FORM 10-K

FBR ASSET INVESTMENT CORP/VA - N/A

Filed: March 30, 2000 (period: December 31, 1999)

Annual report with a comprehensive overview of the company

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number ____________

FBR ASSET INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other Jurisdiction of Incorporation or Organization)	54-1873198 (I.R.S. employer identification no.)
Potomac Tower 1001 Nineteenth Street North Arlington, Virginia 22209 (Address of principal executive offices) (zip code)	(901) 580-6000 (Registrant's telephone number including area code)

N/A
(former name)

Indicate by check mark whether the Registrant (i) 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 short period that the Registrant was required to file such report), and (ii) has been subject to such filing requirements for the past 90 days:

Yes: X No _____ (The Registrant has not been subject to such filing requirements for the past 90 days)

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

Aggregate market value of the voting stock held by non-affiliates of the Registrant: $38,009,851 as of March 24, 2000.

As of March 24, 2000, the latest practicable date, there were 5,097,227 shares of the Registrant's common stock outstanding.

Portions of the Registrant's Registration Statement on Form S-11, as amended, Registration No. 333-67343, are incorporated by reference in Part IV, Item 14.

Portions of the Registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the Registrant's fiscal year ended December 31, 1999, and to be delivered to stockholders in connection with the 2000 Annual Meeting of Stockholders, are incorporated by reference in Part III, Items 10 (as related to Directors), 11, 12 and 13.

FBR ASSET INVESTMENT CORPORATION
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REPORT: FORM 10-K

PART I.

Certain statements set forth in FBR Asset Investment Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and are subject to the safe harbor created by such section. Certain factors that could cause results to differ materially from those described in the forward looking statements are enumerated in Item 1. "Business--Factors Affecting FBR Asset's Business, Operating Results and Financial Condition" and elsewhere as appropriate. This Annual Report on Form 10-K (including those items incorporated by reference), including the Consolidated Financial Statements and the notes thereto, should be read in its entirety for a complete understanding.

Item 1. Business

FBR Asset's Business

Operating Policies & Strategies

FBR Asset relies upon the professionals employed by Friedman, Billings, Ramsey Group Inc. ("FBR") to evaluate opportunities for investment. Since its inception in 1989, FBR has sought to identify rapidly changing industries and industries that are not fully understood or appropriately valued by the market. Real estate is one of the sectors on which FBR currently focuses. FBR has specialized in underwriting offerings of REIT securities, particularly REITs that invest in mortgage loans and mortgage-backed securities. From 1993 to 1999, FBR served as managing underwriter in the public issuance of $5.3 billion of REIT and real estate equity securities, consisting of $2.2 billion of mortgage and hybrid REITs and $3.1 billion of equity REITs and real estate operating companies.

FBR Asset believes that there is a global trend towards the securitization of real estate and real estate-related assets and that this trend is represented by the increased formation of non-traditional REITs. FBR Asset also believes that there is a global trend towards the consolidation of real estate owners and operators and companies that provide services to real estate owners and operators. FBR Asset expects these trends to provide it with significant opportunities for investing in real estate-related assets. FBR Asset also anticipates that, notwithstanding the late 1998 and continuing 1999 decline in the mortgage REIT market, additional REITs or real estate-related companies will be organized in the future and that through investments in those companies, FBR Asset can diversify and expand its investments in the real estate market.

FBR Asset's goal, subject to maintaining its REIT qualification, is to acquire assets that it believes will generate the highest returns on capital invested. To determine which assets are likely to provide those returns, FBR Asset considers:

- the amount and nature of anticipated cash flows from the asset;
- the risks of investing in the asset;
- FBR Asset's ability to pledge the asset to secure collateralized borrowings;
- the capital requirements for purchasing and financing the asset;
- the potential for appreciation and depreciation of the asset's value; and

. the cost of financing, hedging and managing the asset.

FBR Asset is an opportunistic investor and does not have or expect to adopt guidelines dictating specific investment or operating restrictions. FBR Asset has taken or may take the following actions without the consent of its stockholders:

. borrowed money;

. made loans to other companies;

. invested in securities of other issuers;

. sold existing investments and made additional investments;

. repurchased or otherwise reacquired FBR Asset's shares; and

. FBR Asset also may issue preferred stock that has liquidation and dividend preferences over the outstanding common stock or offer securities in exchange for property, although to date FBR Asset has chosen not to take those actions

Likewise, as to specific investments, FBR Asset may invest directly or indirectly in any type of mortgage, real estate or real estate-related assets, as well as in other assets, subject to the policy that FBR Asset maintain its qualification as a REIT and its exemption from registration as an investment company.

FBR Asset expects that investment opportunities will change. Based on the recent past, FBR Asset anticipates that REITs will continue to have difficulty accessing the public capital markets. In this environment, FBR Asset will seek what it considers to be attractive opportunities to invest on a privately negotiated basis. For example, FBR Asset believes there will be opportunities to enter into joint ventures with other REIT and non-REIT investors seeking to complete planned acquisitions, to provide mezzanine loans with equity features, and to provide private equity financing. If an adequate amount of what FBR Asset considers to be appropriate investments becomes available, FBR Asset intends to borrow funds to make additional investments.

Current Investments

FBR Asset invests directly in whole-pool mortgage-backed securities, commercial loans, and equity securities of real estate-related businesses and invests indirectly in commercial and residential real estate, commercial mortgage loans, and commercial mortgage-backed securities. As to FBR Asset's indirect investments, FBR Asset holds interests in those assets through its equity ownership of other companies. As an equity holder, FBR Asset's return on its investment is not directly linked to returns on any company's assets, but will depend upon the authorization and payment of dividends and changes in the price of the equity securities owned by FBR Asset. Furthermore, as a common stockholder, FBR Asset's claims to the assets of the companies in which it invests are subordinated to those of creditors and other senior stockholders.

Based upon the information provided on Form 10-Q for the quarter ended September 30, 1999, by the companies in which FBR Asset held equity securities on that date, FBR Asset believes that at September 30, 1999, approximately 57% of FBR Asset's assets were invested in residential mortgage-backed

securities, approximately 10% were invested in commercial real estate, approximately 22% were invested in commercial mortgage loans, approximately 3% were invested in commercial mortgage-backed securities, and approximately 8% did not fit into the identified categories.

Based upon the information provided on form 10-K for the year ended December 31, 1998, by the companies in which FBR Asset held equity securities on that date, FBR Asset believes that at December 31, 1998, approximately 66% of FBR Asset's assets were invested in residential mortgage-backed securities, approximately 11% were invested in commercial real estate, approximately 5% were invested in commercial mortgage loans, approximately 2% were invested in commercial mortgage-backed securities, approximately 8% were loans made to other companies, and approximately 8% did not fit into the identified categories.

Whole-Pool Mortgage-Backed Securities

FBR Asset currently invests, and intends to continue investing, at least 55% of its assets in whole-pool mortgage-backed securities. Those securities represent the entire ownership interest in pools of mortgage loans made by lenders such as savings and loan institutions, mortgage bankers, and commercial banks. Various government, government-related and private organizations assemble the pools of loans for sale to investors, such as FBR Asset.

At December 31, 1999, FBR Asset owned mortgage-backed securities guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae that had a market value of $236.0 million, and had borrowed $221.7 million to finance its investment in those securities. As of December 31, 1999, FBR Asset had established an $88 million face amount short position in 7.00% Ginnie Mae agency mortgage-backed securities. The short position was established to offset the potential adverse effects of market price fluctuations in certain mortgage-backed securities The position is structured and accounted for as a hedge transaction such that any gains or losses are recognized upon termination of the position. The fair value of this short position at December 31, 1999, was $182,188. Anthracite Capital, Inc., one of the companies in which FBR Asset has invested, also owned similar securities at December 31, 1998, and December 31, 1999.

Mortgage-backed securities differ from other forms of traditional debt securities, which normally provide for periodic payments of interest in fixed amounts with principal payments at maturity or on specified call dates. Instead, mortgage-backed securities provide for a monthly payment that consists of both interest and principal. In effect, these payments are a "pass-through" of the monthly interest and principal payments made by borrowers on their mortgage loans, net of any fees paid to the issuer or guarantor of the securities.

The investment characteristics of pass-through mortgage-backed securities differ from those of traditional fixed-income securities. The major differences include the payment of interest and principal on the mortgage-backed securities, as described above, and the possibility that principal may be prepaid on the mortgage-backed securities at any time due to prepayments on the underlying mortgage loans. These differences can result in significantly greater price and yield volatility than is the case with traditional fixed-income securities.

Mortgage prepayments are affected by factors including the level of interest rates, general economic conditions, the location and age of the mortgage, and other social and demographic conditions. Generally prepayments on pass-through mortgage-backed securities increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. Reinvestment of

prepayments may occur at higher or lower interest rates than the original investment, thus affecting the yield on FBR Asset's investments.

At December 31, 1999, FBR Asset owned 39 fixed rate, residential mortgage-backed securities that represented the entire ownership interest in pools of single-family mortgage loans. In connection with those investments, FBR Asset entered into repurchase agreements, an interest rate swap and a short position. The mortgage-backed securities, the short position, the swap, and the repurchase agreements are summarized on the following table.

Descriptive Title/(1)/	Issue Date of Securities	Face Amount (thousands)	Original Principal Amount (thousands)	Market Value at 12/31/99 (thousands)	Nominal Yield at 12/31/99/(5)/	Effective Weighted Average Life at 12/31/99 (years)	Effective Duration at 12/31/99 (years)	Relevant Prepayment Assumption (% PAM)/(2)/
Freddie Mac FGOLD 15-yr.	04/01/97	$ 64,257	$ 79,334	$ 62,470	7.23%	5.20	3.63	150

Fannie Mae FNMA 15-yr.	05/01/98	$ 18,924	$ 23,381	$ 18,373	7.20%	5.30	3.69	148
Freddie Mac FGOLD 30-yr.	05/01/98	$ 2,959	$ 11,850	$ 2,973	7.74%	2.40	1.96	251
Freddie Mac FGOLD 15-yr.	09/01/95	$ 3,080	$ 7,496	$ 3,055	7.26%	4.10	2.89	174
Fannie Mae 30-yr.	11/01/98	$ 9,412	$ 16,291	$ 9,337	7.71%	3.80	2.92	212
Fannie Mae 30-yr.	05/01/98	$ 9,153	$ 16,868	$ 9,528	7.26%	3.00	2.27	268
Ginnie Mae 30-yr.	05/01/98	$ 12,142	$ 45,874	$ 12,313	7.70%	6.70	3.68	152
Freddie Mac FGOLD 15-yr.	04/01/97	$ 9,194	$ 10,083	$ 8,554	7.14%	5.70	4.34	123
Fannie Mae FNMA 30-yr.	09/01/99	$ 44,962	$ 45,094	$ 42,597	7.50%	9.20	5.38	141
Ginnie Mae 30-yr.	09/01/99	$ 32,314	$ 32,720	$ 32,003	7.73%	9.40	4.56	146
Ginnie Mae 30-yr.	11/01/99	$ 10,062	$ 10,068	$ 10,174	7.85%	8.00	3.94	225
Fannie Mae FNMA 15-yr.	10/01/99	$ 11,249	$ 11,442	$ 11,130	7.24%	5.80	3.68	161
Fannie Mae FNMA 15-yr.	03/01/98	$ 10,959	$ 15,380	$ 10,420	7.22%	5.70	3.83	132
Fannie Mae FNMA 15-yr.	10/01/99	$ 3,200	$ 3,269	$ 3,088	7.16%	3.50	2.83	176
Mortgage Portfolio Total		$ 241,867	$ 329,150	$ 236,015	7.32%	5.00	3.54	176
Repurchase Agreement Liability	12/16/99	-	-	$ 221,714	5.83%	-	-	-
Interest Rate Swap Agreement	6/1/98	-	$ 50,000/(3)/		(4)	-	-	

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(1) All of the mortgage-backed securities are backed by pools of fixed-rate mortgages and are principal and interest paying instruments.

(2) Prepayment assumptions express the relationship between the assumption for a specific pass-through security and a prepayment assumption model ("PAM"). For example, a prepayment assumption of 100% PAM for a 30-year mortgage assumes a prepayment rate increase of 0.2% per month for the first 30 months, and then levels off at 6% for the remainder of the term. "50% PAM" means that the prepayment rate is half of "100% PAM" for that month. "300% PAM" means that the prepayment rate is three times "100% PAM" for that month. Actual prepayments may be materially different from the prepayment rates assumed in the PAM.

(3) Notional amount.

(4) Under the interest rate swap agreement, FBR Asset receives quarterly payments of interest based on three-month LIBOR and remits semi-annual payments at a fixed rate of approximately 5.96% based in each case on the $50 million notional amount.

(5) The nominal yield is the internal rate of return of the security based on the given market price. It is the single discount rate that equates a security price (inclusive of accrued interest) with its projected cash flows. For a mortgage product, it represents the yield for a given yield curve environment based on prepayments for that environment.

As the table above shows, the average nominal yield (as defined in footnote 5 above) on FBR Asset's mortgage-backed securities at December 31, 1999, was approximately 7.32%. The yield is based on the anticipated life of the securities. If the actual life of the security is reduced below its anticipated life, the yield would be reduced. The actual life of the mortgage-backed securities is reduced if the mortgage loans underlying the securities are prepaid faster than anticipated at the time the securities were acquired.

The table that follows outlines the recent prepayment experience of the mortgage-backed securities owned by FBR Asset in terms of PAM. See footnote 2 to the preceding table for a more detailed discussion of PAM. For each category of securities in which FBR Asset owns only one pool of mortgage loans, the prepayment history is for that specific pool. For each category of securities in which FBR Asset holds multiple pools of mortgage loans, we have presented the prepayment history of a representative pool. Several securities were recently issued and thus have little prepayment history.

Mortgage-Backed Securities	Face Amount (in thousands)	Period from October 1999 to December 1999 (% PAM)	Period from January 1999 to December 1999 (% PAM)
Freddie Mac FGOLD 15-yr. 6.5%	$ 64,257	188	311
Fannie Mae 15-yr. 6.5%	18,924	166	276
Freddie Mac FGOLD 15-yr. 7.0%	3,080	183	310
Freddie Mac FGOLD 30-yr. 8.0%	2,959	188	226
Fannie Mae 30-yr. 7.5%	9,412	261	366
Fannie Mae 30-yr. 9.0%	9,153	351	390
Ginnie Mae 30-yr. 7.95%	12,142	215	268
Freddie Mac FGOLD 15-yr. 5.5%	9,194	131	172
Fannie Mae 30-yr. 6.5%	44,962	185	245
Ginnie Mae 30-yr. 7.5%	32,314	263	740
Ginnie Mae 30-yr. 8.0%	10,062	263	740
Fannie Mae 15-yr. 7.0%	11,249	335	226
Fannie Mae 15-yr. 6.0%	10,959	107	167
Fannie Mae 15-yr. 6.0%	3,200	128	185
Total	$ 241,867		

Freddie Mac Certificates

Federal Home Loan Mortgage Corporation, better known as "Freddie Mac," is a privately owned government-sponsored enterprise created pursuant to Title III of the Emergency Home Finance Act of 1970. Freddie Mac's principle activities currently consist of the purchase of mortgage loans or participation interests in mortgage loans and the resale of the loans and participations in the form of guaranteed mortgage-backed securities. Freddie Mac guarantees to holders of Freddie Mac certificates, such as FBR Asset, the timely payment of interest at the applicable pass-through rate and ultimate collection of all principal on the holder's pro rata share of the unpaid principal balance of the underlying mortgage loans, but does not guarantee the timely payment of scheduled principal on the underlying mortgage loans. The obligations of Freddie Mac under its guarantees are solely those of Freddie Mac and are not backed by the full faith and credit of the United States. If Freddie Mac were unable to satisfy its obligations, distributions to FBR Asset would consist solely of payments and other recoveries on the underlying mortgage loans, and accordingly, monthly distributions to FBR Asset would be adversely affected by delinquent payments and defaults on those mortgage loans.

Fannie Mae Certificates

Federal National Mortgage Association, better known as "Fannie Mae," is a privately owned, federally chartered corporation organized and existing under the Federal National Mortgage Association Charter Act. Fannie Mae provides funds to the mortgage market primarily by purchasing home mortgage loans from local lenders, thereby replenishing their funds for additional lending. Fannie Mae guarantees to registered holders of Fannie Mae certificates, such as FBR Asset, that it will distribute amounts representing scheduled principal and interest (at the rate provided by the Fannie Mae certificate) on the mortgage loans in the pool underlying the Fannie Mae certificate, whether or not received, and the full principal amount of any mortgage loan foreclosed or otherwise finally liquidated, whether or not the principal amount is actually received. The obligations of Fannie Mae under its guarantees are solely those of Fannie Mae and are not backed by the full faith and credit of the United States. If Fannie Mae were unable to satisfy its obligations, distributions to FBR Asset would consist solely of payments and other recoveries on the underlying mortgage loans, and accordingly, monthly distributions to FBR Asset would be adversely affected by delinquent payments and defaults on the mortgage loans.

Ginnie Mae Certificates

Government National Mortgage Association, better known as "Ginnie Mae," is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development. Title III of the National Housing Act of 1934 authorizes Ginnie Mae to guarantee the timely payment of principal and interest on certificates that represent an interest in a pool of mortgages insured by the Federal Housing Administration under the Housing Act or partially guaranteed by the Veteran's Administration under the Servicemen's Readjustment Act of 1944 and other loans eligible for inclusion in mortgage pools underlying Ginnie Mae certificates. Section 306(g) of the Housing Act provides that "the full faith and credit of the United States is pledged to the payment of all amounts that may be required to be paid under any guaranty under this subsection." An opinion, dated December 12, 1969, of an Assistant Attorney General of the United States provides that guarantees under section 306(g) of Ginnie Mae certificates of the type that may be purchased by FBR Asset are authorized to be made by Ginnie Mae and "would constitute general obligations of the United States backed by its full faith and credit."

Single-Family and Multifamily Privately-Issued Certificates

Although FBR Asset does not own single-family or multifamily privately-issued certificates, some of the companies in which it invests may own these certificates. FBR Asset may in the future invest in other companies that invest in these assets or may invest in them itself.

Single-family and multifamily privately-issued certificates are pass-through certificates that are not issued or guaranteed by one of the agencies described above and that are backed by a pool of single-family or multifamily mortgage loans. Single-family and multifamily privately-issued certificates are issued by originators of, investors in, and other owners of mortgage loans, including savings and loan associations, savings banks, commercial banks, mortgage banks, investment banks and special purpose "conduit" subsidiaries of those institutions.

While agency certificates are backed by the express obligation or guarantee of one of the agencies, as described above, single-family and multifamily privately-issued certificates are generally covered by one or more forms of private credit enhancements. Those credit enhancements provide an extra layer of loss coverage in the event that losses are incurred upon foreclosure sales or other liquidations of underlying

mortgaged properties in amounts that exceed the equity holder's equity interest in the property and result in realized losses. Forms of credit enhancements include, but are not limited to, limited issuer guarantees, reserve funds, private mortgage guaranty pool insurance, over-collateralization, and subordination.

