortgage-Backed Securities. There were no losses on sales of Mortgage-Backed Securities for the quarter ended March 31, 1999. Losses totaled \$9,964 for the year ended December 31, 1998.

3. REPURCHASE AGREEMENTS

As of March 31, 1999, the Company had outstanding \$1,371,856,000 of repurchase agreements with a weighted average borrowing rate of 4.85% and a weighted average remaining maturity of 13 days. At March 31, 1999, Mortgage-Backed Securities actually pledged had an estimated fair value of \$1,410,144,079. 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% and a weighted average remaining maturity of 29 days. At December 31, 1998, Mortgage-Backed Securities actually pledged had an estimated fair value of \$1,458,669,078.

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

	March 31 1999	December 31, 1998
Within 30 days	\$1,347,590,000	\$1,222,542,000
30 to 59 days	24,266,000	31,346,000
60 to 89 days		26,622,000
	\$1,371,856,000	\$1,280,510,000

4. COMMON STOCK

Options were exercised during the quarter ended March 31, 1999 increasing the total number of shares outstanding to 12,697,298. The number of stock options exercised was 48,874, with an aggregate purchase price of \$195,496. During the year ended December 31, 1998, 44,124 options were exercised at an aggregate purchase price of \$195,100. Stock buybacks during the year ended December 31, 1998 totaled 109,600 shares at a cost of \$903,163.

During the Company's quarter ending March 31, 1999, the Company declared dividends to shareholders totaling \$4,190,108, or \$0.33 per weighted average share which was paid on April 29, 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 quarter ended March 31, 1999 the reconciliation is as follows:

	For the Quarter Ended March 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	\$4,318,456		
Basic EPS	4,318,456	12,657,884	\$0.34
Effect of dilutive securities:			
Dilutive stock options		294,938	
Diluted EPS	\$4,318,456	12,952,822	\$0.33

Options to purchase 408,152 shares were outstanding during the quarter and were dilutive as the exercise price (between \$4.00 and \$8.94) was less than the average stock price for the quarter for the Company of \$9.31. Options to purchase 140,176 shares of stock were outstanding and not considered dilutive. The exercise price (between \$10.00 and \$11.28) was greater than the average stock price for the quarter of \$9.31. At March 31, 1999, 83,870 options were vested and not exercised.

For the year quarter ended March 31, 1998, the reconciliation is as follows:

	For the Quarter Ended March 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	\$4,708,150		
Basic EPS	4,708,150	12,727,405	\$0.37
Effect of dilutive securities:			
Dilutive stock options		195,790	
Diluted EPS	\$4,708,150	12,923,195	\$0.36

Options to purchase 312,226 shares were outstanding during the quarter and were dilutive as the exercise price (between \$4.00 and \$10.00) was less than the average stock price for the quarter for the Company of \$10.83. 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 for the quarter of \$10.83.

7. 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, 1999 and December 31, 1998 held securities classified as available-for-sale. At March 31, 1999 and December 31, 1998, the net unrealized losses totaled \$5,982,920 and \$6,404,275, respectively.

8. LEASE COMMITMENTS

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

The Corporation's aggregate future 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 commitments	\$ 968,892
	=====

9. 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.

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

Overview

The Company is a real estate investment trust ("REIT") which acquires and manages Mortgage-Backed Securities which can be readily financed. The Company commenced operations on February 18, 1997 upon the closing of the Private Placement, which resulted in proceeds to the Company of \$33 million. The Company received additional proceeds of \$878,000 upon the closing of the Direct Offering on July 31, 1997. The Company's initial public offering was completed on October 14, 1997 raising net proceeds of \$98.8 million. During the year ended December 31, 1998, 109,600 shares were repurchased at a cost of \$903,163. Stock options exercised during the year ended December 31, 1998 totaled 44,124 shares for an aggregate exercise price of \$195,100. During the quarter ended March 31, 1999, 48,874 options were exercised for an aggregate price of \$195,496.

The Company's principal business objective is to generate net income for distribution to stockholders from the spread between the interest income on its Mortgage-Backed Securities and the costs of borrowing to finance its acquisition of Mortgage-Backed Securities. The Company will seek to generate growth in earnings and dividends per share in a variety of ways, including through (i) issuing new Common Stock and increasing the size of the balance sheet when opportunities in the market for Mortgage-Backed Securities are likely to allow growth in earnings per share, (ii) continually reviewing the mix of Mortgage-Backed Security types on the balance sheet in an effort to improve risk-adjusted returns, and (iii) attempting to improve the efficiency of the Company's balance sheet structure through the issuance of uncollateralized subordinated debt, preferred stock and other forms of capital, to the extent management deems such issuances appropriate.

