



FORM 10-Q

ANNALY MORTGAGE MANAGEMENT INC – NLY

Filed: November 13, 1998 (period: September 30, 1998)

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

Table of Contents

PART II.

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

EX-27

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 1998

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 incorporation or organization) (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

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 November 13, 1998
Common Stock, \$.01 par value	12,648,074

ANNALY MORTGAGE MANAGEMENT, INC.

FORM 10-Q

INDEX

Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	
Balance Sheets - December 31, 1997 and September 30, 1998 (Unaudited)	1
Statements of Operations (Unaudited) for the quarters ended September 30, 1997 and 1998	2
Statements of Operations (Unaudited) for the period February 18, 1997 to September 30, 1997 and the nine months ended September 30, 1998	3
Statement of Stockholders' Equity (Unaudited) for the nine months ended September 30, 1998	4
Statements of Cash Flows (Unaudited) for the quarters ended September 30, 1997 and 1998	5
Statements of Cash Flows (Unaudited) for the period February 18, 1997 through September 30, 1997 and the nine months ended September 30, 1998	6
Notes to Financial Statements (Unaudited)	7-12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13-25
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	26
Item 2. Changes in Securities and Use of Proceeds	26
Item 3. Defaults Upon Senior Securities	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits and Reports on Form 8-K	26
SIGNATURES	27

ANNALY MORTGAGE MANAGEMENT, INC.

BALANCE SHEETS

	SEPTEMBER 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 137,521	\$ 511,172
MORTGAGE-BACKED SECURITIES, At fair value	1,483,195,158	1,161,779,192
RECEIVABLE FOR MORTGAGE-BACKED SECURITIES SOLD	106,717,843	0
ACCRUED INTEREST RECEIVABLE	7,538,267	5,338,861
OTHER ASSETS	230,207	111,257
TOTAL ASSETS	\$1,597,818,996	\$1,167,740,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	\$1,450,381,000	\$ 918,869,000
Payable for Mortgage-Backed Securities purchased	0	105,793,723
Accrued interest payable	13,437,440	4,992,447
Dividends payable	3,414,980	2,797,058
Accounts payable	244,033	201,976
Total liabilities	1,467,477,453	1,032,654,204
STOCKHOLDERS' EQUITY:		
Common stock: par value \$.01 per share; 100,000,000 authorized; 12,757,674 and 12,713,900 shares issued and outstanding, respectively	127,577	127,139
Additional paid-in capital	132,768,779	132,705,765
Accumulated other comprehensive income	(2,104,717)	2,023,751
Treasury stock at cost (109,600 shares)	(903,163)	0
Retained earnings	453,067	229,623
Total stockholders' equity	130,341,543	135,086,278
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,597,818,996	\$1,167,740,482

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.

STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE QUARTER ENDED SEPTEMBER 30, 1998	FOR THE QUARTER ENDED SEPTEMBER 30, 1997
INTEREST INCOME:		
Mortgage-Backed Securities	\$ 24,008,528	\$ 6,123,442
Money market account	39	15
Total interest income	24,008,567	6,123,457
INTEREST EXPENSE:		
Repurchase agreements	20,765,301	5,126,089
NET INTEREST INCOME	3,243,266	997,368
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	993,630	429,400
GENERAL AND ADMINISTRATIVE EXPENSES	528,240	227,245
NET INCOME	3,708,656	1,199,523
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on available-for-sale securities	799,319	(444,082)
Less: reclassification adjustment for gains included in net income	(993,630)	(429,400)
Other comprehensive loss	(194,311)	(673,482)
COMPREHENSIVE INCOME	\$ 3,514,345	\$ 326,041
NET INCOME PER SHARE:		
Basic	\$ 0.29	\$ 0.32
Diluted	\$ 0.29	\$ 0.31
AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	12,704,194	3,739,170
Diluted	12,785,765	3,822,470

ANNALY MORTGAGE MANAGEMENT, INC.

STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998	FEBRUARY 18, 1997 THROUGH SEPTEMBER 30, 1997
INTEREST INCOME:		
Mortgage-Backed Securities	\$67,849,165	\$12,601,604
Money market account	76	30,760
Total interest income	67,849,241	12,632,364
INTEREST EXPENSE:		
Repurchase agreements	57,256,355	10,274,906
NET INTEREST INCOME	10,592,886	2,357,458
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	2,716,589	659,265
GENERAL AND ADMINISTRATIVE EXPENSES	1,506,139	477,141
NET INCOME	11,803,336	2,539,582
OTHER COMPREHENSIVE INCOME		
Unrealized loss on available-for-sale securities	(1,411,879)	(512,978)
Less: reclassification adjustment for gains included in net income	(2,716,589)	(659,265)
Other comprehensive loss	(4,128,468)	(1,172,243)
COMPREHENSIVE INCOME	\$ 7,674,868	\$ 1,367,339
NET INCOME PER SHARE:		
Basic	\$0.93	\$0.68
Diluted	\$0.91	\$0.67
AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	12,729,673	3,704,194
Diluted	13,028,970	3,787,494

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 1998
(UNAUDITED)

	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	COMPREHENSIVE INCOME	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME
BALANCE, DECEMBER 31, 1997	\$127,139	\$132,705,765			\$ 229,623	\$ 2,023,751
Comprehensive income:						
Net income				\$ 4,708,150	4,708,150	
Other comprehensive income						
Unrealized gains (losses) on securities, net of reclassification adjustment				(4,112,308)		(4,112,308)
Comprehensive income				\$ 595,842		
Exercise of stock options	438	193,262				
Additional cost of Initial Public Offering		(130,248)				
Dividends declared for the quarter ended March 31, 1998 - \$0.32 per average share					(4,082,456)	
BALANCE, MARCH 31, 1998	\$127,577	\$132,768,779	\$ -		\$ 855,317	\$ (2,088,557)
Comprehensive income:						
Net income				\$ 3,386,530	3,386,530	
Other comprehensive income						
Unrealized gains (losses) on securities, net of reclassification adjustment				178,151		178,151
Comprehensive income				\$ 3,564,681		
Dividends declared for the quarter ended June 30, 1998 - \$0.32 per average share					(4,082,456)	
BALANCE, JUNE 30, 1998	\$127,577	\$132,768,779	\$ -		\$ 159,391	\$ (1,910,406)
Comprehensive income:						
Net income				\$ 3,708,656	3,708,656	
Other comprehensive income						
Unrealized gains (losses) on securities, net of reclassification adjustment				(194,311)		(194,311)
Comprehensive income				\$ 3,514,345		
Stock buyback			(903,163)			
Dividends declared for the quarter ended September 30, 1998 - \$0.27 per average share					(3,414,980)	
BALANCE, SEPTEMBER 30, 1998	\$127,577	\$132,768,779	\$ (903,163)		\$ 453,067	\$ (2,104,717)
DISCLOSURE OF RECLASSIFICATION AMOUNT:						
Unrealized holding losses arising during period				\$ (1,411,879)		
Less: reclassification adjustment for gains included in net income				(2,716,589)		
Net unrealized losses on securities				\$ (4,128,468)		

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE QUARTER ENDED SEPTEMBER 30, 1997	FOR THE QUARTER ENDED SEPTEMBER 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,199,523	\$ 3,708,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage premiums and discounts, net	680,180	2,239,747
Gain on sale of Mortgage-Backed Securities	(429,400)	(993,630)
(Increase) decrease in accrued interest receivable	(164,045)	41,076
(Increase) decrease in other assets	(228,617)	14,394
(Decrease) increase in accrued interest payable	(10,045)	2,537,065
Increase in accounts payable	129,132	117,600
Net cash provided by operating activities	1,176,728	7,664,908
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Mortgage-Backed Securities	(119,167,540)	(241,286,923)
Proceeds from sale of Mortgage-Backed Securities	53,091,067	83,224,377
Principal payments on Mortgage-Backed Securities	19,639,368	121,339,783
Net cash used in investing activities	(46,437,105)	(36,722,763)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	778,218,036	2,288,511,000
Principal payments on repurchase agreements	(732,914,112)	(2,254,398,000)
Purchase of Treasury Stock		(903,163)
Proceeds from direct offering	878,000	
Dividends paid	(938,400)	(4,082,456)
Net cash provided by financing activities	45,243,524	29,127,381
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,853)	69,526
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,005	67,995
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,152	\$ 137,521
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 5,136,134	\$ 18,318,236
NONCASH FINANCING ACTIVITIES:		
Net unrealized losses on available-for-sale securities	\$ (1,172,243)	\$ (2,104,717)
Dividends declared, not yet paid	\$ 678,204	\$ 3,414,980