Borrowed Funds

FBR Asset may reduce the amount of equity capital it has invested in mortgages or other assets by funding a portion of those investments with long-term borrowings, warehouse lines of credit, or other borrowing arrangements. Borrowing funds creates interest expense that can exceed the revenue FBR Asset earns from its financed assets. To the extent that revenue derived from those assets exceeds the interest expense, FBR Asset's net income will be greater than if FBR Asset had not borrowed funds and had not invested in the mortgage-backed securities. Conversely, if the revenue from those assets does not sufficiently cover the expense, FBR Asset's net income will be less than if FBR Asset had not borrowed funds.

FBR Asset has borrowed and intends to continue borrowing funds by entering into repurchase agreements. Under these agreements, FBR Asset sells assets to a third party with the commitment to repurchase the same assets at a fixed price on an agreed date. The repurchase price reflects the purchase price plus an agreed upon market rate of interest. FBR Asset accounts for repurchase agreements as loans, secured by the underlying assets, that FBR Asset owes to the third party.

FBR Asset intends to use the proceeds from borrowings to invest in mortgages or other assets and to repeat this process of borrowing and investing, while continually monitoring its use of leverage. Based on book values, the debt-to-equity ratio as of December 31, 1999, on FBR Asset's mortgage-backed securities portfolio was 16 to 1. Traditionally, lenders have permitted repurchase agreement borrowings against agency mortgage-backed securities at a debt-to-equity ratio of up to 19 to 1. FBR Asset does not currently intend to increase its leverage ratio, although its Charter and Bylaws do not impose any specific limits on permissible leverage.

What follows are two examples of how FBR Asset might use borrowings to increase the yield on a hypothetical mortgage-backed security:

	Example 1	Example 2
1. Amount invested in mortgage-backed security...	$10,000,000	$10,000,000
2. Annual interest rate on mortgage-backed security...	7.25%	7.25%
3. Income from mortgage-backed security (1 x 2)*...	$ 725,000	$ 725,000
4. Amount borrowed to finance investment in mortgage-backed security.........................	$ 8,000,000	$ 5,000,000
5. Interest rate on amount borrowed.................	5.50%	5.50%
6. Interest expense (4 x 5)*.........................	$ 440,000	$ 275,000
7. Equity capital invested (1 - 4)*.................	$ 2,000,000	$ 5,000,000
8. Management fee (0.25% x $10,000,000).............	$ 25,000	$ 25,000
9. Hedging expense (4 x 1%)*.........................	$ 80,000	$ 50,000
10. Total expenses (6 + 8 + 9)*......................	$ 545,000	$ 350,000
11. Net income on mortgage-backed security (3-10)*...	$ 180,000	$ 375,000
12. Return on equity capital invested (11 + 7)*...	9.00%	7.50%

* The numbers in parentheses, unless otherwise specified, refer to the line numbers on the far left.

In example 1 above, FBR Asset uses borrowed funds to increase the initial yield on its investment from 7.25% to 9.0%. In example 2 above, FBR Asset borrows less funds and increases its yield only from 7.25% to 7.50%. FBR Asset plans to complete these types of transactions by arranging loans in which it pledges its assets as collateral to secure its repayment obligations. Some of those loans may be margin loans in which a decline in the pledged assets' market value could trigger an early repayment of FBR Asset's obligations. If FBR Asset repays loans early, then the return on equity would be reduced. As reflected above, if FBR Asset were required to increase the amount of equity capital it invested by $3 million in order to prepay $3 million of the loan, then the return on equity would be reduced from 9.00% to 7.50%.

Hedging & Interest Rate Management

FBR Asset acquires derivative financial instruments to hedge all or a portion of the interest rate risk associated with its borrowings. FBR Asset does not intend to acquire derivative instruments for speculative purposes. FBR Asset's hedging activities may include entering into interest rate swaps and

caps and options to purchase swaps and caps. Under the tax laws applicable to REITs, FBR Asset generally will be able to enter into swap or cap agreements, options, futures contracts, forward rate agreements, or similar financial instruments to hedge indebtedness that FBR Asset may incur, or plans to incur, to acquire or carry real estate assets.

FBR Asset engages in a variety of interest rate management techniques that are intended to match the effective maturity of, and the interest received on, its assets with the effective maturity of, and the interest owed on, its liabilities. FBR Asset generally will be able to use those techniques directly, instead of through a corporate subsidiary that is fully subject to corporate income taxation. FBR Asset, however, cannot give any assurances that it can successfully implement its investment and leverage strategies. FBR Asset's interest rate management techniques may include:

- puts and calls on securities or indices of securities;

- Eurodollar futures contracts and options on such contracts;

- interest rate swaps, which are the exchange of fixed-rate payments for floating-rate payments; or

- other similar transactions.

FBR Asset may also use these techniques to attempt to protect itself against declines in the market value of its assets that result from general trends in debt markets. The inability to match closely the maturities and interest rates, or the inability to protect adequately against declines in the market values, could result in losses with respect to FBR Asset's mortgage assets.

At December 31, 1999, FBR Asset was indebted for $221.7 million under short-term repurchase agreements. These agreements expire and are renewed on a regular basis. As of December 31, 1999, all of the repurchase agreements, except one, held by FBR Asset had a stated maturity date of February 14, 2000. The remaining repurchase agreement had a stated maturity date of February 7, 2000. The interest rate received by FBR Asset under the short-term borrowing arrangements increases and decreases as short-term interest rates increase or decrease. The interest rate on the mortgage-backed securities remains constant. If short-term rates increase significantly above 7.32%, which is the average nominal yield (as defined in footnote 5 on page 5) of FBR Asset's mortgage portfolio as of December 31, 1999, the interest owed on the borrowings would exceed the interest income payable to FBR Asset on its mortgage-backed securities.

To offset the potential adverse effects of market price fluctuations in certain mortgage-backed securities, FBR Asset established an $88 million face amount short position in 7.00% Fannie Mae mortgage-backed securities.

To limit the adverse effect of rising short-term interest rates under its short-term repurchase agreements, FBR Asset entered into two interest rate swap agreements pursuant to which FBR Asset paid a fixed interest rate on $100 million notional amount of borrowings and received a variable interest rate on $100 million notional amount of borrowings. FBR Asset realized a $1.9 million loss when it terminated one $50,000,000 agreement in October 1998 and repaid the related repurchase agreement. The remaining $50,000,000 agreement matures on June 1, 2001.

Interest rate management techniques do not eliminate risk. For example, if both long-term and short-term interest rates were to increase significantly, it could be expected that:

- the weighted average life of the mortgage-backed securities would be extended because prepayments of the underlying mortgage loans would decrease; and

- the market value of the fixed rate mortgage-backed securities would decline as long-term interest rates increased.

Yet, in this situation, the interest rate swap agreement would be ineffective for periods after its June 1, 2001 termination date, and if FBR Asset sold the fixed-rate mortgage-backed securities to pay down its short-term borrowings, it would realize a loss because of the decline in their market value.

Real Estate

FBR Asset seeks to invest in real property to generate income and to provide FBR Asset with the potential for capital appreciation in the value of property owned. Although FBR Asset does not currently own any direct interests in real property, it does own interests in real property through its equity investments in Capital Automotive REIT ("Capital Automotive"), and to a lesser extent through its equity investments in Prime Retail, Inc. ("Prime Retail"), Resource Asset Investment Trust ("Resource"), and Imperial Credit Commercial Mortgage Investment Corp. ("Imperial Credit"). Through its relationship with FBR, FBR Asset was able to acquire the stock of Capital Automotive before Capital Automotive offered its stock to the public. FBR Asset purchased shares of Prime Retail, Resource and Imperial Credit in open-market transactions. FBR Asset also loaned Prime Retail $40 million, $20 million of which was repaid in September 1999.

Capital Automotive REIT invests in the real property and improvements used by operators of multi-site, multi-franchised motor vehicle dealerships and motor vehicle-related businesses located in major metropolitan areas of the United States. Capital Automotive is a self-administered and self-managed Maryland REIT that primarily acquires real property and simultaneously leases back this property to automobile dealers. These transactions generally have the following characteristics:

- Capital Automotive's interest in the property acquired generally includes the land, buildings and improvements, related easements and rights and fixtures, but not any personal property, furniture or equipment.

- The leases generally range from 8 to 11 years and may be extended for one or two terms of 10 years at the option of the lessee.

- The leases typically require the lessee to pay substantially all expenses associated with the operation of the real property, such as real estate taxes and other governmental charges, insurance, utilities, service, maintenance and, therefore are on a "triple-net" basis.

- Upon expiration or termination of the lease, the lease generally provides that additions, repairs, renovations and improvements become the property of Capital Automotive.

- The leases also typically require the lessee to operate the property only for the same purpose for which it was used on the date Capital Automotive purchased it, unless Capital Automotive consents to a different use.

These types of "sale-leaseback" transactions generally enable Capital Automotive to eliminate brokerage, re-leasing and similar costs and the risk of high lessee turnover due to the general, historic long-term operation of automobile dealerships.

Prime Retail invests in factory outlet centers. Prime is a self-administered and self-managed REIT that develops, acquires, owns and operates factory outlet centers in the United States. Resource invests in commercial office buildings and land. Resource is a Maryland REIT whose principal business activity is to provide specialized commercial mortgage loans to those who do not meet the traditional underwriting standards of other lenders, but Resource also owns real estate.

In the future, FBR Asset may invest in other companies that own real property. In addition, FBR Asset may purchase real property directly or through joint ventures that purchase real property.

Commercial Mortgage Loans & CMBS

FBR Asset invests in commercial mortgage loans and commercial mortgage-backed securities, commonly known as "CMBS." At December 31, 1999, FBR Asset owned interests in commercial loans and CMBS indirectly through its investments in Anthracite Capital, Inc.("Anthracite"), Imperial Credit Commercial Mortgage Investment Corporation, Prime Capital and Resource Asset Investment Trust. FBR acted as lead underwriter or placement agent for each of these companies. Through its relationship with FBR, FBR Asset was able to acquire stock in Anthracite before or while the company offered its stock to the public.

In the future, FBR Asset may invest in other companies that originate or acquire commercial mortgage loans or CMBS. In addition, FBR Asset may purchase commercial mortgage loans and CMBS directly.

Commercial mortgage loans are loans secured by senior or subordinate liens on commercial or multifamily real estate. The characteristics of the commercial mortgage loans held by companies in which FBR Asset invests vary widely. Some of those companies' commercial mortgage loan holdings are performing loans that can be securitized. Imperial Credit, for example, invests primarily in performing multifamily and commercial term loans. Prime Capital originates first and mezzanine commercial loans.

Some of the companies in which FBR Asset invests also own commercial mortgage loans that are not intended to be securitized. For example, Resource originates wraparound loans, in which a borrower grants Resource a junior lien mortgage with a principal amount equal to the principal amount owed under any existing loans plus an additional amount that Resource actually advances to the borrower. The borrower makes all loan payments to Resource, which in turn pays the prior lenders principal and interest on the prior loans. Because the loans made by Resource are subordinated and include an obligation by Resource to make payments on prior loans, these loans involve different and carry more significant risk than traditional first mortgage loans originated by institutional lenders and thus are generally not suitable for securitization. Anthracite owns other commercial loans that generally are not securitized because they involve a higher degree of credit risk, they have a shorter term, or because they cannot be grouped together easily. These loans include mezzanine loans, which are loans subject to a prior lien on the property, bridge loans, which are short-term loans that are intended to provide interim financing before a property is sold or the loan refinanced, and loans made to facilitate construction of new commercial properties.

FBR Asset, or the companies in which it invests, may invest in commercial mortgage loans with borrowers who are delinquent in payments on the loans. A lender can purchase this kind of loan at a price less than the amount owed on the loan, which enables the lender to work out a forbearance plan or other restructuring. If an agreement cannot be made, the lender ultimately may foreclose on the loan, acquiring ownership of the commercial property.

In addition to investing in commercial mortgage loans, some of the companies in which FBR Asset invests own CMBS. At December 31, 1999, FBR Asset owned interests in CMBS through its equity ownership of Anthracite and Imperial Credit. Imperial Credit issues CMBS secured by its commercial term loans and retains an equity interest in those loans with characteristics similar to a subordinated CMBS.

CMBS typically are divided into two or more classes, sometimes called "tranches." Generally the most senior class or classes would be rated investment grade, which increases the marketability of the class. The junior, or subordinated, classes typically would include a non-investment grade rated class and an unrated, higher-yielding credit support class. The market for non-investment grade CMBS is limited, and holders of CMBS have incurred, and might in the future incur, significant losses if required to sell them as a result of margin calls or otherwise.

Each class of CMBS generally is issued with a stated principal amount and a specific fixed or variable interest rate. The principal of and interest on the underlying mortgage loans may be allocated to the classes of CMBS in many ways, and the credit quality of a particular class results primarily from the order and timing of the receipt of payments on the underlying mortgage loans. For example, subordinated classes of CMBS provide credit protection to the more senior classes because the subordinated classes absorb all losses from loan defaults and foreclosures before any losses are allocated to the more senior classes. Typically, prepayments on mortgage loans are paid to the more senior classes of CMBS for a period of time or until the senior classes are paid in full. In some instances, subordinated classes of CMBS are not entitled to receive any scheduled payments of principal until the more senior classes are paid in full or until a specified time.

Some classes of CMBS are not entitled to any payments of principal, or are entitled to only nominal principal payments. These classes are known as interest-only securities or "IOs." IOs are sensitive to prepayments on the underlying mortgage loans, and IO classes of CMBS are sensitive to losses resulting from defaults on the underlying mortgage loans.

To the extent that FBR Asset holds interests in commercial mortgage loans and CMBS through its investments in other companies, FBR Asset must rely on the management of those other companies to make decisions with respect to the commercial mortgage loans and CMBS. In general, FBR Asset will have no ability to control those decisions. Moreover, the management of those other companies are not required to inform FBR Asset of their decisions, although to the extent the companies are reporting companies under the Securities Exchange Age of 1934, they must file reports of material events with the SEC.

Loans

FBR Asset directly makes and invests in real estate-based loans. In 1998, FBR Asset made a loan of $11.5 million to Prime Capital Holding, LLC and Prime Capital Funding, Inc. (together, "Prime Capital"), which was repaid in full by November 1999. FBR Asset subsequently loaned Prime Capital an

additional $7 million, which is currently outstanding. The note accrues interest at an annualized rate of 17% and is due on March 31, 2000. Prime Capital has requested an extension. The note is secured by 100% equity interests in subsidiaries of Prime Capital which own commercial mortgage loans subject to "warehouse" indebtedness. Since December 31, 1998, FBR Asset invested $5.0 million in loans to Brookdale Living Communities and $7.0 million in loans to Prime Group Realty Trust, both of which have been repaid. As of December 31, 1999, FBR Asset held a $20 million note of Prime Retail, L.P. ("Prime Retail") with an interest rate of 15% per annum and matures on June 30, 2000, subject to automatic extension to December 31, 2000, in the absence of a default. The loan is secured by equity interest in five subsidiaries of Prime Retail, L.P., which subsidiaries own commercial real estate subject to mortgage debt. Each of these loans provides debt financing for capital needs not covered by traditional secured and senior loans and available equity. FBR Asset seeks to receive origination fees and to charge interest rates that are appropriate for this type of lending under prevailing market conditions. FBR Asset anticipates that there will be a continued demand for this type of loan and that it will make additional, similar real estate-based loans in the future.

Real Estate-Related Businesses

The tax rules limit FBR Asset's ability to expand its investments beyond its core direct and indirect investments in mortgage loans, mortgage-backed securities and real estate. Subject to those limits, however, FBR Asset invests in businesses that provide services to real estate owners and operators.

For example, FBR Asset owns common stock in Building One Services Corporation. Building One intends to become a national single-source provider of facilities services. Building One currently derives most of its income from providing janitorial maintenance management services and electrical and mechanical installation and maintenance services. Building One actively seeks to expand its business by acquiring or merging with other facilities service providers.

FBR Management believes that additional opportunities may arise in the future for FBR Asset to invest in businesses that provide services to real estate owners and operators. In many cases, FBR Management believes that these investments may provide higher returns than mortgage and real estate assets. Accordingly, subject to applicable tax restrictions, FBR Asset may invest in real estate-related businesses in the future.

Summary of Current Investments & Cash and Cash Equivalents

The following table summarizes FBR Asset's investments as of December 31, 1998, and December 31, 1999.

			As of December 31, 1998		
	Shares Owned	Percent Ownership/(6)/	Amount of Investment	Market Value	Percentage Increase (Decrease)
Mortgage-Backed Securities	N/A	N/A	$160,705,240	$161,418,739	0.44%
Equity Investments/(1)(2)/					
Anthracite Capital, Inc. (AHR)	1,581,846	7.53%	$ 18,334,496	$ 12,358,170	(32.60%)
Capital Automotive REIT (CARS)	1,792,115	7.23%	25,000,000	26,657,711	6.63%
Chastain Capital Corporation (CHAS)	700,000	9.53%	9,765,000	3,150,000	(67.74%)
Imperial Credit Commercial Mortgage Inv. Corp. (ICMI)	900,000	3.16%	13,050,230	8,437,500	(35.35%)
Prime Retail, Inc. (PRT)	123,500	0.29%	1,201,317	1,211,844	0.88%
Prime Retail, Inc., pfd (PRT pfd)	78,400	1.00%	-	-	-
Resource Asset Investment					

Trust (RAS)	344,575	5.59%	5,292,516	3,790,325	(28.38%)
Building One Services Corporation (BOSS)	202,659	0.75%	10,000,000	10,437,500	4.38%
East-West Bancorp, Inc. (EWBC)	520,000	1.31%	5,200,000	4,940,000	(5.00%)
Total Equity Investments			$ 87,843,559	$ 70,983,050	(19.20%)
Promissory Notes/(2)/					
Prime Capital Holding, LLC/(3)/	N/A	N/A	$ 12,504,334	$ 12,504,334	N/A
Prime Retail, Inc.	N/A	N/A	-	-	N/A
Kennedy-Wilson, Inc./(4)/	N/A	N/A	7,525,479	7,525,479	N/A
Total Promissory Notes			$ 20,029,813	$ 20,029,813	N/A
Cash and Cash Equivalents	N/A	N/A	$ 41,144,326	$ 41,144,326	N/A
Total Investments & Cash and Cash Equivalents			$309,722,938	$293,575,928	(5.21%)

	As of December 31, 1999		
	Amount of Investment	Market Value	Percentage Increase (Decrease)/(5)/
Mortgage-Backed Securities	$241,684,039	$236,014,844	(2.35%)
Equity Investments/(1)(2)/			
Anthracite Capital, Inc. (AHR)	10,084,268	$ 10,084,268	0.00%
Capital Automotive REIT (CARS)	25,000,000	21,841,402	(12.63%)
Chastain Capital Corporation (CHAS)	-	-	-
Imperial Credit Commercial Mortgage Inv. Corp. (ICMI)	10,413,000	10,237,500	(1.69%)
Prime Retail, Inc. (PRT)	1,201,317	694,688	(42.17%)
Prime Retail, Inc., pfd (PRT pfd)	1,454,320	1,151,696	(20.81%)
Resource Asset Investment Trust (RAS)	5,292,516	3,725,717	(29.60%)
Building One Services Corporation (BOSS)	4,053,180	1,912,594	(52.81%)
East-West Bancorp, Inc. (EWBC)	-	-	-
Total Equity Investments	$ 57,498,601	$ 49,647,865	(13.65%)
Promissory Notes/(2)/			
Prime Capital Holding, LLC/(3	$ 7,000,000	$ 7,000,000	N/A
Prime Retail, Inc.	20,000,000	20,000,000	N/A
Kennedy-Wilson, Inc./(4)/	-	-	N/A
Total Promissory Notes	$ 27,000,000	$ 27,000,000	N/A
Cash and Cash Equivalents	$ 13,417,467	$ 13,417,467	N/A
Total Investments & Cash and Cash Equivalents	$339,600,107	$326,080,176	(3.98%)

(1) The symbols in parentheses next to the company names are the symbols of those companies on Nasdaq or a national securities exchange. Each of these companies is a reporting company under the Securities Exchange Act of 1934. Information is available about these companies on the SEC's website, www.sec.gov.
(2) FBR has underwritten or privately placed the securities of these companies or their affiliates.
(3) Includes principal of $11,557,442 as of December 31, 1998, and $7,000,000 as of December 31, 1999, and accrued interest receivable of $946,892 as of December 31, 1998.
(4) Includes principal of $7,500,000 and accrued interest receivable of $25,479 as of December 31, 1998.
(5) The amount by which the market value at December 31, 1999, differs from the amount of FBR Asset's original investment.
(6) As of September 30, 1999.

