BEXIL

- **Notice of 2013 Annual Meeting and Proxy Statement**

- **2012 Annual Report**

Ticker:

BXLC

11 Hanover Square
New York, NY 10005

Tel 1-212-785-0400
www.Bexil.com

BEXIL CORPORATION

Notice of Annual Meeting of Stockholders

To the Stockholders:

Notice is hereby given that the 2013 Annual Meeting of Stockholders ("Meeting") of Bexil Corporation (the "Company") will be held at The Down Town Association, 60 Pine Street, New York, New York on June 27, 2013 at 11:00 a.m., local time, for the following purposes:

1. To elect to the Board of Directors the Nominee, Charles A. Carroll, as a Class III Director to serve for a three year term and until his successor is duly elected and qualifies.

2. To ratify the appointment of auditors.

3. To consider and act upon any other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors unanimously recommends that stockholders vote FOR Proposals 1 and 2.

Stockholders of record at the close of business on April 19, 2013 are entitled to receive notice of and to vote at the Meeting.

By Order of the Board of Directors

John F. Ramírez
Secretary

New York, New York
June 5, 2013

THE MEETING WILL START PROMPTLY AT 11:00 A.M., LOCAL TIME. TO AVOID DISRUPTION, ADMISSION MAY BE LIMITED ONCE THE MEETING STARTS. PHOTOGRAPHIC IDENTIFICATION WILL BE REQUIRED FOR ADMISSION TO THE MEETING. PLEASE SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED PRE-ADDRESSED REPLY ENVELOPE WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. ANY STOCKHOLDER OF RECORD PRESENT AT THE MEETING MAY VOTE IN PERSON INSTEAD OF BY PROXY, THEREBY CANCELING ANY PREVIOUS PROXY.

Please Vote Immediately by Signing and Returning the Enclosed Proxy Card.
Delay may cause the Company to incur additional expenses to solicit votes for the Meeting.

BEXIL CORPORATION

PROXY STATEMENT

Annual Meeting of Stockholders
to be held June 27, 2013

This Proxy Statement is furnished in connection with a solicitation of proxies by Bexil Corporation (the "Company") to be voted at the 2013 Annual Meeting of Stockholders of the Company to be held at The Down Town Association, 60 Pine Street, New York, New York on June 27, 2013 at 11:00 a.m., local time, and at any postponements or adjournments thereof ("Meeting") for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. Only stockholders of record at the close of business on April 19, 2013 (the "Record Date") are entitled to be present and to vote on matters at the Meeting. Stockholders are entitled to one vote for each Company share held. Shares represented by executed and unrevoked proxies will be voted in accordance with the instructions on the Proxy Card. A stockholder may revoke a proxy by delivering to the Company a signed proxy with a date later than the previously delivered proxy or by sending a written revocation to the Company. To be effective, such revocation must be received prior to the Meeting. In addition, any stockholder who attends the Meeting in person may vote by ballot at the Meeting, thereby canceling any proxy previously given. As of the Record Date, the Company had 1,019,592 shares of common stock issued and outstanding. Stockholders of the Company will vote as a single class.

It is estimated that proxy materials will be mailed to stockholders as of the Record Date on or about June 10, 2013.

PROPOSAL 1: TO ELECT TO THE BOARD OF DIRECTORS THE NOMINEE, CHARLES A. CARROLL, AS A CLASS III DIRECTOR TO SERVE FOR A THREE YEAR TERM AND UNTIL HIS SUCCESSOR IS DULY ELECTED AND QUALIFIES.

The Board has approved the nomination of Charles A. Carroll (the "Nominee") as a Class III Director to serve for a three year term and until his successor is duly elected and qualifies. The Nominee currently serves as a director of the Company. Unless otherwise noted, the address of record for the Nominee is 11 Hanover Square, New York, New York 10005.

The following table sets forth certain information concerning the Nominee for Class III Director of the Company:

Name, Principal Occupation, and Business Experience	Director Since
Class III:	
CHARLES A. CARROLL – From 1990 to 2005, Mr. Carroll served as Managing Director of Kalin Associates, Inc., a member firm of the New York Stock Exchange ("NYSE"), prior to which, he served as a member of the NYSE representing Boettcher and Co.	2004

The persons named in the accompanying form of proxy intend to vote each such proxy FOR the election of the Nominee listed above unless a stockholder specifically indicates on a proxy the desire to withhold authority to vote for the Nominee. It is not contemplated that the Nominee will be unable to serve as a director for any reason but, if that should occur prior to the Meeting, the proxy holders reserve the right to substitute another person or persons of their choice for the Nominee. The Nominee listed above has consented to being named in this Proxy Statement and has agreed to serve as a director if elected.