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FEBRUARY 18, 1997 THROUGH SEPTEMBER 30, 1997	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,539,582	\$ 11,803,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage premiums and discounts, net	1,302,859	6,093,183
Gain on sale of Mortgage-Backed Securities	(659,265)	(2,716,589)
Increase in accrued interest receivable	(2,109,622)	(2,199,406)
Increase in other assets	(238,813)	(118,950)
Increase in accrued interest payable	2,394,179	8,444,993
Increase in accounts payable	156,546	42,056
Net cash provided by operating activities	3,385,466	21,348,623
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Mortgage-Backed Securities	(537,583,640)	(1,203,070,837)
Proceeds from sale of Mortgage-Backed Securities	95,963,096	308,163,885
Principal payments on Mortgage-Backed Securities	33,299,701	353,474,359
Net cash used in investing activities	(408,320,843)	(541,432,593)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	1,563,478,126	7,530,044,000
Principal payments on repurchase agreements	(1,191,187,112)	(6,998,532,000)
Proceeds from exercise of stock options		193,700
Proceeds from private placement of equity capital	32,979,904	
Net proceeds from direct offering	878,000	
Additional cost of initial public offering		(130,248)
Purchase of Treasury Stock		(903,163)
Dividends paid	(1,214,400)	(10,961,970)
Net cash provided by financing activities	404,934,518	519,710,319
NET DECREASE IN CASH AND CASH EQUIVALENTS	(859)	(373,651)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,011	511,172
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,152	\$ 137,521
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 7,880,727	\$ 48,811,362
NONCASH FINANCING ACTIVITIES:		
Net unrealized losses on available-for-sale securities	\$ (1,172,243)	\$ (2,104,717)
Dividends declared, not yet paid	\$ 678,204	\$ 3,414,980

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998
(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. 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 and nine month periods are unaudited; however, in the opinion of the Company's management, all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations have been included. These unaudited financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on form 10-K for the period ended December 31, 1997. 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 period ended December 31, 1997 and the nine months ended September 30, 1998.

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

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

CREDIT RISK - At September 30, 1998, the Company has limited exposure to credit losses on its portfolio of Mortgage-Backed Securities by only purchasing securities from Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), or Government National Mortgage Association ("GNMA"). The payment of principal and interest on the FHLMC and FNMA Mortgage-Backed Securities are guaranteed by those respective agencies and the payment of principal and interest on the GNMA Mortgage-Backed Securities are backed by the full-faith-and-credit of the U.S. government.

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 December 31, 1997, 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	\$273,119,008	\$691,081,916	\$174,164,513	\$1,138,365,437
Unamortized discount	(3,619)	(110,567)	-	(114,186)
Unamortized premium	2,848,376	14,532,363	4,123,451	21,504,190
-----	-----	-----	-----	-----
Amortized cost	275,963,765	705,503,712	178,287,964	1,159,755,441
Gross unrealized gains	376,485	1,948,068	928,453	3,253,006
Gross unrealized losses	(115,190)	(802,801)	(311,264)	(1,229,255)
-----	-----	-----	-----	-----
Estimated fair value	\$276,225,060 =====	\$706,648,979 =====	\$178,905,153 =====	\$1,161,779,192 =====

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of September 30, 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	\$417,101,660	\$875,488,645	\$168,465,774	\$1,461,056,079
Unamortized discount	(156,372)	(815,822)	-	(972,194)
Unamortized premium	9,056,444	13,271,602	2,887,945	25,215,991
-----	-----	-----	-----	-----
Amortized cost	426,001,732	887,944,425	171,353,719	1,485,299,876
Gross unrealized gains	95,900	4,952,420	2,011,321	7,059,641
Gross unrealized losses	(4,101,210)	(4,505,385)	(557,764)	(9,164,359)
-----	-----	-----	-----	-----
Estimated fair value	\$421,996,422 =====	\$888,391,460 =====	\$172,807,276 =====	\$1,483,195,158 =====

FASB Statement No. 107, Disclosures About Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the Company's Mortgage-Backed Securities are based on market prices provided by certain dealers who make markets in these financial instruments. The fair values reported reflect estimates and may not necessarily be indicative of the amounts the Company could realize in a current market exchange. Cash and cash equivalents, interest receivable, repurchase agreements and other liabilities are reflected in the financial statements at their amortized cost, which approximates their fair value because of the short-term nature of these instruments.

The adjustable rate Mortgage-Backed Securities may be limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months) and lifetime caps. At December 31, 1997, the weighted average lifetime cap was 10.8%. At September 30, 1998, the weighted average lifetime cap was 10.4%.

During the nine months ended September 30, 1998, the Company realized \$2,716,589 in gains from sales of Mortgage-Backed Securities. There were no losses on sales of Mortgage-Backed Securities for the nine months ended September 30, 1998.

