
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 10-Q/A
(Amendment No. 1)**

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2005

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 001-32447

SAXON CAPITAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of Incorporation)

30-0228584
(I.R.S. Employer Identification No.)

4860 Cox Road
Suite 300
Glen Allen, Virginia 23060
(Address of Principal Executive Offices)

23060
(Zip Code)

Registrant's Telephone Number, Including Area Code: (804) 967-7400.

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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ☒ No ☐

As of August 4, 2005 there were 49,952,501 shares of our common stock, par value \$0.01 per share, outstanding.

Explanatory Note

Saxon Capital, Inc. (“Saxon” or “Company”) is filing this amendment to its quarterly report on Form 10-Q for the quarter ended June 30, 2005 to restate financial statements and to amend other financial information filed with the Securities and Exchange Commission, or SEC. This amendment is being filed to correct errors in the originally filed quarterly report on Form 10-Q related to the Company’s accounting under Statement of Financial Accounting Standards, or SFAS, No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

For additional information on the restatement see Note 13, Restatement, to the Financial Statements presented under Item 1 of this report.

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Part I. Financial Information
Item 1. Financial Statements

Saxon Capital, Inc.
Consolidated Balance Sheets
(\$ in thousands, except per share data)
(unaudited)

	June 30, 2005 (as restated - see Note 13)	December 31, 2004 (as restated - see Note 13)
Assets:		
Cash	\$10,950	\$12,852
Accrued interest receivable, net of allowance of \$11,856 and \$12,418, respectively	38,253	37,803
Trustee receivable	135,424	112,062
 Mortgage loan portfolio	 6,158,876	 5,997,376
Allowance for loan losses	(24,422)	(24,892)
Net mortgage loan portfolio	6,134,454	5,972,484
 Restricted cash	 204,811	 1,495
Servicing related advances	133,787	109,848
Mortgage servicing rights, net	129,040	98,995
Real estate owned	32,733	34,051
Derivative assets	18,222	17,568
Deferred tax asset	42,514	27,506
Other assets	54,518	83,865
Total assets	\$6,934,706	\$6,508,529
Liabilities and shareholders' equity:		
Liabilities:		
Accrued interest payable	\$6,909	\$8,045
Dividends payable	—	28,909
Warehouse financing	261,105	600,646
Securitization financing	6,023,203	5,258,344
Derivative liabilities	3,234	2,636
Other liabilities	17,596	22,876
Total liabilities	6,312,047	5,921,456
Commitments and contingencies - Note 9		
Shareholders' equity:		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; shares issued and outstanding: 49,902,501 and 49,849,386 as of June 30, 2005 and December 31, 2004, respectively	499	498
Additional paid-in capital	627,456	625,123
Accumulated other comprehensive loss, net of tax effect of \$(15) and \$(21)	(336)	(474)
Accumulated deficit	(4,960)	(38,074)
Total shareholders' equity	622,659	587,073
Total liabilities and shareholders' equity	\$6,934,706	\$6,508,529

The accompanying notes are an integral part of these consolidated financial statements.

Saxon Capital, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (as restated - see Note 13)	2004 (as restated - see Note 13)	2005 (as restated - see Note 13)	2004 (as restated - see Note 13)
Revenues:				
Interest income	\$111,077	\$102,995	\$223,499	\$200,383
Interest expense	(61,487)	(34,228)	(116,478)	(65,522)
Net interest income	49,590	68,767	107,021	134,861
Provision for mortgage loan losses	(9,428)	(6,810)	(11,736)	(11,229)
Net interest income after provision for mortgage loan losses	40,162	61,957	95,285	123,632
Servicing income, net of amortization and impairment	17,224	5,336	30,790	9,938
Derivative (losses) gains	(15,084)	23,220	6,150	10,763
Gain on sale of assets	706	308	2,407	2,859
Total net revenues, gains and losses	43,008	90,821	134,632	147,192
Expenses:				
Payroll and related expenses	16,255	18,439	38,006	34,854
General and administrative expenses	15,339	12,482	31,359	24,469
Depreciation	1,336	1,575	2,843	3,069
Other expense	137	1,685	1,841	2,795
Total expenses	33,067	34,181	74,049	65,187
Income before taxes	9,941	56,640	60,583	82,005
Income tax expense (benefit)	2,944	20,943	(383)	27,378
Income before cumulative effect of change in accounting principle	6,997	35,697	60,966	54,627
Cumulative effect of change in accounting principle	31	—	31	—
Net income	\$7,028	\$35,697	\$60,997	\$54,627
Earnings per share:				
Weighted average common shares - basic	49,884	28,703	49,867	28,687
Weighted average common shares - diluted	50,848	31,089	50,653	31,196
Basic earnings per common share before cumulative effect of change in accounting principle	\$0.14	\$1.24	\$1.22	\$1.90
Cumulative effect of change in accounting principle	—	—	—	—
Basic earnings per common share	\$0.14	\$1.24	\$1.22	\$1.90
Diluted earnings per common share before cumulative effect of change in accounting principle	\$0.14	\$1.15	\$1.20	\$1.75
Cumulative effect of change in accounting principle	—	—	—	—
Diluted earnings per common share	\$0.14	\$1.15	\$1.20	\$1.75
Dividends declared per common share	\$0.55	—	\$0.55	—

The accompanying notes are an integral part of these consolidated financial statements.

Saxon Capital, Inc.
Consolidated Statement of Shareholders' Equity
(\$ in thousands)
(unaudited)

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance as of January 1, 2005 (as restated - see Note 13)	49,849,386	\$498	\$625,123	\$(474)	\$(38,074)	\$587,073
Issuance of common stock	53,115	1	751	—	—	752
Compensation expense	—	—	1,592	—	—	1,592
Share-based compensation tax benefit	—	—	21	—	—	21
Cumulative effect of change in accounting principle	—	—	(31)	—	—	(31)
Dividends declared (\$0.55 per share)	—	—	—	—	(27,883)	(27,883)
Comprehensive income:						
Net income (as restated - see Note 13)	—	—	—	—	60,997	
Mortgage bonds:						
Change in unrealized loss	—	—	—	(199)	—	
Reclassification adjustment	—	—	—	343	—	
Tax effect	—	—	—	(6)	—	
Total comprehensive income (as restated - see Note 13)	—	—	—	138	60,997	61,135
Balance as of June 30, 2005 (as restated - see Note 13)	49,902,501	\$499	\$627,456	\$(336)	\$(4,960)	\$622,659

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at January 1, 2004 (as restated - see Note 13)	28,661,757	\$287	\$264,030	\$(832)	\$50,245	\$313,730
Issuance of common stock	68,943	—	1,110	—	—	1,110
Compensation expense	—	—	1,281	—	—	1,281
Comprehensive income:						
Net income (as restated - see Note 13)	—	—	—	—	54,627	
Mortgage bonds:						
Change in unrealized loss	—	—	—	267	—	
Reclassification adjustment	—	—	—	548	—	
Tax effect	—	—	—	(274)	—	
Total comprehensive income (as restated - see Note 13)	—	—	—	541	54,627	55,168
Balance at June 30, 2004 (as restated - see Note 13)	28,730,700	\$287	\$266,421	\$(291)	\$104,872	\$371,289

The accompanying notes are an integral part of these consolidated financial statements.

Saxon Capital, Inc.
Consolidated Statements of Cash Flows
(\$ in thousands)
(unaudited)

	Six Months Ended June 30,	
	2005 (as restated - see Note 13)	2004 (as restated - see Note 13)
Operating Activities:		
Net income	\$60,997	\$54,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,401	8,655
Deferred income tax (benefit) provision	(15,008)	246
Impairment of assets	3,119	7,100
Gain from sale of assets	(2,407)	(2,859)
Non cash derivative losses (gains)	4,216	(11,477)
Provision for mortgage loan losses	11,736	11,229
Provision for past due interest	6,663	7,325
Compensation expense for share-based compensation plans	1,592	1,281
Cumulative effect of change in accounting principle	(31)	—
(Increase) decrease in servicing related advances	(23,939)	19,939
Decrease (increase) in accrued interest receivable	285	(3,811)
Decrease in accrued interest payable	(1,136)	(178)
Increase in trustee receivable	(23,362)	(16,128)
(Purchases of) proceeds from derivative instruments	(4,271)	976
Increase in income tax receivable	29,729	11,369
Net change in miscellaneous assets and liabilities	(9,070)	(19,839)
Net cash provided by operating activities	73,514	68,455
Investing Activities:		
Purchase and origination of mortgage loans	(1,611,029)	(1,750,620)
Principal payments received on mortgage loan portfolio	1,181,764	965,483
Proceeds from the sale of mortgage loans	216,396	150,690
Proceeds from the sale of real estate owned	29,074	28,783
Increase in restricted cash	(203,316)	(11,086)
Principal payments received on mortgage bonds	—	3,584
Acquisition of mortgage servicing rights	(51,998)	(14,826)
Capital expenditures	(5,888)	(4,146)
Net cash used in investing activities	(444,997)	(632,138)
Financing Activities:		
Proceeds from issuance of securitization financing - bonds	1,979,971	1,115,475
Proceeds from issuance of securitization financing - certificates	40,824	—
Debt issuance costs	(6,340)	(3,412)
Principal payments on securitization financing - bonds	(1,231,030)	(993,314)
Principal payments on securitization financing - certificates	(18,264)	(5,239)
(Repayment of) proceeds from warehouse financing, net	(339,541)	451,138
Proceeds received from issuance of stock	752	1,110
Payment of dividends	(56,791)	—
Net cash provided by financing activities	369,581	565,758
Net (decrease) increase in cash	(1,902)	2,075
Cash at beginning of period	12,852	5,245
Cash at end of period	\$10,950	\$7,320
Supplemental Cash Flow Information:		
Cash paid for interest	\$(119,443)	\$(82,245)
Cash received (paid) for income taxes	\$15,118	\$(15,706)
Non-Cash Financing Activities:		
Transfer of mortgage loans to real estate owned	\$40,517	\$44,748

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

(1) Organization and Summary of Significant Accounting Policies

(a) The Company and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America, or GAAP, for complete financial statements.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation. The results of operations and other data for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for any other interim periods or the entire year ending December 31, 2005. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with GAAP have been omitted. Use of the term “Company” throughout these Notes to Unaudited Consolidated Financial Statements shall be deemed to refer to or include the applicable subsidiaries of the Company. The unaudited consolidated financial statements of the Company include the accounts of all wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Saxon Capital, Inc., a Delaware corporation (“Old Saxon”) was formed on April 23, 2001 and acquired all of the issued and outstanding capital stock of SCI Services, Inc. from Dominion Capital, Inc., a wholly owned subsidiary of Dominion Resources, Inc., on July 6, 2001. Saxon Capital, Inc., a Maryland corporation (formerly known as Saxon REIT, Inc.) (“New Saxon,” and together with Old Saxon, referred to herein as “Saxon” or the “Company”) (NYSE: SAX), was formed on February 5, 2004 for the purpose of effecting Old Saxon’s conversion to a real estate investment trust, or REIT. The REIT conversion was completed on September 24, 2004.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The recorded balances most affected by the use of estimates are amortization of yield adjustments to net interest income, the allowance for loan loss, valuation of servicing rights, deferral of certain direct loan origination costs, and income taxes.

The Company recorded a change in accounting estimate during the second quarter of 2005 for a \$1.4 million reduction of expense relating to a change in estimate in accounting for its deferral of certain direct loan origination costs. This change in estimate increased net income by \$1.4 million and increased basic and diluted earnings per share by \$0.03.

(c) Early Adoption of SFAS 123(R)

The Company adopted SFAS 123(R) *Share Based Payment* on April 1, 2005 to account for its two share-based compensation plans, namely its Stock Incentive Plan and its Employee Stock Purchase Plan. The effect of this change from applying the original provisions of SFAS 123 had an immaterial effect on income before income taxes, net income, and earnings per share, as described in further detail in Note 10. The effect of this change from applying the original provisions of SFAS 123 had no effect on cash flow from operations and financing activities. The Company recorded a cumulative effect of change in accounting principle in the amount of \$31.0 thousand as of April 1, 2005 to reflect the change in accounting for forfeitures. Pro forma calculations for prior periods for the cumulative effect of change in accounting principle are not required as the change in accounting for forfeitures related to restricted stock units granted during the first quarter of 2005.

In periods prior to April 1, 2005, the Company had elected to follow the intrinsic value method in accounting for stock options issued to employees and non-employee directors. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value method using the Black-Scholes option-pricing model to options and restricted stock units granted during the six months ended June 30, 2005 and the three and six months ended June 30, 2004. As shown in the table, there would have been no effect on net income and earnings per share if the Company had applied the fair value method using the Black-Scholes option pricing model during the six months ended June 30, 2005. This is because all outstanding options were vested upon the Company's conversion to REIT status in 2004, and restricted stock unit awards are accounted for similarly under either method.

	Three Months Ended June 30,	Six Months Ended June 30,	
	2004	2005	2004
	(\$ in thousands, except per share data)		
Net income	\$35,697	\$60,997	\$54,627
Add: stock-based compensation expense included in net income, net of related tax effects	-	694	-
Deduct: total share-based compensation expense determined under fair value based method for all awards, net of related tax effects	(638)	(694)	(1,276)
Pro forma net income	\$35,059	\$60,997	\$53,351
Earnings per share:			
Basic	\$1.24	\$1.22	\$1.90
Basic - pro forma	\$1.22	\$1.22	\$1.86
Diluted	\$1.15	\$1.20	\$1.75
Diluted - pro forma	\$1.13	\$1.20	\$1.71

(d) Reclassifications

Certain items in the prior year consolidated balance sheet have been reclassified to conform to the current year presentation. These reclassifications had no effect on reported total assets. The Company has changed the format of its 2005 consolidated balance sheet presentation to report the component of allowance for loan losses related to past due interest with accrued interest receivable. The Company also changed the format of its 2005 consolidated balance sheet presentation to report the portion of its real estate owned valuation allowance that is related to past due interest with accrued interest receivable. The consolidated balance sheet for 2004 has been reclassified to conform to these formats. A reclassification of \$12.4 million in allowance for mortgage loan losses to accrued interest receivable and a reclassification of \$5.9 million in real estate owned to accrued interest receivable were made in the December 31, 2004 consolidated balance sheet to conform to the June 30, 2005 presentation.

(e) Recently Issued Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board issued Statement No. 154, *Accounting Changes and Error Corrections*, which changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and applies to all voluntary changes in accounting principle as well as changes required by an accounting pronouncement in the rare instance that a new pronouncement does not include specific transition provisions. APB Opinion No. 20 previously required that the cumulative effect of a voluntary change to a new accounting pronouncement be recognized in net income for the period of the change. FASB Statement No. 154 now requires retrospective application of a voluntary change in accounting principle to prior periods' financial statements unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Additionally, this Statement redefines the term "restatement" as the revising of previously issued financial statements to reflect the correction of an error. Reporting the correction of an error in previously issued financial statements and a change in accounting estimate is carried forward from the guidance provided in APB Opinion 20. FASB Statement No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of FASB 154 is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

(2) Subsequent Events

During July 2005, the Company purchased \$2.0 billion in third party servicing rights for approximately \$13.3 million.

Effective July 14, 2005, the Company's Senior Vice President and Corporate Strategies Director resigned from the Company. Effective July 15, 2005, the Company's Executive Vice President, Capital Markets, separated from service from the Company. In connection with these departures, approximately \$0.9 million in severance will be expensed and the Company will incur approximately \$1.0 million of expense in connection with the acceleration and vesting of restricted stock units during the third quarter of 2005.

On July 19, 2005, the Company declared a quarterly dividend of \$0.55 per share of common stock payable on August 11, 2005 to shareholders of record as of the close of business on July 29, 2005.

(3) Earnings Per Share

Basic earnings per share is based on the weighted average number of shares outstanding, excluding any dilutive effects of options, warrants, or restricted stock units. Diluted earnings per share is based on the weighted average number of shares, dilutive stock options, dilutive stock warrants, and dilutive restricted stock units outstanding during the year. Computations of earnings per share were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(in thousands, except per share data)			
Basic:				
Net income	\$7,028	\$35,697	\$60,997	\$54,627
Weighted average shares outstanding	49,884	28,703	49,867	28,687
Earnings per share	\$0.14	\$1.24	\$1.22	\$1.90
Diluted:				
Net income	\$7,028	\$35,697	\$60,997	\$54,627
Weighted average shares outstanding	49,884	28,703	49,867	28,687
Dilutive effect of stock options, warrants and restricted stock units	964	2,386	786	2,509
Weighted average shares outstanding - diluted	50,848	31,089	50,653	31,196
Earnings per share	\$0.14	\$1.15	\$1.20	\$1.75

(4) Mortgage Loan Portfolio

Mortgage loans reflected on the Company's consolidated balance sheets as of June 30, 2005 and December 31, 2004 were comprised of the following:

	June 30, 2005	December 31, 2004
	(\$ in thousands)	
Securitized mortgage loans - principal balance	\$5,691,043	\$5,123,071
Unsecuritized mortgage loans - principal balance	370,274	782,717
Premiums, net of discounts	82,207	75,562
Deferred origination costs, net of deferred fees	12,201	11,288
Purchase accounting fair value adjustments	3,151	4,738
Total	6,158,876	5,997,376
Less allowance for losses	(24,422)	(24,892)
Net mortgage loan portfolio	\$6,134,454	\$5,972,484

During the three months ended June 30, 2005, the Company completed one securitization of mortgage loans, totaling \$0.8 billion in principal balances and \$9.4 million in unamortized basis adjustments.

From time to time, the Company's subsidiaries may choose to sell certain mortgage loans rather than securitize them. The following chart summarizes the Company's activity with respect to sold mortgage loans during the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(\$ in thousands)			
Performing mortgage loans sold:				
Non conforming first lien mortgages	\$-	\$936	\$98,786	\$70,209
Conforming first lien mortgages (1)	20,599	-	40,086	-
Second lien mortgages	20,829	36,575	64,235	52,271
Delinquent mortgage loans (2)	8,812	-	8,812	24,465
Total mortgage loans sold	50,240	37,511	211,919	146,945
Plus (less) basis adjustments	(482)	1,207	2,095	917
Less: cash received	(50,439)	(39,026)	(216,396)	(150,690)
Gain on sale of mortgage loans (2)(3)	\$681	\$308	\$2,382	\$2,828

- (1) Loans that generally meet the underwriting guidelines of one of the government-sponsored entities such as Freddie Mac, Fannie Mae, and Ginnie Mae.
- (2) Includes real estate owned, or REO, that was part of a delinquent loan sale.
- (3) Total gain on sale of assets of \$0.7 million, \$2.4 million, and \$2.9 million on the consolidated statements of operations for the three months ended June 30, 2005 and for the six months ended June 30, 2005 and 2004, respectively, includes the gain recognized on sale of other assets.

(5) Allowance for Loan Losses and Past Due Interest

The Company is exposed to risk of loss from its mortgage loan portfolio and establishes the allowance for loan losses and past due interest taking into account a variety of criteria including the contractual delinquency status, historical loss experience, and catastrophic environmental influences or natural disasters. The allowance for loan losses and past due interest is evaluated monthly and adjusted based on this evaluation.

Activity related to the allowance for loan losses and past due interest for the mortgage loan portfolio is as follows:

	June 30, 2005	December 31, 2004
	(\$ in thousands)	
Allowance for loan losses	\$24,422	\$24,892
Allowance for past due interest (1)	11,856	12,418
Total allowance for loan losses and past due interest	\$36,278	\$37,310

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(\$ in thousands)			
Beginning balance	\$33,580	\$33,837	\$37,310	\$43,369
Provision for loan losses	9,428	6,810	11,736	11,229
Provision for past due interest (2)	2,131	2,474	4,586	1,873
Charge-offs	(8,861)	(9,089)	(17,354)	(22,439)
Ending balance	\$36,278	\$34,032	\$36,278	\$34,032

- (1) Provided for within accrued interest receivable on the consolidated balance sheets.
- (2) Recorded as a component within interest income on the consolidated statements of operations and represents the reversal of interest income on loans delinquent for 90 days or more.

