AMERICAN HOME MORTGAGE INVESTMENT CORP
Form 10-K
March 15, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003.

OR

[_] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period From ___________ to ___________.

Commission File Number 001-31916

AMERICAN HOME MORTGAGE INVESTMENT CORP.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	20-0103914
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

520 Broadhollow Road, Melville, NY 11747
(Address of Principal Executive Offices) (Zip Code)

(516) 949-3900
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

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

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming for these purposes, but without conceding, that all executive officers and directors are "affiliates" of the registrant), as of December 31, 2003, was approximately $394,714,235 (computed by reference to the closing price of the common stock of American Home Mortgage Holdings, Inc., the predecessor corporation of the registrant ("Holdings"), on the Nasdaq National Market as of the last business day of Holdings' most recently completed second fiscal quarter).

As of March 8, 2004, there were 39,858,660 shares of Common Stock outstanding.

Documents Incorporated By Reference:

The information required to be furnished pursuant to Part III of this Form 10-K will be set forth in, and incorporated by reference from, the registrant's definitive proxy statement for the registrant's 2004 Annual Meeting of Stockholders, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2003.

TABLE OF CONTENTS

PART III

PART IV

PART I

SPECIAL NOTES OF CAUTION

Regarding Forward-Looking Statements

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

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

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

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

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

1

In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this report might not occur, and we qualify any and all of our forward-looking statements entirely by these cautionary factors. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements are inherently uncertain, and actual results may differ from expectations. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1. BUSINESS

General

We are in the business of investing in mortgage-backed securities resulting from the securitization of prime-quality residential mortgage loans that we originate and service. Self-originating the loans underlying our securities allows us to invest in those securities at a lower cost than acquiring similar assets in the capital markets, and therefore is expected to enhance the return we earn on those securities. Our business strategy is to securitize most of the adjustable-rate mortgage, or ARM, loans that we originate, to hold substantially all of the securities resulting from these securitizations, to service those loans underlying our securities and to sell the fixed-rate mortgage loans that we originate. Generally, loans we originate are high-credit-quality prime loans that are either eligible for sale to Fannie Mae or Freddie Mac, or are jumbo loans for borrowers with higher FICO credit scores. We will elect in our 2003 tax return to be treated as a real estate investment trust, or REIT, and we expect to qualify as a REIT for federal income tax purposes from our date of incorporation. Consequently, the net interest income we earn on the securities we hold generally is not subject to federal income tax to the extent we distribute those earnings to stockholders.

We originate loans through our mortgage banking operation, which made approximately $21.7 billion of loans in 2003, and which is ranked as the nation's 25th largest residential mortgage lender. We offer a broad array of home mortgage products through an extensive nationwide network of retail loan production offices as well as through our wholesale and Internet mortgage lending operations. We operate 272 loan production offices in 34 states and make loans throughout all 50 states. Our mortgage banking operation also services the loans underlying the securities we retain for investment as well as certain of the loans we sell to third-party purchasers. The notional amount of loans we service was approximately $8.3 billion as of December 31, 2003.

We seek to generate attractive, long-term investment returns from the mortgage-backed securities that we hold. We believe that our return is enhanced as the result of our ability to self-originate the mortgage loans underlying these securities, which results in a lower acquisition cost of the securities, and not from anticipating market forces, such as the direction of interest rates. We limit our exposure to fluctuating interest rates by attempting to match the duration of our liabilities with the duration of our mortgage loan holdings. We also seek to reduce risk by holding primarily securities backed by ARM loans with investment characteristics that are less sensitive to changes in interest rates and that are easier to match-fund than fixed-rate loans.

We hold our mortgage-backed securities directly or in qualified REIT subsidiaries, or QRSs, while our mortgage banking operation is housed in our taxable REIT subsidiaries, or TRSs. As a result, the net interest income we earn on our long-term mortgage portfolio is generally not subject to federal income tax to the extent we distribute those earnings to stockholders. Although the activities we conduct in our TRSs, including sourcing, selling and servicing mortgage loans, are subject to federal and state corporate income tax, we are able to retain any after-tax income they generate, and, as a result, may increase our consolidated capital and thereby grow our business through retained earnings. In addition, we may dividend all or a portion of our after-tax TRS earnings to our stockholders. After-tax income from our TRSs paid as dividends to our stockholders is taxable as ordinary income for federal income tax purposes, but may qualify to be taxable to U.S. individuals at a reduced tax rate of 15%. Income and gain from our portfolio of mortgage-backed securities held in the REIT or our QRS is taxable as ordinary income or capital gains for federal income tax purposes.

In this report, unless the context indicates otherwise, references to the "Company," "we," "our" and "us" refer to the activities of and the assets and liabilities of the business and operations of American Home Mortgage Investment Corp. ("AHM Investment"), including our material subsidiaries, American Home Mortgage Holdings, Inc. ("AHM Holdings"), American Home Mortgage Corp. ("AHM Corp."), Columbia National, Incorporated ("Columbia"), and American Home Mortgage Acceptance, Inc. ("AHM Acceptance").

Company History

AHM Investment was incorporated in July 2003 under the laws of the State of Maryland. AHM Investment was formed in order to combine the net assets of

Apex Mortgage Capital, Inc., a Maryland corporation operating as a REIT ("Apex"), with the

mortgage origination and servicing businesses of AHM Holdings. In December 2003, AHM Investment became the parent company of AHM Holdings through an internal reorganization and acquired Apex by merger. In connection with these transactions, the common stock of AHM Investment was exchanged for the outstanding shares of common stock of AHM Holdings and Apex. Our strategy in combining the net assets of Apex with the origination and servicing businesses of AHM Holdings was, among other things, to realize the benefits of holding a portfolio of self-originated mortgage-backed securities.

Prior to the merger, Apex operated and elected to be taxed as a REIT. Apex was formed on September 15, 1997, primarily to acquire United States agency and other highly rated, single-family real estate adjustable and fixed rate mortgage-related assets. Apex commenced operations on December 9, 1997, following the initial public offering of Apex's common stock.

Historically, AHM Corp. operated as an independent mortgage lender from its formation in 1988 until 1999. On June 15, 1999, AHM Holdings was formed to serve as a holding company for AHM Corp. On October 6, 1999, AHM Holdings completed its initial public offering of common stock and became the parent holding company of AHM Corp. Since its initial public offering, the Company has grown primarily by acquisition. The Company's major acquisitions are as follows:

- In December 1999, AHM Holdings acquired Marina Mortgage Company, Inc., a California mortgage banking corporation ("Marina"). Marina initially operated as a wholly-owned subsidiary of AHM Holdings and was merged with and into AHM Corp. on December 31, 2001. AHM Holdings purchased Marina for a combination of cash and stock consideration.

- In June 2000, AHM Holdings acquired First Home Mortgage Corp., an Illinois corporation ("First Home"), which was concurrently merged with and into AHM Corp. Before the acquisition, First Home was an independent mortgage lender based in metropolitan Chicago. AHM Holdings purchased First Home for a combination of cash and stock consideration.

- In October 2000, AHM Corp. acquired four loan origination offices from Roslyn National Mortgage Corporation for cash consideration of approximately $500,000 and the assumption of certain liabilities, including the assumption of the real property leases for the four acquired branch offices.

- In March 2001, AHM Corp. acquired the Pennsylvania and Maryland loan origination offices of ComNet Mortgage Services ("ComNet"), the residential mortgage division of Commonwealth Bank, a subsidiary of Commonwealth Bancorp, for a nominal amount of cash as well as the assumption of real property leases of the five acquired branch offices.

- In June 2002, the Company acquired Columbia National, Incorporated, a Maryland corporation, and its captive reinsurance subsidiary, CNI Reinsurance, Ltd., for cash consideration of $37 million. Prior to the acquisition, Columbia was an independent mortgage lender and servicer based in Columbia, Maryland. Columbia now operates as a wholly owned subsidiary of AHM Holdings.

- In March 2003, AHM Corp. paid $2.4 million in cash for certain assets of Principal Residential Mortgage, Inc. ("Principal"), the mortgage banking subsidiary of the Principal Financial Group, including (i) Principal's 75 mortgage branches located in 21 states and (ii) Principal's then-current mortgage loan application pipeline.

- In June 2003, AHM Corp. acquired six mortgage loan origination offices from American Mortgage LLC and American National Bank of DeKalb County for cash consideration of approximately $1.6 million.

In addition, in August 2001, AHM Holdings entered into an agreement to acquire Valley Bancorp, Inc. ("Valley Bancorp") and its wholly-owned subsidiary, Valley Bank of Maryland, a federal savings bank located in suburban Baltimore, Maryland, for a combination of cash and stock, subject to certain adjustments. Under the terms of the definitive agreement, the Company will pay 1.275 times Valley Bancorp's book value, or approximately $5.9 million. The acquisition agreement between AHM Holdings and Valley Bancorp has been extended through July 31, 2004. This transaction is subject to regulatory approval and no assurance can be given that such approval will be obtained or that the acquisition agreement with Valley Bancorp will be further extended if necessary.