3. REPURCHASE AGREEMENTS

The Company has entered into repurchase agreements to finance most of its Mortgage-Backed Securities. The repurchase agreements are secured by the market value of the Company's Mortgage-Backed Securities and bear interest rates that have historically moved in close relationship to LIBOR.

As of December 31, 1997, the Company had outstanding \$918,869,000 of repurchase agreements with a weighted average borrowing rate of 6.16% and a weighted average remaining maturity of 16 days. At December 31, 1997, Mortgage-Backed Securities actually pledged had an estimated fair value of \$936,859,658. As of September 30, 1998, the Company had outstanding \$1,450,381,000 of repurchase agreements with a weighted average borrowing rate of 5.59% and a weighted average remaining maturity of 29 days. At September 30, 1998, Mortgage-Backed Securities actually pledged had an estimated fair value of \$1,458,669,073.

At December 31, 1997 and September 30, 1998, the repurchase agreements had the following remaining maturities:

	December 31, 1997	September 30, 1998
Within 30 days	\$ 590,960,000	\$ 999,339,000
30 to 59 days	51,776,000	327,705,000
60 to 89 days		-
90 to 119 days	103,391,000	32,806,000
Over 120 days	172,742,000	90,531,000
	-----	-----
	\$ 918,869,000	\$1,450,381,000
	=====	=====

4. COMMON STOCK

Options were exercised during the nine month period. The number of stock options exercised was 43,774, with a total amount paid of \$193,700. Also, during the quarter 109,600 shares of common stock were acquired in the Company's Stock Buyback Program, at a cost of \$903,163. At September 30, 1998 total shares outstanding less treasury stock totaled 12,648,074

During the Company's quarter ending March 31, 1998, the Company declared dividends to shareholders totaling \$4,082,456, or \$.32 per weighted average share which was paid on April 20, 1998. During the Company's quarter ending June 30, 1998, the Company declared dividends to shareholders totaling \$4,082,456, or \$.32 per weighted average share which was paid on July 27, 1998. During the Company's quarter ending September 30, 1998, the Company declared dividends to shareholders totaling \$3,414,980, or \$.27 per weighted average share which was paid on October 12, 1998. For Federal income tax purposes dividends paid for the nine month period is 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. The reconciliation is as follows:

	FOR THE PERIOD ENDED DECEMBER 31, 1997 INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
	-----	-----	-----
Net income	\$11,803,336		
Basic EPS	11,803,336	12,729,673	\$0.93
Effect of dilutive securities:			=====
Dilutive stock options		299,297	
Diluted EPS	\$11,803,336	13,028,970	\$0.91
	-----	-----	-----

Options to purchase 446,434 shares were outstanding and dilutive at period end, as the exercise price (between \$4.00 and \$8.13) was less than the average stock price for the nine months of \$9.82. Options to purchase 147,676 shares of stock were outstanding and are not considered dilutive. The exercise price (between \$10.00 and \$11.25) was greater than the average stock price for the nine months of \$9.82.

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 September 30, 1998 held securities classified as available-for-sale, which have unrealized losses of \$2,104,717.

7. LEASE COMMITMENTS

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

1998	\$ 67,787
1999	92,804
2000	95,299
2001	97,868
2002	100,515
2003 and thereafter	582,406

	\$1,036,679
	=====

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

SAFE HARBOR STATEMENT

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this discussion regarding the Company and its business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Form 10-K for the year ended December 31, 1997.

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 \$99.0 million. During the third quarter of 1998, the Company initiated a stock buy back program. At September 30, 1998 109,600 shares were repurchased at a cost of \$903,163.

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. Since the commencement of operations on February 18, 1997, the Company has been in the process of building its balance sheet by acquiring Mortgage-Backed Securities. Therefore, the operating results of the Company reflected in the financial statements included in this Form 10-Q should be interpreted in light of this growth process and are not necessarily representative of what they may be in the future.

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 The Company's 1997 fiscal year commenced with the start of operations on February 18, 1997 and concluded on December 31, 1997. The 317-day period from February 18, 1997 to December 31, 1997 is referred to herein as "the period ended December 31, 1997." The 225-day period from February 18, 1997 to September 30, 1997 is referred to herein as "the period ended September 30, 1997." The quarters ended September 30, 1997, March 31, 1998, June 30, 1998 and September 30, 1998 are their calendar equivalents.