The following table shows, for the calendar years 1998 and 1999, FBR Asset's investments and cash and cash equivalents, including, with respect to its investments, the weighted average cost of each investment based on the number of days from January 1, 1998, to December 31, 1998, and January 1, 1999, to December 31, 1999, on which FBR Asset held each investment, and the gross income from each investment for the years ended December 31, 1998 and 1999.

	For the Year Ended December 31, 1998		For the Year Ended December 31, 1999	
	Weighted Average Cost	Gross Income	Weighted Average Cost	Gross Income
Mortgage-Backed Securities	$169,564,932	$ 7,101,326	$164,970,427	$10,744,041
Equity Investments				
Anthracite Capital, Inc.	$ 10,356,129	$ 739,613	$ 18,334,496	$ 2,293,677
Capital Automotive REIT	21,986,301	1,569,893	25,000,000	2,473,119
Chastain Capital Corporation	6,581,342	287,000	3,150,000	-
Imperial Credit Commercial Mortgage Inv. Corp.	13,050,230	1,062,000	12,616,713	1,035,000
Imperial Credit Industries, Inc.	-	-	3,576,712	798,326
Prime Retail, Inc.	374,166	36,433	1,201,317	145,730
Prime Retail, Inc., preferred	-	-	1,016,032	154,350
Resource Asset Investment Trust	4,329,152	576,466	5,292,516	702,933
Building One Services Corporation	10,000,000	-	6,187,518	-
East-West Bancorp, Inc.	2,621,370	-	4,102,329	46,800
Total Equity Investments & Dividends	$ 69,298,690	$ 4,271,405	$ 80,477,633	$ 7,649,935
Promissory Notes				
Prime Capital Holding, LLC	$ 7,947,365	$ 1,248,707	$ 11,272,154	$ 1,808,451
Prime Group Realty, Inc.	-	-	3,049,315	494,742
Prime Retail, Inc.	-	-	5,095,890	1,055,555
Kennedy-Wilson Inc.	5,506,849	749,264	3,510,608	511,411
Brookdale Living Communities	-	-	1,493,151	224,727
Total Promissory Notes	$ 13,454,214	$ 1,997,971	$ 24,421,118	$ 4,094,886
Cash & Cash Equivalents	$ 84,496,947	$ 4,556,800	$ 20,576,171	$ 984,987
Total Investments and Cash & Cash Equivalents	$336,814,783	$17,927,502	$290,445,349	$23,473,849

Item 2. Properties

FBR Asset occupies a portion of the office space in the headquarters building of Friedman, Billings, Ramsey Group, Inc. in Arlington, Virginia. FBR Asset believes that its present facilities are adequate for its current and presently projected needs.

Item 3. Legal Proceedings

FBR Asset is not currently a defendant or plaintiff in any material lawsuits or arbitrations.

If plaintiffs in any future suits against FBR Asset were to prosecute their claims successfully, or if FBR Asset were to settle such suits by making significant payments to the plaintiffs, FBR Asset's operating results and financial condition could be materially and adversely affected. FBR Asset carries very limited insurance that may cover only a portion of any such payments.

In addition to these financial costs and risks, the defense of litigation or arbitration may divert the efforts and attention of FBR Asset's management and staff, and FBR Asset may incur significant legal expenses in defending such litigation or arbitration. This may be the case even with respect to claims and litigation that management believes to be frivolous, and FBR Asset intends to defend vigorously any

frivolous claims against it. The amount of time that management and other employees may be required to devote in connection with the defense of litigation could be substantial and might materially divert their attention from other responsibilities within FBR Asset.

In addition, FBR Asset's charter documents allow indemnification of FBR Asset's officers, directors and agents to the maximum extent permitted under Virginia law. FBR Asset has been and in the future may be the subject of indemnification assertions under these charter documents by officers, directors or agents of FBR Asset who are or may become defendants in litigation.

Item 4. Submission Of Matters To Vote Of Security Holders

None.

Item 5. Market For Registrant's Common Equity And Related Stockholder Matters

The principal market for trading FBR Asset's common stock is the American Stock Exchange. The effective date of FBR Asset's initial public offering was September 27, 1999. The high sale price of FBR Asset's common stock for the year ended December 31, 1999, was $15.00, and the low sale price of FBR Asset's common stock for the year ended December 31, 1999, was $10.75.

According to the records of FBR Asset's transfer agent, FBR Asset had approximately 5.8 million shares outstanding as of December 31, 1999. Because many shares are held by brokers and other institutions on behalf of shareholders, FBR Asset is unable to estimate the total number of beneficial shareholders represented by these record holders.

FBR Asset repurchased 2,737,191 shares of its common stock in 1999 at an average price of $13.57 per share and has repurchased an additional 709,109 shares of its common stock from January 1, 2000 through March 24, 2000, at an average price of $12.10 per share.

Dividends & Distribution Policy

To maintain its status as a REIT for federal income tax purposes, FBR Asset is required to distribute substantially all of its taxable income, which may differ materially from its income calculated in accordance with generally accepted accounting principles, to its shareholders each year. In order to satisfy this requirement, FBR Asset intends to declare regular quarterly dividends and to distribute any taxable income remaining at the end of a year with a first quarter dividend in the following year.

The Board of Directors may change the dividend policy at any time. The Board of Directors will declare dividends based on:

- the taxable income of FBR Asset;
- the financial condition of FBR Asset;
- the distributions required to maintain REIT status and to avoid corporate income tax and the 4% excise tax; and
- other factors that the Board of Directors considers relevant.

To date, FBR Asset has declared the following dividends:

For the Period	Total	Per Share
12/15/97 - 12/31/97	$ 562,045/(1)/	$ 0.055
01/01/98 - 03/31/98	2,083,165	0.200
04/01/98 - 06/30/98	3,072,669	0.295
07/01/98 - 09/30/98	3,379,798/(2)/	0.360
10/01/98 - 12/31/98/(3)/	2,563,058	0.300
01/01/99 - 03/31/99	2,741,872	0.325
04/01/99 - 06/30/99	2,702,498	0.380
07/01/99 - 09/30/99	2,844,734	0.400
10/01/99 - 12/31/99/(4)/	2,891,368	0.500
01/01/99 - 12/31/99/(5)/	1,355,182	0.250
	$24,196,389	$3.0650

(1) Includes $0.005 dividend declared in June 1998 and paid in July 1998 for shareholders of record as of December 31, 1997.
(2) Dividend declared and paid in October 1998.
(3) Dividend paid in January 1999.

(4) Dividend declared December 15, 1999, and paid on January 15, 2000, to shareholders of record as of December 31, 1999.
(5) Includes special dividend declared January 31, 2000, and payable February 25, 2000, to holders of record as of February 11, 2000.

Through December 31, 1999, FBR Asset had paid substantially all of its dividends to date out of current or accumulated earnings and profits; only 10% of those dividends were a return of capital for 1998 federal income tax purposes. The level of quarterly dividends is based on a number of factors and should not be deemed indicative of taxable income for the quarter in which declared or future quarters or of income calculated in accordance with generally accepted accounting principles.

Distributions to shareholders will generally be subject to tax as ordinary income, although in appropriate circumstances a portion of a distribution may be designated by FBR Asset as capital gain or may be determined to be a tax-free return of capital. FBR Asset generally does not intend to declare more than a de minimis amount of dividends that are a return of capital for tax purposes, except in those instances where companies in which FBR Asset invests determine that a portion of their dividends are a return of capital. FBR Asset will furnish annually to each shareholder a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital.

Item 6. Selected Financial Data

	December 15, 1997 (Inception) through December 31,	For the Year Ended December 31,	
	1997	1998	1999
Statement of Operations Data:			
Interest income	$ 18,040	$13,656,097	$15,823,914
Dividend income	434,717	4,271,405	7,649,935
Other income	268,520	-	-
Interest expense	-	5,359,633	7,920,648
Management Fee expense	58,623	1,520,725	1,329,063
Other expense	15,733	1,089,102	1,432,589
Net realized losses	-	(8,369,807)	(7,648,960)
Net income	646,921	1,588,235	5,142,589
Basic and diluted income per share	$ 0.06	$ 0.16	$ 0.68
Dividends declared per share/(1)/	$ 0.05	$ 1.16	$ 1.61
Weighted average basic and diluted shares	10,218,999	10,044,483	7,523,715

	As of December 31,		
	1997	1998	1999
Selected Balance Sheet Data:			
Mortgage-backed securities, at fair value	$ -	$161,418,739	$236,014,844
Cash and cash equivalents	163,223,199	41,144,326	13,417,467
Investments in equity securities, at fair value	23,318,750	70,983,050	49,647,865
Notes receivable	-	19,082,921	27,000,000
Total assets	190,538,402	295,930,620	330,180,460
Repurchase agreements	-	128,550,000	221,714,000
Total liabilities	771,573	145,026,041	225,637,739
Accumulated other comprehensive loss/(2)/	-	(9,800,530)	(12,982,359)
Shareholders' equity	189,766,829	150,904,579	104,542,721
Book value per share	$18.57	$17.66	$18.00
Common shares issued and outstanding/(3)/	10,218,999	8,543,527	5,806,336

	December 15, 1997 (Inception) through December 31,	For the Year Ended December 31,	
	1997	1998	1999
Other Selected Data			
Weighted average daily borrowings	$ -	$ 144,793,891	$ 143,231,112
Average equity	189,766,829	182,750,145	130,269,059

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(1) Dividends are calculated and declared based on estimates of FBR Asset's taxable income.
(2) Accumulated other comprehensive loss includes unrealized net gain on mortgage-backed securities of $713,499 as of December 31, 1998, unrealized net loss on mortgage-backed securities of $4,863,103 as of December 31, 1999, and unrealized net loss on investments in equity securities of $10,514,029 as of December 31, 1998, and $8,119,256 as of December 31, 1999.
(3) Reflects 1,872,300 and 4,609,491 shares of treasury stock repurchased as of December 31, 1998, and December 31, 1999, respectively.

Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations Overview

FBR Asset targets investments in real estate assets and real estate-related companies. FBR Asset has invested, and intends to continue investing in, whole-pool mortgage-backed securities that are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, mortgage loans, mortgage-backed securities, real property, and joint ventures formed to own real property. FBR Asset invests in some of these assets indirectly through its investments in and loans made to REITs and other companies.

As of December 31, 1999, FBR Asset had:

- mortgage-backed securities totaling $236.0 million, which were financed with repurchase agreements totaling $221.7 million;

- investments in equity and debt securities of 7 companies with an original total cost basis of $57.5 million and a total market value of $49.6 million; and

- loans to 2 companies totaling $27 million.

A summary of FBR Asset's current investments, cash and cash equivalents is set forth at the end of this discussion.

Results of Operations

FBR Asset began operations on December 15, 1997. Operations from December 15, 1997, through December 31, 1997, were not material. The following discussion sets forth the significant components of FBR Asset's net income for the years ended December 31, 1998 and 1999.

Net Income

Year Ended December 31, 1999 and Year Ended December 31, 1998

FBR Asset's sources of income since inception have been (i) quarterly dividend earnings on its REIT holdings, (ii) interest earnings on its mortgage-backed securities, notes receivable, and cash and cash equivalents and (iii) gains on the sale of mortgage-backed securities and equity investments. FBR Asset's primary sources of interest income to date have been its investments in fixed-rate mortgage-backed securities and outstanding loans. Interest income is recorded based on contractual rates of interest and amortization of any premium or discount associated with the original purchase. The amount of future contractual interest income received may be adversely affected in the event of prepayments or defaults on notes payable on mortgage loans underlying the mortgage-backed securities. Generally, interest rates fall, prepayment rates may increase significantly. Accordingly, FBR Asset's interest income for any given period may not be indicative of that for future interim or annual periods.

Net income for the year ended December 31, 1999, was $5.1 million, or $0.68 per share. This is an increase of 219% over net income of $1.6 million for the year ended December 31, 1998, which was $0.16 per share. The increase is primarily due to increased interest income and dividend income. Interest income, including interest earned on mortgage-backed securities, notes receivable, outstanding loans, and cash and cash equivalents for the year ended December 31, 1999, was $15.8 million compared to $13.7 million for the year ended December 31, 1998. This represents an increase of 15.3%. FBR Asset did not begin investing in mortgage-backed securities until the second quarter of 1998.

For the year ended December 31, 1999, the weighted average annual yield on FBR Asset's mortgage-backed securities was 6.51%. As of December 31, 1999, FBR Asset had investments in 39 mortgage-backed securities.

For the year ended December 31, 1998, the weighted average annual yield on FBR Asset's mortgage-backed securities was 6.19%. As of December 31, 1998, FBR Asset had investments in 33 mortgage-backed securities.

For the year ended December 31, 1999, based on interest and dividend income accrued on, and the weighted average carrying value of, equity securities and promissory notes, the weighted average annual yield on FBR Asset's equity securities and promissory notes was 11.20%, compared to 7.90% for the

year ended December 31, 1998. The increase reflects the increase in investment of cash in higher yielding promissory notes and the increase in the number of dividend-paying equity securities.

Dividend income for the year ended December 31, 1999, was $7.6 million, compared to $4.3 million for the year ended December 31, 1998. The increase is due to increased investments by FBR Asset in REIT securities that pay dividends.

FBR Asset did not begin to leverage its mortgage portfolio until May 1998. FBR Asset anticipates that its cost of borrowed funds will continue to comprise the largest portion of its total expenses in future periods.

FBR Asset incurred interest expense of $7.9 million for the year ended December 31, 1999. This represents 74.1% of the total expenses for the period. FBR Asset incurred interest expense of $5.4 million for the year ended December 31,1998. This represents 67.3% of the total expenses for the year.

Management fees for the year ended December 31, 1999, were $1.3 million compared to $1.5 million for the year ended December 31, 1998. The decrease is due to an increase in FBR Asset's investment in mortgage-backed securities in 1999, and a corresponding reduction in FBR Asset's cash account. The management fee FBR Asset pays is greater for cash than for mortgage-backed securities.

Professional fees consist primarily of legal and accounting fees. Professional fees were $755,561 for the year ended December 31, 1999, and $436,885 for the year ended December 31, 1998. The increased fees are attributable to legal and audit fees related to the recent registration statement of FBR Asset's stock and to costs associated with the acquisition of assets.

Interest and Dividend Income

The following tables set forth information regarding the total amount of income from interest and dividend earning assets and the resultant average yields for the years ended December 31, 1998 and 1999. Information is based on daily average balances during the period.

Year Ended December 31, 1999

	Interest/Dividend Income	Weighted Average Balance	Weighted Average Annual Yield
Mortgage securities available for sale	$ 10,744,041	$164,970,427	6.51%
Investment in equity securities and promissory notes/(1)(2)	11,744,821	104,898,751	11.20%
Cash and cash equivalents	984,987	20,576,171	4.79%
Total	$ 23,473,849	$290,445,349	8.08%

Year Ended December 31, 1998

	Interest/Dividend Income	Weighted Average Balance	Weighted Average Annualized Yield
Mortgage securities available for sale	$ 7,101,326	$169,564,932	6.19%
Investment in equity securities and promissory notes/(1)(2)	6,269,376	82,752,904	7.90%
Cash and cash equivalents	4,556,800	84,496,947	5.39%
Total	$ 17,927,502	$336,814,783	6.41%

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(1) Includes accrued interest and amortized commitment fees on convertible loans to Prime Capital, Prime Retail, Kennedy-Wilson and Brookdale. Such amounts are included as interest income in FBR Asset's statements of income included in its financial statements.

(2) FBR Asset accrues dividend income based on declared dividends for the periods presented.

Interest Expense

The following table sets forth information regarding the total amount of interest expense from repurchase agreements, including the net amount payable under the interest rate swap agreement and the resultant average yields. Information is based on daily average balances during the reported periods.

	Interest Expense	Weighted Average Balance	Weighted Average Expense
Year Ended December 31, 1999	$7,920,648	$143,231,112/(1)/	5.53%
Year Ended December 31, 1998	$5,359,633	$144,793,891/(2)/	5.82%

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(1) At December 31, 1999, FBR Asset had $221,714,000 outstanding under repurchase agreements, with a weighted-average remaining maturity of 45 days.

(2) At December 31, 1998, FBR Asset had $128,550,000 outstanding under repurchase agreements, with a weighted-average remaining maturity of 73 days. FBR Asset began its repurchase agreement program on May 13, 1998.

Changes in Financial Condition

Mortgage-Backed Securities Available-for-Sale

FBR Asset invests in mortgage-backed securities that are agency pass-through securities representing a 100% interest in the underlying conforming mortgage loans. Conforming loans comply with the underwriting requirements for purchase by Fannie Mae, Freddie Mac, and Ginnie Mae. These securities bear little risk of credit loss due to defaults because they are guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac.

FBR Asset held mortgage-backed securities of $236.0 million as of December 31, 1999. FBR Asset held mortgage-backed securities of $161.4 million on December 31, 1998. As of December 31, 1999, FBR Asset had established an $88 million face amount short position in 7.00% Fannie Mae mortgage-backed securities.

Premium and discount balances associated with the purchase of mortgage-backed securities are amortized as a decrease or increase in interest income over the life of the security. At December 31, 1999, the amount of unamortized discount, net of premiums, recorded in FBR Asset's statement of

financial condition was $1,213. At December 31, 1998, the amount of unamortized premiums, recorded in FBR Asset's statement of financial condition was $2.7 million.