Vote Required

As set forth in the Company's bylaws, except as otherwise provided in the charter and notwithstanding any other provision of Maryland law, "the election of any director by stockholders requires the affirmative vote of at least eighty percent (80%) of the outstanding shares of all classes of voting stock, voting together, in person or by proxy at a meeting at which a quorum is present, unless such action is approved by the vote of a majority of the Board of Directors, in which case such action requires the affirmative vote of a plurality of the votes cast at the Meeting." Inasmuch as the election of the Nominee was approved by a majority of the Board of Directors, a plurality of all the votes cast at the Meeting at which a quorum is present shall be sufficient to elect the Nominee.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS YOU VOTE FOR THE NOMINEE.

PROPOSAL 2: TO RATIFY THE APPOINTMENT OF AUDITORS.

The Board of Directors is empowered to appoint a firm to serve as the Company's auditors. The Board of Directors appointed BDO USA, LLP ("BDO") to serve as the Company's auditors for the fiscal period commencing January 1, 2013. Prior to that, Tait, Weller & Baker LLP ("Tait, Weller") served as the Company's auditors since 2006.

Although the Board of Directors has sole authority to appoint auditors, it is seeking the opinion of the stockholders regarding its appointment of BDO as auditors. For this reason, stockholders are being asked to ratify this appointment. If stockholders do not ratify the appointment of BDO as auditors, the Board will take that fact into consideration, but may, nevertheless, continue to retain BDO.

Vote Required

Under Article VIII of the Company's charter, except as otherwise provided in the charter and notwithstanding any other provision of the Maryland General Corporation Law to the contrary, any action submitted to a vote by stockholders requires the affirmative vote of at least eighty percent (80%) of the outstanding shares of all classes of voting stock, voting together, in person or by proxy at a meeting at which a quorum is present, unless such action is approved by the vote of a majority of the Board of Directors, in which case such action requires the lesser of (A) a majority of all the votes entitled to be cast on the matter with the shares of all classes of voting stock voting together, or (B) if such action may be taken or authorized by a lesser proportion of votes under applicable law, such lesser proportion. Inasmuch as the ratification of the appointment of auditors was approved by the vote of a majority of the Board of Directors, the affirmative vote of the majority of the votes validly cast at the Meeting at which a quorum is present will be required to ratify the appointment of auditors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS SHAREHOLDERS VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF AUDITORS.

How to Communicate with the Company's Board of Directors

Stockholders who wish to communicate with the Board of Directors or a particular director may send a letter to the Secretary of the Company at 11 Hanover Square, New York, New York 10005. The mailing envelope must contain a clear notation indicating that the enclosed letter is a "Stockholder-Board Communication" or "Stockholder-Director Communication." All such letters must identify the author as a stockholder and clearly state whether the intended recipients are all members of the Board or just certain specified individual directors. All communications received as set forth above will be opened by the office of our Secretary for the sole purpose of determining whether the contents represent a message to Company's directors. Materials that are unrelated to the duties and responsibilities of the Board of Directors, such as solicitations, resumes and other forms of job inquiries, surveys and individual complaints, or materials that are unduly hostile, threatening, illegal or similarly unsuitable will not be distributed, but will be made available upon request to the Board of Directors or individual directors as appropriate, depending on the facts and circumstances outlined in the communication.

ADDITIONAL INFORMATION

At the Meeting, the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the Meeting is sufficient to constitute a quorum. In the absence of a quorum, the stockholders present in person or by proxy or, if no stockholder entitled to vote is present in person or by proxy, any officer present entitled to preside or act as secretary of such meeting may adjourn the meeting without determining the date of the new meeting or from time to time without further notice to a date not more than 120 days after the original record date. Any business that might have been transacted at the meeting originally called may be transacted at any such adjourned meeting at which a quorum is present. Notice of adjournment of a stockholders meeting to another time or place need not be given if such time and place are announced at the meeting. A stockholder vote may be taken for one or more proposals prior to any adjournment. If a proxy is properly executed and returned accompanied by instructions to withhold authority to vote, represents a broker "non-vote" (that is, a proxy from a broker or nominee indicating that such person has not received instructions from the beneficial owner or other person entitled to vote shares of the Company on a particular matter with respect to which the broker or nominee does not have discretionary power), or is marked with an abstention (collectively, "abstentions"), the Company's shares represented thereby will be considered to be present at the Meeting for purposes of determining the existence of a quorum for the

transaction of business. Under Maryland law, abstentions do not constitute a vote "for" or "against" a matter and will be disregarded in determining "votes cast" on an issue.