Before our conversion into a REIT, our business strategy was to sell the loans we originated and the largest component of our net income was generated by the gain on sale of such loans. Our historical financial results were generated by this discontinued strategy of selling virtually all of the loans that we originated. Since our REIT conversion, our business strategy is to hold the mortgage-backed securities resulting from the securitization of ARM loans we originate, and, consequently, we believe that the largest component of our net income in the future will be net interest income generated by our holdings. While

we expect that holding our originations in securitized form will be beneficial to our financial results, we cannot assure you that our new business strategy will be successful.

Access to Our Periodic SEC Reports and Other Information

The Company's website is http://www.americanhm.com. The Company makes available free of charge on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). We also will provide any of the foregoing information without charge upon written request to Alan B. Horn, Corporate Secretary, American Home Mortgage Investment Corp., 520 Broadhollow Road, Melville, New York 11747.

In addition, concurrently with the filing with the SEC of our proxy materials for our 2004 Annual Meeting of Stockholders, we intend to make available on our website (i) the charters for the committees of the Company's Board of Directors, including the Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee, (ii) the Company's Corporate Governance Principles and (iii) the Company's Code of Business Conduct and Ethics (the "Code of Ethics") governing its directors, officers and employees.

Within the time period required by the SEC and the New York Stock Exchange, Inc. (the "NYSE"), the Company will post on its website any modifications to the Code of Ethics and any waivers applicable to Senior Financial Officers, as defined in the Code of Ethics, as required by the Sarbanes-Oxley Act of 2002.

Description of Business

Our business consists of originating and servicing primarily prime quality residential mortgage loans, securitizing or selling certain loans and holding mortgage-backed securities for spread income. We expect to qualify as a REIT for U.S. federal income tax purposes. Our REIT-eligible assets and activities are held and performed at the parent level or in qualified REIT subsidiaries. As of December 31, 2003, we had one QRS, AHM Acceptance. Our assets and activities that are not REIT-eligible, such as the mortgage origination and servicing businesses, are conducted by AHM Holdings, a taxable REIT subsidiary, and its subsidiaries, AHM Corp. and Columbia.

Mortgage-Backed Securities Holdings Segment

Our current portfolio strategy, which is subject to change at any time without advance notice to our stockholders and which is expected to change from time to time, is to use our equity capital and borrowed funds to invest in mortgage-backed securities resulting from the securitization of loans we originate, thereby producing net interest income. Accordingly, we expect net interest income from our securities to be the largest component of our earnings in the future. We believe that the cost advantage we obtain from self-originating loans and holding such loans in securitized form in the REIT or our QRS is primarily the result of two economic factors. First, through self-origination, we avoid the intermediation costs associated with purchasing mortgage assets in the capital markets. Second, the interest income we generate in the REIT or our QRS will not be subject to tax, whereas, had we sold our loans in the capital markets, we would have been subject to tax on the gain on sale of loans. We expect that our strategy and the use of borrowings to produce the mortgage-backed securities we hold will produce an attractive return for our stockholders.

We seek to avoid many of the risks typically associated with companies that purchase mortgage-backed securities in the capital markets. For example, we attempt to closely match the duration of our assets with the duration of our liabilities. We also structure our liabilities to mitigate potential negative affects of changes in the relationship between short- and longer-term interest rates. We purchase credit enhancements from Fannie Mae and Freddie Mac to mitigate potential losses from borrower defaults. Consequently, the securities we hold typically are either obligations of Fannie Mae or Freddie Mac or are rated AAA by Standard & Poor's. Finally, substantially all of the Company's securities are backed by ARM loans. Because we are focused on holding ARM loans rather than fixed-rate loans, we believe we will be less adversely affected by early repayments due to falling interest rates or a reduction in our net interest income due to rising interest rates.

The Company generally borrows a substantial portion of the funds required to invest in its mortgage-backed securities, and will seek to maintain an overall debt-to-equity ratio ranging from 8:1 to 12:1. Our liabilities are primarily termed repurchase agreements with maturities ranging from one to twelve months. We use interest rate swaps to extend the duration of our liabilities to attempt to match the duration of our assets. We use termed repurchase agreements with laddered maturities to reduce the risk of a disruption in the repurchase market. We also believe we are less susceptible to a disruption in the repurchase market because we hold primarily Fannie Mae and Freddie Mac securities and securities rated AAA by Standard &

Poor's, which have typically been eligible for repurchase market financing even when repurchase financing was not available for other classes of mortgage assets.

Under our current business strategy, we expect to maximize the operational and tax benefits provided by our REIT structure. Our TRSs accept and process loan applications. Loan applications that meet the requirements of the REIT, which typically consist of ARMs and hybrid ARMs, are then sold by our TRSs to our QRS, while loans that do not meet these requirements are closed and sold to third-party purchasers. We generate net interest income from our portfolio of mortgage loans and mortgage-backed securities, which is the difference between (1) the interest income we receive from mortgage loans and mortgage-backed securities we hold and (2) the interest we pay, plus certain administrative costs.

Loan Origination Segment

The Company's loan origination business originates primarily first mortgages on one- to four-family dwellings through the Company's retail loan production offices, which accounted for approximately 65% of our loan originations in 2003, and through our wholesale and Internet channels. We seek to utilize a combination of skilled loan officers, state of the art technology, a broad and fairly priced product line and a high level of customer service to successfully compete in the marketplace. Once a consumer applies for a loan, our mortgage banking operation processes and underwrites the consumer's application and we fund the consumer's loan by drawing on a warehouse line of credit. The loan is then typically either securitized and the resulting securities held by us as a long-term investment or sold by us at a profit.

Our loan origination business has rapidly grown its market share and scale. Our total loan originations have grown to $21.7 billion in 2003. We believe our growth has made our mortgage banking operation more profitable and more effective at serving our customers. Specifically, growth in originations has lowered the per-loan cost of our centralized support operations and, consequently, our overall per-loan cost of origination. Our growth has also given us a relatively large presence in the secondary mortgage market, and, as a result, has improved our ability to execute loan sales to third-party purchasers. Our size has enabled us to negotiate better terms with warehouse lenders and credit enhancers such as Fannie Mae and Freddie Mac. Finally, our size has made it possible for us to profitably enter businesses ancillary to mortgage lending, such as mortgage reinsurance, title brokerage and vendor management.

As of December 31, 2003, lending was conducted through 272 loan production offices located in 34 states across the United States, through mortgage brokers and through Internet call centers that serve customers located in all 50 states. In 2003, our retail activities, the community loan offices and Internet call centers accounted for approximately 76% of our loan originations, while mortgage brokers accounted for 24% of our originations. Mortgage brokers are expected to account for an increased percentage of our originations in 2004 due to our recent opening of a number of wholesale branches in the western United States. We offer a broad array of mortgage products, but primarily make high-credit-quality loans; more than 80% of our originations are eligible for Fannie Mae, Freddie Mac or Ginnie Mae programs, while most of the balance of our loans consists of jumbo loans for borrowers with higher FICO credit scores.

AHM Holdings has grown its loan origination franchise substantially since becoming a public company in October of 1999. In 2003, total loan originations were approximately $21.7 billion, compared to $12.2 billion in 2002, $7.8

billion in 2001 and $3.0 billion in 2000. AHM Holdings' growth has resulted from growing its network of loan production offices primarily by acquisitions, and to a lesser extent by increasing its originations from mortgage brokers and growing its Internet business. AHM Holdings grew its loan production offices to 272 as of December 31, 2003, from 28 in October 1999, by acquiring small to mid-sized mortgage businesses on favorable terms. AHM Holdings has completed seven such acquisitions since December of 1999. In each acquisition, we have generally retained and grown the acquired company's loan production offices while substantially eliminating their centralized support operations and associated costs. These acquisitions have significantly increased our origination capability. The Company's strategy is to continue to opportunistically seek acquisitions to grow its loan origination business.

Growth in AHM Holdings' business with mortgage brokers has resulted from adding additional branches and account executives in our mortgage broker channel and increasing the depth of our mortgage broker support capabilities. Originations from mortgage brokers grew to $5.3 billion in 2003, compared to $1.9 billion in 2002.

The Company's Mortgage Products. The Company offers a broad and competitive range of mortgage products that aim to meet the mortgage needs of primarily high-credit-quality borrowers. Its product line includes conventional conforming fixed rate loans, adjustable rate mortgages, government fixed rate loans, jumbo fixed rate loans, non-prime loans, home equity or second mortgage loans, alternate "A" loans, construction loans and bridge loans.