Given FBR Asset's current portfolio composition, if mortgage principal repayment rates increase over the life of the mortgage-backed securities comprising the current portfolio, all other factors being equal, FBR Asset's net interest income would increase, as FBR Asset would be required to amortize its net discount balance into income over a shorter time period. Similarly, if mortgage principal repayment rates decrease over the life of the mortgage-backed securities, all other factors being equal, FBR Asset's net interest income would decrease, as FBR Asset would be required to amortize its net discount balance over a longer time period.

FBR Asset received mortgage principal repayments equal to $30.4 million for the year ended December 31, 1999. FBR Asset received mortgage principal repayments equal to $21.2 million for the year ended December 31, 1998.

At December 31, 1999, $8.1 million of net unrealized losses on equity securities and $4.9 million of net unrealized losses on mortgage-backed securities were included in FBR Asset's statement of financial condition as accumulated other comprehensive loss. At December 31, 1998, $10.5 million of net unrealized losses on equity securities and $0.7 million of net unrealized gains on mortgage-backed securities were included in FBR Asset's statement of financial condition as accumulated other comprehensive loss. See "Stockholders' Equity" elsewhere in "Management's Discussion and Analysis" and Note 3 of Notes to Financial Statements for further discussion.

Repurchase Agreements

To date, FBR Asset's debt has consisted mainly of borrowings collateralized by a pledge of most of FBR Asset's mortgage-backed securities. FBR Asset has obtained, and believes it will be able to continue to obtain, short-term financing in amounts and at interest rates consistent with FBR Asset's financing objectives.

FBR Asset had $221.7 million outstanding under repurchase agreements with several financial institutions on December 31, 1999. FBR Asset had $128.6 million outstanding under repurchase agreements on December 31, 1998. At December 31, 1999, the ratio of FBR Asset's repurchase agreement to shareholder's equity was 2 to 1.

At December 31, 1999, the term to maturity of FBR Asset's borrowings had been limited to 60 days with a weighted average remaining maturity of 45 days and a weighted average cost of funds on outstanding borrowings of 5.83%.

At December 31, 1998, the term to maturity of FBR Asset's borrowings had been limited to 92 days with a weighted average remaining maturity of 73 days and a weighted average cost of funds on outstanding borrowings of 5.08%.

Short Sales

FBR Asset has established a short position to offset the potential adverse effects of market price fluctuations in certain of its mortgage-backed securities. The positions are structured and accounted for

as hedge transactions such that any gains or losses will be recognized upon termination of the position. FBR Asset's unrealized gains or losses on its position are recorded as an asset or liability with a corresponding increase or decrease included in comprehensive income. At December 31, 1999, FBR Asset had established an $88 million face amount short position in 7.00% Fannie Mae mortgage-backed securities. The fair value of this short position at December 31, 1999, was $182,188.

Contractual Commitments

FBR Asset is a party to an interest rate swap agreement to offset the potential adverse effects of rising interest rates under some of its short-term repurchase agreements. That agreement is with Salomon Brothers Holding Company Inc. ("Salomon"). Salomon Smith Barney Holdings, Inc., the parent company of Salomon Brothers Holding Company Inc., has a long-term debt rating of "A" by S&P. Under the swap agreement with Salomon, FBR Asset receives quarterly payments of interest based on three-month LIBOR and remits semi-annual payments based on a fixed interest rate of approximately 5.9% based upon the $50 million notional amount of the swap.

The swap became effective on June 1, 1998, and matures on June 1, 2001. At December 31, 1999, the interest rate payable to FBR Asset by Salomon was 6.12%. At December 31, 1998, the interest rate payable to FBR Asset by Salomon was 5.07%. The timing of quarterly receipts under the swap approximates the timing of the repricing dates for the repurchase agreements. The payments received under the swap agreement have substantially offset the interest payments under the repurchase agreements. In some circumstances, FBR Asset may be required to provide collateral to secure its obligations under the interest rate swap agreement or may be entitled to receive collateral from the counterparty to the swap agreement. At December 31, 1999, and December 31, 1998, $500,000 million of collateral was required under the interest rate swap agreement.

Capital Resources and Liquidity

Liquidity is a measurement of FBR Asset's ability to meet potential cash requirements including ongoing commitments to repay borrowings, fund investments, loan acquisition and lending activities, and for other general business purposes. The primary sources of funds for liquidity consist of repurchase agreements and maturities, distributions or principal payments on mortgage-backed and equity securities, and proceeds from sales of those securities. To date, proceeds from the issuance of common stock and repurchase agreements have provided FBR Asset with sufficient funding for its investment needs. Potential future sources of liquidity for FBR Asset include existing cash balances, borrowing capacity through margin accounts, and future issuances of common, preferred stock or debt. FBR Asset believes that its existing cash balances, borrowing capacity through margin accounts and borrowing capacity under collateralized repurchase agreements will be sufficient to meet its investment objectives, fund operating expenses for at least the next twelve months and repurchase shares of FBR Asset common stock. FBR Asset may, however, seek debt or equity financings, in public or private transactions, to provide capital for corporate purposes and/or strategic business opportunities. There can be no assurance that FBR Asset will be able to generate sufficient funds from future operations, or raise sufficient debt or equity on acceptable terms, to take advantage of investment opportunities that become available. Should FBR Asset's needs ever exceed these sources of liquidity, management believes FBR Asset's mortgage-backed securities could be sold, in most circumstances, to provide cash.

For the year ended December 31, 1999, FBR Asset's operating activities resulted in net cash flows of $9.7 million. The primary source of operating cash flow was interest on mortgage-backed securities,

interest on notes receivable and dividends from REIT investments. For the year ended December 31, 1998, FBR Asset's operating activities provided net cash flows of $11.2 million.

For the year ended December 31, 1999, FBR Asset's investing activities resulted in net cash used of $82.6 million compared to net cash used for the year ended December 31, 1998 of $232.3 million. The decrease is primarily attributable to the decrease in purchases of equity and mortgage-backed securities.

For the year ended December 31 1999, net cash provided by FBR Asset's financing activities was $45.2 million compared to net cash provided by financing activities for the year ended December 31, 1998, of $99.0 million. The decrease in cash provided from financing activities is primarily attributable to the decrease in net proceeds from repurchase agreements.

Shareholders' Equity

FBR Asset accounts for its investments in mortgage-backed securities and other equity instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under SFAS 115, FBR Asset has classified these investments as "available-for-sale." Securities classified as available for sale are reported at fair value, with temporary unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity as accumulated other comprehensive income.

Also in accordance with SFAS 115, management must regularly evaluate whether declines in the market value of its securities available-for-sale are other than temporary. In performing this evaluation, FBR Asset looks to the financial condition and business performance of each investment relative to that expected at the time of purchase. FBR Asset also evaluates overall economic and industry-specific conditions.

If FBR Asset determines that declines are other than temporary, it records a charge against income for the difference between an investment's cost basis and its estimated fair value. As of December 31, 1999, the value of the equity securities in FBR Asset's portfolio had declined from $57.5 million as of the date the investments were made to $49.6 million. Declines have been recorded as accumulated other comprehensive income in the statement of financial condition, except that for the year ended December 31, 1998, FBR Asset recognized and charged to income a loss of $6.6 million on its investment in Chastain Capital Corporation. In 1999, FBR Asset realized and charged to income losses of $10.9 million on its investments in Imperial Credit Commercial Mortgage Investment Corp. and Anthracite Capital Corp. See Note 6 of "Notes to Financial Statements--Equity Investments"

For the year ended December 31, 1998, FBR Asset recorded a charge to reflect the decline in value of its investment in Chastain Capital Corporation, which FBR Asset determined was other than temporary. That determination resulted, in substantial part, from Chastain Capital Corporation's announcement that it was suspending its dividend for the fourth quarter of 1998. As of December 31, 1998, the value of the equity securities in FBR Asset's portfolio had declined from $87.8 million from the date the investments were made to $71.0 million.

With respect to each of FBR Asset's other equity investments, management believes that, as of December 31, 1999, their decline in fair value was temporary. That belief is based on several facts, including the following:

- None of the REITs, except for Chastain Capital Corporation and Prime Retail, Inc., has suspended its dividends.

- Almost all of the equity securities have increased in fair value since the worst of the liquidity crisis in September 1998.

- Each of the REIT securities owned has experienced pricing movements similar to the Morgan Stanley REIT Index for the past year. This similar movement suggests that the entire industry has declined and not just one specific company.

- The sharpest movements within the REIT sector track similar declines and subsequent increases in the Dow Jones Index (serving as a leading indicator by several weeks) and the Russell 2000 Index.

Based on these factors, FBR Asset believes that the declines are not persistent declines in market value, but rather reflect general market and REIT sector pricing movements, and are therefore temporary changes. Further, FBR Asset has the intent and ability to hold each of its investments to allow for the anticipated recovery in stock prices. There can be no assurance, however, that other charges will not be required in future periods.

As a result of "mark-to-market" accounting treatment, the book value and book value per share of FBR Asset are likely to fluctuate far more than those of companies who do not make investments in marketable and non-marketable debt and equity securities. As a result, comparisons with these companies may not be meaningful.

In June 1998, FBR Asset's Board of Directors authorized a program to repurchase up to 2,000,000 shares of FBR Asset's common stock. On March 30, 1999, FBR Asset's Board authorized the repurchase of up to 2,000,000 additional shares of FBR Asset's common stock. On December 16, 1999, FBR Asset's Board authorized the purchase of up to 1,500,000 additional shares of FBR Asset's common stock. Between June 1998 and December 1999, FBR Asset repurchased 4,609,491 shares of its common stock at an average price of $13.28 per share. Between December 31, 1999, and March 24, 2000, FBR Asset repurchased an additional 709,109 shares of its common stock at an average price of $12.10 per share. On March 16, 2000, FBR Asset's Board authorized the purchase of up to 1,000,000 additional shares of FBR Asset's common stock.

Year 2000 Compliance

FBR Asset has dedicated resources over the past several years to address the potential hardware, software, and other computer and technology issues and related concerns associated with the transition to the Year 2000 and to confirm that our service providers, BlackRock Financial Management, Inc. and Fixed Income Discount Advisory Company, Inc. in particular, took similar measures. As a result of those efforts, we have not experienced any material disruptions in our operations in connection with, or following, the transition to the Year 2000. FBR Management and FBR have represented to FBR Asset that the total cost to complete the Year 2000 compliance efforts is estimated to have been less then $350,000.

Market Risk

Market risk generally represents the risk of loss that can result from a change in the prices of equity securities in the equity market, a change in the value of financial instruments as a result of changes in

interest rates, a change in the volatility of interest rates or, a change in the credit rating of an issuer. FBR Asset is exposed to the following market risks as a result of its investments in mortgage-backed securities and equity investments. None of these investments are held for trading purposes.

Interest Rate Risk

FBR Asset is subject to interest rate risk as a result of its investments in mortgage-backed securities and its financing with repurchase agreements, all of which are interest rate sensitive financial instruments. FBR Asset is exposed to interest rate risk that fluctuates based on changes in the level or volatility of interest rates and mortgage prepayments and in the shape and slope of the yield curve. FBR Asset attempts to hedge a portion of its exposure to interest rate risk primarily through the use of interest rate swaps.

FBR Asset's primary risk is related to changes in both short and long term interest rates, which affect FBR Asset in several ways. As interest rates increase, the market value of the mortgage-backed securities may be expected to decline, prepayment rates may be expected to go down and durations may be expected to extend. FBR Asset finances its investment in mortgage-backed securities through repurchase agreements. If short-term interest rates increase, FBR Asset's profit margin in mortgage-backed securities will decrease. Also, FBR Asset's ability to sell mortgage-backed securities to retire repurchase agreement indebtedness may be restricted by its need to comply with certain tax provisions applicable to REITs.

The fair value of interest rate swap agreements that qualify as hedges is not recorded for accounting purposes. The differential between amounts paid and received under the swap agreements is recorded as an adjustment to the interest expense incurred under the repurchase agreements. In the event of early termination of a swap agreement, a gain or loss is recorded and FBR Asset receives or makes a payment based on the fair value of the swap agreement.

The table that follows shows the expected change in market value for FBR Asset's current mortgage-backed securities and interest rate swaps under several interest rate "shocks." Interest rates are defined by the U.S. Treasury yield curve. The changes in rates are assumed to occur instantaneously. It is further assumed that the changes in rates occur uniformly across the yield curve and that the level of LIBOR changes by the same amount as the yield curve. Actual changes in market conditions are likely to be different from these assumptions.

Changes in value are measured as percentage changes form their respective values presented in the column labeled "Value at 12/31/99." Actual results could differ significantly from these estimates.

The change in value of the mortgage-backed securities also incorporates assumptions regarding prepayments, which are based on a proprietary model. This model forecasts prepayment speeds based, in part, on each security's issuing agency (Fannie Mae, Ginnie Mae or Freddie Mac), coupon, age, prior exposure to refinancing opportunities, the interest rate distribution of the underlying loans, and an overall analysis of historical prepayment patterns under a variety of past interest rate conditions.

	Value at 12/31/99/(1)/	Value at 12/31/99 with 100 basis point increase in interest rates	Percent Change	Value at 12/31/99 with 100 basis point decrease in interest rates	Percent Change
Assets					
Mortgage securities	$236,014,844	$ 226,201,537	(4.16%)	$244,594,982	3.64%
Other	94,165,616	94,165,616		94,165,616	
Total Assets	$330,180,460	$ 320,367,153	(2.97%)	$338,760,598	2.60%
Liabilities					
Interest rate swap	$ (468,422)	$ (1,179,422)/(2)/		$ 257,422/(2)/	
Other	225,637,739	225,637,739		225,637,739	
Total Liabilities	$225,169,317	$ 224,458,317	(0.32%)	$225,895,161	.32%
Shareholders' Equity					
Common stock	$ 104,158	$ 104,158		$ 104,158	
Paid-in-capital	194,097,193	194,097,193		194,097,193	
Accumulated other comprehensive income (loss)	$(12,513,937)	$ (21,616,244)	(72.74%)	(4,659,693)	62.76%
Retained earnings (deficit)	(15,463,462)	(15,463,462)		(15,463,462)	
Treasury stock	$(61,212,809)	$ (61,212,809)		(61,212,809)	
Total Shareholders' Equity	$105,011,143/(2)/	$ 95,908,836	(8.67%)	$112,865,437	7.48%
Total Liabilities and Shareholders' Equity	$330,180,460	$ 320,367,153	(2.97%)	$338,760,598	2.60%

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(1) Includes Accrued Interest.

(2) In accordance with GAAP, the fair value of interest rate swaps accounted for as hedges is not recorded. Accordingly, the carrying value of the interest rate swap in FBR Asset's financial statements is $0. See Note 2 to Notes to Financial Statements. The fair value of the interest rate swap is based on quoted market prices as of December 31, 1999. As of December 31, 1999, interest payments received under the swap agreement were based on an interest rate of 6.12% while interest payments made were based on an interest rate of 5.96%.

As shown above, the portfolio generally will benefit more from a decline in interest rates than it will be adversely affected by a similar-scale increase. This effectively may limit investors' upside potential in a market rally.

The value of FBR Asset's investments in other companies is also likely to be affected by significant changes in interest rates. First, many of the companies are exposed to risks similar to those identified above as being applicable to FBR Asset's direct investments. Second, the REITs in which FBR Asset has invested tend to trade on a yield basis. As interest rates increase, the yield required by investors in REITs, thrifts and other financial institutions increases with the result that market values decline. Finally, changes in interest rates often affect market prices of equity securities generally. Because each of the companies in which FBR Asset invests has its own interest rate risk management process, it is not feasible for us to quantify the potential impact that interest rate changes would have on the stock price or the future dividend payments by any of the companies in which FBR Asset has invested.

Equity Price Risk

FBR Asset is exposed to equity price risk as a result of its investments in equity securities of REITs and other real estate related companies. Equity price risk changes as the volatility of equity prices change or the values of corresponding equity indices change.

While it is impossible to project with any exactitude what factors may affect the prices of equity sectors and how much that might be, the table below illustrates the impact a ten percent increase and a ten percent decrease in the price of the equities held by FBR Asset would have on the value of the total assets and the book value of FBR Asset as of December 31, 1999.

	Value at December 31, 1999	Value at December 31, 1999 with 10% increase in price	Percent Change	Value at December 31, 1999 with 10% decrease in price	Percent Change
Assets					
Equity securities	$ 49,647,865	$ 54,612,651	10.00%	$ 44,683,078	-10.00%
Other	280,532,595	280,532,595		280,532,595	
Total Assets	$330,180,460	$335,145,246	1.50%	$325,215,673	-1.50%
Liabilities	$225,637,739	$225,637,739		$225,637,739	
Shareholders' Equity					
Common stock	$ 104,158	$ 104,158		$ 104,158	
Paid-in-capital	194,097,193	194,097,193		194,097,193	
Accumulated comprehensive income (loss)	(12,982,359)	(8,017,573)	38.24%	(17,947,146)	-38.24%
Retained earnings (deficit)	(15,463,462)	(15,463,462)		(15,463,462)	
Treasury stock	(61,212,809)	(61,212,809)		(61,212,809)	
Total Shareholders' Equity	$104,542,721	$109,507,507	4.75%	$ 99,577,934	-4.75%
Total Liabilities and Shareholders' Equity	$330,180,460	$335,145,246	1.50%	$325,215,673	-1.50%
Book value per share	$ 18.00	$ 18.86	4.75%	$ 17.15	-4.75%

Except to the extent that FBR Asset sells its equity investments, an increase or decrease in the market value of those assets will not directly affect FBR Asset's earnings, although an increase or decrease in interest rates would affect the market value of the assets owned by the companies in which FBR Asset invests. Consequently, if those companies' earnings are affected by changes in the market value of their assets, that could in turn impact their ability to pay dividends, which could in turn affect FBR Asset's earnings. If FBR Asset had sold all of its equity investments on December 31, 1999, FBR Asset would have incurred a loss of approximately $8.1 million which would have been charged to earnings.

Events Since December 31, 1999

On January 31, 2000, FBR Asset announced that its Board of Directors had approved a special cash dividend of $.25 per share. The dividend was paid on February 25, 2000, to shareholders of record at February 11, 2000.

On February 14, 2000, FBR Management terminated its management agreement with BlackRock Financial Management, Inc., and engaged Fixed Income Discount Advisory Company, Inc. ("FIDAC") to manage FBR Asset's mortgage asset investment program as a sub-advisor. As compensation for rendering services, FIDAC will be entitled to share the management fees of FBR Management, calculated based on the average gross asset value managed by FIDAC, with a minimum annual fee of $100,000 payable quarterly. The agreement may be terminated by either party with thirty (30) days' advance notice.

On March 16, 2000, FBR Asset declared a dividend of $0.55 per share, payable on April 14, 2000, to shareholders of record as of March 31, 2000. Also, on March 16, 2000, FBR Asset's Board of Directors authorized the repurchase of up to an additional 1,000,000 shares of FBR Asset's common stock.