NET INCOME SUMMARY

For the quarter ended September 30, 1998, net income, as calculated according to Generally Accepted Accounting Principles ("GAAP"), was \$3,708,656, or \$0.29 basic earnings per share, as compared to the quarter ended September 30, 1997 of \$1,199,523, or \$0.32 basic earnings per share. Taxable earnings per share for the quarter ended September 30, 1998 was \$3,937,459, or \$0.31 per average share. For the nine months ended September 30, 1998, GAAP net income was \$11,803,336 or \$0.93 basic per average share, as compared to the period ended September 30, 1997 of \$2,539,582, or \$0.68 basic per average share. Taxable income for the nine months ended September 30, 1998 was \$12,338,096 or \$0.97 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 nine month period, which was 12,729,673 and 12,704,194 for the quarter. Dividends per weighted average number of shares outstanding for the quarter were \$0.27 per share, \$3,414,980 in total. Return on average equity was 11.31% on an annualized basis.

Comparing net income for the period February 18, 1997 through September 30, 1997 to the nine months ended September 30, 1998 may be deceptive. The 225-day period ended September 30, 1997 is a shortened operating period and not a full nine months. Secondly, at September 30, 1997 the Company's asset base was substantially lower than at September 30, 1998. The reason for the asset size difference is twofold. First, the Company was in an asset acquisition period. Additionally, the Company's capital base was only \$32 million, as compared to \$130 million at September 30, 1998.

Management's policy is to focus on income and expense measures as a percentage of equity rather than as a percentage of assets. Therefore, improvements in asset-based measures such as net interest margin or operating expenses as a percentage of assets do not necessarily translate into improved stockholder returns. Improvements in net interest income or operating expenses as a percentage of equity, however, indicate that the Company is effectively utilizing its equity capital base. The Company seeks to increase net income as a percentage of equity consistent with its Capital Investment Policy.

NET INCOME SUMMARY

	Quarter Ended September 30, 1998 (dollars in thousands, except per share amounts)	Nine months ended September 30, 1998 (dollars in thousands, except per share amounts)
Interest Income	\$ 24,008	\$ 67,849
Interest Expense	20,765	57,256
Net Interest Income	3,243	10,593
Gain on Sale of Mortgage-Backed Securities	994	2,717
General and Administrative Expenses	528	1,506
Net Income	\$ 3,709	\$ 11,803
Average Number of Outstanding Shares	12,704,194	12,729,673
Basic Net Income Per Share	\$ 0.29	\$ 0.93
Diluted Net Income Per Share	\$ 0.29	\$ 0.91
Average Total Assets	\$ 1,554,123	\$ 1,473,719
Average Equity	\$ 131,148	\$ 132,442
Annualized Return on Average Assets	.95%	1.07%
Annualized Return on Average Equity	11.31%	11.88%

TAXABLE INCOME AND GAAP INCOME

For the quarter ended September 30, 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 amortization and general and administrative expenses. For the period February 18, 1997 through September 30, 1997 there were no differences between GAAP and taxable income.

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

TAXABLE INCOME

	GAAP Net Income	Taxable General & Administrative Differences	Taxable Mortgage Amortization Differences	Taxable Gain on Sale of Securities Differences	Taxable Net Income
(dollars in thousands)					
For the Quarter Ended September 30, 1998	\$3,709		\$ 228		\$3,937
For the Quarter Ended June 30, 1998	\$3,387	\$2	\$ 376		\$3,766
For the Quarter Ended March 31, 1998	\$4,708	\$1	(\$74)		\$4,635
For the Period Ended December 31, 1997	\$4,919	\$3	(\$92)	\$54	\$4,884

INTEREST INCOME AND AVERAGE EARNING ASSET YIELD

The Company had average earning assets of \$1,543.0 million for the quarter ended September 30, 1998. The Company's primary source of income for the nine months ended September 30, 1998 was interest income. A portion of income was generated by gains on sales of Mortgage-Backed Securities. Interest income was \$24,009 million for the quarter ended September 30, 1998. The yield on average earning assets was 6.22% for the same period. 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.