The following table summarizes information with respect to the most important categories of mortgage loans the Company originated for the years ended December 31, 2003 and 2002:

MORTGAGE LOAN ORIGINATION SUMMARY

Mortgage Type	Number of Loans		Dollar Volume	
	Year Ended December 31,		Year Ended December 31,	
	2003	2002	2003	2002
			($ in millions)	
Conventional conforming fixed rate	77,303	43,767	$ 12,702.9	$ 7,163.8
Adjustable rate (ARMs)	18,987	7,418	4,116.1	1,775.5
Government fixed rate	17,434	12,811	2,296.3	1,739.7
Jumbo fixed rate	3,100	2,390	1,393.4	1,060.5
Alternate "A"	2,911	362	569.5	71.6
Non-prime	2,500	1,384	360.0	227.5
Home equity/Second	6,957	3,903	254.5	143.3
Construction	45	27	10.5	6.5
Bridge	20	60	2.1	7.1
Total	129,257	72,122	$ 21,705.3	$ 12,195.5

Conventional Conforming Fixed Rate Loans. These mortgage loans conform to the underwriting standards established by Fannie Mae or Freddie Mac. This product is limited to high-quality borrowers with good credit records and involves adequate down payments or mortgage insurance.

Adjustable Rate Mortgages (ARM). The ARM's defining feature is a variable interest rate that fluctuates over the life of the loan, usually 30 years. Interest rate fluctuations are based on an index that is related to Treasury bill rates, regional or national average cost of funds of savings and loan associations, or another widely published rate, such as LIBOR. The period between the rate changes is called an adjustment period and may change every six months or one year. The Company also offers ARMs with a fixed period of three years, five years or ten years. Some of the Company's ARMs may include payment caps, which limit the interest rate increase for each adjustment period.

Government Fixed Rate Loans. These mortgage loans conform to the underwriting standards established by the Federal Housing Authority ("FHA") or the Veterans Administration (`VA"). These loans may qualify for insurance from the FHA or guarantees from the VA. The Company has been designated by the U.S. Department of Housing and Urban Development ("HUD") as a direct endorser of loans insured by the FHA and as an automatic endorser of loans partially guaranteed by the VA, allowing it to offer FHA or VA mortgages to qualified borrowers. FHA and VA mortgages must be underwritten within specific governmental guidelines, which include borrower income verification, asset verification, borrower creditworthiness, property value and property condition.

Jumbo Loans. Jumbo loans are considered non-conforming mortgage loans because they have a principal loan amount in excess of the loan limits set by Fannie Mae and Freddie Mac (which limits were $322,700, but were increased to $333,700 in the fourth quarter of 2003, for single-family, one-unit mortgage loans in the continental United States). The Company offers jumbo loans with creative financing features, such as the pledging of security portfolios. Its jumbo loan program is geared to the more financially-sophisticated borrower.

Alternate "A" Loans. Alternate "A" mortgage loans consist primarily of mortgage loans that are first lien mortgage loans made to borrowers whose credit is generally within typical Fannie Mae or Freddie Mac guidelines, but have loan characteristics that make them non-conforming under these guidelines. From a credit risk standpoint, alternate "A" loan borrowers present a risk profile comparable to that of conforming loan borrowers, but entail special underwriting considerations, such as a higher loan to value ratio or limited income verification.

Non-Prime Mortgage Loans. Non-prime mortgage loans focus on customers whose borrowing needs are not served by traditional financial institutions. Borrowers of non-prime mortgage loans may have impaired or limited credit profiles, high levels of debt service to income, or other factors that disqualify them for conforming loans. When the Company originates mortgage loans of borrowers with higher credit risk, the Company offsets this risk with higher interest rates than would be

charged for its conventional and government loans. Offering this category of mortgage loans on a limited basis allows the Company to provide loan products to borrowers with a variety of credit profiles.

Home Equity or Second Mortgage Loans. These loans are generally secured by second liens on the related property. Home equity mortgage loans can take the form of a home equity line of credit, which generally bears an adjustable interest rate, while second mortgage loans are closed-end loans with fixed interest rates. Both types of loans are designed for borrowers with high-quality credit profiles. Home equity lines generally provide for a 5- or 15-year draw period where the borrower withdraws needed cash and pays interest only, followed by a 10- to 20-year repayment period. Second mortgage loans are fixed in amount at the time of origination and typically amortize over 15 to 30 years with a balloon payment due after 15 years.

Construction Loans. The Company offers a variety of construction loans for owner-occupied, single-family residences. These loans are available on a rollover basis, meaning that the borrower can secure funding for the land purchase and construction of the home, then roll the financing over into a permanent mortgage loan. During the construction period, interest-only payments are made. Withdrawals during the construction period, to cover the costs associated with each stage of completion, are usually made in five to ten disbursements.

Bridge Loans. The bridge loans that the Company makes are short-term loans and may be used in conjunction with its other loan products. Bridge loans provide a means for a borrower to obtain cash based on the equity of a current home that is on the market but not yet sold and to use that cash to purchase a new home.

Loan Underwriting. The Company's primary goal in making a decision whether to extend a loan is whether that loan conforms to the expectations and underwriting standards of the secondary mortgage market. Typically, these standards focus on a potential borrower's credit history (often as summarized by credit scores), income and stability of income, liquid assets and net worth and the value and the condition of the property securing the loan. Whenever possible, the Company uses "artificial intelligence" underwriting systems to determine whether a particular loan meets those standards and expectations. In those cases where artificial intelligence is not available, the Company relies on its credit officer staff to make the determination.

Quality Control. We perform monthly quality control testing on a statistical sample of the loans we originate. The quality control testing includes checks on the accuracy of the borrower's income and assets and the credit report used to make the loan, reviews whether the loan buyer's underwriting standards were properly applied and examines whether the loan complies with government regulations. Quality control findings are summarized in monthly reports that the Company uses to identify areas that need corrective action or could use improvement. To date, those reports have not identified any material quality control concerns, although there can be no assurances that the Company will not experience material quality control concerns in the future.

Sale of Loans and Servicing Rights. With respect to mortgage loans that we originate but do not securitize, the Company typically seeks to sell those loans within 45 days of origination. The Company sells those loans to Fannie Mae, Freddie Mac, large national banks, thrifts and smaller banks, securities dealers, real estate investment trusts and other institutional loan buyers. The Company also swaps loans with Fannie Mae and Freddie Mac in exchange for mortgage-backed securities, which the Company then sells.

Typically, the Company sells loans with limited recourse to it. By doing so, with some exceptions, the Company reduces its exposure to default risk at the time it sells the loan, except that it may be required to repurchase the loan if it breaches the representations or warranties that it makes in connection with the sale of the loan, in the event of an early payment default, or if the loan does not comply with the underwriting standards or other requirements of the ultimate investor.

The Company sells the loans to investors pursuant to written agreements that establish an ongoing sale program under which those investors stand ready to purchase loans so long as the loans the Company offers for sale satisfy the investors' underwriting standards.

In 2003, the three institutions that bought the most loans from the Company were Wells Fargo Funding, Countrywide Financial Corporation and Fannie Mae, which accounted for 46%, 27% and 16%, respectively, of the Company's total loan sales. As the Company shifts its focus toward securitizing its own loans and expands its business of holding mortgage-backed securities, it expects to sell fewer loans than it has previously.

With respect to mortgage loans that it originates but does not securitize, the Company generally sells the servicing rights to those loans at the time it sells those loans. The prices at which the Company is able to sell its mortgage servicing rights vary over time and may be materially adversely affected by a number of factors, including, for example, the general supply of, and demand for, mortgage servicing rights and changes in interest rates. From time to time the Company retains the servicing rights on a portion of its loan originations. When the Company retains servicing rights, it earns an annual servicing fee.

Loan Servicing Segment

As of December 31, 2003, we serviced approximately 68,858 loans with an aggregate principal amount of approximately $8.3 billion. Our servicing business services the loans that back our portfolio of self-originated mortgage-backed securities. It also services loans owned by others, which are typically loans that we or our predecessors originated and sold. We receive an average annual servicing fee of 0.347% of the principal amount of each loan we service for others. Our servicing business collects mortgage payments, administers tax and insurance escrows, mitigates losses on defaulted loans and responds to borrower inquiries. Our servicing capabilities have received the "Select Servicer" rating from Standard & Poor's.

We expect our servicing business to grow as we increase our portfolio of self-originated mortgage-backed securities. Our servicing business enables us to retain an ongoing business relationship with our borrowers, which we believe makes it more likely that we will earn those borrowers' business when they need a new loan or wish to refinance an existing loan. We believe that our servicing capability also enables us to sell loans to Fannie Mae, Freddie Mac and Ginnie Mae on more advantageous terms than if we did not service our originations.