Between December 31, 1999, and March 24, 2000, FBR Asset repurchased an additional 709,109 shares of its common stock at an average price of$12.10 per share. On March 16, 2000, FBR Asset's Board of Directors authorized the repurchase of up to 1,000,000 additional shares of FBR Asset's common stock.

On January 18, 2000, Prime Retail, Inc., a REIT in which FBR Asset has invested approximately $2.6 million in preferred and common stock, announced that, in view of current liquidity requirements and its revised earnings estimates, its board of directors had voted to suspend its regular quarterly dividend on its common stock and on the common units of limited partnership interests in Prime Retail, L.P. Prime Retail, Inc. also announced that its board of directors had determined at that time not to declare the regular quarterly dividend on the company's 10.5% Series A Senior Cumulative Convertible Preferred Stock and its 8.5% Series B Cumulative Participating Convertible Preferred STock scheduled to be paid on February 15, 2000.

Item 8. Financial Statements And Supplementary Data

The information required by Item 8 is set forth in Item 14 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors And Executive Officers Of The Registrant

The information regarding directors required by this Item 10 is incorporated by reference to FBR Asset's definitive Proxy Statement for its annual meeting of shareholders to be held on June 15, 2000, under the headings "Proposal No. 1--Election of Directors" and "Section 16 (a) Beneficial Ownership Reporting Compliance." Information regarding executive officers found under the Heading "Executive Officers of the Registrant" in Part I hereof is also incorporated by reference into this Item 10.

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference to FBR Asset's definitive Proxy Statement for its annual meeting of shareholders to be held on June 15, 2000, under the heading "Executive Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item 12 is incorporated by reference to FBR Asset's definitive Proxy Statement for its annual meeting of shareholders to be held on June 15, 2000, under the heading "Security Ownership of Certain Beneficial Owners and Management."

Item 13. Certain Relationships and Related Transactions

The information required by this Item 13 is incorporated by reference to FBR Asset's definitive Proxy Statement for its annual meeting of shareholders to be held on June 15, 2000, under the heading "Certain Relationships and Related Transactions."

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements. The following consolidated financial statements of FBR Asset included in FBR Asset's Annual Report to Shareholders for the year ended December 31, 1998, filed as Exhibit 13.01 to this Form 10-K, are incorporated by reference into this Item 14:

2. All schedules are omitted because they are not required or because the information is shown in the financial statements or notes thereto.

3. Following is a list of exhibits to this Form 10-K, which are incorporated by reference into this Item 14.

Exhibit Number	Exhibit Title
3.01	Registrant's Articles of Incorporation. *
3.02	Registrant's bylaws. *
4.01	Form of Specimen Certificate for Registrant's Common Stock. *
10.01	Management Agreement, dated December 17, 1997, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Investment Management, Inc. *
10.02	Agreement to Extend and Amend Management Agreement, dated December 17, 1999, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Investment Management, Inc.
10.03	License Agreement, dated December 17, 1997, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Group, Inc. *
10.04	Stock Option Agreement, dated December 17, 1997, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Investment Management, Inc. *
10.05	Sub-Management Agreement, dated February 14, 2000, by and between Friedman, Billings, Ramsey Investment Management, Inc. and Fixed Income Discount Advisory Company, Inc.
10.06	Stock Incentive Plan. *
10.07	Assignment Agreement, dated as of December 17, 1998, by and between Friedman, Billings, Ramsey Investment Management, Inc., and BlackRock Financial Management, Inc. *
13.01	Annual Report to Shareholders for the Year ended December 31, 1999.
21.01	List of Subsidiaries of the Registrant.
27.01	Financial Data Schedule.

* Filed with the SEC as part of FBR Asset's Registration Statement on Form S-11, as amended, Registration No. 333-67343.

FINANCIAL STATEMENTS

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Report of Independent Public Accountants

To the Shareholders of FBR Asset Investment Corporation:

We have audited the accompanying statements of financial condition of FBR Asset Investment Corporation (the "Company") as of December 31, 1999 and 1998, and the related statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 1999 and 1998, and the period from December 15, 1997 (inception) through December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FBR Asset Investment Corporation as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years ended December 31, 1999 and 1998, and the period from December 15, 1997 (inception), through December 31, 1997, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Anderson LLP

Vienna, Virginia
January 31, 2000

FBR Asset Investment Corporation
Statements of Financial Condition as of December 31, 1999 and 1998*

	As of December 31, 1999	As of December 31, 1998
Assets		
Mortgage-backed securities, at fair value	$236,014,844	$161,418,739
Investments in equity securities, at fair value	49,647,865	70,983,050
Cash and cash equivalents	13,417,467	41,144,326
Due from custodian	806,093	-
Notes receivable	27,000,000	19,082,921
Dividends receivable	1,400,897	870,477
Prepaid expenses and other assets	253,516	461,059
Interest receivable	1,639,778	1,970,048
Total assets	$330,180,460	$295,930,620
Liabilities and Shareholders' Equity		
Liabilities:		
Repurchase agreements	$221,714,000	$128,550,000
Interest payable	487,222	310,096
Dividends payable	2,891,368	2,563,058
Management fees payable	237,167	1,275,514
Accounts payable and accrued expenses	129,677	224,933
Due to custodian	-	11,929,614
Deferred revenue	178,305	172,826
Total liabilities	225,637,739	145,026,041
Shareholders' equity:		
Preferred stock, par value $.01 per share, 50,000,000 shares authorized	-	-
Common stock, par value $.01 per share, 200,000,000 shares authorized, 10,415,827 shares issued as of December 31, 1999 and 1998, respectively	104,158	104,158
Additional paid-in capital	194,097,193	194,097,193
Accumulated other comprehensive loss	(12,982,359)	(9,800,530)
Retained (deficit)	(15,463,462)	(9,425,579)
Treasury stock, at cost, 4,609,491 shares and 1,872,300 shares as of December 31, 1999 and 1998, respectively	(61,212,809)	(24,070,663)

Total shareholders' equity	104,542,721	150,904,579
Total liabilities and shareholders' equity	$330,180,460	$295,930,620

*The accompanying notes are an integral part of these statements.

FBR Asset Investment Corporation
Statements of Income for the Years ended December 31, 1999 and 1998, and the Period from December 15, 1997 (Inception) through December 31, 1997*

	Year Ended December 31,		December 15, 1997 (Inception) through December 31,
	1999	1998	1997
Income:			
Interest	$ 15,823,914	$13,656,097	$ 18,040
Dividends	7,649,935	4,271,405	434,717
Other income	-	-	268,520
Total Income	23,473,849	17,927,502	721,277
Expenses:			
Interest expense	7,920,648	5,359,633	-
Management fee expense	1,329,063	1,520,725	58,623
Professional fees	755,561	436,885	12,000
Insurance	41,325	52,769	-
Amortization of stock options issued to manager	454,746	454,746	-
Other	180,907	144,702	3,733
Total expenses	10,682,300	7,969,460	74,356
Realized gain (loss) on sale of mortgage-backed securities	(358,692)	176,048	-
Realized gain on sale of equity investments	3,597,190	-	-
Recognized loss on available-for-sale equity securities	(10,887,458)	(6,615,000)	-
Realized loss on interest rate hedge	-	(1,930,855)	-
Net income	$ 5,142,589	$ 1,588,235	$ 646,921
Basic and diluted earnings per share	$ 0.68	$ 0.16	$ 0.06
Weighted-average common and equivalent shares	7,523,715	10,044,483	10,218,999

*The accompanying notes are an integral part of these statements.

FBR Asset Investment Corporation
Statements of Changes in Shareholders' Equity for the Years Ended December 31, 1999 and 1998, and the Period from December 15, 1997 (Inception) through December 31, 1997.*

	Common Stock	Additional Paid in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
Balance, December 15, 1997	$ -	$ -	$ -	$ -	$ -	$ -	
Issuance of Common Stock	102,190	189,528,668	-	-	-	189,630,858	
Net income	-	-	646,921	-	-	646,921	646,921
Comprehensive income	-	-	-	-	-	-	$ 646,921

Dividends	-	-	(510,950)	-	-	(510,950)	
Balance, December 31, 1997	102,190	189,528,668	135,971	-	-	189,766,829	
Issuance of common stock	1,968	3,659,033	-	-	-	3,661,001	
Repurchase of common stock	-	-	-	(24,070,663)	-	(24,070,663)	
Options issued to manager	-	909,492	-	-	-	909,492	
Net income (Loss)	-	-	1,588,235	-	-	1,588,235	$ 1,588,235
Other comprehensive income (loss)							
Change in unrealized loss on available-for-sale securities	-	-	-	-	(9,800,530)	(9,800,530)	(9,800,530)
Comprehensive income (loss)							$ (8,212,295)
Dividends	-	-	(11,149,785)	-	-	(11,149,785)	
Balance, December 31, 1998	104,158	194,097,193	(9,425,579)	(24,070,663)	(9,800,530)	150,904,579	
Repurchase of common stock	-	-	-	(37,142,146)	-	(37,142,146)	
Net Income	-	-	5,142,589	-	-	5,142,589	$ 5,142,589
Other comprehensive income (loss)							-
Change in unrealized loss on available-for-sale securities	-	-	-	-	(3,181,829)	(3,181,829)	(3,181,829)
Comprehensive income	-	-	-	-	-	-	$ 1,960,760
Dividends	-	-	(11,180,472)	-	-	(11,180,472)	
Balance, December 31, 1999	$104,158	$194,097,193	$(15,463,462)	$(61,212,809)	$ (12,982,359)	$104,542,721	

*The accompanying notes are an integral part of these statements.

FBR Asset Investment Corporation
Statements of Cash Flows for the Years Ended December 31, 1999 and 1998, and the Period from December 15, 1997 (Inception), through December 31, 1997*

	For the Year Ended December 31,		December 15, 1997 (Inception) through December 31,
	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 5,142,589	$ 1,588,235	$ 646,921
Adjustments to reconcile net income to net cash (used in) provided by operating activities--			
Realized loss on available-for-sale equity securities	10,887,458	6,615,000	-
Realized gain on sale of mortgage-backed and equity securities	(3,238,498)	(176,048)	-
Unrealized gain on equity investments	-	-	(268,520)
Amortization	456,342	456,342	3,733
Premium amortization on mortgage-backed securities	682,695	777,179	-
Changes in operating assets and liabilities:			
Due from custodian	(806,093)	-	-
Due from affiliate	-	545,827	(545,827)
Dividends receivable	(530,420)	(435,760)	(434,717)
Interest receivable	330,270	(1,962,048)	(8,000)
Prepaid expenses	(248,799)	-	(11,642)
Management fees payable	(1,038,347)	1,216,891	58,623
Accounts payable and accrued expenses	(95,256)	212,933	12,000
Interest payable	177,126	310,096	-
Due to custodian	(2,041,230)	2,041,230	-
Deferred revenue	5,479	(17,174)	190,000
Net cash (used in) provided by operating activities	9,683,316	11,172,703	(357,429)
Cash flows from investing activities:			
Purchase of mortgage-backed securities	(282,288,201)	(221,156,241)	-
Investments in equity securities	(11,454,320)	(64,876,250)	(23,050,230)
Investments in notes receivable, net of repayments	(7,917,079)	(16,000,000)	(3,000,000)
Proceeds from sale of mortgage-backed securities	160,809,435	48,533,267	-
Proceeds from sale of equity securities	27,894,010	-	-
Receipt of principal payments on mortgage-backed securities	30,376,288	21,204,987	-
Net cash used in investing activities	(82,579,867)	(232,294,237)	(26,050,230)
Cash flows from financing activities:			
Repurchase of common stock	(37,142,146)	(24,070,663)	-
Proceeds from issuance of common stock	-	3,661,001	189,630,858
Proceeds from (repayments of) repurchase agreements, net	93,164,000	128,550,000	-
Dividends paid	(10,852,162)	(9,097,677)	-
Net cash provided by financing activities	45,169,692	99,042,661	189,630,858
Net increase (decrease) in cash and cash equivalents	(27,726,859)	(122,078,873)	163,223,199
Cash and cash equivalents, beginning of the period	41,144,326	163,223,199	-
Cash and cash equivalents, end of the period	13,417,467	41,144,326	163,223,199
Supplemental disclosure of non-cash investing activities:			
Securities purchased but not settled	$ -	$ 9,888,384	$ -

*The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1 Organization and Nature of Operations

FBR Asset Investment Corporation ("FBR Asset" or the "Company") was incorporated in Virginia on November 10, 1997. FBR Asset commenced operations on December 15, 1997, upon the closing of a private placement of equity capital (the "Private Placement") (see Note 3).

FBR Asset is organized as a real estate investment trust ("REIT") whose primary purpose is to invest in mortgage loans and mortgage-backed securities issued or guaranteed by instrumentalities of the U.S. Government or by private issuers that are secured by real estate (together the "Mortgage Assets"). FBR Asset also acquires indirect interests in those and other types of real estate-related assets by investing in public and private real estate companies, subject to the limitations imposed by the various REIT qualification requirements. Funds not immediately allocated are generally temporarily invested in readily marketable, interest-bearing securities. To seek yields commensurate with its investment objectives, FBR Asset leverages its assets and mortgage loan portfolio primarily with collateralized borrowings. FBR Asset uses derivative financial instruments to hedge a portion of the interest rate risk associated with its borrowings.

Note 2 Summary of Significant Accounting Policies

Investments in Mortgage-Backed Securities

FBR Asset invests primarily in mortgage pass-through certificates that represent a 100 percent interest in the underlying conforming mortgage loans and are guaranteed by the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the Federal National Mortgage Association ("Fannie Mae").

Mortgage-backed security transactions are recorded on the date the securities are purchased or sold. Any amounts payable for unsettled trades are recorded as "due to custodian" in FBR Asset's Statement of Financial Condition.

FBR Asset accounts for its investments in mortgage-backed securities as available-for-sale securities. FBR Asset does not hold its mortgage-backed securities for trading purposes, but may not hold such investments to maturity, and has classified these investments as available-for-sale. Securities classified as available-for-sale are reported at fair value, with temporary unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity. Realized gains and losses on mortgage-backed securities transactions are determined on the specific identification basis.

Unrealized losses on mortgage-backed securities that are determined to be other than temporary are recognized in income. Management regularly reviews its investment portfolio for other than temporary market value decline. There were no such adjustments for mortgage-backed investments during the periods presented.

The fair value of FBR Asset's mortgage-backed securities are based on market prices provided by certain dealers who make markets in these financial instruments. The fair values reported reflect estimates and may not necessarily be indicative of the amounts FBR Asset could realize in a current market transaction.

Income from investments in mortgage-backed securities is recognized using the effective interest method, using the expected yield over the life of the investment. Income includes contractual interest accrued and the amortization or accretion of any premium or discount recorded upon purchase. Changes in anticipated yields result primarily from changes in actual and projected cash flows and estimated prepayments. Changes in the yield that result from changes in the anticipated cash flows and prepayments are recognized over the remaining life of the investment with recognition of a cumulative catch-up at the date of change from the date of original investment.

During 1998, FBR Asset received proceeds of $48.5 million from the sale of mortgage-backed securities. The Company recorded $176,044 in realized gains related to this sale.

During 1999, FBR Asset received proceeds of $160.8 million from the sale of mortgage-backed securities. The Company recorded $851,464 in realized gains related to this sale. Concurrent with this sale, FBR Asset terminated a related hedge position and recorded a $1.2 million loss.

The following table summarizes FBR Asset's mortgage-backed securities as of December 31, 1999 and 1998:

December 31, 1999	Freddie Mac	Fannie Mae	Ginnie Mae	Total Mortgage Assets
Mortgage-backed securities, available-for-sale, principal	$79,490,738	$107,859,276	$54,517,427	$241,867,441
Unamortized premium (discount)	359,594	(1,190,013)	829,206	(1,213)
Amortized cost	79,850,332	106,669,263	55,346,633	241,866,228
Gross unrealized losses	(2,797,261)	(2,196,860)	(857,263)	(5,851,384)
Estimated fair value	$77,053,071	$104,472,403	$54,489,370	$236,014,844
December 31, 1998				
Mortgage-backed securities, available-for-sale, principal	$93,278,879	$ 48,386,872	$16,294,168	$157,959,919
Unamortized premium	529,783	1,427,632	787,906	2,745,321
Amortized cost	93,808,662	49,814,504	17,082,074	160,705,240
Gross unrealized gains	665,251	191,021	123,260	979,532
Gross unrealized losses	(89,517)	(162,997)	(13,519)	(266,033)
Estimated fair value	$94,384,396	$ 49,842,528	$17,191,815	$161,418,739

Short Sales

FBR Asset has established a short position to offset the potential adverse effects of market price fluctuations in certain of its mortgage-backed securities. The positions are structured and accounted for

as hedge transactions such that any gains or losses will be recognized upon termination of the position. FBR Asset's unrealized gains or losses on its position are recorded as an asset or liability with a corresponding increase or decrease included in comprehensive income. At December 31, 1999, FBR Asset had established an $88 million face amount short position in 7.00% Fannie Mae agency mortgage-backed securities. The fair value of the short position at December 31, 1999, was $182,188.

Repurchase Agreements

FBR Asset has entered into short-term repurchase agreements to finance a significant portion of its mortgage-backed investments. The repurchase agreements are secured by FBR Asset's mortgage-backed securities and bear interest at rates that have historically related closely to LIBOR for a corresponding period.

At December 31, 1999, FBR Asset had $221.7 million outstanding under repurchase agreements with a weighted average borrowing rate of 5.83% as of the end of the period and a remaining weighted-average term to maturity of 45 days. At December 31, 1999, mortgage-backed securities pledged had an estimated fair value of $228.9 million. At December 31, 1999, the repurchase agreements had remaining maturities of between 38 and 45 days.

As of December 31, 1998, FBR Asset had $128.6 million outstanding under repurchase agreements with a weighted-average borrowing rate of 5.08% as of the end of the period and a weighted-average remaining maturity of 73 days. At December 31, 1998, mortgage-backed securities pledged had an estimated fair value of $136.2 million. At December 31, 1998, the repurchase agreements had remaining maturities of between 69 and 74 days.

Interest Rate Swaps

FBR Asset enters into interest rate swap agreements to offset the potential adverse effects of rising interest rates under certain short-term repurchase agreements. The interest rate swap agreements are structured such that FBR Asset receives payments based on a variable interest rate and makes payments based on a fixed interest rate. The variable interest rate on which payments are received is calculated based on the three-month LIBOR. FBR Asset's repurchase agreements, which generally have maturities of 30 to 90 days, carry interest rates that correspond to LIBOR rates for those same periods. The swap agreements effectively fix FBR Asset's borrowing cost and are not held for speculative or trading purposes. As a result of these factors, FBR Asset has accounted for these agreements as hedges.

The fair value of interest rate agreements that qualify as hedges are not recorded. The differential between amounts paid and received under the interest rate swap agreements is recorded as an adjustment to the interest expense incurred under the repurchase agreements. In the event of early termination of an interest rate agreement and repayment of the underlying debt, a gain or loss is recorded and FBR Asset receives or makes a payment based on the fair value of the interest rate agreement on the date of termination.