(6) Mortgage Servicing Rights

As of June 30, 2005, the aggregate fair value of the mortgage servicing rights (MSRs) was \$182.6 million, compared to \$155.1 million as of December 31, 2004. The Company recognized a permanent impairment during the first six months of 2005 due to significant prepayment experience in certain underlying loans. The following table summarizes activity in mortgage servicing rights and its related valuation allowance for the three and six months ended June 30, 2005 and 2004:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(\$ in thousands)			
Beginning balance of MSRs, gross	\$118,045	\$42,511	\$106,619	\$41,942
Purchased	30,201	11,002	51,998	14,826
Amortization	(11,333)	(3,478)	(20,521)	(6,733)
Charge-offs	(1,791)	-	(2,974)	-
Ending balance of MSRs, gross	135,122	50,035	135,122	50,035
Beginning balance of valuation allowance	(7,945)	(3,469)	(7,624)	(687)
Recovery (impairment)	72	(1,868)	(1,432)	(4,650)
Charge-offs	1,791	-	2,974	-
Ending balance of valuation allowance	(6,082)	(5,337)	(6,082)	(5,337)
MSRs, net	\$129,040	\$44,698	\$129,040	\$44,698

As of June 30, 2005, the following table summarizes the remaining estimated projected amortization expense for the carrying value of the mortgage servicing rights for each of the five succeeding years and thereafter:

	Years Ending December 31,
	(\$ in thousands)
July 2005 through December 2005	\$24,363
2006	39,232
2007	24,594
2008	16,093
2009	10,547
Thereafter	20,293
Total	\$135,122

(7) Warehouse and Securitization Financing

A summary of the amounts outstanding under these agreements as of June 30, 2005 and December 31, 2004 is as follows:

	June 30, 2005	December 31, 2004
	(\$ in thousands)	
Debt Outstanding		
Warehouse financing - loans and servicing advances	\$254,695	\$282,092
Repurchase agreements - loans (1)	5,437	317,500
Repurchase agreements - mortgage bonds (1) (2)	973	1,054
Securitization financing - servicing advances	140,548	117,988
Securitization financing - loans and real estate owned	5,882,624	5,125,572
Securitization financing - net interest margin	31	14,784
Total	\$6,284,308	\$5,858,990

(1) Repurchase agreements are included as part of warehouse financing on the consolidated balance sheets.

(2) Amount outstanding was borrowed against an uncommitted facility.

The following table summarizes the Company's contractual obligations with respect to these facilities as of June 30, 2005:

As of June 30, 2005	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(\$ in thousands)				
Warehouse financing - loans and servicing advances	\$254,695	\$254,695	\$—	\$—	\$—
Repurchase agreements - loans (1)	5,437	5,437	—	—	—
Repurchase agreements - mortgage bonds (1)	973	973	—	—	—
Securitization financing - servicing advances (2)	140,548	48,272	56,070	13,203	23,003
Securitization financing - loans and real estate owned (3)	5,882,624	2,022,838	2,344,277	552,659	962,850
Securitization financing - net interest margin (3)	31	31	—	—	—
Total contractual cash obligations	\$6,284,308	\$2,332,246	\$2,400,347	\$565,862	\$985,853

(1) Repurchase agreements are included as part of warehouse financing on the consolidated balance sheets.

(2) Amounts shown are estimated debt payments based on anticipated recovery of the underlying principal and interest servicing advances.

(3) Amounts shown are estimated debt payments based on anticipated receipt of principal and interest on underlying mortgage loan collateral using historical prepayment speeds.

A summary of interest expense and the weighted average cost of funds is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(\$ in thousands)			
Interest Expense				
Warehouse financing	\$1,015	\$927	\$2,181	\$1,210
Repurchase agreements	2,350	1,813	4,099	3,322
Securitization financing	57,013	30,082	108,094	58,294
Note payable	—	497	—	995
Other	1,109	909	2,104	1,701
Total	\$61,487	\$34,228	\$116,478	\$65,522
Weighted Average Cost of Funds				
Warehouse financing	2.11%	1.85%	2.40%	1.78%
Repurchase agreements	3.74%	1.86%	3.52%	1.83%
Securitization financing	4.01%	2.63%	3.79%	2.56%
Note payable	—	8.00%	—	8.00%
Total	4.02%	2.63%	3.80%	2.58%

Under its borrowing agreements, the Company is subject to certain debt covenants and is required to maintain or satisfy specified financial ratios and tests, as well as other customary covenants, representations and warranties. In the event of default, the Company may be prohibited from paying dividends and making distributions under certain of its financing facilities without the prior approval of its lenders. As of June 30, 2005, the Company was in compliance with all covenants under the respective borrowing agreements.

(8) Derivatives

The Company may use a variety of financial instruments to manage the exposure to changes in interest rates. The Company may enter into interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, financial forwards, financial futures, and options on financial instruments (collectively referred to as "Interest Rate Agreements") to manage the sensitivity to changes in market interest rates. The Interest Rate Agreements used have an active secondary market, and none are obtained for speculation. The Company accounts for all of its derivative financial instruments as undesignated derivative instruments. The maximum term over which the Company is currently managing its exposure for forecasted transactions is 51 months. The Company has classified cash activity associated with derivatives as an operating activity in the consolidated statements of cash flows. Derivative (losses) gains totaled \$(15.1) million and \$23.2 million for the three months ended June 30, 2005 and 2004, respectively, and \$6.2 million and \$10.8 million for the six months ended June 30, 2005 and 2004, respectively. The components of these derivative (losses) gains consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(\$ in thousands)			
Non cash fair value (loss) gain	\$(13,288)	\$21,643	\$(4,216)	\$11,477
Cash settlements, net	(1,718)	1,809	10,618	(425)
Broker commissions	(97)	(234)	(291)	(293)
Interest on margin	19	2	39	4
Total	\$(15,084)	\$23,220	\$6,150	\$10,763

(9) Commitments and Contingencies

Mortgage Loans

As of June 30, 2005 and December 31, 2004, the Company's subsidiaries had commitments to fund mortgage loans with agreed-upon rates of approximately \$197.4 million and \$240.3 million, respectively. These amounts do not necessarily represent future cash requirements, as some portion of the commitments are likely to expire without being drawn upon or may be subsequently declined for credit or other reasons.

In connection with the approximately \$484.5 million of mortgage loans securitized in off-balance sheet transactions from May 1996 to July 5, 2001 which are still outstanding as of June 30, 2005, and in connection with the sales of mortgage loans to nonaffiliated parties, the Company's subsidiaries made representations and warranties about certain characteristics of the loans, the borrowers, and the underlying properties. In the event of a breach of these representations and warranties, those subsidiaries may be required to remove loans from a securitization and replace them with cash or substitute loans, and to indemnify parties for any losses related to such breach. As of June 30, 2005 those subsidiaries neither had nor expect to incur any material obligation to remove any such loans, or to provide any such indemnification.

Mortgage Servicing Rights

The Company is committed to purchase third party servicing rights for an additional \$5.2 billion of mortgage loans during the third quarter of 2005, of which \$2.0 billion have been purchased during July 2005 for approximately \$13.3 million.

Legal Matters

Because the business of the Company's subsidiaries involves the collection of numerous accounts as well as the validity of liens and compliance with various state and federal lending laws, the Company and its subsidiaries are subject to various legal proceedings in the normal course of business. In management's opinion, the resolution of these lawsuits will not have a material adverse effect on the financial position or the results of operations of the Company.

Margarita Barbosa, et al. v. Saxon Mortgage Services, Inc. (f/k/a Meritech Mortgage Services, Inc.) et al. The plaintiffs alleged that Saxon Mortgage Services collected prepayment penalties on loans that had been accelerated, constituting violations of the Illinois Interest Act, the Illinois Consumer Fraud Act, similar laws, if any, in other states, and a breach of contract. The claims of one of the named plaintiffs have been settled, and the claims of the remaining named plaintiff against Saxon Mortgage Services have been dismissed without prejudice. The remaining named plaintiff re-filed the action in State Court. On the Company's motion, the action was removed to Federal Court. The parties agreed to a settlement that would require the Company to pay approximately \$0.2 million to a group of 27 former Illinois borrowers and their attorneys in exchange for a dismissal. The Court entered an order approving the settlement. Each of the 27 former borrowers may choose to opt out of the settlement and may pursue individual actions against us. The settlement would not preclude former borrowers in other states from bringing similar claims, or attempting to assert similar claims as a class action. During the three months ended June 30, 2005, the Company made the final payment of \$17.8 thousand owed pursuant to the settlement agreement, and consequently has fully performed its obligations under the settlement agreement.

Bauer, et al., v. Dean Morris, L.L.P., et al., and Patterson, et al., v. Dean Morris, et al., are successor matters to Bauer, et al., v. Saxon Mortgage Services, Inc., et al. On January 26, 2005, the plaintiffs in Bauer, et al., v. Saxon Mortgage Services, Inc., et al. filed a motion to dismiss the case without prejudice, and the court entered an order dismissing the case on January 31, 2005. On February 17, 2005, the plaintiffs re-filed the case as two separate class action lawsuits, Bauer, et al., vs. Dean Morris, et al., filed as Case No. 05-2173 in the Civil District Court for the Parish of Orleans, State of Louisiana, and Patterson et al., v. Dean Morris, et al., filed as Case No. 05-2174 in the Civil District Court for the Parish of Orleans, State of Louisiana. There were no material developments in this legal proceeding during the quarter ended June 30, 2005. At this time, the Company cannot predict the outcome of this matter and cannot reasonably estimate a range of possible loss given the current status of the litigation; accordingly, no amounts have been accrued in the Company's accompanying consolidated financial statements.

The Company is also subject to other immaterial legal proceedings arising in the normal course of business. In the opinion of management, the resolution of these other immaterial proceedings is not expected to have a material adverse effect on the Company's financial position or results of operations.

(10) Stock Compensation Plans

Stock Incentive Plan - Pursuant to the merger agreement in connection with the REIT conversion, the Company assumed the Saxon Capital, Inc. 2001 Stock Incentive Plan (the "Stock Incentive Plan"), which provides for the issuance of restricted common stock, stock appreciation rights, dividend equivalent rights, stock options, or unit awards based on the value of the Company's common stock to eligible employees and other eligible participants. The maximum number of shares or other awards authorized for issuance under the Stock Incentive Plan is reset as of January 1 of each year at the greater of (i) 2,998,556 shares; (ii) 10.69% of the total number of then outstanding shares of common stock of the Company as of January 1 of each year; or (iii) the maximum number that has been previously awarded or granted under the Stock Incentive Plan, provided that the total number of shares authorized to be issued under the Stock Incentive Plan may not exceed 6,000,000 shares. The Compensation Committee of the Board of Directors administers the Stock Incentive Plan, and has full authority to select the recipients of awards, to decide when awards are to be made, to determine the type and number of awards, and to establish the vesting requirements as well as other features and conditions of each award.

All options granted under the Company's Stock Incentive Plan were expensed as a result of the Company's conversion to a REIT in the third quarter of 2004, and the Company has not granted any additional options in 2005. Accordingly, no additional expense was recorded for these options as a result of the adoption of SFAS 123(R).

The following table summarizes the transactions relating to the Company's stock options for the six months ended June 30, 2005:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2004 (includes 11,000 options with a remaining contractual life of 6.8 years currently exercisable under the Stock Incentive Plan)	11,000	\$10.10
Options granted	—	\$—
Options exercised	(5,000)	\$10.10
Options cancelled	—	\$—
Options outstanding, June 30, 2005 (includes 6,000 options with a remaining contractual life of 6.3 years currently exercisable under the Stock Incentive Plan)	6,000	\$10.10

Cash received from option exercise under all share-based payment arrangements for the six months ended June 30, 2005 and 2004, was \$50.5 thousand and \$100.4 thousand, respectively. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$1.3 thousand and \$60.4 thousand, respectively for the six months ended June 30, 2005 and 2004. The total intrinsic value of options exercised during the six months ended 2005 and 2004 was \$34.7 thousand and \$158.8 thousand, respectively.

Restricted Stock Units - In the first quarter of 2005, the Company granted an aggregate of 789,500 restricted stock units to some of the Company's employees, including each executive officer. The restricted stock units vest on the fifth anniversary of the date of grant. In addition, the Company granted an aggregate of 80,000 restricted stock units to its four non-employee directors. The restricted stock units related to the non-employee directors vest in four equal annual installments on each of the four anniversaries of the date of grant. The grantees of the restricted stock units are entitled to receive all dividends and other distributions paid with respect to the common shares of the Company underlying such restricted stock units at the time such dividends or distributions are paid to holders of common shares.

The Company recognizes compensation expense for restricted stock units issued over the vesting period for an amount equal to the fair value of the restricted stock units at grant date. Fair value is determined by the price of the stock on the grant date. The Company incurred \$1.6 million of expense related to amortization of these restricted stock units and their related dividend equivalent rights during the first six months of

2005. As of June 30, 2005, there was \$15.5 million of total unrecognized compensation cost related to nonvested restricted stock units granted under the Plan. That cost is expected to be recognized over a weighted-average period of 4.4 years.

The Company recorded \$0.1 million in reduction of expense during the second quarter of 2005 related to a change in the accounting for forfeitures following the Company's adoption of SFAS 123(R).

A summary of the status of the Company's nonvested restricted stock units as of June 30, 2005, and changes during the six months ended June 30, 2005, is presented below:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2005	—	\$—
Granted	869,500	\$21.50
Vested	—	\$—
Forfeited	(12,500)	\$21.50
Nonvested at June 30, 2005	857,000	\$21.50

Employee Stock Purchase Plan - The Company's Employee Stock Purchase Plan authorizes the issuance of up to a total of 1,000,000 shares of common stock to participating employees. The 1,000,000 share aggregate limitation will be adjusted proportionately for any increase or decrease in the number of outstanding shares of the stock. Under the terms of the Employee Stock Purchase Plan, eligible employees may have up to 15% of eligible compensation deducted from their pay during each offering period to purchase common stock. Purchases are made on the last trading day of the offering period. The per share purchase price is 85% of the last transaction price per share of our common stock on the last trading day of the offering period.

The Company began recognizing compensation expense for its Employee Stock Purchase Plan with the adoption of SFAS 123(R) for an amount equal to the difference between the fair value and the sales price of the shares on the date of purchase, as a result of which the Company incurred \$47.3 thousand of expense during the second quarter 2005.

Activity related to the Company's Employee Stock Purchase Plan for the periods presented is as follows:

	Shares Issued	Issuance Price	Proceeds
	(amounts in thousands, except issuance price)		
For the Six Months Ended June 30, 2005:			
March 31, 2005	29.7	\$14.62	\$433.5
June 30, 2005	18.5	\$14.51	\$267.9

(11) Retail Branches

In an effort to improve productivity levels and increase efficiency in its retail operations, the Company has implemented strategic initiatives that have resulted in the closing and/or divestiture of several of its retail branches in various locations.

During the second quarter of 2005, the Company closed retail branches in the following locations: Colorado; Pennsylvania; Louisiana; Nevada; Florida; and Georgia. The closing of these retail branches is expected to reduce the fixed cost structure of the Company's branch network. During the three months ended June 30, 2005, the Company recognized \$0.1 million, \$0.1 million, and \$0.1 million of expenses for termination benefits, contract termination costs, and other associated costs, respectively and does not expect to incur any additional expenses related to these branch closings during the remainder of 2005. These costs are included in the consolidated statements of operations under payroll and related expenses for termination benefits, and under general and administrative expenses for contract termination and other associated costs, and are included in the Company's mortgage loan production segment.

Also, during the second quarter of 2005, the Company's subsidiary, America's MoneyLine, entered into an agreement to divest a portion of its retail branches to Bravo Credit Corporation, a wholly owned subsidiary of ECC Capital, Inc. Under this agreement, Bravo Credit Corporation acquired five branches from America's MoneyLine, located in Connecticut, Maryland, North Carolina, New Jersey, and Texas, and offered employment to all America's MoneyLine employees at those five retail branches as well as the Florida branch. Because Bravo Credit Corporation assumed all lease and associated costs of the five divested branches, the Company did not incur any material contract termination or other associated costs with respect to its divestiture of these branches. Because of the offer of employment to all employees at the five divested America's MoneyLine branches as well as the Florida branch, the Company also did not incur any material severance costs with respect to these six branches. The Company recorded a gain relating to the sale of these branches of \$25.8 thousand during the second quarter of 2005.

(12) Segments

The operating segments reported below are the segments of the Company for which separate financial information is available and for which amounts are evaluated regularly by management in deciding how to allocate resources and in assessing performance. The Company's segment information for the three and six months ended June 30, 2004 has been restated to reflect a change in the composition of its reportable segments.

The portfolio segment uses the Company's equity capital and borrowed funds to invest in its mortgage loan portfolio, thereby producing net interest income. The mortgage loan production segment purchases and originates non-conforming residential mortgage loans through relationships with various mortgage companies, mortgage brokers, and correspondent lenders, and directly to borrowers through its nine branch

offices. The mortgage loan production segment also records interest income, interest expense, and provision for mortgage loan losses on the mortgage loans it holds prior to selling its loans to the portfolio segment. This segment also collects revenues, such as origination and underwriting fees and other certain nonrefundable fees, which are deferred and recognized over the life of the loan as an adjustment to interest income recorded in the portfolio segment. The servicing segment services loans, seeking to ensure that loans are repaid in accordance with their terms.

Three Months Ended June 30, 2005

	Portfolio	Mortgage Loan Production	Servicing	Eliminations	Total
	(\$ in thousands)				
Interest income	\$93,154	\$10,592	\$1	\$7,330	\$111,077
Interest expense	(57,013)	(4,474)	—	—	(61,487)
Net intercompany interest	(572)	753	(181)	—	—
Net interest income	35,569	6,871	(180)	7,330	49,590
Provision for mortgage loan losses	(9,914)	486	—	—	(9,428)
Net interest income after provision for mortgage loan losses	25,655	7,357	(180)	7,330	40,162
Servicing income, net of amortization and impairment	—	688	23,565	(7,029)	17,224
Derivative losses	(15,084)	—	—	—	(15,084)
Gain (loss) on sale of mortgage assets	(358)	20,633	(4,200)	(15,369)	706
Total net revenues and gains	10,213	28,678	19,185	(15,068)	43,008
Payroll, general and administrative, and other expenses	17,556	16,580	11,004	(13,409)	31,731
Depreciation	—	879	457	—	1,336
Total operating expenses	17,556	17,459	11,461	(13,409)	33,067
Income (loss) before taxes	(7,343)	11,219	7,724	(1,659)	9,941
Income tax expense (benefit)	24	4,335	2,940	(4,355)	2,944
Income (loss) before cumulative effect of change in accounting principle	(7,367)	6,884	4,784	2,696	6,997
Cumulative effect of change in accounting principle	31	—	—	—	31
Net income (loss)	\$ (7,336)	\$ 6,884	\$ 4,784	\$ 2,696	\$ 7,028

Three Months Ended June 30, 2004

	Portfolio	Mortgage Loan Production	Servicing	Eliminations	Total
	(\$ in thousands)				
Interest income	\$75,910	\$21,800	\$8	\$5,277	\$102,995
Interest expense	(29,700)	(3,648)	(880)	—	(34,228)
Net intercompany interest	(1,308)	164	1,144	—	—
Net interest income	44,902	18,316	272	5,277	68,767
Provision for mortgage loan losses	(4,094)	(2,716)	—	—	(6,810)
Net interest income after provision for mortgage loan losses	40,808	15,600	272	5,277	61,957
Servicing income, net of amortization and impairment	—	757	10,767	(6,188)	5,336
Derivative gains	23,220	—	—	—	23,220
Gain on sale of mortgage assets	—	8,880	—	(8,572)	308
Total net revenues and gains	64,028	25,237	11,039	(9,483)	90,821
Payroll, general and administrative, and other expenses	3,399	27,200	7,203	(5,196)	32,606
Depreciation	—	980	595	—	1,575
Total operating expenses	3,399	28,180	7,798	(5,196)	34,181
Income (loss) before taxes	60,629	(2,943)	3,241	(4,287)	56,640
Income tax expense (benefit)	21,220	(1,131)	1,246	(392)	20,943
Net income (loss)	\$39,409	\$(1,812)	\$1,995	\$(3,895)	\$35,697

Six Months Ended June 30, 2005

	Mortgage Loan				
	Portfolio	Production	Servicing	Eliminations	Total
	(\$ in thousands)				
Interest income	\$196,193	\$20,583	\$(22)	\$6,745	\$223,499
Interest expense	(108,094)	(8,384)	—	—	(116,478)
Net intercompany interest	(1,514)	1,616	(102)	—	—
Net interest income	86,585	13,815	(124)	6,745	107,021
Provision for mortgage loan losses	(11,289)	(447)	—	—	(11,736)
Net interest income after provision for mortgage loan losses	75,296	13,368	(124)	6,745	95,285
Servicing income, net of amortization and impairment	—	1,514	42,788	(13,512)	30,790
Derivative gains	6,150	—	—	—	6,150
Gain (loss) on sale of mortgage assets	(358)	38,061	(7,442)	(27,854)	2,407
Total net revenues and gains	81,088	52,943	35,222	(34,621)	134,632
Payroll, general and administrative, and other expenses	22,934	39,430	22,251	(13,409)	71,206
Depreciation	—	1,936	907	—	2,843
Total operating expenses	22,934	41,366	23,158	(13,409)	74,049
Income before taxes	58,154	11,577	12,064	(21,212)	60,583
Income tax expense	1,740	4,477	4,666	(11,266)	(383)
Income (loss) before cumulative effect of change in accounting principle	56,414	7,100	7,398	(9,946)	60,966
Cumulative effect of change in accounting principle	31	—	—	—	31
Net income	\$56,445	\$7,100	\$7,398	\$(9,946)	\$60,997

Six Months Ended June 30, 2004

	Mortgage Loan				
	Portfolio	Production	Servicing	Eliminations	Total
	(\$ in thousands)				
Interest income	\$151,443	\$38,580	\$11	\$10,349	\$200,383
Interest expense	(57,513)	(6,233)	(1,776)	—	(65,522)
Net intercompany interest	(2,454)	148	2,306	—	—
Net interest income	91,476	32,495	541	10,349	134,861
Provision for mortgage loan losses	(9,549)	(1,680)	—	—	(11,229)
Net interest income after provision for mortgage loan losses	81,927	30,815	541	10,349	123,632
Servicing income, net of amortization and impairment	—	1,391	20,446	(11,899)	9,938
Derivative gains	10,763	—	—	—	10,763
Gain on sale of mortgage assets	—	19,475	31	(16,647)	2,859
Total net revenues and gains	92,690	51,681	21,018	(18,197)	147,192
Payroll, general and administrative, and other expenses	6,013	51,883	14,328	(10,106)	62,118
Depreciation	—	1,886	1,183	—	3,069
Total operating expenses	6,013	53,769	15,511	(10,106)	65,187
Income (loss) before taxes	86,677	(2,088)	5,507	(8,091)	82,005
Income tax expense (benefit)	30,337	(798)	2,105	(4,266)	27,378
Net income (loss)	\$56,340	\$(1,290)	\$3,402	\$(3,825)	\$54,627

Management evaluates assets only for the servicing and portfolio segments. Assets not identifiable to an individual segment are corporate assets, which are comprised of cash and other assets.