The following table sets forth certain information regarding the Company's servicing portfolio of single-family mortgage loans serviced for others, for the periods indicated:

LOANS SERVICED FOR OTHERS

	Year Ended December 31, (Dollars in millions)	
	2003	2002

Composition of loans serviced for others at end of year:		
Conventional mortgage loans	$6,232.4	$5,111.6
FHA-insured mortgage loans	1,708.6	2,801.5
VA-guaranteed mortgage loans	331.3	628.7
Loans serviced for others at end of year	$8,272.3	$8,541.8
Loans serviced for others at beginning of year	$8,541.8	$ 23.9
Acquisition of Columbia	--	8,453.8
Loans sold with servicing retained	3,715.0	2,178.8
Prepayments and foreclosures	(3,818.5)	(1,957.2)
Amortization	(166.0)	(157.5)
Loans serviced for others at end of year	$8,272.3	$8,541.8
Delinquent mortgage loans and pending foreclosures at end of year		
30 days	$ 211.5	$ 345.0
60 days	44.4	82.6
90 days	35.8	89.3
Total delinquencies	$ 291.7	$ 516.9
Foreclosures pending	$ 54.5	$ 104.4

At December 31, 2003, the Company's servicing portfolio of single-family mortgage loans was stratified by interest rate as follows:

Total Portfolio at December 31, 2003

Interest Rate	Principal Balance (in millions)	Percent of Total	Weighted Average Maturity (Years)	MSR (in m
Under 6%	$ 4,752.1	57.4%	24.6	$
6.00-6.99%	1,681.7	20.3%	24.4	
7.00-7.99%	1,395.0	16.9%	24.3	
8% and over	443.5	5.4%	22.2	
	$ 8,272.3	100.0%	24.4	$

The weighted average interest rate of the single-family mortgage loans in our servicing portfolio as of December 31, 2003 was 5.7%. As of December 31, 2003, 69% of the loans in the servicing portfolio bore interest at fixed rates and 31% bore interest at adjustable rates. The weighted average net service fee of the loans in the portfolio was 0.347% as of December 31, 2003. The weighted average interest rate of the fixed-rate loans in the servicing portfolio was 6.46% as of December 31, 2003.

Additional Financial Information Regarding Segments

Additional financial information regarding the Company's business segments is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

Hedging Activities

The Company hedges interest rate risk and price volatility on its mortgage loan interest rate lock commitments and mortgage loans held for sale during the time it commits to acquire or originate mortgages at a pre-determined rate until the time it sells or securitizes mortgages. The Company also hedges interest rate risk associated with funding its portfolio of mortgage-

backed securities. To mitigate interest rate and price volatility risks, the Company may enter into certain hedging transactions. The nature and quantity of the Company's hedging transactions are determined based on various factors, including market conditions and the expected volume of mortgage acquisitions and originations.

Additional information regarding interest rate hedging is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 1 to Consolidated Financial Statements, entitled "Summary of Significant Accounting Policies."

Government Regulation

The Company's loan origination and loan servicing segments are subject to extensive and complex rules and regulations of, and examinations by, various federal, state, and local government authorities and government sponsored enterprises, including, without limitation, HUD, FHA, VA, Fannie Mae, Freddie Mac and Ginnie Mae. These rules and regulations impose obligations and restrictions on the Company's loan origination and credit activities, including, without limitation, the processing, underwriting, making, selling, securitizing, and servicing mortgage loans.

The Company's lending activities also are subject to various federal laws, including the Federal Truth-in-Lending Act and Regulation Z thereunder, the Homeownership and Equity Protection Act of 1994, the Federal Equal Credit Opportunity Act and Regulation B thereunder, the Fair Credit Reporting Act of 1970, the Real Estate Settlement Procedures Act of 1974 and Regulation X thereunder, the Fair Housing Act, the Home Mortgage Disclosure Act and Regulation C thereunder and the Federal Debt Collection Practices Act, as well as other federal statutes and regulations affecting its activities. The Company's loan origination activities also are subject to the laws and regulations of each of the states in which it conducts its activities.

These laws, rules, regulations, and guidelines limit mortgage loan amounts and the interest rates, finance charges and other fees the Company may assess, mandate extensive disclosure and notice to its customers, prohibit discrimination, impose qualification and licensing obligations on it, establish eligibility criteria for mortgage loans, provide for inspections and appraisals of properties, require credit reports on prospective borrowers, regulate payment features, and prohibit kickbacks and referral fees, among other things. These rules and requirements also impose on the Company certain reporting and net worth requirements. Failure to comply with these requirements can lead to, among other things, loss of approved status, termination of contractual rights without compensation, demands for indemnification or mortgage loan repurchases, certain rights of rescission for mortgage loans, class action lawsuits, and administrative enforcement actions.

Although the Company believes that it has systems and procedures in place to ensure compliance with these requirements and that it currently is in compliance in all material respects with applicable federal, state and local laws, rules and regulations, there can be no assurance of full compliance with current laws, rules and regulations, that more restrictive laws, rules and regulations will not be adopted in the future, or that existing laws, rules and regulations or the mortgage loan documents with borrowers will not be interpreted in a different or more restrictive manner. The occurrence of any such event could make compliance substantially more difficult or expensive, restrict the Company's ability to originate, purchase, sell or service mortgage loans, further limit or restrict the amount of interest and other fees and charges earned from mortgage loans that the Company originates, purchases or services, expose it to claims by borrowers and administrative enforcement actions, or otherwise materially and adversely affect its business, financial condition and results of operations.

Members of Congress, government officials and political candidates have from time to time suggested the elimination of the mortgage interest deduction for federal income tax purposes, either entirely or in part, based on borrower income, type of loan or principal amount. Because many of the Company's loans are made to borrowers for the purpose of purchasing a home, the competitive advantage of tax deductible interest, when compared with alternative sources of financing, could be eliminated or seriously impaired by this type of governmental action. Accordingly, the reduction or elimination of these tax benefits could have a material adverse effect on the demand for the kind of mortgage loans the Company offers.

The Company also is performing various mortgage-related operations on the Internet. The Internet, and the laws, rules and regulations related to it, are relatively new and still evolving. As such, there exist many opportunities for the Company's business operations on the Internet to be challenged or to become subject to legislation, any of which may materially and adversely affect its business, financial condition, and results of operations.

Information Systems

The Company's loan origination system controls most aspects of the Company's loan origination operations, from the processing of a loan application through the closing of the loan and the sale of the loan to institutional investors. The system also performs checks and balances on many aspects of the Company's operations and supports the Company's marketing efforts. The Company's system functions on a wide area network that connects all of its branches in "real time." With its wide

area network, a transaction at any one of its locations is committed centrally and is therefore immediately available to all personnel at all other locations. An important benefit of the system is that it aids the Company in controlling its business processes. The system assures that the Company's underwriting policies are adhered to, that only loans that are fully approved are disbursed, and that the correct disclosures and loan documents for a borrower are used based upon such borrower's state and loan program. The Company's system also provides its management with operating reports and other key data. In addition, the Company has developed a proprietary website through the efforts of its in-house computer programming staff.

The Company's loan servicing system, LSAMS ("Loan Servicing and Accounting Management System"), manages most aspects of the loan servicing function, from loan closing to its ultimate payoff or disposition. The Company has developed enhancements and ancillary systems to further automate this function. Efficiencies have been gained through the use of Interactive Voice Response units that allow customers to ask questions and receive answers 24 hours a day.

The Company also utilizes CTI ("Computer-Telephone Integration") to speed the work of customer service agents. The Company's customers are able to utilize the Internet to check on current account information as well as to make monthly payments. FORTRACS, a foreclosure tracking system, has been implemented to streamline the foreclosure process, track bankruptcies, expedite foreclosure claims processing and dispose of real estate owned ("REO") property. The Company's loan servicing system is scalable well beyond its current workload.

Seasonality

Seasonality affects the Company's loan origination and loan servicing segments, as loan originations and payoffs are typically at their lowest levels during the first and fourth quarters due to a reduced level of home buying activity during the winter months. Loan originations and payoffs generally increase during the warmer months, beginning in March and continuing through October. As a result, the Company may experience higher earnings in the second and third quarters and lower earnings in the first and fourth quarters from its loan origination segment. Conversely, the Company may experience lower earnings in the second and third quarters and higher earnings in the first and fourth quarters from its loan servicing segment.