In addition to the use of the mails, proxies may be solicited personally, by telephone, or by other means, and the Company may pay persons holding its shares in their names or those of their nominees for their expenses in sending soliciting materials to their beneficial owners. The Company will bear the cost of soliciting proxies. Authorizations to execute proxies may be obtained by telephonic instructions in accordance with procedures designed to authenticate the stockholder's identity. In cases where a telephonic proxy is solicited, the stockholder may be asked to provide his or her address, social security number (in the case of an individual), taxpayer identification number (in the case of an entity), or other identifying information, and the number of shares owned and to confirm that the stockholder has received the Company's Proxy Statement and proxy card in the mail. Within 72 hours of receiving a stockholder's telephonic voting instructions and prior to the Meeting, a confirmation will be sent to the stockholder to ensure that the vote has been taken in accordance with the stockholder's instructions and to provide a telephone number to call immediately if the stockholder's instructions are not correctly reflected in the confirmation. Stockholders requiring further information with respect to telephonic voting instructions or the proxy generally should contact the Company's transfer agent at 1-800-757-5755. Any stockholder giving a proxy may revoke it at any time before it is exercised by submitting to the Company a written notice of revocation or a subsequently executed proxy or by attending the Meeting and voting in person.

Discretionary Authority; Submission Deadlines for Stockholder Proposals

Although no business may come before the Meeting other than that specified in the Notice of Annual Meeting of Stockholders, shares represented by executed and unrevoked proxies will confer discretionary authority to vote on matters which the Company did not have notice of a reasonable time prior to mailing this Proxy Statement to stockholders. The Company's bylaws provide that in order for a stockholder to nominate a candidate for election as a director at an annual meeting of stockholders or propose business for consideration at such meeting, written notice generally must be delivered to the Secretary of the Company, at the principal executive offices, not less than 60 days nor more than 90 days prior to the first anniversary of the mailing of the notice for the preceding year's annual meeting. Proposals should be mailed to Bexil Corporation, Attention: Secretary, 11 Hanover Square, New York, New York 10005. The submission by a stockholder of a proposal for inclusion in the proxy statement or presentation at any stockholder meeting does not guarantee that it will be included or presented. Stockholder proposals are subject to certain requirements under Maryland law and must be submitted in accordance with the Company's bylaws.

Annual Statement of Affairs

A full and complete statement of the affairs of the Company, including a balance sheet and a financial statement of operations for the year ended December 31, 2012, shall be submitted at the Meeting and, within 20 days after the Meeting, placed on file at the Company's principal office.

Householding of Proxy Materials

To reduce the expenses of printing and delivering duplicate copies of proxy statements, some banks, brokers, and other nominee record holders may deliver only one copy of these materials to stockholders who share an address unless otherwise requested. If you share an address with another stockholder and have received only one copy of this proxy statement, you may request a separate copy of these materials at no cost to you by writing to Bexil Corporation, Attention: Secretary, 11 Hanover Square, New York, New York 10005. For future stockholder meetings, you may request separate copies of these materials or request that we send only one set of these materials to you if you are receiving multiple copies by calling or writing to us at the number or address given above.

Notice to Banks, Broker/Dealers, and Voting Trustees and Their Nominees

Please advise the Company's transfer agent, Illinois Stock Transfer Company, at 1-800-757-5755 whether other persons are the beneficial owners of the shares for which proxies are being solicited and, if so, the number of copies of this Proxy Statement and other soliciting materials you wish to receive in order to supply copies to the beneficial owners of shares.

It is important that proxies be returned promptly. Therefore, stockholders who do not expect to attend the Meeting in person are urged to complete, sign, date, and return the enclosed proxy card in the enclosed stamped envelope.