	June 30, 2005	December 31, 2004
Segment Assets:		
Portfolio	\$6,545,675	\$6,157,895
Servicing	262,827	208,843
Total segment assets	6,808,502	6,366,738
Corporate assets	126,204	141,791
Total assets	\$6,934,706	\$6,508,529

(13) Restatement

Subsequent to the issuance of the Company's June 30, 2005 unaudited consolidated financial statements, the Company determined that it needed to restate prior financial results to correct the way it has historically accounted for derivatives.

On December 5, 2005, the staff of the SEC expressed their views regarding the appropriate application of hedge accounting. The Company subsequently re-evaluated its application of hedge accounting and determined that it was inappropriately applying hedge accounting to its derivatives. Prior to this re-evaluation, the Company had believed that its accounting was consistent with GAAP.

Previously, changes in the fair value of cash flow hedges were recorded in other comprehensive income, net of income taxes, and the change in the fair value of previous fair value hedges were recorded as basis adjustments on mortgage loans which were amortized into earnings through interest income as a yield adjustment of the previously hedged loans. The Company now accounts for all of its derivative financial instruments as undesignated derivative instruments with all changes in the fair value of the derivatives recorded in the consolidated statements of operations.

The Company's designation of its derivative instruments as cash flow hedges for the period October 1, 2002 to September 30, 2005 did not meet the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, with regard to documentation and effectiveness testing. Additionally, the Company's designation of its derivative instruments as fair value hedges for the period July 6, 2001 to September 30, 2002 did not meet the requirements of SFAS No. 133 with regard to hedging similar assets. As a result, the accompanying consolidated financial statements as of June 30, 2005 and for the three and six months ended June 30, 2005 and 2004 have been restated from the amounts previously reported to account for the derivative instruments as undesignated derivatives with all changes in the fair value of the derivative instruments recognized in the consolidated statements of operations.

In addition, the Company restated certain amounts previously recorded in interest income to provision for loan loss and servicing income for the three and six months ended June 30, 2005 and 2004.

The following tables summarize the significant effects of the restatement.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005			
	As Previously Reported	As Restated	As Previously Reported	As Restated
Statement of Operations:	(in thousands, except per share amounts)			
Interest income	\$111,638	\$111,077	\$225,701	\$223,499
Interest expense	(61,568)	(61,487)	(116,740)	(116,478)
Net interest income	50,070	49,590	108,961	107,021
Provision for mortgage loan losses	(13,483)	(9,428)	(19,182)	(11,736)
Net interest income after provision for mortgage loan losses	36,587	40,162	89,779	95,285
Servicing income, net of amortization and impairment	17,223	17,224	30,789	30,790
Derivative (losses) gains	—	(15,084)	—	6,150
Total net revenues and gains	54,516	43,008	122,975	134,632
Other (income) expense	(117)	137	1,294	1,841
Total expenses	32,813	33,067	73,502	74,049
Income before taxes	21,703	9,941	49,473	60,583
Income tax expense (benefit)	2,336	2,944	(1,629)	(383)
Income before cumulative effect of change in accounting principle (SFAS 123R)	19,367	6,997	51,102	60,966
Net income	19,398	7,028	51,133	60,997
Earnings per share - basic	\$0.39	\$0.14	\$1.03	\$1.22
Earnings per share - diluted	\$0.38	\$0.14	\$1.01	\$1.20
Balance Sheet:				
Balance as of June 30, 2005:				
Mortgage loan portfolio			\$6,184,625	\$6,158,876
Servicing related advances			136,974	133,787
Derivative assets			17,279	18,222
Deferred tax asset			43,234	42,514
Other assets			55,159	54,518
Total assets			6,960,873	6,934,706
Derivative liabilities			2,793	3,234
Total liabilities			6,311,606	6,312,047
Total liabilities and shareholders' equity			6,960,873	6,934,706
Statement of Shareholders' Equity:				
Balance as of January 1, 2005:				
Accumulated other comprehensive loss			\$(3,842)	\$(474)
Accumulated deficit			(2,850)	(38,074)
Total			618,929	587,073
Comprehensive income:				
Net income			\$51,133	\$60,997
Cash flow hedging instruments - change in unrealized gain			6,459	—
Cash flow hedging instruments - reclassification adjustment			(999)	—
Cash flow hedging instruments - tax effect			(845)	—
Total comprehensive income			55,886	61,135
Balance as of June 30, 2005:				
Accumulated other comprehensive income (loss)			\$911	\$(336)
Retained earnings (accumulated deficit)			20,401	(4,960)
Total			649,267	622,659

Statement of Cash Flows:				
Operating Activities:				
Net income			\$51,133	\$60,997
Depreciation and amortization			45,156	35,993
Deferred income tax benefit			(15,409)	(15,008)
Impairment of assets			2,371	3,119
Non cash derivative losses			—	4,216
Provision for mortgage loan losses			19,182	11,736
(Recovery of) provision for past due interest			(2,112)	6,663
Increase in servicing related advances			(23,845)	(23,939)
Purchases of derivative instruments			—	(4,271)
Net change in miscellaneous assets and liabilities			23,623	(9,070)
Net cash provided by operating activities			73,448	73,514
Investing Activities:				
Principal payments received on mortgage loan portfolio			\$1,180,453	\$1,181,764
Net cash used in investing activities			(446,308)	(444,997)
Financing Activities:				
Debt issuance costs			\$(6,729)	\$(6,340)
Proceeds from derivative instruments			1,766	—
Net cash provided by financing activities			370,958	369,581

**Three Months Ended June 30, Six Months Ended June 30,
2004**

	As Previously Reported	As Restated	As Previously Reported	As Restated
(in thousands, except per share amounts)				
Statement of Operations:				
Interest income	\$99,051	\$102,995	\$190,050	\$200,383
Interest expense	(36,045)	(34,228)	(69,212)	(65,522)
Net interest income	63,006	68,767	120,838	134,861
Provision for mortgage loan losses	(10,160)	(6,810)	(14,038)	(11,229)
Net interest income after provision for mortgage loan losses	52,846	61,957	106,800	123,632
Servicing income, net of amortization and impairment	6,931	5,336	11,823	9,938
Derivative gains	—	23,220	—	10,763
Total net revenues and gains	60,085	90,821	121,482	147,192
Other expense	1,248	1,685	2,391	2,795
Total expenses	33,744	34,181	64,783	65,187
Income before taxes	26,341	56,640	56,699	82,005
Income tax expense	8,893	20,943	19,559	27,378
Income before cumulative effect of change in accounting principle (SFAS 123R)	17,448	35,697	37,140	54,627
Net income	17,448	35,697	37,140	54,627
Earnings per share - basic	\$0.61	\$1.24	\$1.30	\$1.90
Earnings per share - diluted	\$0.56	\$1.15	\$1.19	\$1.75
As of December 31,:				
Mortgage loan portfolio			\$6,027,620	\$5,997,376
Derivative assets			16,573	17,568
Other assets			84,898	83,865
Derivative liabilities			1,809	2,636
Deferred tax asset (liability)			27,825	27,506
Other comprehensive loss			(3,842)	(474)
Statement of Shareholders' Equity:				
Balance as of January 1, 2004:				
Accumulated other comprehensive loss			\$(5,497)	\$(832)
Retained earnings			86,226	50,245
Total			345,046	313,730
Comprehensive income:				
Net income			\$37,140	\$54,627
Cash flow hedging instruments - change in unrealized gain			10,157	—
Cash flow hedging instruments - reclassification adjustment			30	—
Cash flow hedging instruments - tax effect			(3,963)	—
Total comprehensive income			43,863	55,168
Balance as of June 30, 2004:				
Accumulated other comprehensive income (loss)			\$1,226	\$(291)
Retained earnings			123,366	104,872
Total			391,300	371,289
Statement of Cash Flows:				
Operating Activities:				
Net income			\$37,140	\$54,627
Depreciation and amortization			23,208	8,655

Deferred income tax (benefit) provision			(3,567)	246
Impairment of assets			6,692	7,100
Non cash derivative gains			—	(11,477)
Provision for mortgage loan losses			14,038	11,229
(Recovery of) provision for past due interest			(529)	7,325
Decrease in servicing related advances			19,172	19,939
Proceeds from selling of derivative instruments			—	976
Net change in miscellaneous assets and liabilities			(5,693)	(18,558)
Net cash provided by operating activities			67,485	68,455
Financing Activities:				
Debt issuance costs			\$(4,017)	\$(3,412)
Proceeds from derivative instruments			1,575	—
Net cash provided by financing activities			566,728	565,758

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the unaudited consolidated financial statements, notes and tables included elsewhere in this report.

Certain information contained in this report constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Generally, forward-looking statements can be identified by the use of forward-looking terminology including, but not limited to, "may," "expect," "intend," "should," "anticipate," "estimate," "is likely to," "could," "are confident that," or "believe" or comparable terminology. All statements contained in this item as well as those discussed elsewhere in this report addressing our operating performance, events, or developments that we expect or anticipate will occur in the future, including statements relating to net interest income growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements. The forward-looking statements are based upon management's views and assumptions as of the date of this Report, regarding future events and operating performance and are applicable only as of the dates of such statements. By their nature, all forward-looking statements involve risk and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons. Factors that might cause actual results to differ from our plans and expectations and which could have a material adverse affect on our operations and future prospects include, but are not limited to:

- changes in overall economic conditions or changes in interest rates;

- . our ability to successfully implement our growth strategy;
- . greater than expected declines in consumer demand for residential mortgage loans, particularly non-conforming loans.
- . our ability to sustain loan origination growth at levels sufficient to absorb costs of production and operational costs;
- . continued availability of financing facilities and access to the securitization markets or other funding sources;
- . deterioration in the credit quality of our loan portfolio and the loan portfolios of others serviced by us;
- . lack of access to the capital markets for additional funding;
- . challenges in successfully expanding our servicing platform and technological capabilities;
- . changes to the rating of our servicing operation;
- . difficulty in satisfying complex rules in order for us to maintain qualification as a real estate investment trust, or REIT, for federal income tax purposes;
- . the ability of certain of our subsidiaries to qualify as qualified REIT subsidiaries for federal income tax purposes;
- . our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by the federal income tax laws and regulations applicable to REITs;
- . changes in federal income tax laws and regulations applicable to REITs;
- . increased servicing termination trigger events;
- . future litigation developments or regulatory or enforcement actions; and
- . increased competitive conditions or changes in the legal and regulatory environment in our industry.

These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. We undertake no obligation to update publicly any of these statements in light of future events except as required in subsequent periodic reports we file with the Securities and Exchange Commission.

The following sets forth the table of contents for this management’s discussion and analysis of financial condition and results of operations.

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Executive Summary

Company Overview

We are in the business of originating, securitizing, and servicing non-conforming mortgage loans, including sub-prime residential mortgage loans. We operate through three business segments. These segments are:

- Portfolio Management, or our portfolio segment;
- Mortgage Loan Servicing, or our servicing segment;
- Mortgage Loan Operations, or our mortgage loan production segment;

Through our taxable REIT subsidiary, Saxon Capital Holdings, Inc., and its subsidiaries, which we refer to collectively as our taxable REIT subsidiaries, we originate or purchase mortgage loans for our portfolio segment through our wholesale, retail, and correspondent channels, which we refer to collectively as our “mortgage loan production segment”. We earn most of our revenues from the interest income from those mortgages through our portfolio segment and from servicing loans for other companies through our servicing segment. We also earn revenues through whole loan sales of some of our mortgage loans. We pay interest to finance our mortgage loan portfolio and servicing advances and incur general and administrative expenses to operate our business. We maintain a provision for mortgage loan losses that may occur from impaired mortgage loans that are in our portfolio. We fund our mortgage loan originations through short-term warehouse lines of credit and through repurchase facilities. These short-term facilities are replaced by permanent financing when we securitize the loans. When our qualified REIT subsidiaries securitize our mortgage loans, they structure those transactions as financing transactions. As such, the mortgage loans and related debt to finance those loans remain on our balance sheet.

In general, the primary factors in our business that affect our revenues are changes in interest rates and changes in the size of our mortgage loan portfolio and servicing portfolio. Decreases in interest rates generally result in a decrease in the interest rates we charge on the mortgage loans we originate, but also result in growth in our mortgage loan portfolio. Decreases also lead to increases in loan prepayments, which result in increases in prepayment penalty income, but decrease servicing income. In addition, decreases in interest rates reduce our cost to borrow, but generally lead to increases in our borrowings because loan originations tend to rise during periods of decreased interest rates.

Conversely, increases in interest rates generally result in an increase in the interest rates we charge on the mortgage loans we originate. Increases in interest rates also generally lead to decreases in loan prepayments, reducing prepayment penalty income, but increasing servicing income. In addition, increases in interest rates increase our cost to borrow but generally lead to decreases in our borrowings because loan originations tend to decline during periods of increased interest rates.

In general, the primary factors in our business that lead to increased expenses are the volume and credit mix of mortgage loans we originate or purchase, the number of retail branches and centralized origination and operation platforms we operate, the number of sales representatives we employ, the volume of third party servicing we acquire, the costs to comply with governmental regulations, and the costs of being a public company. As our loan production increases and our loan portfolio grows, we would generally expect to hire additional employees and we would also expect our variable expenses to increase. Also, we may incur additional marketing and advertising expenses in order to achieve our production goals. There are also increased cash requirements that are associated with being a public company, such as investor relations' responsibilities and expending the resources necessary to ensure that we have met the requirements set forth by the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission and others by hiring outside consultants and additional employees when required. From time to time, we may also be required to upgrade existing computer systems and focus on other beneficial projects, and during those periods we will experience increased expenses.

For the three months ended June 30, 2005 and 2004 we originated or purchased approximately \$0.8 billion and \$0.9 billion, respectively, and securitized approximately \$0.8 billion and \$0.5 billion, respectively, of residential mortgage loans. For the six months ended June 30, 2005 and 2004 we originated, purchased, or called approximately \$1.6 billion and \$1.7 billion, respectively, and securitized approximately \$1.8 billion and \$1.1 billion, respectively, of residential mortgage loans. Called loans occur upon exercise of the clean-up call option by our taxable REIT subsidiaries, who serve as servicer or master servicer, of various securitized pools within our mortgage loan servicing portfolio. A clean-up call option is an option to acquire all remaining mortgage loans, and any real estate owned, referred to as REO, in a securitized pool that arises at the time the aggregate unpaid scheduled principal balance of the loans declines to an amount that is less than 10% of the aggregate unpaid scheduled principal balance of the total pool at the time of securitization. We did not exercise any clean-up call options during the first six months of 2005.

We intend to continue accessing the asset-backed securitization market to provide long-term financing for our mortgage loans. We finance the loans initially under one of several different secured and committed warehouse financing facilities. These loans are subsequently financed using asset-backed securities issued through securitization trusts. From May 1996 to June 30, 2005, we securitized approximately \$20.8 billion in mortgage loans. Since July 6, 2001, we have structured our securitizations as financing transactions for financial reporting purposes under accounting principles generally accepted in the United States of America, or GAAP. Accordingly, following a securitization, (1) the mortgage loans we originate or purchase remain on our consolidated balance sheet; (2) the securitization indebtedness replaces the warehouse debt associated with the securitized mortgage loans; and (3) we record interest income on the mortgage loans and interest expense on the securities issued in the securitization over the life of the securitization, instead of recognizing a gain or loss upon completion of the securitization. This accounting treatment more closely matches the recognition of income with the receipt of cash payments on the individual loans than does gain on sale accounting, which we used prior to July 6, 2001.

Industry Overview and Prospective Trends

Described below are some of the marketplace conditions and prospective trends that may impact our future results of operations.

According to the Mortgage Bankers Association of America website as of July 12, 2005, lenders in the United States originated \$2.6 trillion in single-family mortgage loans in 2004. Approximately 44% of the loan originations in 2004 were attributable to mortgage loan refinancings by customers taking advantage of the decline in interest rates. As of July 12, 2005, lenders in the United States are expected to originate approximately \$2.7 trillion in single-family mortgage loans in 2005. Generally, we believe sub-prime borrowers are not solely motivated by fluctuations in interest rates. We experienced a decrease of \$156.2 million, or 17%, in our production volume to \$787.8 million for the second quarter of 2005 compared to \$944.0 million for the second quarter of 2004. Similarly, we experienced a decrease of \$0.1 billion, or 6%, in our production volume to \$1.6 billion for the first six months of 2005 compared to \$1.7 billion for the first six months of 2004. Our production levels during the first six months of 2005 were negatively impacted by the closing and/or divestiture of several of our retail branches, intense pricing competition currently existing in the marketplace, and the introduction of new products to the marketplace by our competitors.

The non-conforming, residential mortgage industry has undergone rapid consolidation in recent years. Today the industry is dominated by a small number of large companies. According to the B & C Lending Survey, the top three mortgage

lenders controlled a combined 31% of the mortgage origination market as of March 31, 2005, up from 27% as of December 31, 2003, and up from 15% as of December 31, 1997. We expect this consolidation trend to continue in the future, as market forces drive out weaker competitors. To compete effectively, we will be required to maintain a high level of operational, technological and managerial expertise, as well as an ability to attract capital at a competitive cost.