Competition

We face intense competition from mortgage REITs, commercial banks, savings and loan associations and other finance and mortgage banking companies, as well as from Internet-based lending companies and other lenders participating on the Internet. Entry barriers in the mortgage industry are relatively low and increased competition is likely. As we seek to expand our business, we will face a greater number of competitors, many of whom will be well-established in the markets that we seek to penetrate. Many of our competitors are much larger than we are, have better name recognition than we do and have far greater financial and other resources than we do. In addition, competition may lower the rates we are able to charge borrowers, thereby potentially lowering the amount of income on future loan sales and sales of servicing rights. Increased competition also may reduce the volume of our loan originations and loan sales.

Employees

The Company recruits, hires and retains individuals with the specific skills that complement its corporate growth and business strategies. As of December 31, 2003, the Company had 3,250 full-time employees and 69 part-time employees.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

General

AHM Investment, with the filing of its initial federal income tax return, will elect to be treated as a REIT for federal income tax purposes. In brief, if AHM Investment meets certain detailed conditions imposed by the REIT provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including a requirement that we invest primarily in qualifying REIT assets (which generally include real estate and mortgage loans) and a requirement that we satisfy certain income tests, AHM Investment will not be taxed at the corporate level on the income that we currently distribute to our stockholders. Therefore, to this extent, AHM Investment's stockholders will avoid double taxation, at the corporate level and then again at the stockholder level when the income is distributed, that they would otherwise experience if AHM Investment failed to qualify as a REIT.

If AHM Investment does not qualify as a REIT in any given year, we would be subject to federal income tax as a corporation for the year of the disqualification and for each of the following four years. This disqualification would result in federal income tax, which would reduce the amount of the after-tax cash available for distribution to our stockholders. AHM Investment believes that we have satisfied the requirements for qualification as a REIT since the year ended 2003. AHM

Investment intends at all times to continue to comply with the requirements for qualification as a REIT under the Code, as described below.

In addition, if AHM Investment were classified as a taxable mortgage pool ("TMP"), AHM Investment's status as a REIT would not be impaired, but a portion of the taxable income generated by AHM Investment's mezzanine debt and other assets constituting a TMP may be characterized as excess inclusion income allocated to AHM Investment's stockholders.

Requirements for Qualification as a REIT

To qualify for tax treatment as a REIT under the Code, we must meet certain tests, as described briefly below.

Ownership of Common Stock

For all taxable years after the first taxable year for which we elect to be a REIT, a minimum of 100 persons must hold our shares of capital stock for at least 335 days of a 12-month year (or a proportionate part of a short tax year). In addition, at all times during the second half of each taxable year, no more than 50% in value of our capital stock may be owned directly or indirectly by five or fewer individuals. We are required to maintain records regarding the ownership of our shares and to demand statements from persons who own more than a certain number of our shares regarding their ownership of shares. We must keep a list of those stockholders who fail to reply to such a demand.

We are required to use the calendar year as our taxable year for income tax purposes.

Nature of Assets

On the last day of each calendar quarter, at least 75% of the value of our assets and any assets held by a qualified REIT subsidiary must consist of qualified REIT assets (primarily, real estate and mortgages secured by real estate) ("Qualified REIT Assets"), government assets, cash, and cash items. We expect that substantially all of our assets will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% assets test, the value of mortgage-backed securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of any one issuer's outstanding securities (with an exception for a qualified electing taxable REIT subsidiary). Under that exception, the aggregate value of business that we may undertake through taxable REIT subsidiaries is limited to 20% or less of our total assets. We monitor the purchase and holding of our assets in order to comply with the above asset tests.

We may from time to time hold, through one or more taxable REIT subsidiaries, assets that, if we held directly, could otherwise generate income that would have an adverse effect on our qualification as a REIT or on certain classes of our stockholders.

Sources of Income

We must meet the following separate income-based tests each year:

1. The 75% Test. At least 75% of our gross income for the taxable year must be derived from Qualified REIT Assets including interest (other than interest based in whole or in part on the income or profits of any person) on obligations secured by mortgages on real property or interests in real property. The investments that we have made and will continue to make will give rise primarily to mortgage interest qualifying under the 75% income test.

2. The 95% Test. In addition to deriving 75% of our gross income from the sources listed above, at least an additional 20% of our gross income for the taxable year must be derived from those sources, or from dividends, interest or gains from the sale or disposition of stock or other assets that are not dealer property. We intend to limit substantially all of the assets that we acquire (other than stock in certain affiliate corporations as discussed below) to Qualified REIT Assets. Our strategy to maintain REIT status may limit the type of assets, including hedging contracts and other assets, that we otherwise might acquire.

Distributions

We must distribute to our stockholders on a pro rata basis each year an amount equal to at least (i) 90% of our taxable income before deduction of dividends paid and excluding net capital gain, plus (ii) 90% of the excess of the net income from foreclosure property over the tax imposed on such income by the Code, less (iii) any "excess noncash income." We intend to make distributions to our stockholders in sufficient amounts to meet the distribution requirement.

Taxation of Stockholders

For any taxable year in which we are treated as a REIT for federal income tax purposes, the amounts that we distribute to our stockholders out of current or accumulated earnings and profits will be includable by the stockholders as ordinary income for federal income tax purposes unless properly designated by us as capital gain dividends. Our distributions will not be eligible for the dividends received deduction for corporations. Stockholders may not deduct any of our net operating losses or capital losses.

If we make distributions to our stockholders in excess of our current and accumulated earnings and profits, those distributions will be considered first a tax-free return of capital, reducing the tax basis of a stockholder's shares until the tax basis is zero. Such distributions in excess of the tax basis will be taxable as gain realized from the sale of our shares.

In reading this annual report on Form 10-K and the tax disclosure set forth above, please note that although the Company is combined with all of its subsidiaries for financial accounting purposes, for federal income tax purposes, only AHM Investment and AHM Acceptance (and their assets and income) constitute the REIT, and the Company's remaining subsidiaries constitute a separate consolidated group subject to regular corporate income taxes.

The provisions of the Code are highly technical and complex. This summary is not intended to be a detailed discussion of the Code or its rules and regulations, or of related administrative and judicial interpretations. We have not obtained a ruling from the Service with respect to tax considerations relevant to our organization or operation, or to an acquisition of our common stock. This summary is not intended to be a substitute for prudent tax planning and each of our stockholders is urged to consult his or her own tax advisor with respect to these and other federal, state and local tax consequences of the acquisition, ownership, and disposition of shares of our stock and any potential changes in applicable law.

Taxation of AHM Investment

In each year that AHM Investment qualifies as a REIT, it generally will not be subject to federal income tax on that portion of its REIT taxable income or capital gain that it distributes to stockholders. AHM Investment is subject to corporate level taxation on any undistributed income. In addition, AHM Investment faces corporate level taxation due to any failure to make timely distributions, on the built-in gain on assets acquired from a taxable corporation such as a taxable REIT subsidiary, on the income from any property that it takes in foreclosure and on which it makes a foreclosure property election, and on the gain from any property that is treated as "dealer property" in AHM Investment's hands.

ITEM 2. PROPERTIES

The Company's current Executive and Administrative Offices are located in the office building at 520 Broadhollow Road, Melville, New York 11747 ("520 Broadhollow Road"), which it leases, and at 538 Broadhollow Road, Melville, New York 11747 ("538 Broadhollow Road"), which it purchased on November 25, 2003. The office building at 538 Broadhollow Road consists of approximately 177,000 square feet. The Company anticipates that it will move all its personnel located at 520 Broadhollow Road to 538 Broadhollow Road by the end of June 2004.

The Company owns an office building located at 950 North Elmhurst Road, Mt. Prospect, Illinois, which consists of approximately 35,700 square feet.

The Company also leases real estate premises at an additional 269 locations in 34 states. The aggregate annual rent for these locations is approximately $13.4 million.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is at times subject to various legal proceedings. The Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations or financial condition.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At a special meeting of the stockholders of AHM Holdings held on November 21, 2003, the following actions were proposed (which are described in greater detail in AHM Holdings' Definitive Proxy Statement on Schedule 14A filed with the SEC on October 24, 2003):

PROPOSAL	FOR	AGAINST
o Reorganize AHM Holdings by merging AHM Holdings with a newly formed subsidiary of AHM Investment, which at the time was a wholly owned subsidiary of AHM Holdings, and, pursuant to the reorganization, each outstanding share of common stock of AHM Holdings would be converted into the right to receive one share of common stock of AHM Investment, such that AHM Investment would become the parent company of AHM Holdings.	12,704,108	50,604
o Issue shares of common stock of AHM Investment to stockholders of Apex under the Agreement and Plan of Merger, dated as of July 12, 2003, by and among Apex, AHM Holdings, and AHM Investment.	12,573,890	222,683
o Adopt Apex's Amended and Restated 1997 Stock Option Plan.	11,760,753	981,614

Each of the above proposals was approved by the stockholders of AHM Holdings.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed on the NYSE under the symbol "AHH" and began trading on December 4, 2003. Before our internal reorganization and merger with Apex, effective as of December 3, 2003, AHM Holdings was listed on the Nasdaq National Market under the symbol "AHMH."