BEXIL CORPORATION

2012 ANNUAL REPORT

BEXIL CORPORATION

11 Hanover Square
New York, New York 10005
Tel. 1-212-785-0400 www.Bexil.com

June 5, 2013

Fellow Shareholders:

Bexil Corporation is a holding company engaged through subsidiaries in investment management, securities trading, and mortgage banking. We are also seeking to develop or acquire additional operating businesses where we can work with superior managers to grow the value of the business prudently and solidly for the long term.

Our objective is simple, straightforward, and sharply focused: to increase book value per share over time. We believe that long term shareholders will benefit from a rising book value as market recognition builds and investors come to appreciate Bexil's intrinsic value as well.

At December 31	Shares issued and outstanding	Bexil Shareholders' Equity $	Book Value $ per share
2000	806,411	9,788,927	12.14
2001	836,801	9,549,288	11.41
2002	865,061	12,983,211	15.01
2003	879,591	15,148,085	17.22
2004	879,591	14,882,887	16.92
2005	879,591	16,270,966	18.50
2006	883,592	37,864,881	42.85
2007	883,592	38,462,447	43.53
2008	883,592	38,583,085	43.67
2009	1,011,592	38,054,185	37.62
2010	1,017,592	36,624,015	35.99
2011	1,018,592	35,532,178	34.88
2012	1,019,592	28,474,638	27.93

Bexil shareholders' equity at year end amounted to $28,474,638 or $27.93 per share, a decline of $6.98 from $35,532,178, or $34.88 per share, from a year earlier. The decline was due primarily to a 2012 net loss attributable to Bexil shareholders amounting to $7,100,019, or $6.97 per share, as compared to a 2011 net loss of $1,212,253, or $1.19 per share. This statement of Bexil's shareholders' equity and income statement performance excludes the non-controlling interest in the mortgage banking subsidiary held by others at 2012 year end. While Bexil's book value per share declined for the fourth straight year, the price of its common stock, quoted in the over the counter market under the ticker BXLC, rose over the course of the year on 2012 volume of approximately 157,000 shares to an all time high of $50 per share at December 31, 2012.

A clear assessment of the Company's financial strength has become more difficult due to the growth of its consolidated mortgage banking business at Bexil American Mortgage Inc. For example, at 2011 year end, Bexil had positive working capital of about $31 million including over $26 million in cash, total assets of over $36 million, and no long term debt. At 2012 year end, Bexil's consolidated working capital was about $21 million including over $10 million in cash, but total assets ballooned to over $109 million, and debt on the balance sheet now approaches $79 million. These dramatic changes are due almost entirely to Bexil American Mortgage Inc. Unconsolidated with Bexil American Mortgage Inc., Bexil Corporation had positive working capital of about $10 million including over $7 million in cash, total assets of over $14 million, and no long term debt.

Results in each of Bexil's businesses -- investment management, securities trading, and mortgage banking – are discussed below. Generally, 2012 saw revenue and other income from the investment management and securities trading business improve, but net losses incurred in connection with the development of the mortgage business led to overall losses for the Company.

Investment Management

Effective February 1, 2011, Bexil Advisers LLC became the investment manager to Dividend and Income Fund, a closed end investment company listed on the New York Stock Exchange under the ticker symbol DNI. The Fund pays Bexil Advisers a monthly fee at an annual rate of 0.95% of the Fund's Managed Assets. "Managed Assets" means the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities, which liabilities exclude debt relating to leverage, short term debt and the aggregate liquidation preference of any outstanding preferred stock. Bexil Advisers also provides the Fund administrative services at cost. The Fund's most recently audited balance sheet, dated December 31, 2012, showed total assets less liabilities excluding debt related to leverage, etc. of about $115 million (as compared to $111 million at December 31, 2011). In total, 2012 management and administrative services fees increased to about $1.2 million, from about $0.9 million in 2011. For more information about the Fund, please visit http://www.dividendandincomefund.com.

Securities Trading

At December 31, 2012, Bexil Securities LLC and its affiliates owned approximately 420,000 shares, or 7%, of Dividend and Income Fund. Most of the unrealized loss on investments in securities reported by the Company in 2012, about $180,000, reflects the performance of this holding, versus unrealized gain of about $79,000 in 2011. Of course, in some years this may be realized in part or whole.