The non-conforming, residential mortgage industry is subject to extensive regulation, supervision and licensing by federal, state and local governmental authorities and our business is subject to various laws and judicial and administrative decisions imposing requirements and restrictions on a substantial portion of our operations. Changes to laws, regulations or regulatory policies can have a significant adverse effect on our operations and profitability. For example, proposed state and federal legislation targeted at predatory lending could have the unintended consequence of raising the cost or otherwise reducing the availability of mortgage credit for non-prime borrowers. This could result in a reduction of otherwise legitimate non-prime lending opportunities and is likely to increase our legal and compliance costs.

Over the last several years, the housing price index has increased faster than the consumer price index and growth in personal income. We expect that this trend may slow in the coming years. Over the long term, however, we anticipate that housing appreciation will be positively correlated with both consumer price inflation and growth in personal income. Rising housing values point to healthy demand for purchase-money mortgage financing, increased average loan balances and a reduction in the risk of loss on sale of foreclosed real estate in the event a loan defaults. However, as housing values appreciate, prepayments of existing mortgages tend to increase as borrowers look to realize the additional equity in their homes. If housing prices should fall significantly, our future results of operations would be adversely affected.

Description of Other Data

In this Management's Discussion and Analysis of Financial Condition and Results of Operations, we present certain data that we consider helpful in understanding our financial condition and results of operations, and our calculations of these data may be calculated differently than other registrants. These measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. These measures should be used only supplementally. See our consolidated financial statements and related notes included elsewhere in this report and see "Consolidated Results" for the reconciliation of these financial measures to GAAP. Descriptions of these financial measures are set forth below.

Net interest margin. Net interest margin is calculated as the difference between our interest income and interest expense divided by our average interest-earning assets. Average interest-earning assets are calculated using a daily average balance over the time period indicated.

Reconciliation of securitization net losses on liquidated loans to charge-offs. Securitization net losses on liquidated loans is a non-GAAP financial measure within the meaning of Regulation G promulgated by the Securities and Exchange Commission. We present a reconciliation of securitization net losses on liquidated loans to charge-offs, which are recognized in our financial statements in accordance with GAAP, because management believes that it is meaningful to show both measures of losses to evaluate securitization net losses on liquidated loans and the information is provided on a monthly basis to the investors in each securitization. GAAP requires losses to be recognized immediately upon a loan being transferred to REO, whereas securitization net losses on liquidated loans do not recognize a loss on REO until the loan is sold. This causes a timing difference between charge-offs and securitization net losses on liquidated loans. In addition, securitization net losses on liquidated loans exclude losses resulting from delinquent loan sales.

Working capital. It is common business practice to define working capital as current assets less current liabilities. We do not have a classified balance sheet and therefore calculate our working capital using our own internally defined formula, which is generally calculated as unrestricted cash and investments as well as unencumbered assets that can be pledged against existing committed facilities and converted to cash in five days or less.

Reconciliation of GAAP net income to estimated taxable income. To maintain our status as a REIT, we are required to distribute at least 90% of our REIT taxable income each year to our shareholders. REIT taxable income is calculated under federal tax laws in a manner that, in certain respects, differs from the calculation of consolidated net income pursuant to GAAP. We expect that our consolidated GAAP net income may differ from our REIT taxable income for many reasons, including the following:

- the provision for mortgage loan loss expense recognized for GAAP purposes is based upon our estimate of probable loan losses inherent in our current portfolio of loans held for investment, for which we have not yet recorded a charge-off (tax accounting rules allow a deduction for loan losses only in the period when a charge-off occurs);
- there are several differences between GAAP and tax methodologies for capitalization of origination expenses;
- there are differences between GAAP and tax related to the timing of recognition of income (loss) from derivative instruments; and
- income of a taxable REIT subsidiary is generally included in the REIT's earnings for consolidated GAAP purposes, but is not recognized in REIT taxable income.

We expect that our REIT taxable income will continue to differ from our GAAP consolidated income, particularly during the period in which we build our mortgage loan portfolio.

Estimated REIT taxable income is a non-GAAP financial measure within the meaning of Regulation G promulgated by the Securities and Exchange Commission. Management believes that the presentation of REIT taxable income provides useful information to investors regarding our estimated annual distributions to our investors. The presentation of REIT taxable income is not to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP.

Descriptions of certain components of our revenues and expenses are set forth in more detail in our 2004 Form 10-K.

2005 Events and Outlook

During the first half of 2005, we closed 10 retail branches and divested 5 branches, with a majority of these events occurring in the second quarter 2005. The branches impacted by these closings had produced 40% of our 2004 retail production. In 2005, we have been focused on refining our retail lending platform through a more efficient network of strategically located retail mortgage branches and our three centralized retail origination lending platforms located in Virginia, Texas and California. We believe this new refined platform enables us to streamline processes, increase efficiencies and productivity, improve training and employee development, and leverage marketing efficiency and scale, while reducing the overall cost to produce.

We also aligned our wholesale and retail back-end operations during the first half of 2005, and in June 2005, we opened our Central Region office which will allow us to service our brokers in all capacities, including underwriting, closing, funding, and post-closing duties in that region.

In the second quarter of 2005, we continued to experience an increase in short-term borrowing interest rates, we began to see the return of faster prepayment speeds due to the popularity of interest-only and other longer amortization products in the marketplace, and we continued to see a marked increase in competitive pricing, product, and credit exception practices within our industry. We also noted a flattening of the longer-term portion of the yield curve. We anticipate these trends to continue through the second half of the year. We plan to begin introducing expanded product offerings during the second half of 2005 in order to remain competitive in the marketplace. We also will seek to leverage the whole loan sale market as a strategy for non-portfolio assets.

We began closing loans in certain states in our retail and wholesale units in the REIT's name during the second quarter of 2005 and anticipate that the REIT will fund more of its mortgage loans in its own name in the second half of 2005. We expect it to be more economical for the REIT to fund loans in its own name, rather than acquiring these loans from our taxable REIT subsidiaries, due to the resulting treatment of certain origination costs at the REIT. Correspondent loans are closed prior to the time of purchase; and therefore, are unable to be closed in the REIT's name.

In addition, we intend to continue to grow our mortgage loan portfolio and servicing portfolio in order to produce higher levels of net interest income, and produce higher levels of servicing income. Management's continued analysis and examination of our cost structure has resulted in a focus on controlling our general and administrative expenses while growing our mortgage loan portfolio and servicing portfolio in 2005.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and the estimates will change under different assumptions or conditions.

Critical accounting estimates are defined as those that reflect significant judgments and uncertainties and potentially result in materially different outcomes under different assumptions and conditions. Our critical accounting estimates are discussed below and consist of:

- . amortization of yield adjustments to net interest income;
- . allowance for loan losses and past due interest;
- . mortgage servicing rights;
- . deferral of direct loan origination costs; and
- . accounting for income taxes.

Amortization of Yield Adjustments to Net Interest Income

Net interest income is calculated as the difference between our interest income and interest expense. Interest income on our mortgage loan portfolio is a combination of accruing interest based on the outstanding balance and contractual terms of the mortgage loans and the amortization of yield adjustments using the interest method, principally the amortization of premiums, discounts, and other net capitalized fees or costs associated with originating our mortgage loans. These yield adjustments are amortized against interest income over the lives of the assets using the interest method adjusted for the

effects of estimated prepayments. Management does not currently use the payment terms of each loan contract in the calculation of amortization. Because we hold a large number of similar loans for which prepayments are probable, we currently use a prepayment model to project loan prepayment activity based upon loan age, loan type and remaining prepayment penalty coverage. Estimating prepayments and estimating the remaining lives of our mortgage loan portfolio requires management judgment, which involves consideration of possible future interest rate environments and an estimate of how borrowers will behave in those environments. Reasonableness tests are performed against past history, mortgage asset pool specific events, current economic outlook and loan age to verify the overall prepayment projection. If these mortgage loans prepay at an actual speed that differs from the projections used in our estimates, GAAP requires us to adjust the remaining capitalized yield adjustments accordingly on a prospective and retrospective basis.

Mortgage prepayments generally increase on our adjustable rate mortgages when fixed mortgage interest rates fall below the then-current interest rates on outstanding adjustable rate mortgage loans. Prepayments on mortgage loans are also affected by the terms and credit grades of the loans, conditions in the housing and financial markets and general economic conditions. We have sought to minimize the effects caused by faster than anticipated prepayment rates by lowering premiums paid to acquire mortgage loans, which decreases the balance to be amortized, and by purchasing and originating mortgage loans with prepayment penalties. Those penalties typically expire two to three years from origination. As of June 30, 2005, approximately 75% of our mortgage loan portfolio had active prepayment penalty features. We anticipate that prepayment rates on a significant portion of our adjustable rate mortgage portfolio will increase as these adjustable rate loans reach their initial adjustments during 2005 and 2006, due to the high concentration of two to three year hybrid loans we originated or purchased during 2002 and 2003. However, management expects that the amendments to government regulations related to the Alternative Mortgage Transactions Parity Act, which restricted the ability of state-chartered mortgage lenders to charge prepayment penalties on certain types of mortgage loans, effective July 1, 2003, could reduce our percentage of loans with active prepayment penalty features in future periods. The constant prepayment rate, or CPR, currently used to project cash flows is 34 percent over twelve months. Actual prepayment penalty income is recorded when the cash is collected and is not recorded based on CPR assumptions. Therefore, in instances where our CPR increases, we anticipate also having an increase in prepayment penalty income.

Interest expense on our warehouse and securitization financings is a combination of accruing interest based on the contractual terms of the financing arrangements and the amortization of premiums, discounts, debt issuance costs, and accumulated other comprehensive income relating to cash flow hedging. These yield adjustments are amortized against interest expense over the life of the debt, similar to the manner described above, using the interest method based on the estimated payments on the debt.

Allowance for Loan Losses and Past Due Interest

The allowance for loan losses is established through the provision for mortgage loan losses, which is charged to earnings on a monthly basis. The allowance for past due interest is charged to earnings through interest income. The accounting estimate of the allowance for loan losses and past due interest is considered critical as significant changes in the mortgage loan portfolio, which includes both securitized and unsecuritized mortgage loans, and/or economic conditions may affect the allowance for loan losses and past due interest and our results of operations. The assumptions used by management regarding these key estimates are highly uncertain and involve a great deal of judgment.

Provisions are made to the allowance for loan losses and past due interest for currently impaired loans in the outstanding mortgage loan portfolio. We define a mortgage loan as impaired at the time the loan becomes 30 days delinquent under its payment terms. Charge-offs to the allowance are recorded at the time of liquidation or at the time the loan is transferred to REO status. The allowance for loan losses and past due interest is regularly evaluated by management for propriety by taking into consideration factors such as: changes in the nature and volume of the loan portfolio; trends in actual and forecasted portfolio performance and credit quality, including delinquency, charge-off and bankruptcy rates; and current economic conditions that may affect a borrower's ability to pay and the underlying value of the collateral. An internally developed roll rate analysis, static pool analysis and historical losses are the primary tools used in analyzing our allowance for loan losses and past due interest. Our roll rate analysis is defined as the historical progression of our loans through the various delinquency statuses. Our static pool analysis provides data on individual pools of loans based on year of origination. These tools take into consideration historical information regarding delinquency and loss severity experience and apply that information to the portfolio and the portfolio's basis adjustments. Loss severity, as a percentage, is defined as the total loss amount divided by the actual unpaid principal balance at the time of liquidation. Total loss amounts include all accrued interest, fees, principal balances, all costs of liquidating and all other servicing advances for taxes, property insurance, and other servicing costs incurred and invoiced to us within 90 days following the liquidation date. If actual results differ from our estimates, we would adjust our provision accordingly. Likewise, the use of different estimates or assumptions could produce different provisions for loan losses.

Mortgage Servicing Rights

The valuation of mortgage servicing rights, or MSR, requires that we make estimates of numerous market assumptions. Interest rates, prepayment speeds, servicing costs, discount rates, and the payment performance of the underlying loans significantly affect the fair value and the rate of amortization of MSR. Increasing prepayments attributable to increased mortgage refinancing activity result in a decline in the value of MSR.

The carrying values of the MSR are amortized in proportion to, and over the period of, the anticipated net servicing income. MSR are assessed periodically to determine if there has been any impairment to the carrying value, based on the fair value as of the date of the assessment and by stratifying the MSR based on underlying loan characteristics, including the date of the related securitization. We obtain quarterly independent valuations for our MSR.

Due to subsequent changes in economic and other relevant conditions, the actual rates of prepayments and defaults and the value of collateral may differ from our initial estimates, and these differences may be material. If actual prepayment and default rates were higher than those assumed, we would earn less mortgage servicing income, which would adversely affect the value of the MSR. Significant changes in prepayment speeds, delinquencies, and losses may result in impairment of most of our MSR. On a quarterly basis, we perform an impairment analysis using the independent valuations we obtained, and considering estimates of numerous market assumptions, changes in interest rates, prepayment speeds, servicing costs, discount rates, and the payment performance of the underlying loans, all of which could significantly affect the fair value and the rate of amortization of MSR. If we determine that a pool of MSR is impaired, we analyze certain attributes of that pool to assess whether the impairment is temporary or permanent. If we conclude that the impairment is temporary, we establish a valuation allowance and record an expense. Charge-offs to the valuation allowance are recorded if we conclude that the impairment is permanent.

Deferral of Direct Loan Origination Costs

We incur certain direct loan origination costs in connection with our loan origination activities. Such amounts are recognized over the life of the related loans as an adjustment of yield, as discussed above in the section relating to our critical accounting estimate with respect to accounting for net interest income.

We determine the amount of direct loan origination costs to be deferred based on an estimate of the standard cost per loan originated. The standard cost per loan is based on the amount of time spent and costs incurred by loan origination personnel in the performance of certain activities directly related to the origination of funded mortgage loans. These activities include evaluating the prospective borrower's financial condition, evaluating and recording collateral and security arrangements, negotiating loan terms, processing loan documents and closing the loan. Management believes these estimates reflect an accurate cost estimate related to successful loan origination efforts for the three and six months ended June 30, 2005 as defined by GAAP. Management evaluates its time and cost estimates quarterly to determine if updates and refinements to the deferral amounts are necessary. Updates would be considered necessary if it was determined that the time spent and/or costs incurred related to performing the above activities had significantly changed from the previous period. This estimate is made for all loans originated by our wholesale and retail channels. Correspondent production is not included, as we purchase these loans as closed loans and therefore, loan origination costs related to these purchases are recorded as incurred.

Accounting for Income Taxes

Significant management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax asset. As of June 30, 2005, we had not recorded a valuation allowance on our deferred tax assets based on management's belief that operating income will, more likely than not, be sufficient to realize the benefit of these assets over time. The evaluation of the need for a valuation allowance takes into consideration our taxable income, current tax position, and estimates of taxable income in the near term. The tax character (ordinary versus capital) and the carryforward periods of certain tax attributes such as capital losses and tax credits must also be considered. Significant judgment is required in considering the relative impact of negative and positive evidence related to the ability to realize deferred tax assets. In the event that actual results differ from these estimates or if our current trend of positive taxable income changes, we may be required to record a valuation allowance on our deferred tax assets, which could have a material adverse effect on our consolidated financial condition and results of operations. We recognize deferred tax assets if we believe that it is more likely than not, given all available evidence, that all of the benefits of the carryforward losses and other deferred tax assets will be realized. Management believes that, based on the available evidence, it is more likely than not that we will realize the benefit from our deferred tax assets.

We have sought to comply with the REIT provisions of the Internal Revenue Code for the six months ended June 30, 2005 and intend to continue to do so. Accordingly, we expect to not be subject to federal or state income tax on net income that is distributed to shareholders to the extent that our annual distributions to shareholders are equal to at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain) for a given year and as long as certain asset, income and stock ownership tests are met. In the event that we do not qualify as a REIT in any year, we will be subject to federal income tax as a domestic corporation and the amount of our after-tax cash available for distribution to our shareholders will be reduced. However, our taxable REIT subsidiaries will be subject to federal and state income tax and we intend to continue to employ the accounting policy described above with respect to our taxable REIT subsidiaries.

For further information about our critical accounting policies, refer to our 2004 Form 10-K.

Consolidated Results

Three and Six Months Ended June 30, 2005 versus Three and Six Months Ended June 30, 2004

Overview. Net income decreased \$28.7 million, or 80%, to \$7.0 million for the three months ended June 30, 2005 from \$35.7 million for the three months ended June 30, 2004. This decrease was primarily the result of an increase in our interest expense, provision for mortgage loan losses and derivative losses, offset by an increase in our servicing income, net of amortization and impairment, and a decrease in our tax expense.

Net income increased \$6.4 million, or 12%, to \$61.0 million for the six months ended June 30, 2005 from \$54.6 million for the six months ended June 30, 2004. The increase was primarily the result of an increase in servicing income, an increase in our interest income, and the impact of our REIT status on our income taxes. This increase was partially offset by decreases in our derivative gains and increases in interest expense, provision for mortgage loan losses, and total operating expenses. Overall, our net income was positively impacted by the growth in our mortgage loan and servicing portfolios and was negatively affected by an increase in one-month LIBOR rates, which significantly increased our borrowing costs. To the extent that we continue to grow our mortgage loan and servicing portfolios, we would expect an increase in interest income and servicing income. However, if one-month LIBOR rates continue to rise, the increased interest income would be offset by higher interest expense. Also, our ability to grow our mortgage loan portfolio could be negatively impacted by the intense pricing pressures currently being experienced in our industry.

Revenues

Total Net Revenues, Gains and Losses. Total net revenues, gains and losses decreased \$47.8 million, or 53%, to \$43.0 million for the three months ended June 30, 2005 from \$90.8 million for the three months ended June 30, 2004. Total net revenues, gains and losses decreased \$12.6 million, or 9%, to \$134.6 million for the six months ended June 30, 2005 from \$147.2 million for the six months ended June 30, 2004. The decrease in total net revenues, gains and losses was due primarily to a decrease in our net interest income after provision for mortgage loan losses relating to increased borrowing costs and increased provision for mortgage loan losses, partially offset by an increase in our servicing income. For the past eighteen months, our interest income has not grown at the same rate as our interest expense due to the intense pricing competition affecting the sub-prime residential mortgage loan industry and the flattened yield curve existing in the marketplace during the second quarter of 2005. The decrease was also due to the change in derivatives gains (losses) of \$(38.3) million for the three months ended June 30, 2005 as compared to the three months ended June 30, 2004 and a decrease in derivative gains of \$4.6 million for the six months ended June 30, 2005 as compared to the six months ended June 30, 2004.

Interest Income. Interest income increased \$8.1 million, or 8%, to \$111.1 million for the three months ended June 30, 2005, from \$103.0 million for the three months ended June 30, 2004. Interest income increased \$23.1 million, or 12%, to \$223.5 million for the six months ended June 30, 2005, from \$200.4 million for the six months ended June 30, 2004. The increase in interest income was due primarily to growth in our mortgage loan portfolio. This increase was partially offset by (1) the impact of lower weighted-average coupon rates (WAC) on our mortgage loans and (2) a decrease in prepayment penalty income. The WAC on our production for 2004 and for the first six months of 2005, which represents 83% of our owned portfolio, was negatively impacted by the intense pricing competition affecting the sub-prime residential mortgage loan industry and the flattened yield curve existing in the marketplace during the second quarter of 2005. This competition has resulted in lower WAC on our mortgage loans compared to the first six months of 2004. The components of these decreases are discussed in more detail below.

Rate/Volume Table For the Three and Six Months Ended June 30, 2005 Compared to the Three and Six Months Ended June 30, 2004

As shown in the table below, compared to the three and six months ended June 30, 2004, our interest income increased \$18.3 million and \$41.6 million for the three and six months ended June 30, 2005, respectively, due to an increase in the size of our mortgage loan portfolio, and decreased \$9.0 million and \$16.2 million for the three and six months ended June 30, 2005, respectively, due to a decrease in the WAC on our mortgage loan portfolio.

	Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004			Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004		
	Change in Rate	Change in Volume	Total Change in Interest Income	Change in Rate	Change in Volume	Total Change in Interest Income
	(in thousands)					
Securitized loans	\$(10,696)	\$21,100	\$10,404	\$(18,388)	\$43,806	\$25,418
Warehouse loans	1,379	(2,820)	(1,441)	1,853	(2,280)	(427)
Mortgage bonds	329	20	349	381	116	497
Other	—	(13)	(13)	—	(9)	(9)
Total	\$(8,988)	\$18,287	\$9,299	\$(16,154)	\$41,633	\$25,479
Prepayment penalty income	—	—	(1,217)	—	—	(2,363)
			\$8,082			\$23,116

Interest Income Yield Analysis For the Three and Six Months Ended June 30, 2005 and 2004

The following table presents the average yield on our interest-earning assets for the three and six months ended June 30, 2005 and 2004.

	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield
	(\$ in thousands)					
Gross	\$6,051,182	\$110,765	7.32%	\$4,986,364	\$99,446	7.98%
Less amortization of yield adjustments (1)	—	(8,264)	(0.55)%	—	(6,245)	(0.50)%
	\$6,051,182	\$102,501	6.77%	\$4,986,364	\$93,201	7.48%
Add prepayment penalty income	—	8,576	0.57%	—	9,794	0.78%
Total interest-earning assets	\$6,051,182	\$111,077	7.34%	\$4,986,364	\$102,995	8.26%

	Six Months Ended June 30, 2005			Six Months Ended June 30, 2004		
	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield
	(\$ in thousands)					
Gross	\$6,038,543	\$221,023	7.32%	\$4,856,350	\$195,794	8.06%
Less amortization of yield adjustments (1)	—	(12,864)	(0.43)%	—	(13,114)	(0.54)%
	\$6,038,543	\$208,159	6.89%	\$4,856,350	\$182,680	7.52%
Add prepayment penalty income	—	15,340	0.51%	—	17,703	0.73%
Total interest-earning assets	\$6,038,543	\$223,499	7.40%	\$4,856,350	\$200,383	8.25%

(1) Yield adjustments include premiums, discounts, net deferred origination costs and nonrefundable fees.

The increase in gross interest income is consistent with the growth of our mortgage loan portfolio. Our mortgage loan portfolio increased \$0.9 billion, or 17%, to \$6.2 billion as of June 30, 2005 from \$5.3 billion as of June 30, 2004. However, this growth was offset partially by the 74 basis point decrease in gross WAC for the six months ended June 30, 2005 as compared to the six months ended June 30, 2004 due to intense pricing competition, the liquidation of higher WAC loans, and the increase in the credit quality of our mortgage loan portfolio. Our anticipation of our change in tax status to a REIT enabled us to lower our pricing in early 2004, and therefore receive a lower WAC on our mortgage loan production, which we believe enabled us to remain competitive in the face of intense pricing competition in our industry. We anticipate that our gross interest income in dollars will continue to grow as our mortgage loan portfolio grows. This growth could be negatively impacted by the intense pricing pressures and flattened yield curve in the current environment.

Amortization expense of yield adjustments increased \$2.1 million, or 34%, to \$8.3 million for the three months ended June 30, 2005 from \$6.2 million for the three months ended June 30, 2004, and decreased \$0.2 million, or 2%, to \$12.9 for the six months ended June 30, 2005 from \$13.1 million for the six months ended June 30, 2004. The increase was due to a rise in prepayment speeds during the second quarter of 2005. During the six months ended June 30, 2005, however, the increase in amortization expense of yield adjustments was partially offset by lower premiums paid due to higher credit quality. Refinancing activity continues to be strong due to an increased home price index allowing borrowers to access the equity in their homes in the form of cash and also with the popularity of interest only products, where the borrower only pays interest for a specified period before beginning to repay principal, thus lowering the borrower's monthly payment at the beginning of the loan term. To the extent this activity remains strong, we would expect to see higher levels of amortization expense of yield adjustments in the future.

Prepayment penalty income decreased \$1.2 million, or 12%, to \$8.6 million for the three months ended June 30, 2005 from \$9.8 million for the three months ended June 30, 2004, and decreased \$2.4 million, or 14%, to \$15.3 million for the six months ended June 30, 2005 from \$17.7 million for the six months ended June 30, 2004. Despite the return of faster prepayment speeds during the second quarter of 2005, we were unable to collect prepayment penalty income on a portion of our prepaid loans due to the amendment of government regulations related to the Alternative Mortgage Transactions Parity Act. Management expects that these amendments could continue to reduce our prepayment penalty income in future periods.

Securitized Mortgage Loan Coupon and Prepayment Penalty Coverage

Our WAC on our securitizations has decreased since 2001 due to (1) our origination of higher credit grade mortgage loans from 2001 through the second quarter of 2005, (2) the prepayments of higher WAC loans; and (3) recent intense pricing competition. The WAC on future production could be negatively impacted by the intense pricing pressures and flattened yield curve if the current environment persists.

Our loan principal balance was composed of 67% adjustable rate loans and 33% fixed rate loans at June 30, 2005. The percentage of our adjustable rate loans in their reset period was 13% at June 30, 2005. The following tables set forth information about our securitized mortgage loan portfolio including those loans associated with our securitized REO properties as of June 30, 2005 and December 31, 2004.

	Issue Date	Original Loan Principal Balance	Current Loan Principal Balance	Fixed Current Loan Principal Balance	Arm Current Loan Principal Balance	Percentage of Portfolio	Percentage of Original Remaining	Remaining WAC Fixed	Remaining WAC Arm
		(\$ in thousands)							
June 30, 2005									
SAST 2001-2	8/2/2001	\$650,410	\$115,558	\$81,348	\$34,210	2%	18%	9.28%	10.09%
SAST 2001-3	10/11/2001	\$699,999	\$108,508	\$44,357	\$64,151	2%	16%	9.92%	9.76%
SAST 2002-1	3/14/2002	\$899,995	\$180,452	\$95,122	\$85,330	3%	20%	8.86%	9.21%
SAST 2002-2	7/10/2002	\$605,000	\$144,239	\$60,331	\$83,908	3%	24%	8.87%	9.33%
SAST 2002-3	11/8/2002	\$999,999	\$268,234	\$109,383	\$158,851	5%	27%	8.32%	8.63%
SAST 2003-1	3/6/2003	\$749,996	\$249,041	\$147,957	\$101,084	4%	33%	7.39%	8.43%
SAST 2003-2	5/29/2003	\$599,989	\$217,125	\$106,196	\$110,929	4%	36%	7.22%	7.88%
SAST 2003-3	9/16/2003	\$1,000,000	\$482,723	\$235,808	\$246,915	8%	48%	7.20%	7.54%
SAST 2004-1	2/19/2004	\$1,099,999	\$642,918	\$189,879	\$453,039	11%	58%	7.82%	7.38%
SAST 2004-2	7/27/2004	\$1,199,994	\$905,910	\$461,130	\$444,780	16%	75%	6.99%	6.69%
SAST 2004-3	10/27/2004	\$899,956	\$738,282	\$121,050	\$617,232	13%	82%	7.80%	7.06%
SAST 2005-1	1/25/2005	\$999,972	\$913,133	\$121,247	\$791,886	16%	91%	7.40%	6.80%
SAST 2005-2	6/07/2005	\$777,015	\$765,358	\$108,857	\$656,501	13%	98%	7.53%	7.21%
Total		\$11,182,324	\$5,731,481	\$1,882,665	\$3,848,816				
Less: unpaid principal balance of securitized REO properties			(40,438)						
Total securitized loans			\$5,691,043						
December 31, 2004									
SAST 2001-2	8/2/2001	\$650,410	\$142,563	\$98,239	\$44,324	3%	22%	9.35%	9.85%
SAST 2001-3	10/11/2001	\$699,999	\$141,710	\$54,027	\$87,683	3%	20%	10.01%	9.60%
SAST 2002-1	3/14/2002	\$899,995	\$247,779	\$118,020	\$129,759	5%	28%	8.87%	9.01%
SAST 2002-2	7/10/2002	\$605,000	\$192,448	\$74,037	\$118,411	4%	32%	8.87%	9.16%
SAST 2002-3	11/8/2002	\$999,999	\$352,051	\$133,009	\$219,042	7%	35%	8.34%	8.31%
SAST 2003-1	3/6/2003	\$749,996	\$344,066	\$178,206	\$165,860	7%	46%	7.45%	8.09%
SAST 2003-2	5/29/2003	\$599,989	\$317,171	\$132,299	\$184,872	6%	53%	7.30%	7.41%
SAST 2003-3	9/16/2003	\$1,000,000	\$616,099	\$280,365	\$335,734	12%	62%	7.23%	7.52%
SAST 2004-1	2/19/2004	\$1,099,999	\$835,925	\$226,877	\$609,048	16%	76%	7.85%	7.39%
SAST 2004-2	7/27/2004	\$1,199,994	\$1,097,890	\$532,313	\$565,577	21%	91%	7.02%	6.74%
SAST 2004-3	10/27/2004	\$899,956	\$877,628	\$133,122	\$744,506	17%	98%	7.87%	7.11%
Total		\$9,405,337	\$5,165,330	\$1,960,514	\$3,204,816				
Less: unpaid principal balance of securitized REO properties			(42,259)						
Total securitized loans			\$5,123,071						

Borrowers who accept a prepayment penalty receive a lower interest rate on their mortgage loan. A number of states restrict our ability to charge prepayment penalties on mortgage loans made to borrowers in such states. Borrowers always retain the right to refinance their loan, but may have to pay a fee of up to six-months interest on 80% of the remaining principal when prepaying their loans. If the mortgage loan prepays within the prepayment penalty coverage period, we will record revenue from collection of a

prepayment penalty. We report prepayment penalties when we collect such fees in interest income. In addition, if a loan prepays we fully expense any related deferred costs for that loan upon prepayment. We reflect the amortization of deferred costs in interest income.

We experienced an increase in prepayments of our mortgage loans during the second quarter of 2005 compared to the first quarter of 2005 and the fourth quarter of 2004. Refinancing activity continues to be strong due to an elevated home price index allowing borrowers to access the equity in their homes in the form of cash and also with the popularity of interest-only products. We expect our prepayment speeds to continue at generally the same levels in future periods if refinancing activity continues to be strong, particularly in light of the popularity of interest-only and longer amortization products in the marketplace.

	Issue Date	Percent with Prepayment Penalty	12 Month Constant Prepayment Rate (Annual Percent)		Life-to-date Constant Prepayment Rate (Annual Percent)	
			Fixed	Arm	Fixed	Arm
June 30, 2005						
SAST 2001-2	8/2/2001	49.83%	33.30%	47.56%	30.59%	42.45%
SAST 2001-3	10/11/2001	28.18%	34.79%	49.02%	35.11%	42.88%
SAST 2002-1	3/14/2002	34.84%	34.71%	50.11%	32.03%	43.35%
SAST 2002-2	7/10/2002	48.34%	33.35%	49.03%	32.95%	41.31%
SAST 2002-3	11/8/2002	52.75%	32.85%	53.66%	30.44%	42.65%
SAST 2003-1	3/6/2003	60.31%	33.04%	59.00%	27.56%	46.51%
SAST 2003-2	5/29/2003	58.75%	36.57%	55.21%	28.10%	44.22%
SAST 2003-3	9/16/2003	71.85%	30.87%	47.47%	22.72%	38.03%
SAST 2004-1	2/19/2004	63.72%	25.83%	39.74%	22.71%	36.03%
SAST 2004-2	7/27/2004	63.81%	—	—	18.80%	31.27%
SAST 2004-3	10/27/2004	58.37%	—	—	12.29%	27.00%
SAST 2005-1	1/25/2005	58.97%	—	—	8.20%	21.40%
SAST 2005-2	6/07/2005	57.56%	—	—	—	—
December 31, 2004						
SAST 2001-2	8/2/2001	48.42%	36.11%	52.36%	30.75%	42.96%
SAST 2001-3	10/11/2001	25.67%	41.45%	50.46%	35.79%	42.73%
SAST 2002-1	3/14/2002	68.44%	34.12%	49.03%	31.29%	40.97%
SAST 2002-2	7/10/2002	60.73%	36.03%	47.77%	32.90%	39.90%
SAST 2002-3	11/8/2002	57.17%	38.17%	51.72%	30.56%	41.09%
SAST 2003-1	3/6/2003	75.10%	34.98%	49.58%	26.83%	40.17%
SAST 2003-2	5/29/2003	76.57%	31.87%	44.93%	25.88%	37.15%
SAST 2003-3	9/16/2003	71.35%	24.44%	41.52%	20.23%	35.48%
SAST 2004-1	2/19/2004	64.45%	—	—	18.89%	30.77%
SAST 2004-2	7/27/2004	62.73%	—	—	12.37%	22.62%
SAST 2004-3	10/27/2004	55.86%	—	—	1.77%	21.59%

Interest Expense. Interest expense increased \$27.3 million, or 80%, to \$61.5 million for the three months ended June 30, 2005 from \$34.2 million for the three months ended June 30, 2004, and increased \$51.0 million, or 78%, to \$116.5 million for the six months ended June 30, 2005 from \$65.5 million for the six months ended June 30, 2004. The table below presents the total change in interest expense from the three and six months ended June 30, 2005 to the three and six months ended June 30, 2004, and the amount of the total change that is attributable to increasing interest rates and an increase in our outstanding debt. Compared to the three and six months ended June 30, 2004, our interest expense increased \$20.0 million and \$35.5 million for the three and six months ended June 30, 2005, respectively, as a result of higher interest rates on our interest bearing liabilities and increased \$7.2 million and \$15.5 million for the three and six months ended June 30, 2005, respectively, due to an increase in our borrowings.

Rate/Volume Table For the Three and Six Months Ended June 30, 2005 Compared to the Three and Six Months Ended June 30, 2004

	Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004			Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004		
	Change in Rate	Change in Volume	Total Change in Interest Expense	Change in Rate	Change in Volume	Total Change in Interest Expense
	(in thousands)					
Securitization financing	\$18,542	\$8,388	\$26,930	\$32,712	\$17,088	\$49,800
Warehouse financing:						
Lines of credit	128	(40)	88	490	481	971
Repurchase agreements	1,353	(815)	538	2,280	(1,503)	777
Other	—	(297)	(297)	—	(592)	(592)
Total	\$20,023	\$7,236	\$27,259	\$35,482	\$15,474	\$50,956

As seen in the table below, our increase in interest expense was due primarily to the increase in the average yield on interest-bearing liabilities of 139 basis points and 122 basis points for the three and six months ended June 30, 2005, respectively. One-month LIBOR rates increased 197 basis points from June 30, 2004 to June 30, 2005. Our average balance of borrowings increased \$0.9 billion, or 17%, to \$6.1 billion for the three months ended June 30, 2005 from \$5.2 billion for the three months ended June 30, 2004, and increased \$1.0 billion, or 20%, to \$6.1 billion for the six months ended June 30, 2005 from \$5.1 billion for the six months ended June 30, 2004 as a result of the growth in our mortgage loan portfolio. Our amortization of yield adjustments increased \$7.7 million, or 105%, to \$0.4 million net amortization for the three months ended June 30, 2005 from \$(7.3) million net accretion for the three months ended June 30, 2004, and increased \$14.8 million, or 89%, to \$(1.8) million net accretion for the six months ended June 30, 2005 from \$(16.6) million net accretion for the six months ended June 30, 2004. Specifically, our accretion of premium on the interest only classes of certain of our bonds decreased \$15.1 million due to the repayment of such bonds, partially offset by a decrease in our amortization of bond issuance costs and discounts on other bonds of \$0.3 million.

Interest Expense Yield Analysis For the Three and Six Months Ended June 30, 2005 and 2004

	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
	Average Balance	Interest Expense	Average Yield	Average Balance	Interest Expense	Average Yield
	(\$ in thousands)					
Warehouse financing	\$190,034	\$1,880	3.91%	\$198,354	\$1,130	2.25%
Less compensating balance credits (1)		(865)	(1.80)%	—	(203)	(0.40)%
Net warehouse financing	\$190,034	1,015	2.11%	198,354	927	1.85%
Repurchase agreements	248,761	2,350	3.74%	386,315	1,813	1.86%
Securitization financing:						
Gross	5,685,408	56,608	3.98%	4,587,307	37,355	3.26%
Plus (less) net amortization (accretion) of yield adjustments (2)	—	405	0.03%	—	(7,273)	(0.63)%
Net securitization financing:	5,685,408	57,013	4.01%	4,587,307	30,082	2.63%
Notes payable	—	—	—	25,000	497	8.00%
Other expenses	—	1,109	—	—	909	—
Total interest-bearing liabilities	\$6,124,203	61,487	4.02%	\$5,196,976	\$34,228	2.63%

	Six Months Ended June 30, 2005			Six Months Ended June 30, 2004		
	Average Balance	Interest Expense	Average Yield	Average Balance	Interest Expense	Average Yield
	(\$ in thousands)					
Warehouse financing	\$181,063	\$3,496	3.84%	\$135,198	\$1,574	2.32%
Less compensating balance credits (1)	—	(1,315)	(1.44)%	—	(364)	(0.54)%
Net warehouse financing	\$181,063	\$2,181	2.40%	\$135,198	\$1,210	1.78%
Repurchase agreements	\$231,428	\$4,099	3.52%	\$361,258	\$3,322	1.83%
Securitization financing:						
Gross	5,715,750	109,922	3.85%	4,566,901	74,848	3.28%
Less net accretion of yield adjustments (2)	—	(1,828)	(0.06)%	—	(16,554)	(0.72)%
Net securitization financing:	\$5,715,750	\$108,094	3.79%	\$4,566,901	\$58,294	2.56%
Notes payable	—	—	—	25,000	995	8.00%
Other expenses	—	2,104	—	—	1,701	—
Total interest-bearing liabilities	\$6,128,241	\$116,478	3.80%	\$5,088,357	\$65,522	2.58%

- (1) Compensating balance credits represent the amount of credits against interest expense placed on the value of balances held by our financial institutions.
- (2) Yield adjustments include premiums, discounts, and debt issuance costs related to our debt.
- (3) Yield adjustments include accumulated other comprehensive income relating to cash flow hedging of our debt.

Net Interest Margin. Our net interest margin decreased to 3.3% for the three months ended June 30, 2005, from 5.5% for the three months ended June 30, 2004, and decreased to 3.5% for the six months ended June 30, 2005, from 5.6% for the six months ended June 30, 2004. The decline in our net interest margin was primarily attributable to an increase in the cost of our borrowings due to an increase in one-month LIBOR, competitive pricing pressures, as well as our shift in credit mix to loans with lower weighted average coupons and prepayments of higher coupon loans. We use derivative instruments to manage our exposure to changes in interest rates. Changes in one-month LIBOR may have an immediate impact on our borrowing costs and our net interest margin, while the impact of such changes on derivative instruments is reflected in derivatives gains (losses), which is not a component of net interest margin. Over the term of the debt, we believe the derivatives should effectively protect our net revenues and gains.

The following table sets forth information about our securitized mortgage loan portfolio and our securitization financing as of June 30, 2005 and December 31, 2004.

	June 30, 2005	December 31, 2004
	(in thousands)	
Collateral:		
Fixed	\$1,882,665	\$1,960,514
Arm	3,848,816	3,204,816
Total	\$5,731,481	\$5,165,330
Financing:		
Fixed	\$774,252	\$921,745
Arm	5,108,884	4,212,421
Total	\$5,883,136	\$5,134,166

Provision for Mortgage Loan Losses. Provision for mortgage loan losses increased \$2.6 million, or 38%, to \$9.4 million for the three months ended June 30, 2005, from \$6.8 million for the three months ended June 30, 2004, and increased \$0.5 million, or 4%, to \$11.7 million for the six months ended June 30, 2005, from \$11.2 million for the six months ended June 30, 2004. The increase in the provision was primarily attributable to an increase in delinquencies in the 30-59 day delinquent category of \$56.7 million, or 23%. Serious delinquencies remained relatively constant over this time period even as the mortgage loan portfolio continues to season. Because our portfolio shifted in credit mix to a higher quality portfolio in 2004 and 2003, expected future losses on 2003 and 2004 production may decrease compared to 2001 and 2002 production. We may maintain a lower required future provision for mortgage loan losses as a result of the improved credit quality of our loan portfolio. We did not make any significant changes in our reserve methodologies or assumptions during the six months ended June 30, 2005.