At December 31, 1999 and 1998, FBR Asset was party to an interest rate swap agreement that matures on June 1, 2001, and has a notional amount of $50 million, and a fair value of $468,422 and $(910,535) at December 31, 1999, and December 31, 1998, respectively.

Investments in Equity Securities

Investments in securities that are listed on a national securities exchange (or reported on the Nasdaq National Market) are stated at the last reported sale price on the day of valuation. Listed securities for which no sale was reported are stated at the mean between the closing "bid" and "asked" price on the day of valuation. Other securities for which quotations are not readily available are valued at fair value as determined by FBR Asset's investment adviser, Friedman, Billings, Ramsey Investment Management, Inc. ("FBR Management"). FBR Management may use methods of valuing securities other than those described above if it believes the alternative method is preferable in determining the fair value of such securities.

Consistent with the intention to have FBR Asset operate as a REIT, management concluded that its investments in equity securities are being held for long-term yield, capital appreciation, and cash flow. Accordingly, management has classified such investments as available-for-sale.

Realized gains and losses are recorded on the date of the transaction using the specific identification method. The difference between the purchase price and market price (or fair value) of investments in securities is reported as an unrealized gain or loss and a component of comprehensive income.

Management regularly reviews any declines in the market value of its equity investments for declines that are other than temporary. Such declines are recorded in operations as a "recognized loss on available-for-sale securities."

Notes Receivable

As of December 31, 1999, FBR Asset held a $20 million note of Prime Retail Inc. and Prime Retail, L.P., ("Prime Retail") with an interest rate of 15% per annum, and matures on June 30, 2000, subject to automatic extension to December 31, 2000, in the absence of a default. The loan is secured by equity interest in five subsidiaries of Prime, L.P., which subsidiaries own commercial real estate subject to mortgage debt. As of December 31, 1999, FBR Asset also held a Short-Term Loan and Security Agreement with Prime Capital Holding, LLC and Prime Capital Funding, Inc. together, ("Prime Capital"), which had a $7 million outstanding balance at December 31, 1999. The note accrues interest at an annualized rate of 17% and is due on March 31, 2000. The note is secured by 100% equity interests in subsidiaries of Prime Capital which own commercial mortgage loans subject to "warehouse" indebtedness. Prime Capital is an affiliate of Prime Retail, L.P.

Credit Risk

FBR Asset is exposed to the risk of credit losses on its portfolio of mortgage-backed securities and notes receivable, such as the notes from Prime Retail and Prime Capital referred to above. In addition, many of FBR Asset's investments in equity securities are in companies that are also exposed to the risk of credit losses in their businesses.

FBR Asset seeks to limit its exposure to credit losses on its portfolio of mortgage-backed securities by purchasing securities issued and guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae. The payment of principal and interest on the Freddie Mac and Fannie Mae mortgage-backed securities are guaranteed by those respective agencies and the payment of principal and interest on the Ginnie Mae mortgage-backed securities is backed by the full-faith-and-credit of the U.S. Government. At December 31, 1999 and 1998, all of FBR Asset's mortgage-backed securities have an implied "AAA" rating. FBR Asset's notes receivable and certain mortgage-backed securities and other loans of companies in which we invest are not issued or guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae.

Concentration Risk

Equity and debt investments, such as the Prime Capital and Prime Retail notes referred to above, may also involve substantial amounts relative to FBR Asset's total net assets and create exposure to issuers that are generally concentrated in the REIT industry. These investments may include non-investment grade and securities of privately held issuers with no ready markets. The concentration and illiquidity of these investments expose FBR Asset to a significantly higher degree of risk than is associated with more diversified investment grade or readily marketable securities.

Cash and Cash Equivalents

All investments with original maturities of less than three months are cash equivalents. As of December 31, 1999, cash and cash equivalents consisted of $3.8 million of cash deposited in two commercial banks and $9.6 million in two separate domestic money market funds. As of December 31, 1998, cash and cash equivalents consisted of $14.4 million of cash deposited in two commercial banks and $26.7 million in two separate domestic money market funds. The money market funds invest primarily in obligations of the U.S. Government. The carrying amount of cash equivalents approximates their fair value.

Comprehensive Income

Comprehensive income is a financial reporting methodology that includes certain financial information that historically has not been recognized in the calculation of net income. FBR Asset's only component of other comprehensive income is the net unrealized loss on investments classified as available for sale.

Net Income Per Share

FBR Asset presents basic and diluted earnings per share. Basic earnings per share excludes potential dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in earnings. The potentially dilutive securities did not impact the computation of earnings per share for any period presented.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income Taxes

FBR Asset has elected to be taxed as a REIT under the Internal Revenue Code. To qualify for tax treatment as a REIT, FBR Asset must meet certain income and asset tests and distribution requirements. FBR Asset generally will not be subject to federal income tax at the corporate level to the extent that it distributes at least 95 percent of its taxable income to its shareholders and complies with certain other requirements. Failure to meet these requirements could have a material adverse impact on FBR Asset's results or financial condition. Furthermore, because FBR Asset's investments include stock in other REITs, failure of those REITs to maintain their REIT status could jeopardize FBR Asset's qualification as a REIT. No provision has been made for income taxes in the accompanying financial statements, as FBR Asset believes it has met the requirements.

Reclassifications

Certain amounts in the financial statements as of December 31, 1998, have been reclassified to confirm with 1999 presentation.

Recent Accounting Pronouncements

In 1998, Statement on Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities", was issued. This statement is effective for all fiscal years beginning after June 15, 2000, and generally requires that an entity recognize derivative financial instruments as assets or liabilities and measure them at fair value. FBR Asset is currently evaluating the impact of SFAS No. 133, but does not expect that the adoption will have a material impact on its financial condition or future results of operations based on its current hedging strategies.

Note 3 Shareholders' Equity

On December 15, 1997, FBR Asset completed a private placement of equity capital. FBR Asset received net proceeds of $189.7 million from the issuance of 10,218,999 shares of common stock.

On January 15, 1998, Friedman, Billings, Ramsey & Co., Inc. purchased 196,828 shares of FBR Asset for $3.7 million pursuant to a stock option issued in connection with the private placement offering.

FBR Asset declared and recorded dividends of $.05, $1.16 and $1.605 in 1997, 1998 and 1999, respectively.

In September 1998, the Board of Directors authorized the repurchase of up to 2,000,000 shares of FBR Asset's common stock. Through December 31, 1998, FBR Asset had repurchased 1,872,300 shares for a cost of $24 million, or $12.86 average cost per share. On March 30, 1999, the Board of Directors authorized the repurchase of up to an additional 2,000,000 shares of FBR Asset's common stock. On December 16, 1999, the Board of Directors authorized the repurchase of up to an additional 1,500,000 shares of FBR Asset's common stock. Between December 31, 1998, and December 31, 1999, FBR Asset repurchased an additional 2,737,191 shares of its common stock at an average price of $13.57 per share.

FBR Asset had outstanding, as of December 31, 1999, and December 31, 1998, 1,021,900 options to purchase common stock. These options have terms of eight to ten years and have an exercise price of $20 per share.

Under FBR Asset's stock option plan, FBR Asset may grant, in the aggregate, up to 155,000 tax qualified incentive stock options and non-qualified stock options to its employees, directors or service providers. Options granted are generally exercisable immediately and have a term of seven to ten years. As of December 31, 1999, FBR Asset had granted 155,000 options under its stock option plan.

FBR Asset accounts for its stock-based compensation in accordance with SFAS No. 123, "Accounting For Stock Based Compensation." Pursuant to SFAS No. 123, FBR Asset applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees" (APB No. 25), for stock options issued to employees. Under APB No. 25, compensation expense is recorded to the extent the fair market value of FBR Asset's stock exceeds the strike price of the option on the date of grant. In addition and in accordance with the disclosure requirements of SFAS No. 123, FBR Asset does provide pro forma net income disclosures for options granted to employees as if the fair value method, as defined in SFAS No. 123, had been applied for the purpose of computing compensation expense. The impact of the issued and outstanding employee options under the fair value method was not material to

FBR Asset's net income or basic and diluted net income per share as reported in the statement of income for the year ended December 31, 1999. No employee options had been issued as of December 31, 1998.

The fair value of the option grant in 1999 was estimated on the grant date using the following assumptions: average dividend yield of 8 percent; expected volatility of 25 percent; risk free interest rate of 6.1 percent; and expected lives of 8.5 years. All options issued in 1999 are fully vested, have an exercise price of $20 and a remaining contractual life of approximately 8 years.

Note 4 Management and Performance Fees

FBR Asset has a management agreement with Friedman, Billings, Ramsey Investment Management, Inc. ("FBR Management"), for an initial term expiring on December 17, 1999 and a renewal expiring on December 17, 2000. FBR Management performs portfolio management services on behalf of FBR Asset. Such services include, but are not limited to, consulting with FBR Asset on purchase and sale opportunities, collection of information and submission of reports pertaining to FBR Asset's assets, interest rates, and general economic conditions, and periodic review and evaluation of the performance of FBR Asset's portfolio of assets.

FBR Management is entitled to a quarterly "base" management fee equal to the sum of (1) 0.25 percent per annum (adjusted to reflect a quarterly period) of the average invested mortgage assets of FBR Asset during each calendar quarter and, (2) 0.75 percent per annum (adjusted to reflect a quarterly period) of the remainder of the average invested assets of FBR Asset during each calendar quarter. FBR Management also received options to purchase 1,021,900 shares of FBR Asset's common stock at $20 per share. The estimated value of these options is $909,492, based on a discounted Black-Scholes valuation, and was amortized over the initial term of the Management Agreement. FBR Management assigned options to acquire 51,045 shares to BlackRock Financial Management, Inc. ("BlackRock") (see below) in connection with the execution of the sub-management agreement discussed below. The value of these options has been fully amortized in the accompanying statements of income. In addition, FBR Management agreed to the rescission of options to purchase 155,000 common shares in connection with the establishment of FBR Asset's stock incentive plan.

FBR Management is also entitled to receive incentive compensation based on the performance of FBR Asset. On December 31, 1998, and each calendar quarter thereafter FBR Management is entitled to an incentive fee calculated by reference to the preceeding 12 month period, FBR Management is entitled to an incentive fee calculated as: funds from operations (as defined), plus net realized gains or losses from asset sales, less the threshold amount (all computed on a weighted average share outstanding basis), multiplied by 25 percent. The threshold amount is calculated as the weighted average per share price of all equity offerings of FBR Asset, multiplied by a rate equal to the ten-year U.S. Treasury rate plus five percent per annum. No incentive compensation was earned during the periods presented.

FBR Management previously engaged BlackRock to manage FBR Asset's mortgage asset investment program (the "Mortgage Portfolio") as a sub-adviser. BlackRock is a majority owned subsidiary of PNC Bank Corporation who is a 4.9 percent owner of FBR Management's parent company. As compensation for rendering services, BlackRock was entitled to share the management fees of FBR Management, calculated based on the average gross asset value managed by BlackRock, with a minimum annual fee of $100,000, payable quarterly. The agreement was terminated by FBR Management on February 14, 2000, and FBR Management entered into a new agreement with Fixed Income Discount Advisory Company, Inc. ("FIDAC") on February 14, 2000, to assume management of FBR Asset's Mortgage Portfolio as sub-advisor. See Note 7 Subsequent Events.

Note 5 Related Parties

As of December 31, 1999, a wholly-owned subsidiary of Friedman, Billings, Ramsey Group, Inc. ("FBR Group") owned 1,344,086 shares or 23.15% of the outstanding common stock of FBR Asset. As of December 31, 1998, that same subsidiary owned 1,344,086 or 15.73% of the outstanding common stock of FBR Asset. FBR Group is the parent company of FBR Management and FBR & Co.

Note 6 Equity Investments

At December 31, 1999, FBR Asset's equity investments had an aggregate cost basis of $57.5 million, a fair value of $49.6 million and unrealized losses of $7.9 million.

As of December 31, 1998, FBR Asset's equity investments had an aggregate cost basis of $81.2 million, fair value of $71.0 million, unrealized losses of $12.3 million, recognized losses of $6.6 million, and unrealized gains of $2.1 million.

Equity Investments	Amount of Investment/(1)/	Market Value at December 31, 1999	Market Value at December 31, 1998
Anthracite Capital, Inc.	$10,084,268	$10,084,268	$12,358,170
Capital Automotive REIT	25,000,000	21,841,402	26,657,711
Chastain Capital Corporation	-	-	3,150,000/(2)/
Imperial Credit Commercial Mortgage Inv. Corp.	10,413,000	10,237,500	8,437,500
Prime Retail, Inc.	1,201,317	694,688	1,211,844
Prime Retail, Inc., pfd	1,454,320	1,151,696	-
Resource Asset Investment Trust	5,292,516	3,725,717	3,790,325
Building One Services Corporation/(3)/	4,053,180	1,912,594	10,437,500
East-West Bank/(4)/	-	-	4,940,000
Total	$57,498,601	$49,647,865	$70,983,050

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(1) As of December 31, 1999.
(2) Reflects recognized loss of $6.6 million recorded in 1998 for other than temporary decline in the value of Chastain Capital Corporation. In November 1999, FBR Asset received a liquidating dividend of $7.45 per share on 700,000 shares of Chastain and recognized a gain of $2,065,000.
(3) In April 1999, FBR Asset sold 297,341 shares of Building One Services Corporation and realized a gain of $743,353.
(4) In September and October 1999, FBR Asset sold 520,000 shares of East-West Bank and realized a gain of $788,838.

Anthracite Capital, Inc. ("AHR")

On March 27, 1998, FBR Asset purchased 716, 846 shares of common stock in AHR, for $13.95 per share. AHR was organized in November 1997 to invest in a diversified portfolio of multifamily, commercial and residential mortgage loans, mortgage-backed securities, and other real estate-related assets in the United States and non-U.S. markets. AHR seeks to achieve strong investment returns by maximizing the spread of investment income earned on its real estate assets over the cost of financing and hedging these assets and/or liabilities. AHR's common stock is publicly traded.

During September and October 1998, FBR Asset purchased an additional 865,000 shares of AHR for an average cost of $9.64 per share. In December 1999, FBR Asset recorded a charge to operations in the amount of $8,250,228 to reflect management's determination that the decline in the market value of the stock was other than temporary.

Capital Automotive REIT ("CARS")

On February 13, 1998, FBR Asset acquired 1,792,115 shares of common stock in CARS for a price of $13.95 per share. CARS is a self-administered and self-managed REIT formed to invest in the real property and improvements used by operators of multi-site, multi-franchised motor vehicle dealerships and motor vehicle-related businesses located in major metropolitan areas throughout the United States. CARS primarily acquires real property and simultaneously leases back this property for use by dealers. CARS' common stock is publicly traded.

Chastain Capital Corporation ("CHAS")

On April 29, 1998, FBR Asset purchased 700,000 shares of common stock in CHAS, for $13.95 per share. CHAS was organized in December 1997 to invest in commercial and multifamily mortgage and real estate related assets located in major metropolitan markets throughout the United States.

In 1998, FBR Asset recorded a charge to operations in the amount of $6,615,000 to reflect management's determination that the decline in the market value of the stock was other than temporary. On May 14, 1999, CHAS announced that its Board of Directors had voted to sell all of CHAS' assets, either through a plan of liquidation or through a sale of the company. On November 8, 1999, Chastain Capital Corp. announced that its Board had declared an initial $7.45 per share distribution to stockholders under a plan to liquidate itself. On November 29, 1999, FBR Asset received a liquidating dividend of $5.2 million or $7.45 per share from Chastain and recognized a gain of $2,065,000. Chastain still has one real estate asset remaining, a retail property Chastain plans to sell.

Imperial Credit Commercial Corporation ("ICMI")

In December 1997, FBR Asset purchased 900,000 shares of ICMI common stock for a price of $14.50 per share. ICMI invests primarily in performing multifamily and commercial term loans and interests in commercial and residential mortgage-backed securities. ICMI also invests in various classes of non-investment grade mortgage-backed securities. ICMI's common stock is publicly traded.

On July 22, 1999 Imperial Credit Commercial Mortgage and Imperial Credit Industries announced a merger agreement under which Imperial Credit Industries would acquire all of the outstanding shares of Imperial Credit Mortgage for a cash purchase price of $11.50 per share, subject to increase under certain circumstances. Completion of the merger is conditioned on, among other things, approval by the shareholders of Imperial Credit Mortgage. On October 25, 1999, after expiration of the tender offer period on October 22, 1999, during which Imperial Credit Mortgage explored alternative transactions more favorable to its shareholders, Imperial Credit Industries reported that the merger consideration had been increased from $11.50 per share to approximately $11.57 per share. The merger is expected to close on March 27, 2000. In the absence of other offers at more favorable prices, management recorded a $2.6 million charge to earnings for the transaction in the fourth quarter of 1999 representing the difference between Imperial Credit Industries' most recent tender offer and FBR Asset's cost basis.

Prime Retail, Inc. ("PRT")

In September 1998, FBR Asset purchased an aggregate of 122,300 shares of PRT, for an average price of $9.74 per share. On October 18, 1998, FBR Asset purchased an additional 1,200 shares of PRT's common stock for $7.90 per share. PRT is a REIT engaged primarily in the ownership,

development, construction, acquisition, leasing, marketing and management of factory outlet centers. PRT's common stock is publicly traded.

On April 22, 1999, FBR Asset purchased 78,400 shares of PRT's preferred stock for a cost of $1,454,320 or $18.55 average cost per share. PRT's preferred stock is publicly traded.

Resource Asset Investment Trust ("RAS")

On February 19, 1998, FBR Asset acquired 300,000 shares of common stock in RAS for $15.33 per share. RAS's principal business activity is the acquisition and/or financing of loans secured by mortgages on real property (or interests in such loans) in situations that, generally, do not conform to the underwriting standards of institution lenders or sources that provide financing through securitization.

On June 24/th/ and 25/th/, 1998, FBR Asset acquired an additional 44,575 shares of RAS for an average price of $15.55 per share.

Building One Services Corporation ("BOSS")

In December 1997, FBR Asset purchased 500,000 shares of BOSS (formerly Consolidated Capital Corporation) common stock for $20.00 per share. BOSS was founded in February 1997 to build consolidated enterprises through the acquisition and integration of multiple businesses in one or more fragmented industries. BOSS has undertaken to consolidate facilities management companies and may select companies in this or related industries in which to make future investments. BOSS's common stock is publicly traded. Pursuant to BOSS's tender offer, which expired in April 1999, FBR Asset sold 297,341 of its BOSS common shares for a price of $22.50 per share, or $6.7 million in April 1999.

East-West Bancorp ("EWB")

On June 30, 1998, FBR Asset purchased 520,000 shares of EWB for $10.00 per share. EWB's strategy is to become the premier commercial bank in California serving the unique personal and business banking needs of customers engaged in business and having family ties with or origins from the Asia Pacific region, with experienced personnel having the language capability and cultural sensitivity appropriate for the region. Beginning September 30 through October 25, 1999, FBR Asset sold its 520,000 shares of common stock in East West Bancorp for $5,988,838 or $11.52 average per share.