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
(dollars in thousand)					
For the Quarter Ended September 30, 1998	\$ 2	\$1,543,010	\$1,543,012	4.20%	6.22%
For the Quarter Ended June 30, 1998	\$ 2	\$1,568,022	\$1,568,024	4.35%	6.13%
For the Quarter Ended March 31, 1998	\$ 2	\$1,307,088	\$1,307,090	4.45%	6.15%
For the Period Ended December 31, 1997	\$30	\$ 448,276	\$ 448,306	4.20%	6.34%

	Yield on Average Earning Assets	Interest Income
For the Quarter Ended September 30, 1998	6.22%	\$24,009
For the Quarter Ended June 30, 1998	6.13%	\$23,762
For the Quarter Ended March 31, 1998	6.15%	\$20,079
For the Period Ended December 31, 1997	6.34%	\$24,713

The Constant Prepayment Rate (or "CPR") on the Company's portfolio of Mortgage-Backed Securities for the quarter ended September 30, 1998 was 21%. "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 quarter ended September 30, 1998 because the Company adjusts its rates of premium amortization and discount accretion monthly based on actual payments received.

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 \$1,460.6 million and total interest expense of \$20.8 million for the quarter ended September 30, 1998. Interest expense for the quarter ended September 30, 1997 was \$5.1 million. The average cost of funds was 5.59% for the quarter ended September 30, 1998. Interest expense is calculated in the same manner for GAAP and tax purposes.

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 0.06% above one-month LIBOR for the quarter ended September 30, 1998. The Company generally has structured its borrowings to adjust with one-month LIBOR because the Company believes that one-month LIBOR may continue to be lower than six-month LIBOR in the present interest rate environment. During the quarter ended September 30, 1998, average one-month LIBOR, which was 5.62%, was 0.01% lower than average six-month LIBOR, which was 5.63%.

The table below shows the Company's average borrowed funds and average cost of funds as compared to average one- and average six-month LIBOR.

	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
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%)
For the Period Ended December 31, 1997	\$ 404,140	\$19,677	5.61%	5.67%	5.87%	(0.20%)	(0.06%)	(0.26%)

Net Interest Rate Agreement Expense

The Company did not enter 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 risk and would be designed to provide income and capital appreciation to the Company in the event of certain changes in interest rates. 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 \$3.2 million for the quarter ended September 30, 1998 and \$997,368 for the quarter ended September 30, 1997. 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 0.54% for the quarter ended

September 30, 1998. Net interest margin, which equals net interest income divided by average total assets, was .83% on an annualized basis. Taxable net interest income was \$228,422 greater than GAAP net interest income because of differing premium amortization. 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 are funded with equity rather than borrowings. The Company did not have any interest rate agreement expenses for the quarter ended September 30, 1998

The table below shows 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 September 30, 1998, June 30, 1998, March 31, 1998, and the period ended December 31, 1997.

	GAAP Net Interest Income						
	(dollars in thousands)						
	Amortized Cost of Mortgage- Backed Securities Held	Interest Income on Mortgage- Backed Securities	Average Cash Equivalents	Interest Income on Cash Equivalents	Total Interest Income	Yield on Average Interest Earning Assets	Average Balance of Repurchase Agreements
For the Quarter Ended September 30, 1998	\$1,543,010	\$24,009	\$ 2		\$24,009	6.22%	1,460,612
For the Quarter Ended June 30, 1998	\$1,568,022	\$23,762	\$ 2		\$23,762	6.13%	\$1,440,822
For the Quarter Ended March 31, 1998	\$1,307,088	\$20,079	\$ 2		\$20,079	6.15%	\$1,167,483
For the Period Ended December 31, 1997	\$ 448,276	\$24,682	\$30	\$31	\$24,713	6.34%	\$ 404,140
	Interest Expense	Average Cost of Funds	Net Interest Income				
For the Quarter Ended September 30, 1998	20,765	5.68%	3,244				
For the Quarter Ended June 30, 1998	\$ 20,178	5.60%	\$3,584				
For the Quarter Ended March 31, 1998	\$ 16,313	5.59%	\$3,765				
For the Period Ended December 31, 1997	\$ 19,677	5.61%	\$5,036				

GAINS AND LOSSES ON SALES OF MORTGAGE-BACKED SECURITIES

For the quarter ended September 30, 1998, the Company sold Mortgage-Backed Securities with an aggregate historical amortized cost of \$82.2 million for an aggregate gain of \$993,630 million. During the quarter ended September 30, 1997 the Company sold Mortgage-Backed Securities with a historical amortized cost of \$52.7 million for an aggregate gain of \$429,400. 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. At September 30, 1998, the Company had limited its exposure to credit losses on its portfolio of Mortgage-Backed Securities by purchasing only 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 \$528,240 for the quarter ended September 30, 1998 and \$227,245 for the quarter ended September 30, 1997. Taxable G&A expenses were \$380 less than for GAAP purposes for the quarter ended September 30, 1998.