Recently the Fund has paid a $0.408 per share quarterly dividend distribution which, the Fund has announced, reflects the current managed distribution policy to provide shareholders with a relatively stable cash flow and to attempt to reduce or eliminate the Fund's market price discount to its net asset value per share. The Fund has stated that the amount of the distribution may vary depending on various factors, and that the policy may be changed or discontinued without notice. The distributions, if any, are paid primarily from ordinary income and any net capital gains, with the balance representing return of capital. Other income for Bexil in large part has been derived by dividends on this holding of the Fund's shares, which amounted to about $672,000 in 2012, as compared to roughly $82,000 in 2011. Bexil Securities has generally reinvested the dividend received in additional Fund shares pursuant to the Fund's dividend reinvestment plan.

Mortgage Banking

On October 7, 2011, Bexil Corporation announced that it had funded the start up of Bexil American Mortgage Inc., a residential mortgage origination company, along with management of the new enterprise, an experienced mortgage banking executive team. In May 2012, Bexil American's mortgage origination operations began. On December 31, 2012, Bexil American acquired 90% of the equity in Castle Mortgage Corporation, a mortgage lender operating in the southeastern United States, and an approved seller and servicer of mortgage loans with Fannie Mae, Freddie Mac, and Ginnie Mae. Bexil American simultaneously received an option to acquire the remaining 10% of Castle in the future at a predetermined price. Bexil American received financing from its management, Boulderado Partners, LLC, and Bexil Corporation to complete the acquisition.

We are expanding our wholesale mortgage business nationally. By April 2013 Bexil American was licensed to conduct a mortgage banking business in 18 states with 2 pending applications, and Castle is licensed in 11 states with 10 pending, making a total combined with no overlap of 24 states. Castle's seller/servicer approvals with Fannie Mae, Freddie Mac, and Ginnie Mae permit us to offer a broad and flexible array of mortgages, with better terms and conditions. If you are thinking about a home purchase mortgage, or about refinancing your existing mortgage, ask your mortgage broker to give us a call or visit us at www.bexilamerican.com.

Bexil has provided Bexil American with approximately $20.8 million in capital in exchange for Bexil American's subordinated convertible note, preferred stock, and common stock. Boulderado and Bexil American management have provided additional sums in exchange for common stock. As Bexil American attempts to execute its business plan, Bexil shareholders should be prepared for the risks inherent in the development of a new business, including ongoing losses. Bexil American's consolidated income, expense, and net loss for 2012 were, respectively, $3,865,455, $8,970,706, and $(5,105,251).

Last year I said Bexil shareholders are benefited immensely by each one of the men and women serving as its directors and employees, and cited in particular Alex Rozek. A non-employee director of Bexil American, Alex is the founder and Managing Member of Boulderado Group, LLC, which manages Boulderado Partners, LLC. As mentioned above, Boulderado Partners, LLC is invested directly in BAM; it is also a significant Bexil stockholder. Attached after this annual report is an excerpt from commentary on Bexil and Bexil American, as well as the mortgage market opportunity, made by Alex in 2012.

Change of Auditors

You might have noticed that we have changed our auditors this year to BDO USA, LLP from Tait, Weller & Baker LLP. Both are fine auditing firms, and Tait, Weller still audits Dividend and Income Fund, which is managed by Bexil Advisers. BDO, however, has special expertise in mortgage banking and as the proportion of Bexil's assets and revenues from that part of its operation has increased we thought the Company might benefit from BDO's expertise. The reports of Tait, Weller on the consolidated financial statements of the Company for the years ended December 31, 2011 and 2010 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. Likewise, there were no disagreements with Tait, Weller on any matter of accounting principles or practices, financial statements disclosure or auditing scope or procedure.

Outlook

The Company has made a substantial commitment to the mortgage business. Whether and when the business will begin to generate positive cash to replenish recent decreases in our book value per share is of critical importance. Of course, we are also working to improve returns from the Company's other assets. Having the value of an investment in Bexil grow is as important to us as it is to you -- management and affiliates own over 30% of Bexil's shares. Thank you for investing in Bexil Corporation.