Results of Operations: For the Quarter Ended March 31, 1999 and 1998

Net Income Summary

For the quarter ended March 31, 1999, net income, as calculated according to Generally Accepted Accounting Principles ("GAAP"), was \$4,318,456, or \$0.34 basic earnings per share, as compared to the quarter ended March 31, 1998 of \$4,708,150 or \$0.37 basic earnings per share. Net income for the quarter ended March 31, 1999 declined by \$389,694 from the quarter ended March 31, 1998. Income for the first quarter of 1999 reflects a greater emphasis on net interest income and less dependence on gains on the disposition of assets, when compared to the first quarter of 1998. Taxable earnings for the quarter ended March 31, 1999 was approximately \$4,415,809 or \$0.35 basic per average share. Taxable income for the quarter ended March 31, 1998 was \$4,260,000 or \$0.36 basic per average share. Net income per share is computed by dividing net income by the weighted average number of shares of outstanding Common Stock during the period, which was 12,657,884 and 12,727,405 for the quarter ended March 31, 1999 and 1998, respectively. Dividends per weighted average number of shares outstanding for the quarter ended March 31, 1999 was \$0.33 per share, \$4,190,108 in total. Dividends per weighted average number of shares outstanding for the quarter ended March 31, 1998 was \$0.32 per share, \$4,082,456 in total. Return on average equity was 13.70% and 13.97% on an annualized basis for the quarter ended March 31, 1999 and 1998, respectively.

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Net Income Summary
(dollars in thousands, except per share amounts)

	Quarter Ended March 31, 1999	Quarter Ended March 31, 1998
Interest Income	\$ 22,015	\$ 20,079
Interest Expense	17,151	16,313
Net Interest Income	4,864	3,765
Gain on Sale of Mortgage-Backed Securities	65	1,427
General and Administrative Expenses	610	484
Net Income	\$ 4,318	\$ 4,708
Average Number of Outstanding Shares - Basic	12,657,884	12,727,405
Average Number of Outstanding Shares - Diluted	12,952,822	12,923,195
Basic Net Income Per Share	\$ 0.34	\$ 0.37
Diluted Net Income Per Share	\$ 0.33	\$ 0.36
Average Total Assets	\$ 1,520,582	\$ 1,316,110
Average Equity	\$ 126,120	\$ 134,827
Return on Average Assets	1.13%	1.43%
Return on Average Equity	13.70%	13.97%

Taxable Income and GAAP Income

For the quarter ended March 31, 1999 and 1998, income as calculated for tax purposes (taxable income) differed from income as calculated according to generally accepted accounting principles (GAAP income). 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 the Company's stockholders because dividends are declared on the basis of taxable income. While the Company does not pay taxes so long as it satisfies the requirements for exemption from taxation pursuant to the REIT Provisions of the Code, each year the Company completes a corporate tax form wherein taxable income is calculated as if the Company were to be taxed. This taxable income level determines the amount of dividends the Company can pay out over time. The table below presents the major differences between GAAP and taxable income for the Company for the quarter ended March 31, 1999, the year ended December 31, 1998, and the four quarters in 1998.

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 March 31, 1999	\$ 4,318	-	\$ 98	--	\$ 4,416
For the Year Ended December 31, 1998	\$15,489	\$6	\$ 969	(\$331)	\$16,133
For the Quarter Ended December 31, 1998	\$ 3,685	\$3	\$ 439	(\$ 20)	\$ 4,107
For the Quarter Ended September 30, 1998	\$ 3,709		\$ 228	\$ 83	\$ 4,020
For the Quarter Ended June 30, 1998	\$ 3,387	\$2	\$ 376	(\$ 19)	\$ 3,746
For the Quarter Ended March 31, 1998	\$ 4,708	\$1	(\$ 74)	(\$375)	\$ 4,260

Interest Income and Average Earning Asset Yield

The Company had average earning assets of \$1.5 billion and \$1.3 billion for the quarter ended March 31, 1999 and 1998, respectively. The Company's primary source of income for the quarters ended March 31, 1999 and 1998 was interest income. A portion of income was generated by gains on sales of Mortgage-Backed Securities. Interest income was \$22.0 million and \$20.1 million for the quarters ended March 31, 1999 and 1998, respectively. The yield on average earning assets was 5.87% and 6.15% for the same respective periods.

Yields on interest earning assets decreased to 5.87% for the quarter ended March 31, 1999 from 6.15% for the quarter ended March 31, 1998. The average asset balance increased by \$2 million for the quarter ended March 31, 1999 as compared to the quarter ended March 31, 1998 which resulted in an increase in interest income, even though the yield decreased. The table below shows the Company's average balance of cash equivalents and Mortgage-Backed Securities, the yields earned on each type of earning assets, the yield on average earning assets and interest income for the quarter ended March 31, 1999, the year ended December 31, 1998, and the four quarters in 1998.