Also, by looking at the portfolio on a static pool basis, or each year's production over time, we are experiencing a decrease in overall losses on our 2004 and 2003 production as compared to our 2002 and 2001 production, as losses from production in the earlier years were charged-off and replaced with loans of higher credit quality. We saw a decrease in serious delinquency rates and loan loss experience in our owned portfolio in the first six months of 2005 compared to the first six months of 2004. We believe this decrease was the result of the improved credit quality of our portfolio.

Two widely accepted methodologies of reporting delinquency data are the Mortgage Bankers Association (MBA) and the Office of Thrift Supervision (OTS) methods. The MBA methodology reports delinquencies as of month-end while the OTS methodology reports delinquencies as of the first of the following month after payment is due. We believe the MBA method is more commonly used in conforming and jumbo mortgage markets while the OTS method is more commonly used in non-conforming and subprime mortgage markets. Reporting delinquencies as of the first of the month makes OTS reported loans appear one delinquency category better than the MBA method of reporting delinquencies as of month-end; therefore, we consider the MBA method to be a more conservative approach. The following table sets forth information about the delinquency and loss experience of our owned servicing portfolio using the MBA method and is followed by a reconciliation between securitization net losses on liquidated loans to charge-offs. (See footnote (4) below the table for disclosure of seriously delinquent data using the OTS method.)

Delinquency and Loss Experience Of Our Owned Portfolio

	June 30,	
	2005	2004
Total Delinquencies and Loss Experience	(\$ in thousands)	
Total outstanding principal balance (at period end)	\$6,104,889	\$5,215,050
Delinquency (at period end):		
30-59 days:		
Principal balance	\$307,766	\$251,075
Delinquency percentage	5.04%	4.81%
60-89 days:		
Principal balance	\$83,148	\$59,826
Delinquency percentage	1.36%	1.15%
90 days or more:		
Principal balance	\$46,542	\$36,889
Delinquency percentage	0.76%	0.71%
Bankruptcies (1):		
Principal balance	\$126,391	\$96,978
Delinquency percentage	2.07%	1.86%
Foreclosures:		
Principal balance	\$105,782	\$121,326
Delinquency percentage	1.73%	2.33%
Real estate owned (2):		
Principal balance	\$41,972	\$42,891
Delinquency percentage	0.69%	0.82%
Total seriously delinquent including real estate owned (3)(4)	\$367,013	\$337,301
Total seriously delinquent including real estate owned (3)(4)	6.01%	6.47%
Total seriously delinquent excluding real estate owned (4)	\$325,041	\$294,410
Total seriously delinquent excluding real estate owned (4)	5.32%	5.65%
Securitization net losses on liquidated loans - quarter ended	\$13,074	\$11,007
Charge-offs - quarter ended (5)	\$8,861	\$9,089
Percentage of securitization net losses on liquidated loans (6)	0.86%	0.84%
Percentage of charge-offs on liquidated loans (6)	0.58%	0.70%
Loss severity on liquidated loans (7)	37.18%	37.99%

- (1) Bankruptcies include both non-performing and performing loans in which the related borrower is in bankruptcy. Amounts included for contractually current bankruptcies for the owned portfolio for June 30, 2005 and 2004 are \$29.7 million and \$15.8 million, respectively.
- (2) When a loan is deemed to be uncollectible and the property is foreclosed, it is transferred to REO at net realizable value and periodically evaluated for additional impairments. Net realizable value is defined as the property's fair value less estimated costs to sell. Costs of holding this real estate and related gains and losses on disposition are credited or charged to operations as incurred; and therefore, are not included as part of our allowance for loan loss.

- (3) Seriously delinquent is defined as loans that are 60 or more days delinquent, foreclosed, REO, or held by a borrower who has declared bankruptcy and is 60 or more days contractually delinquent.
- (4) Total seriously delinquent including REO using the OTS method would be \$283.4 million, or 4.64% as of June 30, 2005 and \$277.0 million, or 5.31% as of June 30, 2004. Total seriously delinquent excluding REO using the OTS method would be \$241.5 million, or 3.96% as of June 30, 2005, and \$234.1 million, or 4.49% as of June 30, 2004.
- (5) Charge-offs represent the losses recognized in our financial statements in accordance with GAAP. See reconciliation of securitization net losses on liquidated loans to charge-offs below.
- (6) Annualized.
- (7) Loss severity is defined as the total loss amount divided by the actual unpaid principal balance at the time of liquidation. Total loss amounts include all accrued interest and interest advances, fees, principal balances, all costs of liquidating and all other servicing advances for taxes, property insurance, and other servicing costs incurred and invoiced to us within 90 days following the liquidation date.

Reconciliation of Securitization Net Losses On Liquidated Loans to Charge-offs

	For the Three Months Ended June 30,	
	2005	2004
	(in thousands)	
Securitization net losses on liquidated loans	\$13,074	\$11,007
Loan transfers to real estate owned	8,432	6,473
Realized losses on real estate owned	(10,581)	(8,153)
Timing differences between liquidation and claims processing	(338)	(1,158)
Interest not advanced on warehouse	(220)	(59)
Other	(1,506)	979
Charge-offs (1)	\$8,861	\$9,089

(1) Charge-offs represent the losses recognized in our financial statements in accordance with GAAP.

The table below shows seriously delinquent outstanding principal balances and cumulative charge-offs by securitization.

	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	Seriously Delinquent Outstanding Principal Balance (1)		Seriously Delinquent Percentage (1)		Cumulative Charge-Offs	
			(\$ in thousands)			
2001 Securitizations	\$59,397	\$89,725	26.51%	23.16%	\$49,849	\$36,608
2002 Securitizations	96,364	136,746	16.25%	12.49%	37,389	22,222
2003 Securitizations	75,316	80,610	7.94%	4.68%	12,381	2,470
2004 Securitizations	100,223	19,603	4.38%	1.90%	3,642	—
2005 Securitizations	27,753	—	1.65%	—	—	—
Warehouse	7,960	10,617	2.12%	1.09%	5,130	4,614
Total	\$367,013	\$337,301	6.01%	6.47%	\$108,391	\$65,914

(1) Seriously delinquent is defined as loans that are 60 or more days delinquent, foreclosed, REO, or held by a borrower who has declared bankruptcy and is 60 or more days contractually delinquent.

Servicing Income, Net of Amortization and Impairment. Servicing income, net of amortization and impairment, increased \$11.9 million, or 225%, to \$17.2 million for the three months ended June 30, 2005 from \$5.3 million for the three months ended June 30, 2004, and increased \$20.9 million, or 211%, to \$30.8 million for the six months ended June 30, 2005 from \$9.9 million for the six months ended June 30, 2004. The increase in gross servicing income was primarily the result of a higher average total servicing portfolio due to the continued growth in our owned portfolio, which generates servicing income in the form of ancillary fees, as well as the acquisition of additional third party servicing rights. This increase was offset by an increase of \$5.9 million and \$10.6 million of amortization and impairment expense of MSRs for the three and six months ended June 30, 2005, compared to the three and six months ended June 30, 2004, respectively. This increase in MSR amortization expense was due to an increase in the third party servicing rights balance from \$50.0 million at June 30, 2004 to \$135.1 million at June 30, 2005. We expect our servicing income to increase as we continue to grow our

third party servicing portfolio. To the extent prepayment speeds decline in the future, we would also anticipate a decline in our amortization expense assuming a constant level in our mortgage loan servicing portfolio. Information relating to our servicing income is shown in the table below:

Servicing Income For the Three and Six Months Ended June 30, 2005 Compared to the Three and Six Months Ended June 30, 2004

	Three Months Ended June 30,			Six Months Ended June 30,		
	2005	2004	Variance	2005	2004	Variance
	(\$ in thousands)					
Average third party servicing portfolio	\$18,174,942	\$5,921,186	207%	\$16,326,701	\$5,449,511	200%
Average owned portfolio	\$6,008,245	\$4,886,467	23%	\$5,983,996	\$4,778,034	25%
Average total servicing portfolio	\$24,183,187	\$10,807,653	124%	\$22,310,697	\$10,227,545	118%
Gross servicing income	\$28,484	\$10,682	167%	\$52,742	\$21,321	147%
Amortization and impairment	\$11,261	\$5,346	111%	\$21,953	\$11,383	93%
Servicing fees - third party portfolio (1) (2)	52	58		53	58	
Amortization and impairment- third party portfolio (1)	25	36		27	42	
Other servicing income - total servicing portfolio (1)(3)	8	8		11	20	
Servicing income - total servicing portfolio (1)	47	40		47	42	

(1) Annualized and in basis points.

(2) Includes master servicing fees.

(3) Includes primarily late fees, electronic processing fees, and tax service fee expense. Ancillary fees are collected and recorded within other servicing income for both the third party portfolio as well as the owned portfolio.

Expenses

Payroll and Related Expenses. Payroll and related expenses decreased \$2.1 million, or 11%, to \$16.3 million for the three months ended June 30, 2005 from \$18.4 million for the three months ended June 30, 2004. Payroll and related expenses increased \$3.1 million, or 9%, to \$38.0 million for the six months ended June 30, 2005 from \$34.9 million for the six months ended June 30, 2004. Specifically:

- Salary, bonus, and related payroll expenses decreased \$0.5 million, or 3%, to \$16.6 million for the three months ended June 30, 2005, from \$17.1 million for the three months ended June 30, 2004. This decrease resulted from the closing and divestiture of retail branches in the second quarter of 2005 and the continued efforts to increase efficiencies and reduce production cost. Salary, bonus, and related payroll expenses increased \$2.4 million, or 7%, to \$36.3 million for the six months ended June 30, 2005, from \$33.9 million for the six months ended June 30, 2004. This increase was primarily attributable to the increase in head count from 1,173 at June 30, 2004 to 1,204 at June 30, 2005. This increase in employees was due primarily to a 44% increase in our servicing segment to support our servicing portfolio growth.

- Severance expense decreased \$1.6 million, or 89%, to \$0.2 million for the three months ended June 30, 2005, from \$1.8 million for the three months ended June 30, 2004 and decreased \$1.2 million, or 67%, to \$0.6 million for the six months ended June 30, 2005, from \$1.8 million for the six months ended June 30, 2004. The severance expense decrease primarily reflected the absence in the first two quarters of 2005 of severance expenses similar to the severance expenses we incurred in connection with the resignation of our President/Chief Operating Officer in June 2004. Severance expense is expected to increase for the third quarter of 2005 in connection with the departures of our Executive Vice President, Capital Markets and our Senior Vice President and Corporate Strategies Director in July 2005.
- Commission expense decreased \$1.6 million, or 25%, to \$4.8 million for the three months ended June 30, 2005, from \$6.4 million for the three months ended June 30, 2004 and decreased \$0.7 million, or 6%, to \$10.6 million for the six months ended June 30, 2005, from \$11.3 million for the six months ended June 30, 2004. The decreases in commission expense were attributable to the closing and/or divestiture of several of our retail branches during the first six months of 2005, and due to decreased loan production volume for the first six months of 2005 compared to the first six months of 2004.
- Deferred payroll and related expenses, as they related to direct loan origination costs, decreased \$1.5 million, or 18%, to \$7.0 million for the three months ended June 30, 2005, from \$8.5 million for the three months ended June 30, 2004 and decreased \$2.0 million, or 13%, to \$12.9 million for the six months ended June 30, 2005, from \$14.9 million for the six months ended June 30, 2004. These decreases were due to lower production volume during the first six months of 2005.

General and Administrative Expenses. General and administrative expenses increased \$2.8 million, or 22%, to \$15.3 million for the three months ended June 30, 2005, from \$12.5 million for the three months ended June 30, 2004. The increase was due primarily to an increase in legal, accounting, and consulting/outside services expense of \$2.4 million as well as an increase of \$0.2 million in rent expense, and an increase in computer lease expense of \$0.2 million.

General and administrative expenses increased \$6.9 million, or 28%, to \$31.4 million for the six months ended June 30, 2005, from \$24.5 million for the six months ended June 30, 2004. The increase was due primarily to an increase in legal, accounting, and consulting/outside services expense of \$4.4 million as well as an increase of \$0.6 million in rent expense, an increase in computer lease expense of \$0.4 million, an increase of \$0.3 million in investor relation expense, an increase of \$0.6 million in printed material and appraisal fee expense, and an increase in advertising expense of \$0.6 million.

Income Tax Expense (Benefit). We recorded a \$2.9 million tax expense for the three months ended June 30, 2005 compared to a \$20.9 million tax expense for the three months ended June 30, 2004. We recorded a \$0.4 million tax benefit for the six months ended June 30, 2005 compared to a \$27.4 million tax expense for the six months ended June 30, 2004. These differences were the result of the impact of the structure and formation transactions related to our REIT conversion.

REIT Taxable Income

The following table is a reconciliation of GAAP net income to estimated REIT taxable net income for the three and six months ended June 30, 2005:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(\$ in thousands)	
Consolidated GAAP income before taxes, including cumulative effect of change in accounting principle (SFAS 123(R))	\$9,972	\$60,614
Estimated tax adjustments:		
Plus:		
Provision for losses in excess of actual charge-offs	12,537	18,399
Hedging income (1)	12,370	—
Miscellaneous	8,916	5,205
Less:		
Taxable REIT subsidiary income before taxes	14,070	12,441
Hedging income (1)	—	9,863
Estimated REIT taxable income	<u>\$29,725</u>	<u>\$61,914</u>

(1) Although we have eliminated the use of hedge accounting under SFAS No. 133 for financial purposes, we continue to account for certain of our derivative instruments as hedges for tax purposes.

The estimated REIT taxable income for the three and six months ended June 30, 2005 set forth in the table above is an estimate only and is subject to change until we file the 2005 REIT federal tax returns.

Business Segment Results

We operate our business through three core business segments: portfolio, servicing, and mortgage loan production. All segments except the portfolio segment are operated by our taxable REIT subsidiaries. In this section, we discuss performance and results of our business segments for the three and six months ended June 30, 2005 and 2004. See Note 12 to our unaudited consolidated financial statements for additional information about the results of our business segments.

Portfolio Segment

The portfolio segment uses our equity capital and borrowed funds to invest in our mortgage loan portfolio, which produces net interest income. We evaluate the performance of our portfolio segment based on total net revenues. Total net revenues and gains for the portfolio segment decreased \$53.8 million to \$10.2 million for the three months ended June 30, 2005 from \$64.0 million for the three months ended June 30, 2004. Total net revenues and gains for the portfolio segment decreased \$11.6 million, or 13%, to \$81.1 million for the six months ended June 30, 2005 from \$92.7 million for the six months ended June 30, 2004. The decrease in total net revenues was due to a decrease in net interest income after provision for mortgage loan losses resulting from the margin compression relating to intense pricing pressures and the increase in our borrowing costs due to the increase in one-month LIBOR.

Servicing Segment

The servicing segment services loans, seeking to ensure that loans are repaid in accordance with their terms. We evaluate the performance of our servicing segment based on servicing income, net of amortization and impairment; cost to service a loan; and delinquency levels as measures of the performance of the segment. We believe these measures assist investors by allowing them to evaluate the performance of our servicing segment. The following discussion highlights changes in our servicing segment for the periods indicated.

Our Mortgage Loan Servicing Portfolio

In addition to servicing mortgage loans that we originate or purchase through our taxable REIT subsidiaries and retain in our portfolio, we also service mortgage loans for other lenders and investors. Our loan servicing portfolio as of June 30, 2005 is summarized below:

	Number of Loans	Principal Balance	Percent of Total	Average Loan Balance
		(\$ in thousands)		
Owned Portfolio:				
Saxon Capital, Inc. (1)	42,784	\$6,104,889	25%	\$143
Third Party Servicing:				
Greenwich Capital, Inc.	63,099	\$9,534,106		\$151
Credit Suisse First Boston	36,024	6,085,975		169
Barclays Bank, PLC.	10,068	1,932,084		192
Dominion Capital	7,158	484,538		68
Lehman Brothers	2,731	499,689		183
Fannie Mae	471	51,538		109
Dynex Capital, Inc.	336	30,256		90
Other investors	284	7,540		27
Total third party servicing	120,171	\$18,625,726	75%	\$155
Total	162,955	\$24,730,615		\$152

(1) Includes loans we originated and purchased since July 6, 2001.

Our mortgage loan servicing portfolio, including loans recorded on our consolidated balance sheets, increased \$4.5 billion, or 22%, to \$24.7 billion as of June 30, 2005, from \$20.2 billion as of December 31, 2004. The increase was due primarily to the origination and purchase of \$1.6 billion of mortgage loans as well as the acquisition of servicing rights related to \$7.7 billion of mortgage loans owned by non-affiliated companies during the first six months of 2005. This increase was partially offset by prepayments and losses totaling \$4.2 billion and principal payments on our securitized portfolio of \$1.2 billion.

We believe we can continue to increase our mortgage loan servicing portfolio because the mortgage industry's growth has continued to outpace the growth in servicers for non-conforming mortgage loans. This has resulted in an increasing number of asset-backed securities being issued by entities that do not perform servicing, which presents opportunities for us to increase the size of our portfolio of loans serviced for third parties.

Delinquency and Loss Experience Of Our Total Servicing Portfolio

We experienced a decline in seriously delinquent accounts for our mortgage loan servicing portfolio to 5.46% for the three months ended June 30, 2005 from 7.17% for the three months ended June 30, 2004. This was mainly a result of the higher credit quality of recent production as well as the higher credit quality of our additional third party purchases. Additionally, the volume of recent third party purchases means a large portion of our mortgage loan servicing portfolio is unseasoned, and therefore not experiencing high delinquencies. If we had experienced higher delinquencies on our third party servicing portfolio, it would have negatively impacted our servicing income and the fair value of our MSR's, and caused us to pay more in servicing advances. The following tables set forth information about the delinquency and loss experience of the mortgage loans we service for the periods indicated using the MBA method. (See footnote (4) below the table for disclosure of seriously delinquent data using the OTS method.)

	June 30,	
	2005	2004
Total Delinquencies and Loss Experience (1)		
	(\$ in thousands)	
Total outstanding principal balance (at period end)	\$24,730,615	\$11,364,002
Delinquency (at period end):		
30-59 days:		
Principal balance	\$1,262,124	\$536,522
Delinquency percentage	5.10%	4.72%
60-89 days:		
Principal balance	\$348,432	\$142,404
Delinquency percentage	1.41%	1.25%
90 days or more:		
Principal balance	\$285,741	\$94,971
Delinquency percentage	1.16%	0.84%
Bankruptcies (2):		
Principal balance	\$358,906	\$272,043
Delinquency percentage	1.45%	2.39%
Foreclosures:		
Principal balance	\$346,306	\$267,054
Delinquency percentage	1.40%	2.35%
Real estate owned:		
Principal balance	\$121,455	\$93,809
Delinquency percentage	0.49%	0.83%
Total seriously delinquent including real estate owned (3)(4)	\$1,351,039	\$814,810
Total seriously delinquent including real estate owned (3)(4)	5.46%	7.17%
Total seriously delinquent excluding real estate owned (4)	\$1,229,584	\$721,001
Total seriously delinquent excluding real estate owned (4)	4.97%	6.34%
Securitization net losses on liquidated loans - quarter ended	\$27,579	\$29,396
Percentage of securitization net losses on liquidated loans (5)	0.45%	0.52%
Loss severity on liquidated loans (6)	33.81%	45.46%

(1) Includes all loans we service.

(2) Bankruptcies include both non-performing and performing loans in which the related borrower is in bankruptcy. Amounts included for contractually current bankruptcies for the total servicing portfolio for June 30, 2005 and 2004 are \$89.6 million and \$41.0 million, respectively.

(3) Seriously delinquent is defined as loans that are 60 or more days delinquent, foreclosed, REO, or held by a borrower who has declared bankruptcy and is 60 or more days contractually delinquent.

(4) Total seriously delinquent including REO using the OTS method would be \$994.4 million, or 4.02% as of June 30, 2005 and \$665.8 million, or 5.86% as of June 30, 2004. Total seriously delinquent excluding REO using the OTS method would be \$873.0 million, or 3.53% as of June 30, 2005, and \$572.0 million, or 5.03% as of June 30, 2004.

(5) Annualized.

(6) Loss severity is defined as the total loss amount divided by the actual unpaid principal balance at the time of liquidation. Total loss amounts include all accrued interest and interest advances, fees, principal balances, all costs of liquidating and all other servicing advances for taxes, property insurance, and other servicing costs incurred and invoiced to us within 90 days following the liquidation date.