The following table shows the high, low and closing sales prices for our common stock during each fiscal quarter during the years ended December 31, 2003 and 2002 and the cash distributions declared during that period per share:

	Stock Prices			Cash Distributio
	High	Low	Close	Declared Per Sha
Year Ended December 31, 2003				
Fourth Quarter	$25.27	$17.50	$22.51	$ 0.55
Third Quarter	23.90	14.88	17.57	0.13
Second Quarter	21.20	9.94	19.36	0.13
First Quarter	10.90	9.56	10.01	0.10
Year Ended December 31, 2002				
Fourth Quarter	$11.86	$ 8.39	$11.00	$ 0.05
Third Quarter	12.90	9.46	10.99	0.04
Second Quarter	17.94	10.90	12.46	0.03
First Quarter	16.24	11.77	15.47	0.03

As of March 8, 2004, the closing sales price of the Company's common stock, as reported on the NYSE, was $27.95. As of March 8, 2004, the Company had 195 stockholders of record. As of February 13, 2004, there were approximately 25,000 beneficial owners of the Company's common stock.

To maintain our qualification as a REIT, we intend to make regular quarterly distributions to our stockholders. In order to qualify as a REIT for federal income tax purposes, we must distribute to our stockholders with respect to each year at least 90% of our REIT taxable income. Although we generally intend to distribute to our stockholders each year an amount at least equal to 90% of our REIT taxable income for that year, distributions paid by us will be at the discretion of our Board of Directors and will depend on our actual cash flow, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code, and other factors that our Board of Directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans as of December 31, 2003 is disclosed in Item 12 of this report, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Recent Issuances of Unregistered Securities

The following is a description of the Company's securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), which were sold during the quarter ended December 31, 2003.

The Company acquired First Home on June 30, 2000. In addition to the shares paid to former First Home stockholders as initial consideration, the Company is required to issue unregistered shares of common stock to the former stockholders as additional consideration under the earnout provisions of the merger agreement. On October 1, 2003, pursuant to these earnout provisions, the Company issued an aggregate of 4,274 shares of common stock to such stockholders as additional consideration. In addition, on November 10, 2003, the Company issued an aggregate of 93,287 shares of common stock to such stockholders. These securities were exempt from registration under Section 4(2) of the Securities Act because they were issued pursuant to the terms of a private transaction rather than through a public offering.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements, beginning on page F-1 of this report. The selected financial data as of December 31, 2001, 2000 and 1999 and for the years ended December 31, 2000 and 1999 have been derived from prior year audited consolidated financial statements. The following selected consolidated financial data as of and for each of the years in the four-year period ended December 31, 2002 is derived from the consolidated financial statements of AHM Holdings. These consolidated financial statements include all adjustments which we consider necessary for a fair presentation of our consolidated financial position and results of operations for these periods. You should not assume that the results below indicate results that we will achieve in the future, particularly because in the future we expect net interest income, rather than gain on sales of loans, to be the principal component of our revenues. The operating data are derived from unaudited financial information that we compiled.

You should read the information below along with all the other financial information and analysis presented in this report, including our financial statements and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended Decembe		
	2003	2002	200
		(In thousands, except	
Statement of Income Data:			
Gain on sales of loans and securities	$ 382,236	$ 216,595	$ 118,5
Interest income, net	45,148	23,671	9,0
Net loan servicing fees (loss)	(2,482)	(11,592)	
Total revenues	432,131	232,821	128,0
Total non-interest expenses	309,147	164,368	87,4
Income before income taxes	122,017	67,560	41,7
Income taxes (1)	48,223	28,075	16,2
Net income	73,794	39,485	25,4
Per share data:			
Basic earnings per share	$ 4.16	$ 2.72	$ 2.
Diluted earnings per share	4.07	2.65	2.
Dividends declared per share	0.91	0.15	0.
Weighted average number of shares outstanding:			
Basic	17,727	14,509	10,3
Diluted	18,113	14,891	10,8
Balance Sheet Data (end of period):			
Cash and cash equivalents	$ 53,148	$ 24,416	$ 26,3
Mortgage-backed securities	1,763,628	-	
Mortgage loans, net	1,223,827	831,981	419,3
Mortgage servicing rights, net	117,784	109,023	
Total assets	3,402,390	1,119,050	501,1
Warehouse lines of credit	1,121,760	728,466	351,4
Reverse repurchase agreements	1,344,327	-	
Total liabilities	3,003,911	954,430	421,9
Total stockholders' equity	397,970	164,096	78,6
Ratios:			
Return on average equity (2)	34.11%	32.52%	54.1
Debt to equity ratio (3)	6.51	5.11	4.
Operating Data:			
Loan originations	$ 21,705,250	$ 12,196,000	$ 7,766,0
Retail	16,386,791	10,329,000	6,495,0
Wholesale	5,318,459	1,867,000	1,271,0
Loans sold	20,758,110	12,331,000	7,497,0

----

(1) Before September 29, 1999, the Company elected to be treated as an S corporation for federal and state income tax purposes. Before the Company elected to be treated as an S corporation, all federal taxes were taxable to and paid by the Company's sole stockholder.

(2) This measure is calculated by dividing net income by the average stockholders' equity outstanding during the year expressed as a percentage.

(3) This ratio is calculated by dividing debt, which is comprised of reverse repurchase agreements, warehouse lines of credit and other borrowings, by stockholders'equity.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies

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

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

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

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

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

Derivative Assets and Derivative Liabilities - Our mortgage-committed pipeline includes interest rate lock commitments ("IRLCs") that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. IRLCs are recorded at fair value with changes in fair value recorded to current earnings. The fair value of the IRLCs is determined by an estimate of the ultimate gain on sale of the loans, including the value of MSRs, net of estimated net costs remaining to originate the loan. In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 105, which provides industry guidance that will change the timing of recognition of MSRs for

IRLCs initiated after March 31, 2004. See "Recently Issued Accounting Standards" in Note 1 to the Consolidated Financial Statements.

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

We use mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of our agency-eligible conforming loans and most of our non-conforming loans held for sale. At the inception of the hedge, we formally document the relationship between the forward delivery contracts and the mortgage inventory, as well as our objective and strategy for undertaking the hedge transactions. In the case of our conventional conforming fixed rate loan products, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to us. We classify and account for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed to be highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

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

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

Financial Condition

Prior to the Company's reorganization as a REIT and the merger with Apex, our total assets consisted primarily of mortgage loans held for sale in the secondary market. At December 31, 2003, 51.8% of our total assets were mortgage-backed securities and 36.0% were mortgage loans held for sale, compared to 0% and 74.3%, respectively, at December 31, 2002.

Total assets increased $2.3 billion to $3.4 billion at December 31, 2003 from $1.1 billion at December 31, 2002. The increase primarily reflects mortgage-backed securities totaling $1.7 billion at December 31, 2003 and a $0.4 billion rise in mortgage loans held for sale. The growth in mortgage-backed securities was primarily funded by an increase in reverse repurchase agreements of $1.3 billion and a payable for mortgage-backed securities purchased of $0.3 billion. The increase in loans held for sale was funded by a $0.4 billion rise in warehouse lines of credit.

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

	December 31, 2003			
	Trading Securities		Securities Available for Sal	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
			(Dollars in thousands)	
Agency securities	$ 287,577	60.0%	$ 713,790	55.6%

Privately issued:				
AAA	167,974	35.0	570,025	44.4
AA	11,322	2.4	-	-
A	6,470	1.3	-	-
Unrated (1)	6,470	1.3	-	-
Total	$ 479,813	100.0%	$ 1,283,815	100.0%

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

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

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

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

	December 31, 2003			
	Trading Securities		Securities Available for Sale	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
	(Dollars in thousands)			
Product:				
1 month ARM	$ 189,771	39.6%	$ -	-%
6 month ARM	-	-	182,559	14.2
1 x 1 ARM	-	-	30,338	2.3
3/1 Hybrid ARM	133,019	27.7	415,674	32.4

5/1 Hybrid ARM	133,140	27.7	619,688	48.3	
7/1 Hybrid ARM	23,883	5.0	35,556	2.8	
Total	$ 479,813	100.0%	$ 1,283,815	100.0%	

During 2003, we purchased $1.3 billion of mortgage-backed securities. The average premium paid for mortgage-backed securities purchased during the year ended December 31, 2003 was 1.63%. During 2003, we sold $529.3 million of mortgage-backed securities. The book price of our mortgage-backed securities, excluding unrealized gains and losses, was 101.5% of par as of December 31, 2003.