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 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%	\$89,985
For the Quarter Ended December 31, 1998	\$2	\$1,446,094	\$1,446,096	4.28%	6.12%	6.12%	\$22,136
For the Quarter Ended September 30, 1998	\$2	\$1,543,010	\$1,543,012	4.20%	6.22%	6.22%	\$24,009
For the Quarter Ended June 30, 1998	\$2	\$1,550,968	\$1,568,024	4.35%	6.13%	6.13%	\$23,762
For the Quarter Ended March 31, 1998	\$2	\$1,307,088	\$1,307,090	4.45%	6.15%	6.15%	\$20,079

The Constant Prepayment Rate (or "CPR") on the Company's portfolio of Mortgage-Backed Securities for the quarter ended March 31, 1999 increased to 23% from 21% in quarter ended March 31, 1998. "CPR" means an assumed rate

of prepayment for the Company's Mortgage-Backed Securities, expressed as an annual rate of prepayment relative to the outstanding principal balance of the Company's Mortgage-Backed Securities. This CPR does not purport to be either a historical description of the prepayment experience of the Company's Mortgage-Backed Securities or a prediction of the anticipated rate of prepayment of the Company's Mortgage-Backed Securities. Since a large portion of the Company's assets was purchased at a premium to par value and only a small portion of the Company's assets was purchased at a discount to par value, the premium balance in the Company's portfolio is substantially higher than the discount balance.

Principal prepayments had a negative effect on the Company's earning asset yield for the quarters ended March 31, 1999 and 1998 because the Company adjusts its 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

The Company anticipates that its largest expense will usually be the cost of borrowed funds. The Company had average borrowed funds of \$1.4 billion and total interest expense of \$17.1 million for the quarter ended March 31, 1999. The Company had average borrowed funds of \$1.2 billion and total interest expense of \$16.3 million for the quarter ended March 31, 1998. The average cost of funds was 4.97% and 5.59% for the quarter ended March 31, 1999 and March 31, 1998, respectively. Interest expense is calculated in the same manner for GAAP and tax purposes. Even though the cost of funds rate declined substantially for the three month period ending March 31, 1999 when compared to the three month period ended March 31, 1998, interest expense increased because of the increase in the average repurchase balance by \$2 million.

With the Company's current asset/liability management strategy, changes in the Company's cost of funds are expected to be closely correlated with changes in short-term LIBOR, although the Company may choose to extend the maturity of its liabilities at any time. The Company's average cost of funds was 0.01% greater than the average one-month LIBOR for the quarter ended March 31, 1999 and 0.09% less than the average one-month LIBOR for the quarter ended March 31, 1998. The Company generally has structured its borrowings to adjust with one-month LIBOR. During the quarter ended March 31, 1999, average one-month LIBOR, which was 4.96%, was 0.09% less than average six-month LIBOR, which was 5.05%. During the quarter ended March 31, 1998, average one-month LIBOR, which was 5.64%, was 0.04% less than average six-month LIBOR, which was 5.68%

The table below shows the Company's average borrowed funds and average cost of funds as compared to average one- and six-month LIBOR for the quarter ended March 31, 1999, the year ended December 31, 1998, and the four quarters in 1998.

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, 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 Quarter Ended December 31, 1998	\$1,371,240	\$18,479	5.39%	5.36%	5.10%	0.26%	0.03%	0.29%
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, 1998	\$1,440,822	\$20,178	5.60%	5.66%	5.75%	(0.09%)	(0.06%)	(0.15%)
For the Quarter Ended March 31, 1998	\$1,167,483	\$16,313	5.59%	5.64%	5.68%	(0.04%)	(0.05%)	(0.09%)

Net Interest Rate Agreement Expense

The Company has not entered into any interest rate agreements to date. As part of its asset/liability management process, the Company may enter into interest rate agreements such as interest rate caps, floors and swaps. These agreements would be entered into to reduce interest rate or prepayment risk and would be designed to provide income and capital appreciation to the Company in the event of certain changes in interest rates. However, even after entering into such agreements, the Company would still be exposed to interest rate and prepayment risks. The Company reviews the need for interest rate agreements on a regular basis consistent with its Capital Investment Policy.