Sincerely,

Thomas B. Winmill
President

Independent Auditor's Report

To the Board of Directors and Stockholders of
Bexil Corporation
New York, New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bexil Corporation (the "Company"), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bexil Corporation as of December 31, 2012, and the results of its operations and cash flows for the year ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

San Diego, California
June 5, 2013

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders of
Bexil Corporation

We have audited the accompanying consolidated balance sheet of Bexil Corporation and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. 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 audit provides 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 Bexil Corporation and subsidiaries at December 31, 2011, and the results of its operations and cash flows for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
May 29, 2012

BEXIL CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	$ 10,525,675	$ 26,699,698
Investments in securities	5,807,775	4,155,275
Restricted cash	2,426,848	-
Prepaid expenses and other assets	983,702	426,197
Mortgage loans held-for-sale, at fair value	78,741,441	-
Mortgage loans held-for-investment, at fair value	349,897	-
Mortgage servicing rights, at fair value	788,517	-
Derivative assets	1,367,718	-
Real estate owned	133,000	-
Intangible assets, net	8,008,019	4,200,000
Deferred taxes	-	1,363,730
Property and equipment, net	44,144	4,057
Total assets	$ 109,176,736	$ 36,848,957
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	$ 3,987,515	$ 346,593
Derivative liabilities	497,933	-
Warehouse borrowings	72,980,770	-
Notes payable	911,499	-
Total liabilities	78,377,717	346,593
Commitments and Contingencies (Note 19)		
Shareholders' equity		
Bexil Corporation shareholders' equity		
Common stock, $0.01 par value, 9,900,000 shares authorized; 1,019,592 and 1,018,592 issued and outstanding at December 31, 2012 and 2011, respectively	10,196	10,186
Series A participating preferred stock, $0.01 par value, 100,000 shares authorized: zero shares issued and outstanding	-	-
Additional paid in capital	16,361,903	16,287,083
Notes receivable for common stock issued	(2,887,433)	(2,855,113)
Accumulated comprehensive loss	(195)	(164)
Retained earnings	14,990,167	22,090,186
Total Bexil Corporation shareholders' equity	28,474,638	35,532,178
Non-controlling interests in subsidiary	2,324,381	970,186
Total shareholders' equity	30,799,019	36,502,364
Total liabilities and shareholders' equity	$ 109,176,736	$ 36,848,957

See accompanying notes to consolidated financial statements.

BEXIL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2012 and 2011

	2012	2011
Revenues		
Unrealized gain on mortgage loans held-for-sale, net	$ 2,434,820	$ -
Dividends and interest	1,320,231	182,718
Management and other fees	1,229,926	861,982
Other non-interest income	483,902	-
Realized gain on sale of mortgage loans held-for-sale, net	372,580	-
Unrealized gain (loss) on investment in securities	(156,213)	79,918
	5,685,246	1,124,618
Expenses		
Compensation and benefits	8,477,328	1,993,341
General and administrative	1,765,379	273,277
Professional	967,870	760,185
Interest expense	707,428	-
Other	302,817	-
	12,220,822	3,026,803
Loss before income taxes	(6,535,576)	(1,902,185)
Income tax expense (benefit)	1,377,418	(432,874)
Net loss	(7,912,994)	(1,469,311)
Less: Net loss attributable to non-controlling interests	812,975	257,058
Net loss attributable to Bexil Corporation shareholders	$ (7,100,019)	$ (1,212,253)
Earnings per share - basic and diluted		
Net loss attributable to Bexil Corporation shareholders	$ (6.97)	$ (1.19)
Weighted average shares outstanding	1,019,261	1,017,759
Other comprehensive loss, net of tax		
Unrealized loss on investment securities available-for-sale, net of tax	(31)	(98)
Other comprehensive loss, net of tax	(31)	(98)
Comprehensive loss	(7,913,025)	(1,469,409)
Less: Comprehensive loss attributable to non-controlling interests	812,975	257,058
Comprehensive loss attributable to Bexil Corporation shareholders	$ (7,100,050)	$ (1,212,351)

See accompanying notes to consolidated financial statements.