We had a payable for securities purchased of $259.7 million as of December 31, 2003.

21

Results of Operations

The following table sets forth, for the periods indicated, the Company's results from its mortgage-backed securities activities. Any trends illustrated in the following table are not necessarily indicative of future results. Our mortgage-backed securities holdings segment ("MBS Holdings Segment") began operations on December 3, 2003 as a result of the Company's reorganization into a REIT and its merger with Apex, and thus there was no MBS Holdings Segment operations for the years ended December 31, 2002 and 2001.

Mortgage-Backed Securities Holdings Segment

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Revenues:			
Gain on mortgage-backed securities	$ 2,740	$ -	$ -
Interest income	3,108	-	-
Interest expense	(2,302)	-	-
Interest income, net	806	-	-
Total revenues	3,546	-	-
Net income before cumulative effect of change in accounting principle	$ 3,546	$ -	$ -
Segment assets	$ 1,865,414	$ -	$ -

The following table sets forth, for the periods indicated, our loan origination segment's operating results ("Loan Origination Segment"). Any trends illustrated in the following table are not necessarily indicative of future results.

Loan Origination Segment	Year Ended December 3		
	2003	2002	
	(In thousands)		
Revenues:			
Gain on sales of mortgage loans and mortgage-backed securities	$ 379,496	$ 216,595	$
Interest income	102,921	55,871	
Interest expense	(54,869)	(29,131)	
Interest income, net	48,052	26,740	
Other	7,229	4,147	
Total revenues	434,777	247,482	
Expenses:			
Salaries, commissions and benefits, net	201,454	105,198	
Occupancy and equipment	26,609	15,302	
Marketing and promotion	12,225	7,982	
Data processing and communications	13,102	7,787	
Office supplies and expenses	12,082	5,901	
Professional fees	6,693	5,197	
Travel and entertainment	9,926	4,581	
Other	18,914	8,743	
Total expenses	301,005	160,691	
Net income before income taxes and minority interest in income of consolidated joint ventures	133,772	86,791	
Income taxes	54,100	35,696	
Minority interest in income of consolidated joint ventures	967	893	
Net income before cumulative effect of change in accounting principle	$ 78,705	$ 50,202	$
Segment assets	$ 1,372,976	$ 997,826	$

The following table sets forth, for the periods indicated, our loan servicing segment's operating results ("Loan Servicing Segment"). Any trends illustrated in the following table are not necessarily indicative of future results. The Loan Servicing Segment was immaterial prior to the acquisition of Columbia in June 2002 and thus the results of our Loan Servicing Segment are included in the results of our Loan Origination Segment in previous years.

Loan Servicing Segment	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Revenues:			
Interest expense	$ (3,710)	$ (3,069)	$ -
Loan servicing fees	43,008	25,139	-
Amortization	(51,824)	(26,399)	-
Impairment reserve recovery (provision)	6,334	(10,332)	-
Net loan servicing fees (loss)	(2,482)	(11,592)	-
Total revenues	(6,192)	(14,661)	-
Expenses:			
Salaries and benefits, net	3,485	1,697	-
Occupancy and equipment	406	204	-
Marketing and promotion	14	14	-
Data processing and communications	99	66	-
Office supplies and expenses	1,230	610	-
Professional fees	854	246	-
Travel and entertainment	38	6	-
Other	2,016	834	-
Total expenses	8,142	3,677	-
Net loss before income tax benefit	(14,334)	(18,338)	-
Income tax benefit	(5,877)	(7,621)	-
Net loss before cumulative effect of change in accounting principle	$ (8,457)	$ (10,717)	$ -
Segment assets	$ 164,000	$ 121,224	$ -

Results of Operations - Comparison of the Years Ended December 31, 2003 and 2002

Mortgage-Backed Securities Holdings Segment

Our MBS Holdings Segment began operations on December 3, 2003 as a result of the reorganization of the Company into a REIT and the merger with Apex. The segment's business is the holding for net interest income of ARM-backed securities.

Revenues. Total revenues for the MBS Holdings Segment were $3.5 million, consisting entirely of $2.7 million of gain on mortgage-backed securities and $0.8 million of net interest income.

Loan Origination Segment

The Loan Origination Segment's primary business is the origination and sale of primarily one-to-four family residential mortgage loans. The segment grew significantly in 2003 both organically and through acquisitions. The historically low interest rates of 2003 resulted in record loan originations industry-wide as record numbers of borrowers refinanced their mortgages and purchased new homes. During 2003, the segment acquired 75 retail branches of Principal Residential Mortgage, Inc. and the retail and wholesale branches of American Mortgage LLC, and also hired 325 former employees of Capitol Commerce Mortgage Company. Total loan originations for 2003 were $21.7 billion compared to $12.2 billion for 2002, a 77.9% increase. At December 31, 2003, the segment had 272 loan origination offices and 2,791 employees compared with 131 loan origination offices and 2,528 employees at December 31, 2002.

Gain on Sales of Mortgage Loans. The Loan Origination Segment's primary source of revenue is the gain on sales of mortgage loans originated by the segment. Gain on sales of mortgage loans for 2003 totaled $376.6 million on loan sales of $20.8 billion, compared with $216.6 million on sales of $12.3 billion for 2002. The average gain on sale margin increased to 1.81% for 2003 from 1.76% for 2002.

Net Interest Income. Total interest income for 2003 on our Loan Origination Segment's mortgages held for sale was $104.8 million, compared to interest income for 2002 of $57.5 million, an increase of $47.3 million, or 82.3%. The increase was primarily due to higher average loan inventory in 2003. Our Loan Origination Segment funds its loan inventory primarily through borrowing facilities with several mortgage warehouse lenders. Total interest expense for 2003 was $60.5 million, compared to interest expense for 2002 of $33.8 million, a 79.0% increase, which was primarily due to increased borrowings to fund our loan inventory.

Other Revenue. Other revenue totaled $7.2 million in 2003 compared to $4.1 million in 2002. For the year ended December 31, 2003, other income primarily includes revenue from title services of $2.2 million, fulfillment fees of $1.9 million and volume incentive bonuses received from loan purchasers totaling approximately $1.4 million. The fulfillment fees represent non-recurring fees received from Principal Residential Mortgage, Inc. ("PRM") for loans closed by us on behalf of PRM. As part of the agreement to acquire the retail branches of PRM (the "Principal Branches"), we agreed to assume the costs incurred to close out PRM's application pipeline as of the date of the agreement on behalf of PRM for a per loan fee. For the year ended December 31, 2002, other income primarily consists of revenue from title services of $1.9 million and volume incentive bonuses received from loan purchasers totaling approximately $0.8 million.

Expenses. Total expenses of our Loan Origination Segment for 2003 were $301.0 million, or 139 basis points of total loan originations, compared to $160.7 million, or 132 basis points of total loan originations, for 2002. We made significant investments in our infrastructure, particularly in information technology and corporate services, to support the growth of our Loan Origination Segment.

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

Salaries, commissions and benefits for 2003 were $201.5 million, or 93 basis points of total loan originations, compared to $105.2 million, or 86 basis points of total loan originations, for 2002.

Operating expenses, excluding salaries, commissions and benefits, were 46 basis points of total loan originations for both 2003 and 2002.

Loan Servicing Segment

The Loan Servicing Segment total revenues for the year ended December 31, 2003 were a loss of $6.2 million compared to a loss of $14.7 million in 2002, an increase of $8.5 million, or 57.8%.

Net loan servicing fees was a loss of $2.5 million for the year ended December 31, 2003, compared to a loss of $11.6 million for 2002.

Loan servicing fees increased to $43.0 million in 2003 from $25.1 million in 2002, an increase of $17.9 million, or 71.1%. The increase was primarily the result of the inclusion of Columbia for the full year in 2003.

Amortization increased to $51.8 million in 2003 from $26.4 million in 2002, an increase of $25.4 million, or 96.2%. The increase was primarily the result of the inclusion of Columbia for the full year in 2003.

We recognized a temporary impairment recovery of $6.3 million in 2003 versus an impairment provision of $10.3 million in 2002, resulting in an increase in net loan servicing fees of $16.6 million. This impairment recovery is due to an increase in the fair value of servicing rights attributable to a decrease in estimated future prepayment speeds.

Expenses. The Loan Servicing Segment expenses are associated with the administration of the servicing portfolio acquired through our acquisition of Columbia in June 2002.

Income Taxes. Income tax benefit decreased to $5.9 million in 2003 from a $7.6 million benefit in 2002, a decrease of $1.7 million, or 22.3%.

Results of Operations - Comparison of the Years Ended December 31, 2002 and 2001

Loan Origination Segment

Revenues. The Loan Origination Segment total revenues for the year ended

December 31, 2002, were $247.5 million compared to $128.1 million in 2001, an increase of $119.4 million, or 93.3%. The increase was a result of increases in gains on sale of mortgage loans, net interest income and other income.