Net Interest Income

Net interest income, which equals interest income less interest expense, totaled \$4.9 million for the quarter ended March 31, 1999 and \$3.8 million for quarter ended March 31, 1998. Net interest spread, which equals the yield on the Company's average assets for the period less the average cost of funds for the period, was 0.90% for the quarter ended March 31, 1999 compared to 0.56% for the quarter ended March 31, 1998. Net interest margin, which equals net interest income divided by average total assets, was 1.27% and 1.14% on an annualized basis for the quarter ended March 31, 1999 and 1998, respectively. Income for the first quarter of 1999 reflects a greater emphasis on net interest income and less dependence on gains on disposition of assets, when compared to the first quarter of 1998. Net interest income increased because of lower funding cost for the period. This increase was partially offset by lower yields on assets. Taxable net interest income was approximately \$97,353 greater than GAAP net interest income because of differing premium and discount amortization, for the quarter ended March 31, 1999. Taxable net interest income was \$74,132 less than GAAP net interest income because of differing premium and discount amortization, for the quarter ended March 31, 1998. The principal reason that annualized net interest margin exceeded net interest spread is that average assets exceeded average liabilities. A portion of the Company's assets is funded with equity rather than borrowings. The Company did not have any interest rate agreement expense for the quarter ended March 31, 1999 and 1998.

The table below shows interest income by earning asset type, average earning assets by type, total interest income, yield on average interest earning assets, average repurchase agreements, interest expense, average cost of funds, and net interest income for the quarter ended March 31, 1999, the year ended December 31, 1998, and the four quarters in 1998.

GAAP Net Interest Income (dollars in thousands)

	Average Amortized Cost of Mortgage-Backe Securities Held	Interest Income on Mortgage-Backe Securities	Average Cash Equivalents	Interest Income on Cash Equivalents	Total Interest Income
For the Quarter Ended March 31, 1999	\$1,502,629	\$22,015	\$2	--	\$22,015
For the Year Ended December 31, 1998	\$1,461,790	\$89,986	\$2	--	\$89,986
For the Quarter Ended December 31, 1998	\$1,446,094	\$22,136	\$2	--	\$22,136

	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, 1999	5.87%	\$1,381,663	\$17,151	4.97%	\$4,864
For the Year Ended December 31, 1998	6.16%	\$1,360,040	\$75,735	5.57%	\$14,250
For the Quarter Ended December 31, 1998	6.12%	\$1,371,240	\$18,479	5.39%	\$3,657

For the Quarter Ended September 30, 1998	\$1,543,010	\$24,009	\$2	--	\$24,009
For the Quarter Ended June 30, 1998	\$1,550,968	\$23,762	\$2	--	\$23,762
For the Quarter Ended March 31, 1998	\$1,307,088	\$20,079	\$2	--	\$20,079
For the Quarter Ended September 30, 1998	6.22%	\$1,460,612	\$20,765	5.68%	\$3,244
For the Quarter Ended June 30, 1998	6.13%	\$1,440,822	\$20,178	5.60%	\$3,584
For the Quarter Ended March 31, 1998	6.15%	\$1,167,483	\$16,313	5.59%	\$3,765

Gains and Losses on Sales of Mortgage-Backed Securities

For the quarter ended March 31, 1999, the Company sold Mortgage-Backed Securities with an aggregate historical amortized cost of \$31.7 million for an aggregate gain of \$64,560. During the quarter ended March 31, 1998, the Company sold Mortgage-Backed Securities with a historical amortized cost of \$142.4 million for an aggregate gain of \$1.4 million. As stated above, the gain on sale of assets declined substantially. For the quarter ended March 31, 1999, there was a greater emphasis on spread income and not gains. Taxable net gains were approximately the same as GAAP gains (losses) on sale of securities for the quarter ended March 31, 1999 and \$375,163 less for the quarter ended March 31, 1998. The difference between the sale price and the historical amortized cost of the Mortgage-Backed Securities is a realized gain and increased income accordingly. The Company does not expect to sell assets on a frequent basis, but may from time to time sell existing assets to move into new assets which management believes might have higher risk-adjusted returns or to manage its balance sheet as part of management's asset/liability management strategy.

Credit Expenses

The Company has not experienced credit losses on its portfolio of Mortgage-Backed Securities to date, but losses may be experienced in the future. To date, the Company had limited its exposure to credit losses on its portfolio of Mortgage-Backed Securities by purchasing only securities, issued or guaranteed by FNMA, FHLMC or GNMA ("Agency certificates"), which, although not rated, carry an implied "AAA" rating.

General and Administrative Expenses

General and administrative expenses ("operating expense" or "G&A expense") were \$610,004 for the quarter ended March 31, 1999 and \$484,181 for the quarter ended March 31, 1998. Taxable G&A expenses were approximately \$137 and \$1,427 less than for GAAP purposes for the quarters ended March 31, 1999 and 1998, respectively. G&A expense increased as a percentage of assets to 0.16% for the three month period ended March 31, 1999 compared to 0.15% for the same three month period in the previous year. The Company experienced economies of scale with the increasing asset base and because it is internally managed. Also, it intends to continue to be a low cost provider.