Delinquency by Year Funded (1)(2)

Year	Original Balance	Balance Outstanding	Percentage of Original Remaining	Cumulative Loss Percentage (3)	Loss Severity (4) (5)
(\$ in thousands)					
Pre-divestiture:					
1996	\$741,645	\$12,588	2%	1.93%	31.37%
1997	\$1,769,538	\$47,247	3%	3.23%	38.96%
1998	\$2,084,718	\$99,869	5%	4.08%	39.52%
1999	\$2,381,387	\$208,731	9%	4.97%	41.61%
2000	\$2,078,637	\$232,768	11%	5.35%	43.57%
2001	\$499,879	\$67,399	13%	3.50%	49.93%
Post-divestiture:					
2001	\$1,833,357	\$284,450	16%	3.32%	39.58%
2002	\$2,484,074	\$562,415	23%	1.37%	34.81%
2003	\$2,842,942	\$1,139,789	40%	0.28%	23.98%
2004	\$3,764,628	\$2,553,145	68%	0.02%	18.98%
2005	\$1,592,982	\$1,301,972	82%	—	—

(1) Includes loans originated or purchased by our predecessor and us.

(2) As of June 30, 2005.

(3) Includes securitization losses and losses incurred from loan repurchases, delinquent loan sales, and unsecuritized loans.

(4) Loss severity is defined as the total loss amount divided by the actual unpaid principal balance at the time of liquidation. Total loss amounts include all accrued interest and interest advances, fees, principal balances, all costs of liquidating and all other servicing advances for taxes, property insurance, and other servicing costs incurred and invoiced to us within 90 days following the liquidation date.

(5) Loss severity amounts are cumulative for each respective funded year.

Mortgage Loan Production Segment

We evaluate the performance of our mortgage loan production segment based on production levels. We believe the characteristics and level of mortgage loan production assists investors by allowing them to evaluate performance of our mortgage loan production segment. Our mortgage loan production segment is composed of our wholesale, correspondent and retail business channels, and it purchases and originates non-conforming residential mortgage loans through relationships with various mortgage companies, mortgage brokers, and correspondent lenders, and directly to borrowers through its retail branch offices. The mortgage loan production segment records interest income, interest expense, and provision for mortgage loan losses on the mortgage loans it holds prior to selling its loans to the portfolio segment. It also collects revenues, such as origination and underwriting fees and certain other non-refundable fees, which are deferred and recognized over the life of the loan as an adjustment to interest income recorded in the portfolio segment. With our continued investment in technology in our mortgage loan production segment, as well as the reorganization of our wholesale and retail back-end operations and branch locations, we expect to see continued improvements in our loan production efficiency during the remainder of 2005.

Mortgage loan production was \$787.8 million for the three months ended June 30, 2005, which represents a 17% decrease from the three months ended June 30, 2004 production of \$944.0 million. Mortgage loan production was \$1.6 billion for the six months ended June 30, 2005, which represents a 6% decrease from the six months ended June 30, 2004 production of \$1.7 billion, which includes \$136.3 million in called loans. We did not exercise any clean-up call options during the first six months of 2005. Our wholesale mortgage loan production was \$376.8 million for the three months ended June 30, 2005, a decrease of 11% from the three months ended June 30, 2004. Our wholesale mortgage loan production was \$719.3 million during the first six months of 2005, a decrease of 1% from the first six months of 2004. Our retail channel loan production was \$178.4 million for the three months ended June 30, 2005, a decrease of 33% from the three months ended June 30, 2004. Our retail channel loan production was \$380.4 million during the first six months of 2005, a decrease of 18% from the first six months of 2004. Our correspondent flow mortgage loan production was \$199.5 million for the three months ended June 30, 2005, a decrease of 4% from the three months ended June 30, 2004. Our correspondent flow mortgage loan production was \$422.2 million during the first six months of 2005, an increase of 32% from the first six months of 2004. Our correspondent bulk mortgage loan production was \$33.2 million for the three months ended June 30, 2005, a decrease of 27% from the three months ended June 30, 2004. Our correspondent bulk mortgage loan production was \$71.1 million during the first six months of 2005, a decrease of 9% from the first six months of 2004. In our correspondent channel, we continue to focus on growing the flow business while pursuing the bulk business when we consider market conditions to be advantageous.

Financial Condition

June 30, 2005 Compared to December 31, 2004

Net Mortgage Loan Portfolio. Our net mortgage loan portfolio increased \$0.1 billion, or 2%, to \$6.1 billion as of June 30, 2005 from \$6.0 billion as of December 31, 2004. This increase was the result of the origination and purchase of \$1.6 billion of mortgage loans offset by principal payments of \$1.2 billion and loan sales of \$0.2 million. We expect that our mortgage loan portfolio will continue to grow as we continue to originate and purchase mortgage loans. However, we anticipate the growth rate will be slower than historical growth rates as our portfolio ages, more seasoned mortgage loans are paid off, and as competition in our industry remains intense.

Allowance for Loan Losses. The allowance for loan losses decreased \$0.5 million, or 2%, to \$24.4 million as of June 30, 2005 from \$24.9 million as of December 31, 2004. Although an additional \$11.7 million of loan losses were provided for during the six months ended June 30, 2005, this amount was offset by charge-offs primarily relating to our 2001 and 2002 securitizations, which were provided for in previous periods. We have experienced a decrease in the percentage of seriously delinquent accounts since December 31, 2004; however, we expect our allowance for loan loss may increase in the future as our portfolio continues to grow.

Mortgage servicing rights, net. Mortgage servicing rights (MSRs), net increased \$30.0 million, or 30%, to \$129.0 million as of June 30, 2005 from \$99.0 million as of December 31, 2004. This increase was primarily due to purchases of \$52.0 million of rights to service \$7.7 billion of mortgage loans during the first six months of 2005. The increase in MSRs was partially offset by amortization of servicing rights of \$20.5 million during the first six months of 2005. Also, our valuation allowance increased \$1.4 million as the result of actual prepayment speeds being greater than projected during the first six months of 2005 on certain aged third party servicing pools. We have sought to strategically position ourselves to take advantage of the increased supply of servicing assets in the marketplace and have been able to purchase servicing assets at what we believe to be favorable prices. We anticipate that the demand for non-conforming servicing will continue and that we will continue to purchase servicing rights in the future, which would increase our net servicing income. We are committed to purchase third party servicing rights for an additional \$5.2 billion of mortgage loans during the third quarter of 2005, of which \$2.0 billion have been purchased in July 2005 for approximately \$13.3 million.

Servicing Related Advances. Servicing related advances increased \$24.0 million, or 22%, to \$133.8 million as of June 30, 2005 from \$109.8 million as of December 31, 2004. The increase was primarily due to the increase in our third party servicing balances and an increase in delinquencies.

Trustee Receivable. Trustee receivable increased \$23.3 million, or 21%, to \$135.4 million as of June 30, 2005 from \$112.1 million as of December 31, 2004. The increase was primarily due to the completion of two securitizations during the first six months of 2005, as well as increased collections after the applicable trust cut-off date as a result of higher prepayment activity. On each payment date, the trust distributes securitization loan payments to their related bondholders. These loan payments are collected by the trust before the cut-off date, which is typically the 17th of each month. Therefore, all principal payments received after the cut-off date are recorded as a trustee receivable and reduce our mortgage loan portfolio on our consolidated balance sheet. The trustee retains these principal payments until the following payment date. As we continue to securitize mortgage loans, we anticipate our trustee receivable balance to increase.

Other Assets. Other assets decreased \$29.4 million, or 35%, to \$54.5 million as of June 30, 2005 from \$83.9 million as of December 31, 2004. The decrease in other assets is primarily the result of a decrease in our current tax receivable balance due to a partial refund of \$29.7 million. Additionally, we had decreases of \$2.0 million in prepaid expenses and \$3.4 million in our required cash margin account on derivative instruments offset by increases in fixed assets of \$2.9 million and increases in deferred issuance costs of \$1.5 million.

Warehouse Financing. Warehouse financing decreased \$339.5 million, or 57%, to \$261.1 million as of June 30, 2005 from \$600.6 million as of December 31, 2004. We expect our warehouse financing to continue to fluctuate from one reporting period to the next as a result of the timing of our securitizations and mortgage loan production.

Securitization Financing. Securitization financing increased \$0.7 billion, or 13%, to \$6.0 billion as of June 30, 2005 from \$5.3 billion as of December 31, 2004. This increase resulted primarily from the execution of two asset-backed securitizations, which resulted in debt being issued in the amount of \$1.0 billion during the first quarter of 2005 and \$1.0 billion during the second quarter of 2005. This increase was partially offset by debt and certificate payments of \$1.2 billion. In general, we expect increases in our securitization financing as we experience increased mortgage loan production and continue to securitize our mortgage loans.

Shareholders' Equity. Shareholders' equity increased \$35.6 million, or 6%, to \$622.7 million as of June 30, 2005, from \$587.1 million as of December 31, 2004. The increase in shareholders' equity was due primarily to net income of \$61.0 million partially offset by the declaration of \$27.9 million in dividends.

Liquidity and Capital Resources

Cash decreased by \$1.9 million during the six months ended June 30, 2005 and increased by \$2.1 million during the six months ended June 30, 2004. The overall change in cash was comprised of the following:

Six Months Ended June 30,		
	2005	2004
	(\$ in thousands)	
Cash provided by operating activities	\$73,514	\$68,455
Cash used by investing activities	(444,997)	(632,138)
Cash provided by financing activities	369,581	565,758
Increase (decrease) in cash	\$(1,902)	\$2,075

Operating Activities. Cash provided by operating activities for the six months ended June 30, 2005 was \$73.5 million, reflecting an increase of \$5.0 million, or 7%, compared to the first six months of 2004. This change was primarily the result of an overall increase in net income adjusted for non-cash items such as depreciation and amortization, deferred income taxes, provision for mortgage loan losses, and increases in our income tax receivable as a result of the REIT conversion. Our net income increased primarily because the growth of our servicing income, which was due to increases in our third party servicing acquisitions, was higher than the decline in our net interest margin, which was due to an increase in the cost of our borrowings. Further details are discussed in "Consolidated Results."

Investing Activities. Cash used for investing activities was \$445.0 million for the six months ended June 30, 2005. Investing activities consist principally of the origination and purchase of mortgage loans as well as the acquisition of MSRs. The origination and purchase of mortgage loans including basis adjustments totaled \$1.6 billion for the six months ended June 30, 2005. In addition, MSRs were purchased totaling \$52.0 million. These decreases to cash were partially offset by cash received from principal payments on our mortgage loan portfolio totaling \$1.2 billion and proceeds from the sale of mortgage loans and REO which totaled \$216.4 million and \$29.1 million, respectively.

Restricted cash increased \$203.3 million to \$204.8 million at June 30, 2005 due to the timing of the receipt of cash related to prefunded securitizations. Prefunded amounts are held in a trust account and made available once all required mortgage loans have been included in the securitization. During the second quarter of 2005, the SAST 2005-2 securitization was closed requiring a prefunding settlement. Because settlement had not occurred as of June 30, 2005, restricted cash increased.

Capital expenditures during the six months ended June 30, 2005 were \$5.9 million and were primarily related to leasehold improvements necessary as a result of the growth in our servicing segment as well as various information technology enhancements.

Financing Activities. Cash provided by financing activities during the six months ended June 30, 2005 was \$369.6 million and was the result of proceeds from the issuance of securitization financing of \$2.0 billion partially offset by principal payments on securitization financings of \$1.2 billion, net repayment of warehouse financing of \$339.5 million, payment of dividends of \$56.8 million, and debt issuance costs of \$6.3 million relating to the completion of two securitizations during the first six months of 2005. Fluctuations in warehouse and securitization financing period over period can occur due to the timing of securitizations and the related repayment of the warehouse financing facilities.

Dividends. We declared a dividend of \$0.55 per common share payable on August 11, 2005 to stockholders of record as of the close of business on July 29, 2005. Due to our election to be treated as a REIT, we expect to continue making quarterly distributions to shareholders, the amount and timing of which will be determined by our Board of Directors.

Trends. At this time, we see no material negative trends that we believe would affect our access to long-term borrowings, short-term borrowings or bank credit lines sufficient to maintain our current operations or that would likely cause us to be in danger of any debt covenant default.

Working Capital

We intend to maintain sufficient working capital to fund the cash flow needs of our operations in the event we are unable to generate sufficient cash flows from operations to cover our operating requirements. Using our definition of working capital, we calculated our working capital as of June 30, 2005 to be approximately \$178.6 million. Under the commonly defined working capital definition, we calculated our working capital as of June 30, 2005 to be \$313.2 million. A reconciliation between our working capital calculation and the common definition of working capital is provided below. Management focuses on our internally defined calculations of working capital rather than the commonly used definition of working capital because management believes our definition provides a better indication of how much liquidity we have available to conduct business at the time of the calculation.

Working Capital Reconciliation - June 30, 2005	Saxon Defined Working Capital	Commonly Defined Working Capital
	(\$ in thousands)	
Unrestricted cash	\$10,950	\$10,950
Borrowing availability	72,264	—
Trustee receivable	—	135,424
Accrued interest receivable	—	38,253
Current tax receivable	—	5,452
Accrued interest payable	—	(6,909)
Other current liabilities	—	(17,596)
Unsecuritized mortgage loans - payments less than one year	350,093	355,652
Warehouse financing facility - payments less than one year	(254,695)	(261,105)
Servicing advances	—	133,787
Financed advances - payments less than one year	—	(48,272)
Securitized loans - payments less than one year	—	1,990,419
Securitized financing - payments less than one year	—	(2,022,869)
Total	\$178,612	\$313,186

Financing Facilities

We need to borrow substantial sums of money each quarter to originate and purchase mortgage loans. We rely upon several counterparties to provide us with financing facilities to fund our loan originations and purchases, as well as fund a portion of our servicing advances and servicing rights. Our ability to fund current operations and accumulate loans for securitization depends to a large extent upon our ability to secure short-term financing on acceptable terms.

To accumulate loans for securitization, we borrow money on a short-term basis through committed secured warehouse lines of credit and committed repurchase agreements. In addition to funding loans prior to securitization, some of our committed facilities allow us to finance advances that are required by our mortgage servicing contracts, mortgage bonds and mortgage servicing rights.

Committed Facilities. There were several changes to our financing facilities during the second quarter of 2005:

- Our \$300.0 million repurchase facility with Credit Suisse First Boston Mortgage Capital, LLC was amended on April 29, 2005, extending the termination date of the facility to April 28, 2006.
- Our \$300.0 million repurchase facility with Bank of America, N.A. was amended effective June 23, 2005 extending the termination date of the facility to June 22, 2006.
- Our \$400.0 million repurchase facility with Merrill Lynch Mortgage Capital, Inc. was terminated in the second quarter. We entered into a new \$400.0 million repurchase facility with Merrill Lynch Bank USA effective May 13, 2005 which provides us with the ability to borrow against first or second lien mortgage loans and also provides a sub-limit for wet collateral. The facility contains a termination date of November 21, 2005.
- Our \$150.0 million repurchase facility with Greenwich Capital Financial Products, Inc. was amended on June 22, 2005 to change the termination date of the facility to August 29, 2005. We intend to combine the two Greenwich Capital repurchase facilities into a single combined facility prior to the termination dates.

As of June 30, 2005 we had committed revolving warehouse and repurchase facilities in the amount of approximately \$1.7 billion. The table below summarizes our facilities and their expiration dates as of June 30, 2005. We believe this level of committed financing will allow us flexibility to execute our asset-backed securitizations in accordance with our business plans.

Counterparty Committed Lines	Facility Amount	Expiration Date
(\$ in thousands)		
JP Morgan Chase Bank	\$ 375,000	March 29, 2006
Greenwich Capital Financial Products, Inc.	175,000	August 29, 2005
Greenwich Capital Financial Products, Inc.	150,000	August 29, 2005
Bank of America, N.A.	300,000	June 22, 2006
CS First Boston Mortgage Capital, LLC	300,000	April 28, 2006
Merrill Lynch Bank USA	400,000	November 21, 2005
Total committed facilities	<u>\$1,700,000</u>	

The amount we have outstanding on our committed facilities at any quarter end generally is a function of the pace of mortgage loan purchases and originations relative to the timing of our securitizations. Although we expect to issue asset-backed securities on a quarterly basis, our intention is to maintain committed financing facilities equal to approximately six months of mortgage production to provide us with flexibility in timing our securitizations.

We had \$261.1 million of warehouse borrowings collateralized by residential mortgages outstanding as of June 30, 2005. As we complete securitization transactions, a portion of the proceeds from the long-term debt issued in the securitization will be used to pay down our short-term borrowings. Therefore, the amount of short-term borrowings will fluctuate from quarter to quarter, and could be significantly higher or lower than the \$261.1 million we held as of June 30, 2005, as our mortgage production and securitization programs continue.

Our financing facilities require us to comply with various customary operating and financial covenants, including tests relating to our tangible net worth, liquidity, and leverage requirements. In addition, some of the facilities may subject us to cross default features. We do not believe that these existing financial covenants will restrict our operations or growth. To the extent that we fail to comply with the covenants contained in our financing agreements or are otherwise found to be in default under the terms of such agreements, we could be restricted from paying dividends or from engaging in other transactions that are necessary for us to maintain our REIT status. Our failure to qualify as a REIT could reduce materially the value of our common stock. We were in compliance with all covenants under the agreements as of and for the three and six months ended June 30, 2005.

Securitization Financing

Mortgage Loan Securitization Facilities. We have historically financed, and expect to continue to finance, our mortgage loan portfolio on a long-term basis by issuing asset-backed securities. We believe that issuing asset backed securities provides us a low cost method of financing our mortgage loan portfolio. In addition, it allows us to reduce our interest rate risk on our fixed rate loans by securitizing them. Our ability to issue asset backed securities depends on the overall performance of our assets, as well as the continued general demand for securities backed by non-conforming mortgage loans and home equity loans.

We are not legally obligated to make payments to the holders of the asset-backed securities issued as part of our securitizations. Instead, the holders of the asset-backed securities can look for repayment from the cash flows from the real estate specifically collateralizing the debt.

Servicing Advance Facility. As of June 30, 2005 we had \$140.5 million of borrowings outstanding under a facility which allows for the issuance of notes to finance principal, interest and other servicing advances that we are required to make for our owned portfolio as well as those related to certain third party servicing contracts.

Our servicing advance facility requires us to comply with various customary operating covenants and performance tests on the underlying receivables related to payment rates and minimum balance. In the event of a breach, the Notes issued by the servicing advance facility may begin to amortize earlier than scheduled. We do not believe that these existing covenants and performance tests will restrict our operations or growth. We were in compliance with all covenants and performance tests under the servicing advance facility as of and for the three and six months ended June 30, 2005.

As of June 30, 2005, securitization financing related to mortgage loans and servicing advances on our consolidated balance sheet was approximately \$6.0 billion.

Off Balance Sheet Items and Contractual Obligations

Off Balance Sheet Items

In connection with mortgage loans securitized in off balance sheet transactions from May 1996 to July 5, 2001, of which \$484.5 million were still outstanding as of June 30, 2005, and in connection with the sales of mortgage loans to nonaffiliated parties, our subsidiaries made representations and warranties about certain characteristics of the loans, the borrowers, and the underlying properties. In the event of a breach of these representations and warranties, our subsidiaries may be required to remove loans from a securitization and replace them with cash or substitute loans, and to indemnify parties for any losses related to such breach. As of June 30, 2005 our subsidiaries neither had nor expected to incur any material obligation to remove any such loans, or to provide any such indemnification.

Our subsidiaries had commitments to fund mortgage loans with agreed upon rates of approximately \$197.4 million and \$240.3 million as of June 30, 2005 and December 31, 2004, respectively. Commitments do not necessarily represent future cash requirements, as some portion of the commitments are likely to expire without being drawn upon or may be subsequently declined for credit or other reasons.

Contractual Obligations and Commitments

Our subsidiaries are obligated under non-cancelable operating leases for property and equipment. Future minimum rental payments for all of our operating leases increased to \$40.0 million as of June 30, 2005 from \$22.7 million as of December 31, 2004. Future minimum rental payments as of June 30, 2005 include \$20.3 million in payments on the lease for our new mortgage loan origination headquarters which began in July 2005.