Gain on sales of mortgage loans increased to $216.6 million in 2002 from $118.6 million in 2001, an increase of $98.0 million, or 82.7%. In general, the increase was the result of higher originations, sales and pipeline values, as well as improved margins. The higher volumes were a result of lower interest rates which generated higher purchase and refinance volumes from existing locations. Additionally, the increase is attributable to the acquisition of Columbia.

Interest income, net, increased to $26.7 million in 2002 from $9.1 million in 2001, an increase of $17.6 million, or 193.9%. The increase resulted primarily from an increase in loans held for sale, an increase in our effective interest rate spread and the acquisition of Columbia.

Other revenue totaled $4.1 million in 2002 compared to $0.4 million in 2001. For the year ended December 31, 2002, other income primarily consists of revenue from title services in the amount of $1.9 million and volume incentive bonuses received from loan purchasers totaling approximately $0.8 million. For the year ended December 31, 2001, other income primarily consists of volume incentive bonuses received from loan purchasers totaling approximately $0.4 million.

Expenses. Salaries, commissions and benefits increased to $105.2 million in 2002 from $55.8 million in 2001, an increase of $49.4 million, or 88.6%. The increase was largely due to the inclusion of expenses of Columbia, and increased staffing levels and overtime due to increased loan volumes. As of December 31, 2002, we employed 2,528 loan origination employees compared to 1,325 loan origination employees at December 31, 2001.

Occupancy and equipment expenses increased to $15.3 million in 2002 from $8.2 million in 2001, an increase of $7.1 million, or 85.4%. The increase in costs reflects the inclusion of expenses of Columbia, the opening of new community loan offices and greater depreciation charges as a result of our increased investments in computer networks.

Marketing and promotion expenses increased to $8.0 million in 2002 from $6.3 million in 2001, an increase of $1.7 million, or 26.4%. The increase was primarily due to increased loan volume and the inclusion of Columbia expenses.

26

Data processing and communication costs increased to $7.8 million in 2002 from $4.4 million in 2001, an increase of $3.3 million, or 75.3%. The increase was a result of the inclusion of expenses of Columbia and the opening of new community loan offices.

Office supplies and expenses increased to $5.9 million in 2002 from $4.4 million in 2001, an increase of $1.5 million, or 35.4%. The increase was a result of the inclusion of expenses of Columbia and the opening of new community loan offices.

Professional fees increased to $5.2 million in 2002 from $2.5 million in 2001, an increase of $2.7 million, or 111.8%. This increase was primarily due to the inclusion of expenses of Columbia.

Travel and entertainment expenses increased to $4.6 million in 2002 from $1.7 million in 2001, an increase of $2.9 million, or 172.3%. This increase was primarily due to the inclusion of expenses of Columbia and the addition of new loan originators.

Other expenses increased to $8.7 million in 2002 from $4.2 million in 2001, an increase of $4.6 million, or 108.7%. These expenses, which consist generally of insurance, indemnification and foreclosure costs, outside services, storage and moving expenses and licenses and permits, increased as a result of the inclusion of Columbia, the opening of new community offices and higher loan origination.

Income Taxes. Income taxes increased to $35.7 million in 2002 from $16.3 million in 2001, an increase of $19.4 million, or 119.6%.

Loan Servicing Segment

Our Loan Servicing Segment was immaterial before the acquisition of Columbia in June 2002 and thus the Loan Servicing Segment results are included in the Loan Origination Segment results in prior years.

Revenues. The Loan Servicing Segment's total revenues for the year ended December 31, 2002, were a loss of $14.7 million, which included a net loan servicing fees loss of $11.6 million and interest expense, net, of $3.1 million.

Net loan servicing fees was a loss of $11.6 million in 2002. The loan servicing portfolio was acquired as part of the Columbia acquisition in June 2002. The servicing losses are a result of the reduction in interest rates since the acquisition which resulted in both faster actual prepayments and higher forecasted future prepayments than what were expected at the time of the acquisition. The loss in 2002 primarily resulted from a temporary impairment provision of $10.3 million due to a reduction in the fair value of servicing rights attributable to an increase in estimated future prepayment speeds and $26.4 million amortization as a result of faster than expected loan repayments.

Expenses. These expenses are associated with the administration of the servicing portfolio acquired through the Columbia acquisition in June 2002.

Income Taxes. Income tax benefit was $7.6 million in 2002.

Liquidity and Capital Resources

We have arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with 14 different financial institutions and on December 31, 2003 had borrowed funds from five of these firms. Because we borrow money under these agreements based on the fair value of our mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, our borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of our mortgage-backed securities declines for other reasons.

As of December 31, 2003, we had $1.3 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 1.26% and a weighted-average remaining maturity of 6.9 months.

To originate a mortgage loan, we draw against a $1.2 billion pre-purchase facility with UBS Real Estate Securities Inc. (formerly Paine Webber Real Estate Securities Inc.) ("UBS"), a $450 million bank syndicated facility led by Residential Funding Corporation ("RFC"), a $450 million facility with CDC IXIS Capital Markets North America Inc. ("CDC"), a facility of $350 million with Morgan Stanley Bank ("Morgan Stanley") and a facility of $200 million with Credit Lyonnais. These facilities are secured by the mortgages owned by us and by certain of our other assets. Advances drawn under the facilities bear interest at rates that vary depending on the type of mortgages securing the advances. These loans are subject to sublimits, advance rates and terms that vary depending on the type of securing mortgages and the ratio of the Company's liabilities to its tangible net worth. At March 8, 2004, the aggregate outstanding balance under the warehouse facilities was $1.5 billion, the aggregate outstanding balance in drafts payable was $46.1 million and the aggregate maximum amount available for additional borrowings was $978.8 million.

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

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

- the loan is rejected as "unsatisfactory for purchase" by the ultimate investor and has exceeded its permissible 120-day warehouse period;

- we fail to deliver the applicable mortgage note or other documents evidencing the loan within the requisite time period;

- the underlying property that secures the loan has sustained a casualty loss in excess of 5% of its appraised value; or

- the loan ceases to be an eligible loan (as determined pursuant to the applicable warehousing agreement).

As of December 31, 2003, our aggregate warehouse facility borrowings were $1.1 billion (including $29 million of borrowings under a working capital sub-limit) and our outstanding drafts payable were $25.6 million, compared to $728.5 million in borrowings and $42.6 million in drafts payable as of December 31, 2002. At December 31, 2003, our loans held for sale were $1.2 billion compared to $832.0 million at December 31, 2002.

In addition to the UBS, CDC, RFC, Morgan Stanley, and Credit Lyonnais warehouse facilities, we have a purchase and sale agreement with UBS. This agreement allows us to accelerate the sale of our mortgage loan inventory, resulting in a more effective use of the warehouse facility. Amounts sold and being held under these agreements at December 31, 2003 and 2002 were $236 million and $801 million, respectively. The amount so held under this agreement at March 8, 2004 was $167.5 million. This agreement is not a committed facility and may be terminated at the discretion of the counterparty.

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

We also have a $100 million term loan facility with a bank syndicate led by RFC which we use to finance our mortgage servicing rights. The term loan facility expires on May 28, 2004. Interest is based on a spread to the LIBOR and may be adjusted for earnings on escrow balances. At December 31, 2003 and 2002, borrowings under our term loan were $71.5 million and $66.0 million, respectively.

Cash and cash equivalents increased to $53.1 million at December 31, 2003, from $24.4 million at December 31, 2002.

Our primary sources of cash and cash equivalents during the year ended December 31, 2003, were as follows:

- $ 1.0 billion increase in reverse repurchase agreements;
- $ 393.3 million increase in warehouse lines of credit; and
- $ 259.7 million increase in payable for mortgage-backed securities purchased.

Our primary uses of cash and cash equivalents during the year ended December 31, 2003, were as follows:

- $ 1.3 billion increase in mortgage-backed securities; and
- $ 391.8 million net increase in mortgage loans held for sale.

Cash and cash equivalents decreased to $24.4 million at December 31, 2002, from $26.4 million at December 31, 2001.

Our primary sources of cash and cash equivalents during the year ended December 31, 2002, were as follows:

- $184.0 million increase in warehouse lines of credit;
- $ 43.7 million in proceeds from issuance of capital stock; and
- $ 19.3 million increase in accrued expenses and other liabilities.

Our primary uses of cash and cash equivalents during the year ended December 31, 2002, were as follows:

- $202.6 million net increase in mortgage loans held for sale;
- $ 33.5 million for the acquisition of businesses, net of cash acquired;
- $ 25.4 million increase in