GAAP G&A Expense and Operating Expense Ratios

	Benefits Expense	Other GA Expense	Total GA Expense	Total GA Assets (annualized)	Total GA Equity (annualized)	Cash Comp and

(dollars in thousands)						
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 Quarter Ended December 31, 1998	\$380	\$219	\$599	0.15%	1.90%	
For the Quarter Ended September 30, 1998	\$318	\$210	\$528	0.13%	1.61%	

For the Quarter Ended June 30, 1998	\$252	\$242	\$494	0.13%	1.50%
For the Quarter Ended March 31, 1998	\$259	\$225	\$484	0.15%	1.44%

Net Income and Return on Average Equity

Net income was \$4.3 million in the quarter ended March 31, 1999 and \$4.7 million for the quarter ended March 31, 1998. Return on average equity was 13.70% on an annualized basis for the quarter ended March 31, 1999 and 13.97% on an annualized basis for the quarter ended March 31, 1998. The table below shows the Company's net interest income, gain on sale of Mortgage-Backed Securities and G&A expense each as a percentage of average equity, and the return on average equity for the quarter ended March 31, 1999, the year ended December 31, 1998 and the four quarters in 1998.

Components of Return on Average Equity

	Net Interest Income/Average Equity	Gain on Sale of Mortgage-Backed Securities/ Average Equity	G&A Expense/Average Equity	Return on Average Equity
For the Quarter Ended March 31, 1999 (on an annualized basis)	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 Quarter Ended December 31, 1998 (on an annualized basis)	11.45%	1.97%	1.90%	11.71%
For the Quarter Ended September 30, 1998 (on an annualized basis)	9.89%	3.03%	1.61%	11.31%
For the Quarter Ended June 30, 1998 (on an annualized basis)	10.92%	1.90%	1.50%	10.32%
For the Quarter March 31, 1998 (on an annualized basis)	11.18%	4.23%	1.44%	13.97%

Dividends and Taxable Income

The Company has elected to be taxed as a REIT under the Code. Accordingly, the Company intends to distribute substantially all of its taxable income for each year to stockholders, including income resulting from gains on sales of Mortgage-Backed Securities. Through March 31, 1999, earned taxable income exceeded dividend declarations by approximately \$1.1 million or \$0.09 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 March 31, 1999	\$4,416	12,657,884	\$0.35	\$0.33	\$4,190	94.9%	\$1,115
For the Year Ended December 31, 1998	\$16,133	12,709,116	\$1.27	\$1.215	\$15,437	95.7%	\$889
For the Quarter Ended December 31, 1998	\$4,107	12,648,116	\$0.32	\$0.315	\$3,859	93.96%	\$889
For the Quarter Ended September 30, 1998	\$4,020	12,704,194	\$0.32	\$0.27	\$3,415	83.74%	\$641
For the Quarter Ended June 30, 1998	\$3,746	12,757,674	\$0.29	\$0.32	\$4,082	108.39%	\$36
For the Quarter Ended March 31, 1998	\$4,260	12,727,405	\$0.33	\$0.32	\$4,082	88.07%	\$372

Financial Condition

Mortgage-Backed Securities

All of the Company's Mortgage-Backed Securities at March 31, 1999, December 31, 1998, and March 31, 1998 were Mortgage-Backed Securities backed by Single-Family Mortgage Loans. All of the mortgage assets underlying such Mortgage-Backed Securities were secured with a first lien position with respect to the underlying single-family properties. At March 31, 1999, December 31, 1998, and March 31, 1998, all the Company's Mortgage-Backed Securities were Agency Certificates, which, although not rated, carry an implied "AAA" rating. All of the Company's earning assets are marked-to-market at liquidation value.

Discount balances are accreted as an increase in interest income over the life of discount Mortgage-Backed Securities and premium balances are amortized as a decrease in interest income over the life of premium Mortgage-Backed Securities. At March 31, 1999 and 1998, the Company had on its balance sheet a total of \$1.1 million and \$608,579, respectively, of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of Mortgage-Backed Securities acquired at a price below principal value) and a total of \$27.2 million and \$24.9 million, respectively, of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of Mortgage-Backed Securities acquired at a price above principal value).

Mortgage principal repayments received were \$125.5 million and \$94.2 million for the quarter ended March 31, 1999 and 1998, respectively. Given the Company's current portfolio composition, if mortgage principal prepayment rates increase over the life of the Mortgage-Backed Securities comprising the current portfolio, all other factors being equal, the Company's net interest income should decrease during the life of such Mortgage-Backed Securities as the Company will be required to amortize its net premium balance into income over a shorter time period. Similarly, if mortgage principal prepayment rates decrease over the life of such Mortgage-Backed Securities, all other factors being equal, the Company's net interest income should increase during the life of such Mortgage-Backed Securities as the Company will amortize its net premium balance over a longer time period.