We are committed to purchase third party servicing rights for an additional \$5.2 billion of mortgage loans during the third quarter of 2005, of which \$2.0 billion were purchased during July 2005 for approximately \$13.3 million.

As of June 30, 2005, we did not have any other material changes in our contractual obligations and commitments as presented in our annual report on Form 10-K for the year ended December 31, 2004 other than those described above.

Other Matters

Impact of New Accounting Standards

In May 2005, the Financial Accounting Standards Board issued Statement No. 154, *Accounting Changes and Error Corrections*, which changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and applies to all voluntary changes in accounting principle as well as changes required by an accounting pronouncement in the rare instance that a new pronouncement does not include specific transition provisions. APB Opinion No. 20 previously required that the cumulative effect of a voluntary change to a new accounting pronouncement be recognized in net income for the period of the change. FASB Statement No. 154 now requires retrospective application of a voluntary change in accounting principle to prior periods' financial statements unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Additionally, this Statement redefines the term "restatement" as the revising of previously issued financial statements to reflect the correction of an error. Reporting the correction of an error in previously issued financial statements and a change in accounting estimate is carried forward from the guidance provided in APB Opinion 20. FASB Statement No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of FASB 154 is not expected to have a material impact on our financial position, results of operations, or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We define market risk as the sensitivity of income to changes in interest rates. Changes in prevailing market interest rates may have two general effects on our business. First, any general increase in mortgage loan interest rates may tend to reduce customer demand for new mortgage loans, which can negatively impact our future production volume and our projected income. Second, increases or decreases in interest rates can cause changes in the interest income on the mortgage loans that we own or are committed to fund, and as a result, cause changes in our net income. We refer to this second type of risk as our "managed interest rate risk". Substantially all of our managed interest rate risk arises from debt related to the financing of our mortgage loan portfolio. Interest rate

risk is managed within an overall asset/liability management framework. The principal objective of asset/liability management is to manage the sensitivity of net income to changing interest rates.

Since December 31, 2004 there have been many market changes with respect to interest rate outlooks. Our framework for measuring the potential impact on our exposure to market risk from changing interest rates has remained constant while potential scenarios have been modified in response to economic developments and their impact on interest rate outlooks. For further information on our interest rate risk profile and our types of managed interest rate risks, refer to Item 7A, “Quantitative and Qualitative Disclosures about Market Risk”, contained in our 2004 Form 10-K.

Maturity and Repricing Information

As shown in the tables below from December 31, 2004 to June 30, 2005, there was an increase in our hedging activity due to additional existing and forecasted debt and the belief that interest rates may rise in the future. The following tables summarize the notional amounts, expected maturities and weighted average strike rates for interest rate floors, caps, swaps, options and futures that we held as of June 30, 2005 and December 31, 2004.

As of June 30, 2005						
	2005	2006	2007	2008	2009	Thereafter
	(\$ in thousands)					
Caps bought - notional:	\$883,372	\$1,186,583	\$18,167	—	—	—
Weighted average rate	3.96%	3.86%	3.25%	—	—	—
Caps sold - notional:	\$860,372	\$1,186,583	\$18,167	—	—	—
Weighted average rate	5.17%	4.69%	5.00%	—	—	—
Futures sold - notional:	—	\$595,000	\$270,000	\$8,750	\$6,250	—
Weighted average rate	—	4.20%	4.36%	5.14%	5.45%	—
Swaps bought - notional:	\$2,500,000	\$1,650,000	\$600,000	—	—	—
Weighted average rate	3.28%	3.77%	4.17%	—	—	—
Puts bought - notional:	\$6,250,000	\$250,000	—	—	—	—
Weighted average rate	4.44%	4.50%	—	—	—	—
Puts sold - notional:	—	\$375,000	—	—	—	—
Weighted average rate	—	4.58%	—	—	—	—
Calls bought - notional:	—	\$300,000	—	—	—	—
Weighted average rate	—	3.75%	—	—	—	—
Calls sold - notional:	—	\$300,000	—	—	—	—
Weighted average rate	—	3.25%	—	—	—	—
Total notional:	\$10,493,744	\$5,843,166	\$906,334	\$8,750	\$6,250	\$—

As of December 31, 2004

	2005	2006	2007	2008	2009	Thereafter
	(\$ in thousands)					
Caps bought - notional:	\$898,216	\$686,583	\$18,167	—	—	—
Weighted average rate	3.92%	3.39%	3.25%	—	—	—
Caps sold - notional:	\$865,966	\$686,583	\$18,167	—	—	—
Weighted average rate	5.13%	4.46%	5.00%	—	—	—
Futures sold - notional:	225,000	\$695,000	\$570,000	\$12,500	\$6	—
Weighted average rate	3.57%	3.99%	4.33%	5.08%	5.45%	—
Swaps bought - notional:	500,000	\$700,000	\$200,000	—	—	—
Weighted average rate	2.31%	3.53%	3.91%	—	—	—
Puts bought - notional:	50,000	—	—	—	—	—
Weighted average rate	2.25%	—	—	—	—	—
Puts sold - notional:	\$112,500	\$250,000	—	—	—	—
Weighted average rate	4.11%	3.75%	—	—	—	—
Total notional:	\$2,651,682	\$3,018,166	\$806,334	\$12,500	\$6	\$—

Analyzing Rate Shifts

In our method of analyzing the potential effect of interest rate changes, we study the published forward yield curves for applicable interest rates and instruments, and we then develop various interest rate scenarios for those yield curves based on assumptions concerning economic growth rates, market conditions, and inflation rates, as well as the timing, duration, and amount of corresponding Federal Reserve Board, or FRB, responses, in order to determine hypothetical impacts on relevant interest rates. We use this method of analysis as a means of valuation to manage our interest rate risk on our mortgage loan financing over long periods of time. The table below represents the change in our interest expense as determined by changes in our debt costs and offsetting values of derivative instruments under the four different analysis scenarios that we used as of June 30, 2005 and the four scenarios that we used as of December 31, 2004. The change from December 31, 2004 to June 30, 2005 represents our change in assumptions for each scenario as described below.

Effect on Interest Expense of Assumed Changes in Interest Rates Over a Three Year Period

	June 30, 2005				December 31, 2004			
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	(\$ in thousands)							
Change in interest expense	\$58,034	\$14,730	\$(12,526)	\$(38,054)	\$65,786	\$40,758	\$(219)	\$(40,701)
Impact from derivative instruments:								
Futures	(6,391)	(1,324)	1,036	5,223	(12,302)	(11,698)	(1,322)	5,834
Swaps	(21,189)	(7,073)	3,840	10,896	(11,753)	(7,866)	(276)	6,766
Puts	(2,534)	(441)	75	119	1,702	1,178	(19)	(310)
Calls	263	90	(60)	(458)	—	—	—	—
Caps	(3,293)	(1,033)	881	464	(6,885)	(3,967)	168	661
Total impact from derivative instruments	\$(33,144)	\$(9,781)	\$5,772	\$16,244	\$(29,238)	\$(22,353)	\$(1,449)	\$12,951
Net change	\$24,890	\$4,949	\$(6,754)	\$(21,810)	\$36,548	\$18,405	\$(1,668)	\$(27,750)

Each scenario is more fully discussed below, and tables of the hypothetical yield curves are included below.

Scenario 1 - Under this scenario we show mortgage loan and derivative valuations based upon an assumed aggressive response from the Board of Governors of the FRB, with the assumption that the economy is growing at a pace inconsistent with the FRB desire to maintain a stable or declining inflation environment. Under this scenario, we assume a hypothetical interest rate increase of approximately 150 basis points over a fifteen-month period. Such an increase provides us with a view of the interest expense changes assuming a comparable rise in financing rates. Making these assumptions as of June 30, 2005, we estimate that our interest expense would increase by \$58.0 million. However, we estimate that this amount would be partially offset by a decrease in our derivative instruments of \$33.1 million. The net effect of this scenario would be a potential decrease of \$24.9 million in our net revenues and gains. At December 31, 2004, assuming a hypothetical interest rate increase of approximately 225 basis points over a twelve-month period, we estimated at that time that our net revenues and gains would decrease by approximately \$36.5 million.

Scenario 2 - In this scenario we assume a slightly less severe hypothetical rise in interest rates compared to Scenario 1, but a relatively aggressive rise over the next six months. Under this scenario, we assume that interest rates have the potential to rise approximately 75 basis points over a six month period. Making these assumptions as of June 30, 2005, we estimate that our interest expense would increase by \$14.7 million. However, we estimate that this amount would be partially offset by a decrease in our derivative instruments of \$9.8 million. The net effect of this scenario would be a potential decrease of \$4.9 million in our net revenues and gains. At December 31, 2004, assuming interest rates had the potential to rise approximately 250 basis points over a two year period, we estimated at that time that our net revenues and gains would decrease by approximately \$18.4 million.

Scenario 3 - In this scenario we assume relatively stable hypothetical short-term rates. This scenario assumes that the FRB temporarily stops raising interest rates to assess any lag in the impact of previous rate increases on the domestic and global economy. Given these assumptions as of June 30, 2005, we estimate that our interest expense from changes in borrowing costs would decrease by \$12.5 million. However, we estimate that this amount would be partially offset by an increase in our derivative instruments of \$5.8 million. The net effect of this scenario would be a potential increase in net revenues and gains of \$6.7 million. At December 31, 2004, assuming interest rates increased another 100 basis points over a 12 month period, we estimated at that time that our net revenues and gains would increase by approximately \$1.7 million.

Scenario 4 - This scenario assumes that the FRB increases rates another 50 basis points and then becomes concerned about the future prospects of economic growth and by mid 2006 reduces rates by 75 basis points to stimulate economic growth again. Given these assumptions as of June 30, 2005, we estimate that our interest expense would decrease by approximately \$38.0 million, which would partially be offset by an estimated increase in our derivative instruments of approximately \$16.2 million, for a total potential increase in net revenues and gains of approximately \$21.8 million. At December 31, 2004, assuming interest rates remained steady for one year and then increased 150 basis points over a two year period, we estimated at that time that our net revenues and gains could increase by approximately \$27.8 million.

The hypothetical yield curve data for each scenario at June 30, 2005 and December 31, 2004 are as follows:

June 30, 2005

Month	Current Market (1)	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Sep-05	3.85	4.40	4.15	3.64	3.86
Dec-05	3.97	4.41	4.15	3.90	3.90
Mar-06	3.99	4.43	4.16	3.90	3.90
Jun-06	4.01	4.69	4.17	3.91	3.41
Sep-06	4.02	4.95	4.18	3.91	3.16
Dec-06	4.05	4.96	4.19	3.92	3.17
Mar-07	4.06	4.97	4.19	3.92	3.17
Jun-07	4.08	4.98	4.20	3.93	3.18
Sept-07	4.10	5.00	4.21	3.93	3.18
Dec-07	4.14	5.01	4.22	3.94	3.19
Mar-08	4.15	5.02	4.23	3.94	3.19
Jun-08	4.18	5.03	4.24	3.95	3.70
Sep-08	4.22	5.04	4.24	3.95	3.70

December 31, 2004

Month	Current Market (1)	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Jan-05	2.39	2.89	2.61	2.63	2.35
Mar-05	2.91	3.40	2.89	2.89	2.36
Jun-05	3.18	3.91	3.40	2.89	2.39
Sep-05	3.39	4.43	3.65	3.15	2.40
Dec-05	3.56	4.69	3.91	3.40	2.65
Mar-06	3.68	4.70	4.41	3.65	3.15
Jun-06	3.78	4.71	4.67	3.91	3.66
Sep-06	3.87	4.72	4.92	4.16	3.66
Dec-06	3.97	4.73	4.93	4.17	3.67
Mar-07	4.05	4.75	4.93	4.17	3.67
Jun-07	4.13	4.76	4.94	4.18	3.68
Sept-07	4.22	4.77	4.94	4.43	4.18
Dec-07	4.31	4.78	4.95	4.43	4.18

(1) Current market is depicted using the forward Eurodollar Futures Curve. The Eurodollar Future curve is the series of benchmark rates of Libor with a 3-month maturity. The series of 3 month rates depicted represent the current market expectations of Libor spot rates in the future based on expectations of economic activity.

These scenarios are provided for illustrative purposes only and are intended to assist in the understanding of our sensitivity to changes in interest rates. While these scenarios are developed based on current economic and market conditions, we cannot make any assurances as to the predictive nature of assumptions made in this analysis.

Item 4. Controls and Procedures

We carried out an evaluation, as required by Exchange Act Rule 13a-5(b), under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, which included consideration of the restatements. On March 14, 2006, we concluded that the designation of our derivative instruments as cash flows hedges for the previously reported periods from October 1, 2002 to September 30, 2005 did not meet the requirements of SFAS 133 with regard to documentation and effectiveness testing. We also concluded that the designation of our derivative instruments as fair value hedges for the period July 6, 2001 to September 30, 2002 had not met the requirements of SFAS 133 regarding the hedging of similar assets. We concluded, therefore, that the above derivative instruments did not qualify for cash flow or fair value hedge accounting treatment. We have restated our consolidated balance sheet as of June 30, 2005 and December 31, 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for the three and six months ended June 30, 2005 and 2004 to account for the derivative instruments as undesignated derivatives. Accordingly, all changes in the fair value of the derivative instruments are now recognized in our statement of operations, along with the related tax effects. Previously, changes in the fair value of the derivative instruments were recorded in other comprehensive income, net of income taxes on our consolidated balance sheets, for cash flow hedges. Previous fair value hedging activity had been recorded as basis adjustments on mortgage loans which were amortized into earnings through interest income as a yield adjustment of the previously hedged loans. Management has concluded that the controls in place relating to hedging documentation were not properly designed to provide reasonable assurance that these derivative instruments would be properly recorded and disclosed in the financial statements, and that this is a material weakness in internal control over financial reporting. Solely as a result of this material weakness, management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of June 30, 2005.

Remediation of Material Weakness

Subsequent to the end of the period covered by this report, we have remediated the material weakness relating to derivative documentation and hedge accounting treatment that is described above. Our remediation action consisted of changing policies and procedures to redesignate all current derivative instruments as trading, as well as to consider them undesignated in the future. These new policies and procedures ensure that all derivative instruments are accounted for as undesignated instruments and are recorded in the consolidated statements of operations. These were the only changes in our internal control over financial reporting subsequent to the most recently completed fiscal quarter.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the period covered by this report. Moreover, there have been no significant changes subsequent to the date of evaluation discussed above, other than the changes related to the remediation of the material weakness.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II

Item 1. Legal Proceedings

Because we are subject to many laws and regulations, including but not limited to federal and state consumer protection laws, we are regularly involved in numerous lawsuits filed against us, some of which seek certification as class action lawsuits on behalf of similarly situated individuals. If class actions are certified and there is an adverse outcome or we do not otherwise prevail in the following matters, we could suffer material losses, although we intend to vigorously defend these lawsuits.

Margarita Barbosa, et al. v. Saxon Mortgage Services, Inc. (f/k/a Meritech Mortgage Services, Inc.) et al. is a matter previously described in Part I, Item 3 of our 2004 Form 10-K. During the second quarter of 2005, the Company made the final payment of \$17.8 thousand owed pursuant to the settlement agreement, and consequently has fully performed its obligations under the settlement agreement.

Bauer, et al., v. Dean Morris, L.L.P., et al., and Patterson, et al., v. Dean Morris, et al., are successor matters to Bauer, et al., v. Saxon Mortgage Services, Inc., et al., previously described in Part I, Item 3 of our 2004 Form 10-K. On January 26, 2005, the plaintiffs in Bauer, et al., v. Saxon Mortgage Services, Inc., et al. filed a motion to dismiss the case without prejudice, and the court entered an order dismissing the case on January 31, 2005. On February 17, 2005, the plaintiffs re-filed the case as two separate class action lawsuits, Bauer, et al., vs. Dean Morris, et al., filed as Case No. 05-2173 in the Civil District Court for the Parish of Orleans, State of Louisiana, and Patterson et al., v. Dean Morris, et al., filed as Case No. 05-2174 in the Civil District Court for the Parish of Orleans, State of Louisiana. There were no material developments in this legal proceeding during the quarter ended June 30, 2005.

We are subject to other legal proceedings arising in the normal course of our business. In the opinion of management, the resolution of these other proceedings is not expected to have a material adverse effect on our financial position or our results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On June 21, 2005, we held our annual stockholders' meeting. There were 49,884,038 shares of common stock outstanding entitled to vote, and a total of 46,661,546 (94%) were represented at the meeting in person or by proxy. The following summarizes vote results of proposals submitted to our stockholders:

1. Proposal to elect five directors for one-year terms.

NAME	FOR	WITHHELD
Richard A. Kraemer	45,687,118	974,428
Louis C. Fornetti	45,684,778	976,768
Michael L. Sawyer	45,691,118	970,428
Thomas J. Wageman	45,682,648	978,898
David D. Wesselink	45,649,961	1,011,585

2. Ratification of the appointment by the Audit Committee of Deloitte & Touche LLP, as independent registered public accounting firm of the Company for the fiscal year ending December 31, 2005.

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
46,433,208	214,889	13,449	—

Item 5. Other Information

- (a) None.
- (b) None.

Item 6. Exhibits

- 3.1 Amended and Restated Certificate of Incorporation of Saxon Capital, Inc. (1)
- 3.2 Amended and Restated Bylaws of Saxon Capital, Inc. (2)
- 4.1 Form of Common Stock Certificate of Saxon Capital, Inc. (3)
- 4.2 Certain instruments defining the rights of the holders of long-term debt of the Company and certain of its subsidiaries, none of which authorize a total amount of indebtedness in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis, have not been filed as Exhibits. The Company hereby agrees to furnish a copy of any of these agreements to the Securities and Exchange Commission upon request.
- 10.1 Severance Agreement and General Release between Mark D. Rogers and SCI Services, Inc., and its affiliates, subsidiaries, parent, predecessors, successors, and assigns, dated as of July 15, 2005. (4)*
- 10.2 Sale and Servicing Agreement, dated as of May 1, 2005, among Saxon Asset Securities Trust 2005-2, as issuer, Saxon Asset Securities Company, as depositor, Saxon Funding Management, Inc., as master servicer, Saxon Mortgage Services, Inc., as servicer and Deutsche Bank Trust Company Americas, as trustee. (5)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302
- 31.2 Certification of Chief Financial Officer pursuant to Section 302
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906

-
- (1) Incorporated herein by reference to our Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005.
 - (2) Incorporated herein by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2005.
 - (3) Incorporated herein by reference to Amendment No. 3 to our registration statement on Form S-4 (No. 333-112834) filed with the Securities and Exchange Commission on June 18, 2004.
 - (4) Incorporated herein by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2005.
 - (5) Incorporated herein by reference to Saxon Asset Securities Company's Current Report on Form 8-K dated June 7, 2005.

* Executive Compensation Plan or Agreement.

SIGNATURES

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

SAXON CAPITAL, INC.

Dated: July 14, 2006

By: /s/ Michael L. Sawyer
Name: Michael L. Sawyer
Title: Chief Executive Officer (authorized
officer of registrant)

Dated: July 14, 2006

By: /s/ Robert B. Eastep
Name: Robert B. Eastep
Title: Chief Financial Officer (principal
financial officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Michael L. Sawyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Saxon Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2006

/s/ Michael L. Sawyer

Name: Michael L. Sawyer

Title: Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert B. Eastep, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Saxon Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2006

/s/ Robert B. Eastep

Name: Robert B. Eastep

Title: Chief Financial Officer

The following certification is provided by the undersigned Chief Executive Officer and Chief Financial Officer of Saxon Capital, Inc. on the basis of such officer's knowledge and belief for the sole purpose of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

CERTIFICATION

In connection with the Quarterly Report of Saxon Capital, Inc. (the "Company") on Form 10-Q/A for the period ended June 30, 2005 as filed with the Securities and Exchange Commission on July 14, 2006 (the "Report"), the undersigned, as Chief Executive Officer and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 14, 2006

/s/ Michael L. Sawyer

Michael L. Sawyer

Chief Executive Officer

/s/ Robert B. Eastep

Robert B. Eastep

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission upon request. This certification accompanies the Report and shall not be treated as having been filed as part of the Report.