Kennedy-Wilson, Inc. ("KWIC")

FBR Asset owns warrants to acquire 131,096 shares of Kennedy-Wilson common stock at a price of $7.5526 per share. The warrants expire in June 2003. As of December 31, 1999, the market price of Kennedy-Wilson common stock was $8.00 per share.

Imperial Credit Industries, Inc. ("ICII")

On June 30, 1999, FBR Asset purchased 400,000 shares of ICII's preferred stock for $25.00 per share. ICII is a commercial and consumer finance holding company specializing in non-conforming residential mortgage banking, business and consumer lending and commercial leasing.

On November 5/th/ and 10/th/, Imperial Credit Industries redeemed the 400,000 shares of Series B 14.5% cumulative preferred held by FBR Asset for $26.25 per share or $10.5 million.

Note 7 Subsequent Events

On January 31, 2000, FBR Asset announced that its Board of Directors had approved a special cash dividend of $.25 per share. The dividend was paid on February 25, 2000, to shareholders of record at February 11, 2000.

On February 14, 2000, FBR Management terminated its management agreement with BlackRock Financial Management, Inc., and engaged Fixed Income Discount Advisory Company, Inc. ("FIDAC") to manage FBR Asset's mortgage asset investment program as a sub-advisor. As compensation for rendering services, FIDAC will be entitled to share the management fees of FBR Management, calculated based on the average gross asset value managed by FIDAC, with a minimum annual fee of $100,000 payable quarterly. The agreement may be terminated by either party with thirty (30) days' advance notice.

SIGNATURE

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.

FBR ASSET INVESTMENT CORPORATION
(Registrant)

Date: March 30, 2000	By:	/s/ William R. Swanson William R. Swanson Executive Vice President
	By:	/s/ Kurt R. Harrington Kurt R. Harrington Chief Financial Officer, Treasurer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date	Signature	Title
March 30, 2000	/s/ Emanuel J. Friedman	Chairman of the Board of Directors
March 30, 2000	/s/ Eric F. Billings	Vice Chairman, Chief Executive Officer, President and Director (Principal Executive Officer)
March 30, 2000	/s/ William K. Swanson	Executive Vice President, Chief Operating Officer and Director
March 30, 2000	/s/ Stephen D. Harlan	Director
March 30, 2000	/s/ Russell C. Lindner	Director

EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.01	Registrant's Articles of Incorporation. *
3.02	Registrant's bylaws. *
4.01	Form of Specimen Certificate for Registrant's Common Stock. *
10.01	Management Agreement, dated December 17, 1997, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Investment Management, Inc. *
10.02	Agreement to Extend and Amend Management Agreement, dated December 17, 1999, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Investment Management, Inc.
10.03	License Agreement, dated December 17, 1997, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Group, Inc. *

10.04	Stock Option Agreement, dated December 17, 1997, by and between FBR Asset Investment Corporation and Friedman, Billings, Ramsey Investment Management, Inc. *
10.05	Sub-Management Agreement, dated February 14, 2000, by and between Friedman, Billings, Ramsey Investment Management, Inc. and Fixed Income Discount Advisory Company, Inc.
10.06	Stock Incentive Plan. *
10.07	Assignment Agreement, dated as of December 17, 1998, by and between Friedman, Billings, Ramsey Investment Management, Inc., and BlackRock Financial Management, Inc. *
13.01	Annual Report to Shareholders for the Year ended December 31, 1999.
21.01	List of Subsidiaries of the Registrant
27.01	Financial Data Schedule.

____

* Filed with the SEC as part of FBR Asset's registration statement on Form S-11, as amended, Registration No. 333- 67543.

EXHIBIT 10.02

AGREEMENT TO EXTEND AND AMEND MANAGEMENT AGREEMENT

This Agreement to Extend and Amend Management Agreement (this "Extension and Amendment Agreement") is made as of December 17, 1999, by and between FBR Asset Investment Corporation (the "Company") and Friedman, Billings Ramsey Investment Management, Inc. (the "Manager").

WHEREAS, the Company and the Manager are parties to that certain Management Agreement, dated as of December 17, 1997 (the "Management Agreement"); and

WHEREAS, the Management Agreement provides in Section 12 thereof that the parties may extend the term of the Management Agreement for up to 12 months by executing a written extension; and

WHEREAS, the parties have determined to extend the term of the Management Agreement by 12 months in accordance with Section 12 of the Management Agreement; and

WHEREAS, the parties desire to amend the third paragraph of Section 12 of the Management Agreement;

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, the parties agree as follows:

SECTION 1. Definitions. Capitalized terms used herein but not otherwise defined shall have the meanings assigned to them in the Management Agreement.

SECTION 2. Extension. The parties hereby agree to extend the term of the Management Agreement by 12 months commencing on the date hereof.

SECTION 3. Amendment. The parties hereby agree that the third paragraph of Section 12 of the Management Agreement is amended as follows, with double underlined text indicating added language and struck-through text indicating deleted language:

> "Notwithstanding any other provision to the contrary, this Agreement, or any extension hereof, may be terminated by the Company without cause, upon 60 days written notice, by a majority vote of the Independent Directors or by a vote of the holders of a majority of the outstanding Common Shares; provided that, in the event of such a termination without cause, (a) the base management fee and incentive management fee earned during the twelve months preceding such termination will be due and (b) Manager shall be paid a termination fee equal to the base management fee and incentive management fee earned during the twelve months ending on the final day of the calendar quarter last ending prior to the date of termination. No termination fee shall be due in the event the initial term, or any extension thereof, expires and is not renewed or extended."

SECTION 4. Other terms. Other than as expressly amended hereby, all other terms, conditions and provisions of the Management Agreement shall remain in effect during the 12 month extension provided for hereby, unless the Management Agreement is amended in writing by the parties or is sooner terminated in accordance with the provisions thereof.

IN WITNESS WHEREOF, the parties hereto have executed this Extension Agreement as of the date first written above.

FBR ASSET INVESTMENT CORPORATION	FRIEDMAN, BILLINGS RAMSEY INVESTMENT MANAGEMENT, INC.

By: /s/ Kurt Harrington	By: /s/ Kurt Harrington
Name: Kurt Harrington	Name: Kurt Harrington
Title: Chief Financial Officer	Title: Treasurer

EXHIBIT 10.04

MORTGAGE INVESTMENTS
SUB-MANAGEMENT AGREEMENT

THIS AGREEMENT is made and entered into as of February 14, 2000, by and between FIXED INCOME DISCOUNT ADVISORY COMPANY, INC. (the "Sub-Manager") and FRIEDMAN, BILLINGS, RAMSEY INVESTMENT MANAGEMENT, INC. (the "Manager").

RECITALS

WHEREAS, FBR Asset Investment Corporation (the "Company") has retained the Manager to manage its business and affairs including the investment of assets of the Company; and

WHEREAS, the Sub-Manager has expertise in managing a portfolio of mortgage loans and mortgage securities ("mortgage investments"); and

WHEREAS, the Company conducts its business and intends to continue to conduct its business in a manner that will permit it to qualify for the tax benefits accorded by Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, the Manager with the consent of the Company desires to retain the Sub-Manager to manage a portfolio of mortgage investments for the account of the Company in such amounts from time to time as may be determined by the Manager in consultation with the Sub-Manager; and

WHEREAS, the Sub-Manager is willing to provide such services on the terms and conditions set forth below;

NOW THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

SECTION 1. Appointment and Acceptance.

The Manager hereby appoints the Sub-Manager as an "Investment Manager." The Manager represents and warrants that (a) it has all requisite authority to appoint the Sub-Manager hereunder, (b) the terms of the Agreement do not conflict with any obligations by which the Manager or the Company is bound, whether arising by contract, operation of law or otherwise and (c) this Agreement has been duly authorized by appropriate corporate action. The Sub-Manager does hereby accept said appointment and by its execution of this Agreement the Sub-Manager represents and warrants that it is registered as an investment adviser under the Investment Advisers Act of 1940.

SECTION 2. Duties of the Sub-Manager.

(a) The Sub-Manager at all times will be subject to the supervision of the Manager and will have only such functions and authority as the Manager may delegate to it. The Sub-Manager will be responsible for the day-to-day operations of the Company with respect to its mortgage investments. The Sub-Manager will be responsible for the investment and reinvestment of those assets designated by the Manager as subject to the Sub-Manager's management (which assets, together with all additions, substitutions, and alterations thereto are hereinafter called the "Portfolio"). The Portfolio may include investments and instruments described in the guidelines for mortgage investments for the account of the Company. Until modified by the Manager, these guidelines shall be those set forth in Appendices A and A-1. The Company and the Manager hereby delegate to the Sub-Manager all of its powers, duties and responsibilities with regard to such investment and reinvestment and hereby appoints the Sub-Manager as its agent in fact with full authority to buy, sell or otherwise effect investment transactions involving investments in its name for the Portfolio. Said powers, duties and responsibilities shall be exercised by the Sub-Manager pursuant to and in accordance with this Agreement. Sub-Manager's authority to buy, sell or otherwise effect investment transactions involving investments in its name for the Portfolio shall be evidenced by a Trading Authorization in the form attached hereto as Appendix C, which Sub-Manager may show to third parties and on which third parties may rely, provided that in no event shall the actions of Sub-Manager made pursuant to such Trading Authorization modify, amend, diminish or otherwise alter the respective rights, duties and obligations of the Company, Sub-Manager and Manager hereunder. Notwithstanding the foregoing, the Manager shall have full authority to direct the Sub-Manager with respect to the investments in the Portfolio.

(b) The Sub-Manager will perform (or cause to be performed) such services and activities relating to mortgage investments of the Company as may be appropriate, including:

(i) serving as the Company's consultant with respect to formulation of mortgage investment criteria and preparation of mortgage investment policy guidelines;

(ii) furnishing reports to the Manager regarding the Company's mortgage investments and the services performed for the account of the Company by the Sub-Manager;

(iii) monitoring and providing to the Manager on an ongoing basis price information and other data, obtained from certain nationally recognized dealers that maintain markets in mortgage investments from time to time, and providing data and advice to the Manager in connection with the identification of such dealers;

(iv) performing and supervising the performance of such administrative functions necessary in the management of the Company's mortgage investments as may be agreed upon by the Sub-Manager and the Manager, including the maintenance of appropriate computer services to perform such administrative functions;

(v) to the extent not otherwise subject to an agreement executed by the Manager or the Company, designating a servicer for mortgage loans sold to the Company by originators and arranging for the monitoring and supervision of such servicers;

(vi) counseling the Manager in connection with policy decisions relating to mortgage investments to be made by the Company;

(vii) consulting with the Manager regarding the maintenance of the Company's status as a REIT and assisting the Manager in monitoring compliance with the various REIT qualification tests and other rules set out in the Code and regulations thereunder;

(viii) engaging in hedging activities relating to the Company's mortgage investments and consulting with the Manager to assure that such activities are consistent with maintaining the Company's status as a REIT;

(ix) upon request by and in accordance with the mortgage investment policy guidelines or with the direction of the Manager, investing or reinvesting any money of the Company; and

(x) consulting with the Manager regarding the maintenance of the Company's exemption from the Investment Company Act and assisting the Manager in monitoring compliance with the various requirements for such exemption.

(c) Portfolio Management. The Sub-Manager will perform portfolio management services on behalf of the Manager with respect to the Company's mortgage investments. Such services will include, but not be limited to, consulting with the Manager on purchase and sale policies, collection of information and submission of reports pertaining to the Company's mortgage investments, periodic review and evaluation of the performance of the Company's portfolio of mortgage investments, acting as liaison between the Company and banking, mortgage banking, investment banking and other parties with respect to the purchase, financing and disposition of mortgage investments, and other customary functions related to mortgage investment portfolio management.

(d) Reasonable Best Efforts. The Manager agrees to use its reasonable best efforts at all times in performing services for the Manager and the Company hereunder.

SECTION 3. Additional Activities of Sub-Manager. Nothing herein shall prevent the Sub-Manager or any of its Affiliates from engaging in other businesses or from rendering services of any kind to any other person or entity, including investment in, or advisory service to others investing in, any type of mortgage investment, including investments that meet the principal investment objectives of the Company. It is specifically understood and agreed that the Sub-Manager may directly or indirectly supply services of any nature, including investment advice and portfolio administration, to other companies seeking to qualify as a REIT, including companies sponsored or organized by it, that may be in direct or indirect competition with the Company. The Sub-Manager will not be required to resolve any conflicts of interest that may arise in connection with such competing services in favor of the Company, although employees

performing services for multiple accounts will seek to allocate investment and disposition opportunities available to and appropriate for the accounts in a manner that is reasonably fair over time to each such account. The Manager agrees that the Sub-Manager may refrain from rendering any advice or services concerning securities of companies of which any of the Sub-Manager's, or affiliates of the Sub-Manager's officers, directors, or employees are directors or officers, or companies for which the Sub-Manager or any of the Manager's affiliates or the officers, directors and employees of any of them has any substantial economic interest, unless the Sub-Manager either determines in good faith that it may appropriately do so without disclosing such conflict to the Manager or discloses such conflict to the Manager prior to rendering such advice or services with respect to the Company's mortgage investments. From time to time, when determined by the Sub-Manager in its capacity of a fiduciary to be in the best interest of the Company, the Sub-Manager may on behalf of the Company purchase securities from or sell securities to an account managed by the Sub-Manager at prevailing market levels in accordance with the procedure under section 17(a)(7) of the Investment Company Act of 1940.

SECTION 4. Commitments. In order to meet the investment requirements of the Company, as determined by the Manager from time to time, the Sub-Manager agrees, at the direction of the Manager, to issue on behalf of the Company commitments for the purchase of mortgage investments.

SECTION 5. Bank Accounts. At the direction of the Manager, the Sub-Manager may establish and maintain one or more bank accounts in the name of the Company, and may collect and deposit into any such account or accounts, and disburse funds from any such account or accounts, under such terms and conditions as the Manager may approve; and the Sub-Manager shall from time to time render appropriate accountings of such collections and payments to the Manager, the Company and, upon request, to the auditors of the Manager and the Company.

SECTION 6. Records; Confidentiality. The Sub-Manager shall maintain appropriate books of accounts and records relating to services performed hereunder, and such books of account and records shall be accessible for inspection by representatives of the Manager and the Company at any time during normal business hours. The Sub-Manager shall keep confidential any and all information obtained in connection with the services rendered hereunder and shall not disclose any such information to nonaffiliated third parties except with the prior written consent of the Manager.

SECTION 7. Obligations of Sub-Manager.

(a) At the sole cost and expense of the Company, the Sub-Manager shall require each seller or transferor of mortgage investments to the Company to make such representations and warranties regarding such investments as may, in the judgment of the Sub-Manager, be necessary and appropriate. In addition, the Sub-Manager shall take such other action as it deems necessary or appropriate with regard to the protection of the Company's mortgage investments.

(b) The Sub-Manager shall refrain from any action that would adversely affect the status of the Company as a REIT or that, to the best of its knowledge, would violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Company or the

Manager or that would otherwise not be permitted by the Company's charter or by-laws. If the Sub-Manager is ordered to take any such action by the Manager, the Sub-Manager shall promptly notify the Manager of the Sub-Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation, or the Company's charter or by-laws and shall not be required to take such action. Notwithstanding the foregoing, the Sub-Manager, its directors, officers, stockholders and employees shall not be liable to the Manager, the Company, or the Company's stockholders for any act or omission by the Sub-Manager, its directors, officers, stockholders or employees except as provided in Section 10 of this Agreement.

SECTION 8. Compensation. For services hereunder, the Manager shall be compensated in accordance with Exhibit B, attached hereto. If this agreement terminates at any time other than the end of a calendar quarter, the last quarterly fee shall be prorated based on the portion of such calendar quarter during which this Agreement was in force.

SECTION 9. Custodian. Securities representing Company mortgage investments shall be held by a custodian duly appointed by the Company, and the Sub-Manager is authorized to give instructions to the custodian with respect to all investment decisions regarding such mortgage investments. Except as provided in Paragraph 2 above, nothing contained herein shall be deemed to authorize the Sub-Manager to take or receive physical possession of any of the mortgage investments for the account of the Company, it being intended that sole responsibility for safekeeping thereof (in such investments as the Sub-Manager may direct) and the consummation of all purchases, sales, deliveries and investments made pursuant to the Sub-Manager's direction shall rest upon the custodian.

The Sub-Manager is authorized to enter into Tri-Party Repurchase Agreements and sign the standard PSA tri-party agreement (the "Tri-Party Agreement") on behalf of the Company and the subcustodian thereunder is authorized to act as a subcustodian for the Company mortgage investments involved in any tri-party repurchase agreement pursuant to such Tri-Party agreement.

SECTION 10. Limits of Sub-Manager Responsibility. The Sub-Manager assumes no responsibility under this Agreement other than to render the services called for hereunder in good faith and shall not be responsible for any action of the Manager or the Company in following or declining to follow any advice or recommendations of the Sub-Manager, including as set forth in Section 7 of this Agreement. The Sub-Manager, its directors, officers, stockholders and employees will not be liable to the Manager, the Company, or the Company's or any subsidiary's shareholders for any acts or omissions by the Sub-Manager, its directors, officers, stockholders or employees under or in connection with this Agreement, except by reason of acts constituting bad faith, willful misconduct, negligence or reckless disregard of their duties. The Manager shall reimburse, indemnify and hold harmless the Sub-Manager, its stockholders, directors, officers and employees of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever, (including attorneys' fees) in respect of or arising from any acts or omissions of the Sub-Manager, its stockholders, directors, officers and employees made

in good faith in the performance of the Sub-Manager's duties under this Agreement and not constituting bad faith, willful misconduct, negligence or reckless disregard of its duties.

SECTION 11. No Joint Venture. The Manager and the Sub-Manager are not partners or joint venturers with each other and nothing herein shall be construed to make them such partners or joint venturers or impose any liability as such on either of them.

SECTION 12. Resignation or Removal of the Sub-Manager. The Sub-Manager may be removed by the Manager or may resign upon 30 days' notice in writing. On the effective date of the removal or resignation of the Sub-Manager or as close to such date as is reasonably possible, the Sub-Manager shall provide the Manager with a final report containing such information concerning the Company's mortgage investments as the Manager may reasonably request.

SECTION 13. Assignment, Changes in Organization of Sub-Manager. Unless the Manager expressly consents thereto in writing, any assignment (as defined in the Investment Advisers Act of 1940) by the Sub-Manager of this Agreement shall automatically terminate this Agreement. If the Sub-Manager hereunder is converted into, merges or consolidates with or sells or transfers substantially all of its assets or business to another entity, the resulting entity or the entity to which such sale or transfer has been made shall notify the Manager of such sale or transfer and shall become the Sub-Manager hereunder only if the Manager specifically so consents in writing.