The table below summarizes the Company's Mortgage-Backed Securities, at the dates indicated.

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, 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 September 30, 1998	\$1,461,056	\$24,244	\$1,485,300	101.66%	\$1,483,195	101.52%	6.49%
At June 30, 1998	\$1,541,520	\$26,532	\$1,568,052	101.72%	\$1,566,188	101.60%	6.50%
At March 31, 1998	\$1,495,670	\$25,265	\$1,520,935	101.70%	\$1,518,847	101.55%	6.51%

The tables below set forth certain characteristics of the Company's 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 Mortgage-Backed Securities
(dollars in thousands)								
At March 31, 1999	\$1,036,947	6.63%	4.97%	1.66%	11 months	11.01%	5.64%	67.88%
At December 31, 1998	\$1,030,654	6.84%	5.18%	1.66%	12 months	10.63%	6.42%	68.60%
At September 30, 1998	\$1,050,177	6.78%	5.20%	1.68%	13 months	10.42%	6.51%	71.88%
At June 30, 1998	\$1,140,518	6.86%	5.20%	1.66%	15 months	10.42%	6.46%	73.98%
At March 31, 1998	\$1,176,716	6.89%	5.45%	1.61%	12 months	10.00%	6.46%	78.68%

Fixed-Rate Mortgage-Backed Security Characteristics

	Principal Value	Weighted Average Coupon Rate	Weighted Average Asset Yield	Principal Value as % of Mortgage-Backed Securities
(dollars in thousands)				
At March 31, 1999	\$490,583	6.54%	6.37%	32.12%
At December 31, 1998	\$471,760	6.55%	6.47%	31.40%
At September 30, 1998	\$410,879	6.69%	6.47%	28.12%
At June 30, 1998	\$401,002	6.82%	6.65%	26.02%
At March 31, 1998	\$316,954	6.85%	6.70%	21.32%

At March 31, 1999, the Company 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. The table below segments the Company's

adjustable-rate Mortgage-Backed Securities by type of adjustment index, coupon adjustment frequency and annual and lifetime cap adjustment.

Adjustable-Rate Mortgage-Backed Securities by Index
March 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.	32 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	19 mo.	16 mo.	0 mo.
Weighted Average Annual Period Cap	None	1.00%	1.71%	1.79%	2.00%
Weighted Average Lifetime Cap at March 31, 1999	9.13%	11.06%	12.01%	13.13%	11.51%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at March 31, 1999	25.07%	3.34%	32.56%	6.62%	0.29%

At December 31, 1998, the Company held Mortgage-Backed Securities with coupons linked to the one-year and three-year Treasury indices, one-month LIBOR, and the six-month CD rate. The table below segments the Company's adjustable-rate Mortgage Backed Securities by type of adjustment index, coupon adjustment frequency, and annual and lifetime cap adjustment.

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.	32 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%

The table below shows unrealized gains and losses on the Mortgage-Backed Securities in the Company's portfolio at the dates indicated.

Unrealized Gains and Losses
(dollars in the thousands)

	At March 31, 1999	At December 31, 1998	At September 30, 1998	At June 30, 1998	At March 31, 1998
Unrealized Gain	\$ 2,801	\$ 3,302	\$ 7,060	\$ 2,826	\$ 2,622
Unrealized Loss	(8,784)	(9,706)	(9,164)	(4,736)	(4,710)
Net Unrealized Loss	(5,983)	(6,404)	(2,104)	(1,910)	(2,088)
Net Unrealized Loss as % of Mortgage-Backed Securities Principal Value	(0.39%)	(0.43%)	0.18%	(0.12%)	(0.14%)
Net Unrealized Loss as % of Mortgage-Backed Securities Amortized Cost	(0.39%)	(0.42%)	0.17%	(0.12%)	(0.14%)

Interest Rate Agreements

Interest rate agreements are assets that are carried on a balance sheet at estimated liquidation value. At March 31, 1999 and December 31, 1998, there were no interest rate agreements on the Company's balance sheet. No interest rate agreements have been entered into since inception of the Company.

Borrowings

To date, the Company's debt has consisted entirely of borrowings collateralized by a pledge of the Company's Mortgage-Backed Securities. These borrowings appear on the balance sheet as repurchase agreements. At March 31, 1999, the Company had established uncommitted borrowing facilities in this market with twenty-three lenders in amounts, which the Company believes, are in excess of its needs. All of the Company's Mortgage-Backed Securities are currently accepted as collateral for such borrowings. The Company, however, limits its borrowings, and thus its potential asset growth, in order to maintain unused borrowing capacity while increasing the liquidity and strength of its balance sheet.