BEXIL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2012 and 2011

	Common Stock Shares	Common Stock Par Value	Additional Paid in Capital	Notes Receivable for Common Stock Issued	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total Shareholders' Equity
Balance at December 31, 2010	1,017,592	$ 10,176	$ 15,935,171	$ (2,827,223)	$ 23,505,957	$ (66)	$ -	$ 36,624,015
Net loss	-	-	-	-	(1,212,253)	-	(257,058)	(1,469,311)
Unrealized security holding loss, net of taxes	-	-	-	-	-	(98)	-	(98)
Dividends	-	-	-	-	(203,518)	-	-	(203,518)
Purchase of non-controlling interests in subsidiary	-	-	-	-	-	-	1,300,000	1,300,000
Stock issuance cost of capital contributed to subsidiary	-	-	(168,750)	-	-	-	(81,250)	(250,000)
Stock-based compensation expense	-	-	492,772	-	-	-	8,494	501,266
Common stock issued with exercise of stock options	1,000	10	27,890	-	-	-	-	27,900
Acceptance of promissory notes with exercise of stock options	-	-	-	(27,890)	-	-	-	(27,890)
Balance at December 31, 2011	1,018,592	10,186	16,287,083	(2,855,113)	22,090,186	(164)	970,186	36,502,364
Net loss	-	-	-	-	(7,100,019)	-	(812,975)	(7,912,994)
Unrealized security holding loss, net of taxes	-	-	-	-	-	(31)	-	(31)
Purchase of non-controlling interests in subsidiary	-	-	-	-	-	-	2,258,000	2,258,000
Stock issuance cost of capital contributed to subsidiary	-	-	(418,100)	-	-	-	(107,900)	(526,000)
Stock-based compensation expense	-	-	460,600	-	-	-	17,070	477,670
Common stock issued with exercise of stock options	1,000	10	32,320	-	-	-	-	32,330
Acceptance of promissory notes with exercise of stock options	-	-	-	(32,320)	-	-	-	(32,320)
Balance at December 31, 2012	1,019,592	$ 10,196	$ 16,361,903	$ (2,887,433)	$ 14,990,167	$ (195)	$ 2,324,381	$ 30,799,019

See accompanying notes to consolidated financial statements.

BEXIL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net loss	$ (7,912,994)	$ (1,469,311)
Adjustments to reconcile net loss to net cash used in operating activities		
Change in fair value of mortgage loans held-for-sale	(2,434,820)	-
Mark to market adjustments on derivative assets and liabilities, net	(346,409)	-
Origination of mortgage loans held-for-sale	(245,247,857)	-
Principal payments received on loans held-for-sale	428,339	-
Proceeds for sale of mortgage loans held-for-sale	171,220,028	-
Purchase of investment securities, trading	(1,808,755)	(4,074,004)
Stock-based compensation expense	477,670	501,266
Unrealized loss (gain) on investments in securities	125,318	(79,918)
Realized loss on investments in securities	30,906	-
Depreciation and amortization	363,557	2,029
Increase in restricted cash	(2,426,848)	-
(Increase) decrease in prepaid expenses and other assets	(321,419)	151,776
Increase in deferred taxes	1,363,730	(419,511)
Increase (decrease) in accounts payable and accrued expenses	2,073,464	(272,494)
Net cash used in operating activities	(84,416,090)	(5,660,167)
Cash flows from investing activities		
Cash paid for Castle Mortgage Corporation, net of cash acquired	(3,804,526)	-
Acquisition of management contract	(125,000)	(4,200,000)
Purchase of property and equipment	(4,000)	-
Net cash used in investing activities	(3,933,526)	(4,200,000)
Cash flows from financing activities		
Repayment of warehouse borrowings	(169,133,296)	-
Borrowing under warehouse agreement	239,989,879	-
Proceeds from capital contribution of non-controlling interests in subsidiary	1,845,000	1,300,000
Stock issuance costs of capital contributions to subsidiary	(526,000)	(250,000)
Issuance of stock upon exercise of stock options	32,330	27,900
Promissory notes accepted with exercise of stock options	(32,320)	(27,890)
Dividends paid	-	(203,518)
Net cash provided by financing activities	72,175,593	846,492
Net decrease in cash and cash equivalents	(16,174,023)	(9,013,675)
Cash and cash equivalents, beginning of year	26,699,698	35,713,373
Cash and cash equivalents, end of year	$ 10,525,675	$ 26,699,698
Supplemental disclosures		
Interest paid	$ 502,184	$ -
Income taxes paid	$ 13,700	$ 1,120
Promissory notes accepted for capital contributions by the non-controlling interests	$ 135,000	$ -

See accompanying notes to consolidated financial statements.