SECTION 14. Release of Money or Other Property Upon Written Request. The Sub-Manager agrees that any money or other property of the Company held by the Sub-Manager under this Agreement shall be held by the Sub-Manager as custodian for the Company, and the Sub-Manager's records shall be appropriately marked clearly to reflect the ownership of such money or other property by the Company. Upon the receipt by the Sub-Manager of a written request signed by a duly authorized officer of the Company or the Manager requesting the Sub-Manager to release to the Company any money or other property then held by the Sub-Manager for the account of the Company under this Agreement, the Sub-Manager shall release such money or other property to the Company within a reasonable period of time, but in no event later than 30 days following such request. The Sub-Manager shall not be liable to the Manager, Company, or the Company's or a subsidiary's stockholders for any acts performed or omissions to act by the Company or the Manager in connection with the money or other property released to the Company in accordance with this Section. The Company shall indemnify the Sub-Manager, its directors, officers, stockholders and employees against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever, which arise in connection with the Sub-Manager's release of such money or other property to the Company in accordance with the terms of this Section 14. Indemnification pursuant to this provision shall be in addition to any right of the Sub-Manager to indemnification under Section 10 of this Agreement.

SECTION 15. Notices. Unless expressly provided otherwise herein, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against

receipt or upon actual receipt of registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

(a) If to the Manager or the Company:

Friedman, Billings, Ramsey Investment Management, Inc.
1001 Nineteenth Street, North
Arlington, Virginia 22209
Attention: Robert S. Smith, Esq.

or by facsimile to (703) 312-9756

(b) If to the Sub-Manager:

Fixed Income Discount Advisory Company, Inc.
12 East 41st Street
New York, NY 10017
Attention: Michael A.J. Farrell, Chairman and CEO

or by facsimile to (212) __________

Either party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 19 for the giving of notice.

SECTION 16. Binding Nature of Agreement; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns as provided herein.

SECTION 17. Entire Agreement. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof. This Agreement may not be modified or amended other than by an agreement in writing.

SECTION 18. Controlling Law. This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the Commonwealth of Virginia, notwithstanding any Virginia or other conflict-of-law provisions to the contrary.

SECTION 19. Indulgences, Not Waivers. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege

preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

SECTION 20. Costs and Expenses. Each party hereto shall bear its own costs and expenses incurred in connection with the negotiations and preparation of and the closing under this Agreement, and all matters incident thereto.

SECTION 21. Titles Not to Affect Interpretation. The titles of paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part o f this Agreement nor are they to be used in the construction or interpretation hereof.

SECTION 22. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

SECTION 23. Provisions Separable. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

SECTION 24. Investment Manager Brochure. The Manager hereby acknowledges that it has received from the Sub-Manager a copy of the ADV Form, Part II, as currently filed, at least forty-eight hours prior to entering into this Agreement.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the parties hereto have executed this Management Agreement as of the date first written above.

FIXED INCOME DISCOUNT
ADVISORY COMPANY, INC.

By:________________________________
Name:______________________________
Title:_____________________________

FRIEDMAN, BILLINGS, RAMSEY
INVESTMENT MANAGEMENT, INC.

By:________________________________
Name:______________________________
Title:_____________________________

Agreed to:

FBR ASSET INVESTMENT CORPORATION

By:________________________________
Name:______________________________
Title:_____________________________

Appendix A
MORTGAGE LOAN PORTFOLIO

Proposed Investment Guidelines

The Portfolio.................................	The Mortgage Loan Portfolio (the Portfolio) is a separate account managed by Fixed Income Discount Advisory Company, Inc. (FIDAC) for the benefit of the FBR Asset Investment Corporation (the Corporation).
Investment Objective..........................	The Portfolio will consist of qualifying REIT mortgage assets that will earn both a positive spread to their funding costs and an attractive return on capital. Approximately 4-15% of the Corporation's total equity will be allocated to the Portfolio. This equity will be levered in order to meet the 55% qualifying "Non-RIC" asset requirement.
Duration Guidelines...........................	The Portfolio will be managed with a very low duration target.
Asset Guidelines..............................	Following are eligible investments: Loans secured by residential properties and agency and non-agency mortgage-backed securities backed by loans secured by residential and

	multifamily properties including, but not limited to 1) pass-throughs, 2) project loans, and 3) adjustable rate mortgages (further details follow in Appendix A1);
	The Portfolio may only invest in U.S. dollar denominated securities.
	The Portfolio may use interest swaps and/or exchange traded options for purposes of yield curve management and maintaining a target duration.
	The Portfolio may purchase private placement or Rule 144A securities.
Credit Criteria..............................	Securities must be rated investment grade or

	better by a national recognized credit rating agency at the time of purchase.
	In the event that a Portfolio investment is downgraded below these credit quality guidelines, the Investment Manager shall notify the Corporation and provide an evaluation and a recommended course of action.
Leverage..................................	The Portfolio may enter into reverse repurchase agreements. Other financing strategies will be used from time to time with the prior approval of the Company.
Reinvestment of Income.....................	All investment income of the Portfolio and capital gains, if any, will be added to the assets of the Portfolio.
Custodian.................................	As selected by the Corporation.

Appendix A1

DESCRIPTION OF MORTGAGE LOAN PORTFOLIO

Overview

Fixed Income Discount Advisory Company, Inc. (FIDAC) will be the sub-advisor on the Mortgage Portfolio. The investment objective of the Mortgage Portfolio is to manage a portfolio of qualifying REIT mortgage assets that will earn both a positive spread to their funding costs and an attractive return on capital.

FIDAC intends to invest primarily in the following three sectors of the mortgage market:

1. Whole-pool agency pass-through securities

2. Non-conforming residential mortgage loans
3. Project loans.

These sectors are described below.

Agency Pass-Through Securities

FIDAC will buy agency pass-through securities that represent 100% interest in the underlying conforming mortgage loans ("whole pools"). Most of the loans will fully amortize over the terms of their mortgages, but some may require a "balloon" payment upon maturity. Conforming loans comply with the underwriting requirements for purchase by one of the following agencies: Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), and Government National Mortgage Association (GNMA). Under current requirements, conforming loans must be secured by first liens on single-family residential properties that comply with requirements governing original outstanding principal balances, loan-to-value ratios, and various other underwriting criteria.

These securities do not bear the risk of credit loss due to defaults as they are guaranteed by the agencies. GNMA is a wholly owned corporate instrumentality of the U.S. Government within the U.S. Department of Housing and Urban Development (HUD) and, therefore, its guarantee is backed by the full faith and credit of the U.S. Government. FNMA and FHLMC are government-sponsored agencies that are not backed by the full faith and credit of the U.S. Government, although they have implicit government guarantees.

Agency securities may be collateralized by either fixed or adjustable coupons. Fixed-rate mortgage loans have a constant coupon over the life of the loan, generally 15 or 30 years. FIDAC will generally buy seasoned, short weighted-average maturity ("WAM"), fixed-rate securities. FIDAC will also invest in securities backed by adjustable-rate mortgage ("ARM") loans, which provide for the periodic adjustment of the coupon. The coupon is set as the sum of a fixed margin and an index, subject to certain periodic and life-time interest-rate caps. The most

common reference indices for ARMs are the Constant-Maturity Treasury Indices (CMT), LIBOR, and the CD rate. Agency securities may also include hybrid ARMs, which are securities that have an adjustable coupon for an initial period and thereafter a fixed coupon.

Mortgage loans are subject to prepayment risk. The rate at which prepayments occur on mortgage loans will be affected by a variety of factors, including current interest rates and economic, demographic, tax, social, legal, and other factors. Generally, prepayments increase when interest rates fall and decrease when interest rates rise. To the extent that actual prepayment rates are different than originally anticipated, the yield on and duration of investments in mortgage loans may be adversely affected. This may adversely affect the expected rate of return on the investments. FIDAC will seek to manage this risk through constant monitoring of the portfolio and an active funding and hedging program.

The markets for all of these assets are very liquid and FIDAC intends to purchase them from various Wall Street broker/dealers.

Non-Conforming or "Whole-Loan" Mortgages

FIDAC will also buy non-conforming adjustable-rate and hybrid mortgage loans and securities collateralized by such loans. Non-conforming mortgage loans are loans secured by first liens on single-family residential properties that do not qualify for purchase by FHLMC, FNMA, or GNMA. Non-conforming loans generally have outstanding principal balances in excess of agency-program guidelines or are issued based upon different underwriting criteria than those required by the agencies.

Pass-through securities collateralized by non-conforming loans (private pass-through securities) are issued by originators of and investors in mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks, and special-purpose subsidiaries of those instruments. Although these securities are generally structured similarly to the GNMA, FNMA, and FHLMC securities, they typically are not guaranteed by an entity having the credit status of one of the agencies and, therefore, generally offer higher yield than their agency counterparts. Although some credit risk does exist for both whole loans and whole loan-backed securities, historical losses from well-underwritten loan packages are extremely small.

While less liquid, there are active markets for both whole loans and securities collateralized by these loans. FIDAC intends to purchase these assets from various Wall Street dealers and mortgage originators. As an example, FIDAC has identified for purchase loans originated by Merrill Lynch as an attractive source of product. These loans are uncapped adjustable-rate mortgage loans that Merrill Lynch offers to its brokerage clients ("Prime First" Program).

Putable and Non-Putable FHA/GNMA Project Loans

Project loans are government-insured (via FHA insurance or GNMA guarantee) two-part

financing vehicles that (i) finance the construction or rehabilitation of multifamily residential housing and healthcare facilities and (ii) provide permanent financing for the project once construction is completed. The loans can have final maturities as long as forty years and, unlike single-family mortgage loans, often contain explicit call protection in the form of prepayment lock-outs or prepayment penalties that can last up to ten years. Project loans are sold as either single-loan participation or multiple-loan pools. Many project loans issued prior to 1984 contain a put-option provision which permits the loans to be assigned to HUD after twenty years .

Project loans are administratively complex, demanding significant knowledge of the project loans and the mortgage market in general. As a result of their complexity and various operational concerns, the market for these loans is less liquid than traditional mortgage loans.

Default risk is largely mitigated with project loans, since the FHA and GNMA insures the loans against default. FHA-insured project loans are effectively 99% insured, while GNMA-backed project loans are 100% insured.

One major advantage of these securities, relative to residential loans and securities, is that their cash flows are generally more stable. Non-putable project loans exhibit very stable cash flows over the first ten years of their term, owing to the explicit call protection of the loans. At the end of the call-protection period, the loans are fully prepayable. However, the greater costs associated with refinancing multifamily housing are a disincentive, even for loans at above market rates. The long maturity of the loans poses extension risk in the event of a significant rise in rates.

Putable project loans do not possess significant extension risk due to the ability to assign the loans to HUD. However, the loans generally do not possess significant call protection, because most of the loans are seasoned and, therefore, well into their lock-out period. Most putable project loans are lower-coupon issues, providing little incentive for the mortgagor to refinance based on changes in interest rates.

Project loans offer a significantly higher yield than single-family mortgage loans and, as mentioned above, these loans offer more stable cash flows than single-family mortgage loans due to their explicit prepayment protection, making them a unique asset class in the mortgage market.

The value of the call-protection feature has increased as the single-family market has become more efficient in exercising imbedded refinancing options. On an option-adjusted-spread (OAS) basis, project loans are estimated to be at least thirty basis points cheaper than single-family mortgage loans.

FIDAC intends to purchase these assets from various Wall Street broker/dealers and mortgage originators.

Sample Portfolio of December 31, 1999

ASSET CLASS	ALLOCATION RANGE	YIELD RANGE	DURATION RANGE
Short-WAM Pools	8-12%	6.25-6.75%	2.00-2.50
Agency ARMs	15-25%	6.00-6.50%	0.50-1.00
Hybrid ARMs	8-12%	6.75-7.25%	1.75-2.25
Whole-Loan ARMs (ML Prime First)	8-12%	6.75-7.25%	0.25-0.75
Whole-Loan ARMs	15-25%	6.25-6.75%	0.50-1.00
Putable Project Loans	8-12%	6.25-6.75%	2.50-3.50
Non-Putable Project Loans	15-25%	6.50-7.50%	4.50-5.50
Total Portfolio	100%	6.25-7.00%	1.50-2.50

Timing of Investments

It is anticipated that once the Company is fully invested in equity REIT securities, approximately 15% of the Company's total equity capital will be allocated to the Mortgage Loan Portfolio. This equity will be levered in order to meet the 55% qualifying "Non-RIC" asset requirement. Assuming total equity capital of $300 million, approximately $45 million will be allocated to the Mortgage Loan portfolio. Once fully invested, the portfolio will typically have leverage in the range of 6:1 to 9:1 (debt to equity), implying a total Mortgage Loan Portfolio of $300 million to $450 million.

In order to build a portfolio of this size, FIDAC will begin to invest in these securities as soon as possible after the closing date. While all of the sectors discussed above have fairly liquid markets, FIDAC would begin by investing in the most liquid sectors (agency securities), and slowly building toward our target allocations over a six-to-nine month time frame. The timing of investments and the amount of leverage in the portfolio will ultimately be a function of not only the availability of appropriate product, but also the timing and leverage of the non-Mortgage Loan Portfolio.

Funding/Hedging Strategy

The portfolio will be funded with equity, as well as with LIBOR-based collateralized borrowings. Derivatives may be used to effectively lock in longer-term funding costs to better match the maturities of the liabilities with the maturities of the assets. FIDAC will seek to manage the interest-rate risk of the portfolio's mark-to-market and net interest margin through the use of derivatives, as well as the asset-liability structure of the portfolio. One such measure of this risk is "duration," which measures the portfolio's sensitivity to changes in interest rates. The duration target of the portfolio's net assets (total assets less liabilities) will generally be set

at very low levels.

Some of the derivatives used to manage interest-rate risk will include interest-rate swaps and caps. Interest-rate swaps are arrangements whereby parties "swap" interest payments. The most common type of swap is one in which the two parties exchange fixed- for floating-rate payments. For example, if the rate to swap 5-year fixed for 3-month LIBOR is ten percent, the fixed payer will make fixed payments equal to ten percent per annum and receive 3-month LIBOR.

Swaps will be used for asset-liability management in that they will allow investors to swap floating-rate liabilities into a fixed rate.

Interest-rate caps, also referred to as interest-rate ceilings, allow the purchaser to "cap" the contractual rate associated with a floating-rate liability. The seller of the cap pays the purchaser any amount above the periodic capped rate on the settlement date. As mentioned above, the coupons of adjustable-rate mortgages are usually subject to certain periodic and life-time interest-rate caps. Purchasing caps allows the investor to effectively uncap the portfolio's ARM positions or, alternatively, to cap the portfolio's liability costs.

Sample Asset-Liability Position as of December 31, 1999

Leverage Ratio: [7:1] (debt to equity)

	AMOUNT	NET YIELD	DURATION
Assets	$360,000	6.40%	2.00
Liabilities	$[315,000	6.00%	0.25
	including hedge	6.25%	2.00
Net Assets	$45,000	7.45%	0.00

Appendix B

COMPENSATION OF SUB-MANAGER

As compensation for rendering services under the Mortgage Investment Sub-Management Agreement, the Sub-Manager shall be paid a quarterly management fee in arrears at the annual rate of 0.20% based on the average gross asset value of each calendar quarter (calculated as the average of the beginning and ending gross asset value of the calendar quarter) with a minimum annual fee of $100,000. The Sub-Manager will be reimbursed for reasonable out-of-pocket expenses incurred in connection with managing the Mortgage Assets, including travel, meals, hotels, and other miscellaneous expenses. The Sub-Manager agrees that the aggregate amount of such expenses shall not exceed $15,000 annually, without the prior approval of the Manager.

Appendix C

FORM OF TRADING AUTHORIZATION

To: Fixed Income Discount Advisory Company, Inc. (FIDAC)

Ladies and Gentlemen:

Pursuant to that certain Mortgage Investments Sub-Management Agreement (the "Sub-Management Agreement") by and between Friedman, Billings, Ramsey Investment Management, Inc. (the "Undersigned") and Fixed Income Discount Advisory Company, Inc. ("Authorized Agent"), the Undersigned hereby authorizes Authorized Agent to act as its agent and attorney to buy, sell and trade in bonds and other securities for the Undersigned's account(s) and risk and in the Undersigned's name or number on your books.

You may follow the express instructions of the Undersigned in every respect concerning the Undersigned's account(s) with you, and make deliveries of securities and/or payment of moneys to the Undersigned or otherwise as the Undersigned may order and direct. In all matters and things aforementioned, as well as in all other things necessary or incidental to the furtherance or conduct of the account of the Undersigned permitted under the Sub-Management

Agreement, the Authorized Agent is authorized to act for the Undersigned and on the Undersigned's behalf in the same manner and with the same force and effect as the Undersigned might or could do. Third parties are permitted to rely on this authorization as evidence of your authority to act as the Undersigned's agent, but no such reliance by a third party shall have any affect on the rights and obligation of you or the Undersigned under the Sub-Management Agreement.

The Undersigned hereby ratifies and confirms any and all transactions heretofore made by the Authorized Agent for the Undersigned's account which have been disclosed to the Undersigned.

This authorization is made pursuant to the Sub-Management Agreement and does not modify, amend, restrict or limit any rights or obligations you or the Undersigned may have under the Sub-Management Agreement or any other agreement between you and the Undersigned.

This authorization shall continue and remain in full force and effect until revoked by the Undersigned by a written notice addressed to you and delivered to your principal office (via mail or facsimile), but such revocation shall not affect any liability either you or the Undersigned may have resulting from transactions initiated prior to such revocation.

This authorization and its enforcement shall be governed by the laws of the State of New York. This authorization may not be assigned by you to any successor firm or firms without the express prior written consent of the Undersigned, which may given or withheld in the sole and absolute discretion of the Undersigned. The provisions hereof shall inure to the benefit of you or, to

the extent consented to in writing by the Undersigned, any assignee, irrespective of any change or changes at any time in the personnel thereof for any cause whatsoever, and shall be binding upon the Undersigned, and/or the estate executors, administrators and assigns of the Undersigned.

If any provision of this authorization shall be rendered invalid for any reason, the provisions of this agreement so affected shall be deemed modified or superseded, as the case may be, and all other provisions, and the provisions so modified or superseded shall in all respects continue and be in full force and effect.

INITIAL APPROPRIATE LINES IF AUTHORITY IS BEING GRANTED TO EFFECT MARGIN TRANSACTIONS OR WITHDRAW MONEY AND/OR SECURITIES.

Agent shall be authorized to purchase on margin: _____ _____ __________
Yes No Initials

Agent shall be authorized to wire money and/or securities to the designated accounts only:

_____ _____ __________
Yes No Initials

Very truly yours,

FRIEDMAN, BILLINGS, RAMSEY
INVESTMENT MANAGEMENT, INC.

By:____________________________
William R. Swanson, Chief
Operating Officer

Dated:_________________________

Annual Report to Shareholders for the Year
Ended December 31, 1999

This Annual Report on Form 10-K, without exhibits, will be delivered to the Registrant's shareholders before or simultaneously with delivery of the Registrant's annual proxy statement.

EXHIBIT 21.01

List of Subsidiaries of the Registrant

The registrant has no subsidiaries.

<ARTICLE> 5

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