For the quarter ended March 31, 1999 and 1998, the term to maturity of the Company's borrowings has ranged from one day to one year, with a weighted average original term to maturity of 63 days and 66 days, respectively. The weighted average remaining maturity was 13 days and 20 days at March 31, 1999 and 1998, respectively. Many of the Company's borrowings have a cost of funds which adjust monthly based on a fixed spread over or under one-month LIBOR or based on the daily Fed Funds rate. As a result, the average term to the next rate adjustment for the Company's borrowings is typically shorter than the term to maturity for the Company's Mortgage-Backed Securities. At March 31, 1999, the weighted average cost of funds for all of the Company's borrowings was 4.85% and the weighted average term to next rate adjustment was 13 days. At March 31, 1998, the weighted average cost of funds for all the Company's borrowings was 5.58% and the weighted average term to next rate adjustment was 20 days.

Liquidity

Liquidity, which is the Company's ability to turn non-cash assets into cash, allows the Company to purchase additional Mortgage-Backed Securities and to pledge additional assets to secure existing borrowings should the value of pledged assets decline. Potential immediate sources of liquidity for the Company include cash balances and unused borrowing capacity. Unused borrowing capacity will vary over time as the market value of the Company's Mortgage-Backed Securities varies. The Company's balance sheet also generates liquidity on an on-going basis through mortgage principal

repayments and net earnings held prior to payment as dividends. Should the Company's needs ever exceed these on-going sources of liquidity, plus the immediate sources of liquidity discussed above, management believes that the Company's Mortgage-Backed Securities could in most circumstances be sold to raise cash. The maintenance of liquidity is one of the goals of the Company's Capital Investment Policy. Under this policy, asset growth is limited in order to preserve unused borrowing capacity for liquidity management purposes.

Stockholders' Equity

The Company uses "available-for-sale" treatment for its Mortgage-Backed Securities; these assets are carried on the balance sheet at estimated market value rather than historical amortized cost. Based upon such "available-for-sale" treatment, the Company's equity base at March 31, 1999 was \$126.7 million, or \$9.97 per share. If the Company had used historical amortized cost accounting, the Company's equity base at March 31, 1999 would have been \$132.6 million, or \$10.44 per share. The Company's equity base at March 31, 1998 was \$131.7 million, or \$10.32 per share. If the Company had used historical amortized cost accounting, the Company's equity base at March 31, 1998 would have been \$133.8 million, or \$10.48 per share.

With the Company's "available-for-sale" accounting treatment, unrealized fluctuations in market values of assets do not impact GAAP or taxable income but rather are reflected on the balance sheet by changing the carrying value of the asset and reflecting the change in stockholders' equity under "Accumulated Other Comprehensive Income." By accounting for its assets in this manner, the Company hopes 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, the book value and book value per share of the Company are likely to fluctuate far more than if the Company 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 be misleading.

Unrealized changes in the estimated net market value of Mortgage-Backed Securities have one direct effect on the Company's potential earnings and dividends: positive market-to-market changes will increase the Company's equity base and allow the Company to increase its borrowing capacity while negative changes will tend to limit borrowing capacity under the Company's Capital Investment Policy. A very large negative change in the net market value of the Company's Mortgage-Backed Securities might impair the Company's liquidity position, requiring the Company to sell assets with the likely result of realized losses upon sale. "Net Unrealized Losses on Assets Available for Sale" was \$6.0 million, or 0.39% of the amortized cost of Mortgage-Backed Securities, at March 31, 1999. "Net Unrealized Gain on Assets Available for Sale" was \$2.1 million, or 0.14% of the amortized cost of Mortgage-Backed Securities, at March 31, 1998.

The table below shows the Company's equity capital base as reported and on a historical amortized cost basis at March 31, 1999, December 31, 1998, September 30, 1998, June 30, 1998, and March 31, 1998. Issuances of Common Stock, the level of GAAP earnings as compared to dividends declared, and other factors influence the 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, 1999	\$132,599	(\$5,983)	\$126,617	\$10.44	\$9.97
At December 31, 1998	\$132,275	(\$6,404)	\$125,871	\$10.46	\$9.95
At September 30, 1998	\$132,446	(\$2,105)	\$130,342	\$10.47	\$10.30
At June 30, 1998	\$133,055	(\$1,910)	\$131,145	\$10.43	\$10.28
At March 31, 1998	\$133,751	(\$2,088)	\$131,663	\$10.48	\$10.32

Leverage

The Company's debt-to-GAAP reported equity ratio at March 31, 1999 and March 31, 1998 was 10.0:1 and 10:1, respectively. The Company generally expects to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from time to time based upon various factors, including management's opinion of the level of risk of its assets and liabilities, the Company's liquidity position, the level of unused borrowing capacity and over-collateralization levels required by lenders when the Company pledges assets to secure borrowings.