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
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%	
For the Period Ended December 31, 1997	\$492	\$360	\$852	0.21%	1.61%	

NET INCOME AND RETURN ON AVERAGE EQUITY

Net income was \$3.7 million in the quarter ended September 30, 1998. Return on average equity was 11.31% on an annualized basis. The table below shows, on an annualized basis, 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.

COMPONENTS OF RETURN ON AVERAGE EQUITY

	Net Interest Income/Average Equity	Gain on Sale of Mortgage-Backed Securities/Average Equity	GA Expense/Average Equity	Return on Average Equity
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%
For the Period Ended December 31, 1997 (on an annualized basis)	9.49%	1.39%	1.61%	9.27%

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 September 30, 1998, earned taxable income exceeded dividend declarations by \$952,984, or \$0.07 per share, based on the number of shares of Common Stock outstanding at period end.

DIVIDEND SUMMARY

	Taxable Net Income	Weighted Average Common Shares Outstanding	Taxable Net Income Per Share	Dividends Declared Per Share	Total Dividends	Dividend Pay-out Ratio	Cumulative Undistributed Taxable Income
	(dollars in thousands, except per share data)						
For the Quarter Ended September 30, 1998	\$3,937	12,704,194	\$0.31	\$0.27	\$3,415	83.74%	\$952
For the Quarter Ended June 30, 1998	\$3,765	12,757,674	\$0.29	\$0.32	\$4,082	108.39%	\$430
For the Quarter Ended March 31, 1998	\$4,635	12,727,405	\$0.36	\$0.32	\$4,082	88.07%	\$747
For the Period Ended December 31, 1997	\$4,884	5,952,123	\$0.82	\$0.79	\$4,690	96.0%	\$194

FINANCIAL CONDITION

MORTGAGE-BACKED SECURITIES

All of the Company's Mortgage-Backed Securities at September 30, 1998 were adjustable-rate or fixed-rate 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 September 30, 1998, all the Company's Mortgage-Backed Securities were Agency Certificates, which carry a S&P "AAA" rating or 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 September 30, 1998, the Company had on its balance sheet a total of \$972,194 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 \$25.2 million 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 \$121.3 million for the quarter ended September 30, 1998. 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 September 30, 1998, June 30, 1998, March 31, 1998 and December 31, 1997.

MORTGAGE-BACKED SECURITIES

	Principal Value	Net Premium	Amortized Cost	Amortized Cost/Principal Value	Estimated Fair Value	Estimated Fair Value/Principal Value	Weighted Average Yield
	(dollars in thousands)						
At September 30, 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%
At December 31, 1997	\$1,138,365	\$21,390	\$1,159,755	101.88%	\$1,161,779	102.06%	6.57%

The tables below set forth certain characteristics of the Company's Mortgage-Backed Securities at September 30, 1998, June 30, 1998, March 31, 1998 and December 31, 1997. 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 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%
At December 31, 1997	\$ 994,653	7.13%	5.52%	1.61%	22 months	10.78%	6.50%	87.38%

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 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	\$318,954	6.85%	6.70%	21.32%
At December 31, 1997	\$143,712	7.50%	7.08%	12.62%

At September 30, 1998, June 30, 1998, March 31, 1998, and December 31, 1997, the Company held Mortgage-Backed Securities with coupons linked to the one- 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

 SEPTEMBER 30, 1998

	One-Month LIBOR	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index
	-----	-----	-----	-----
Weighted Average Adjustment Frequency	1 mo.	6 mo.	20 mo.	36 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	14 mo.	9 mo.
Weighted Average Annual Period Cap	None	1.00%	2.00%	2.00%
Weighted Average Lifetime Cap at September 30, 1998	9.14%	10.95%	11.82%	14.16%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at September 30, 1998	36.55%	4.44%	30.88%	.01%

ADJUSTABLE-RATE MORTGAGE-BACKED SECURITIES BY INDEX

 JUNE 30, 1998

	One-Month LIBOR	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index
	-----	-----	-----	-----
Weighted Average Adjustment Frequency	1 mo.	6 mo.	43 mo.	36 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	32 mo.	13 mo.
Weighted Average Annual Period Cap	None	1.00%	2.00%	2.00%
Weighted Average Lifetime Cap at June 30, 1998	9.15%	10.92%	11.74%	14.16%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at June 30, 1998	36.25%	4.64%	33.01%	.08%