The target debt-to-GAAP reported equity ratio is determined under the Company's Capital Investment Policy. Should the actual debt-to-equity ratio of the Company increase above the target level due to asset acquisition and/or market value fluctuations in assets, management will cease to acquire new assets. Management will, at such time, present a plan to its Board of Directors to bring the Company back to its target debt-to-equity ratio; in many circumstances, this would be accomplished in time by the monthly reduction of the balance of Mortgage-Backed Securities through principal repayments.

Asset/Liability Management and Effect of Changes in Interest Rates

Management continually reviews the Company's asset/liability management strategy with respect to interest rate risk, mortgage prepayment risk, credit risk and the related issues of capital adequacy and liquidity. The Company seeks attractive risk-adjusted stockholder returns while maintaining a strong balance sheet.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, although it has not done so to date, the Company may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in its 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. The Company seeks to mitigate the effect of changes in the mortgage principal repayment rate from an economic point of view by balancing assets purchased at a premium with assets purchased at a discount. To date, the aggregate premium exceeds the aggregate discount on Mortgage-Backed Securities in the Company's portfolio. As a result, prepayments, which result in the expensing of unamortized premium, will reduce the Company's net income compared to what net income would be absent such prepayments.

Status of Year 2000 Compliance

The company has made an ongoing effort to stay abreast of the year 2000 compliance issue. Hardware and software was checked for compliance and necessary upgrades were completed. In consideration of the Year 2000 issues, the Company has reviewed the ability of its own computers and computer programs to properly recognize and handle dates in the Year 2000. Through the normal upgrading of computer equipment, the Company has already replaced all computers that were not Year 2000 compliant. The Company has also reviewed all the date fields embedded in its internally developed spreadsheets, databases and other programs and has determined that all such programs are using four-digit years in references to dates. Therefore, the Company believes that all of its equipment and internal systems are ready for the Year 2000. To date, the Company has incurred minimal costs in order to be Year 2000 compliant.

The Company believes that most of its exposure to Year 2000 issues involves the readiness of third parties. Each third party is subject to the Year 2000 issue. The Company is in the process of surveying pertinent third parties for their compliance. As a result of communications with such third parties, the Company believes that they are spending the appropriate and necessary resources to try to identify Year 2000 issues and to resolve them or to mitigate the impact of them 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 March 31, 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 99.7% and 93.4% 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 quarter ended March 31, 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 March 31, 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 securitites 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 March 31, 1999 and 1998, the Company calculates that it is in compliance with this requirement.

ITEM. 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 net portfolio value should interest rates go up or down 400 basis points, assuming the yield curves of the rate shocks will be parallel to each other and the current yield curve. Net portfolio value is defined as interest-earning assets net of interest-bearing liabilities. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 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 Net Portfolio Value
- 400 Basis Points	174%	4%
- 300 Basis Points	160%	3%
- 200 Basis Points	50%	2%
- 100 Basis Points	18%	2%
Base Interest Rate		
+100 Basis Points	(51%)	(2%)
+200 Basis Points	(78%)	(4%)
+300 Basis Points	(157%)	(7%)
+400 Basis Points	(160%)	(11%)

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 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 the Company's interest-earning assets and interest-bearing liabilities at March 31, 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 (i) 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, (ii) fixed-rate mortgage-related 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, (iii) non-performing discount loans reflect the estimated timing of resolutions which result in repayment to the Company and (iv) fixed-rate loans reflect scheduled contractual amortization, with no estimated prepayment. 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	449,315	324,146	194,074	586,066	1,553,601
Rate Sensitive Liabilities:					
Repurchase Agreements	1,371,856				1,371,856
Interest rate sensitivity gap	(922,541)	324,146	194,074	586,066	
Cumulative rate sensitivity gap	(922,541)	(598,395)	(404,321)	181,745	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(59%)	(39%)	(26%)	12%	

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 1 - Financial Data Schedule

(b) Reports

None

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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, 1999

By: /s/ Michael A.J. Farrell

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

Dated: May 13, 1999

By: /s/ Kathryn F. Fagan

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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MARCH 31, 1999 FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH

		1,000	
3-MOS	DEC-31-1999		
	JAN-01-1999		
	MAR-31-1999		329
		1,547,618	
		0	
		0	
		0	
		1,555,523	75
		0	
		1,555,598	
		1,428,981	0
		0	
		0	
		132,599	
		(5,983)	
1,555,598			0
		22,080	0
		0	
		610	
		0	
		17,151	
		4,318	
		0	
		4,318	
		0	
		0	
		0	
		4,318	
		.34	
		.33	