ADJUSTABLE-RATE MORTGAGE-BACKED SECURITIES BY INDEX

 MARCH 31, 1998

	One-Month LIBOR	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index
	-----	-----	-----	-----
Weighted Average Adjustment Frequency	1 mo.	6 mo.	45 mo.	36 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	31 mo.	12 mo.
Weighted Average Annual Period Cap	None	2.00%	1.97%	2.00%
Weighted Average Lifetime Cap at March 31, 1998	9.15%	10.88%	10.69%	14.16%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at March 31, 1998	36.29%	5.51%	36.75%	.13%

ADJUSTABLE-RATE MORTGAGE-BACKED SECURITIES BY INDEX

 DECEMBER 31, 1997

	One-Month LIBOR	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index
	-----	-----	-----	-----
Weighted Average Adjustment Frequency	1 mo.	6 mo.	12 mo.	36 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	6 mo.	12 mo.
Weighted Average Annual Period Cap	None	2.00%	1.78%	2.00%
Weighted Average Lifetime Cap at December 31, 1997	9.21%	10.88%	11.77%	14.16%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 1997	30.94%	7.81%	48.45%	.18%

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

UNREALIZED GAINS AND LOSSES

	At September 30, 1998 (dollars in thousands)	At June 30, 1998 (dollars in thousands)	At March 31, 1997 (dollars in thousands)	At December 31, 1997 (dollars in thousands)
	-----	-----	-----	-----
Unrealized Gain	\$ 7,060	\$ 2,826	\$ 2,622	\$ 3,253
Unrealized Loss	(9,164)	(4,736)	(4,710)	(1,229)
Net Unrealized Gain (Loss)	(2,104)	(1,910)	(2,088)	2,024
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Principal Value	0.14%	0.12%	0.14%	0.20%
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Amortized Cost	0.14%	0.12%	0.14%	0.20%

INTEREST RATE AGREEMENTS

Interest rate agreements are assets that are carried on a balance sheet at estimated liquidation value. At September 30, 1998, there were no interest rate agreements on the Company's balance sheet.

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 September 30, 1998, 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 September 30, 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 88 days and a weighted average remaining maturity of

29 days at September 30, 1998. 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 September 30, 1998, the weighted average cost of funds for all of the Company's borrowings was 5.59% and the weighted average term to next rate adjustment was 29 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 September 30, 1998 was \$131.0 million, or \$10.30 per share. If the Company had used historical amortized cost accounting, the Company's equity base at September 30, 1998 would have been \$133.0 million, or \$10.47 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 \$2.1 million, or 0.14% of the amortized cost of Mortgage-Backed Securities at September 30, 1998.

The table below shows the Company's equity capital base as reported and on a historical amortized cost basis at September 30, 1998, June 30, 1998, March 31, 1998 and December 31, 1997. 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 Gains (Losses) on Assets Available for Sale" account.

STOCKHOLDERS' EQUITY

	Historical Amortized Cost Equity Base	Net Unrealized Gains (Losses) on Assets Available	GAAP Reported Equity Base	Historical Amortized Cost Equity Per Share	GAAP Reported Equity (Book Value) Per Share
		for Sale	(Book Value)		
		(dollars in thousands, except per share data)			
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
At December 31, 1997	\$133,063	\$2,024	\$135,087	\$10.47	\$10.62

LEVERAGE

The Company's debt-to-GAAP reported equity ratio at September 30, 1998 was 11.1:1. 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 will seek 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.

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, as compared to the Code requirement that at least 75% of its total assets must be qualified REIT Assets. The Company also calculates that 96.2% of its revenue qualifies for the 75% source of income test and 100% of its revenue qualifies for the 95% source of income test under the REIT rules. The Company also met all REIT requirements regarding the ownership of its common stock and the distributions of its net income. Therefore, as of September 30, 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 September 30, 1998, the Company calculates that it is in compliance with this requirement.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 1 - Financial Data Schedule

(b) Reports

None

26

SIGNATURES

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

ANNALY MORTGAGE MANAGEMENT, INC.

Dated: November 13, 1998

By: /s/ Michael A.J. Farrell

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

Dated: November 13, 1998

By: /s/ Kathryn F. Fagan

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

27

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM SEPTEMBER 30, 1998 QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH

1,000

	3-MOS	
	DEC-31-1998	
	JUL-01-1998	
	SEP-30-1998	
	1,483,195	137
	0	
	0	
	0	
	1,597,737	82
	0	
	1,597,819	
	1,467,477	0
	0	
	0	
	131,993	
	(1,652)	
1,597,819		0
	24,009	0
	0	
	528	
	0	
	20,765	
	3,709	
	0	
	3,709	
	0	
	0	
	0	
	3,709	
	0.29	
	0.29	