BEXIL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Bexil Corporation ("Bexil" or the "Company") is a holding company engaged through subsidiaries in investment management, securities trading, and mortgage banking. The Company was incorporated in Maryland in 1996.

The following are the Company's operating subsidiaries, all of which are wholly owned except where indicated:

Bexil Advisers LLC ("Bexil Advisers") is a Maryland limited liability company and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Bexil Advisers is the investment manager of Dividend and Income Fund ("DNI") (NYSE:DNI), a closed end registered investment company.

Bexil Securities LLC ("Bexil Securities") is a Maryland limited liability company and is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority. Bexil Securities may engage in trading securities for its own account and act as a mutual fund underwriter or sponsor on a best efforts basis.

Bexil American Mortgage Inc. ("Bexil American") was incorporated under the laws of the State of Delaware on September 16, 2011. Bexil American is engaged in the mortgage banking business including, but not limited to origination, production, and sale into the secondary mortgage market. On December 31, 2012, Bexil American acquired a controlling interest in Castle Mortgage Corporation ("Castle"). Castle was incorporated on March 17, 1986 under the laws of the State of Delaware. Castle is engaged in the mortgage banking business including, but not limited to the origination, production, servicing, and sale of mortgage loans into the secondary mortgage market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the financial position, results of operations, and cash flows of the Company, its wholly and majority owned subsidiaries, Bexil American and Castle, in which the Company has direct or indirect controlling financial interests. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany balances and transactions have been eliminated in consolidation.

The third party holdings of equity interests in the Company's consolidated subsidiaries that are less than wholly owned are presented as non-controlling interests in subsidiaries in the consolidated financial statements. The portion of net income (loss) attributable to the non-controlling interests for such subsidiaries is presented as net income (loss) attributable to non-controlling interests in subsidiaries in the Consolidated Statements of Operations, and the portion of shareholders' equity of such subsidiaries is presented as non-controlling interests in subsidiaries in the Consolidated Balance Sheets and Consolidated Statements of Changes in Shareholders' Equity.

Cash and Cash Equivalents

Investments in money market funds and short term investments and other marketable securities maturing in 90 days or less are considered to be cash equivalents.

Derivative Instruments

In its loan origination activities, the Company makes contractual commitments to loan applicants to originate mortgages at specified interest rates ("interest rate lock commitments" or "IRLC").These commitments are accounted for as derivative financial instruments. The Company manages the risk created by IRLC relating to mortgage loans acquired for sale by entering into forward sale agreements to sell the mortgage loans and by the purchase and sale of interest rate options and futures ("Hedging Instruments"). The fair value of IRLCs and Hedging Instruments are represented as derivative assets and liabilities in Note 5, Fair Value Measurements.

The Company accounts for its derivative financial instruments as free-standing derivatives. The Company does not designate its forward sale agreements or options and futures for hedge accounting. All derivative financial instruments are recognized on the balance sheet at fair value with changes in the fair values being reported in current period income. The fair value of the Company's derivative financial instruments is included in Derivative assets and Derivative liabilities and changes in fair value are included in "Realized and Unrealized gain on sale of loans held-for-sale," as applicable, in the Company's Consolidated Statements of Operations. The Company classifies changes in derivative assets and liabilities within operating cash flows in the Consolidated Statements of Cash Flows.

Earnings Per Share

Basic earnings per share attributable to Bexil shareholders is calculated by dividing net loss attributable to Bexil shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to Bexil shareholders is calculated by dividing net loss attributable to Bexil shareholders by the weighted average number of common shares used in the basic earnings per share calculation plus the dilutive effect of stock options. The dilutive effect of stock options is determined using the treasury stock method, whereby exercise is assumed at the beginning of the reporting period, the proceeds from such exercise are assumed to be used to purchase common stock at the average market price during the period, and the incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share calculation.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2012 and 2011:

	2012	2011
Net loss attributable to Bexil shareholders	$ (7,100,019)	$ (1,212,253)
Basic and diluted weighted average common shares outstanding	1,019,261	1,017,759
Basic and diuted per share net loss	$ (6.97)	$ (1.19)

Stock options will have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the option ("in the money options"). Stock options outstanding with an exercise price higher than the average stock price for the periods presented ("out of the money options") are excluded from the calculation of diluted net income per share since the effect would have been anti-dilutive under the treasury stock method.

As of December 31, 2012 and 2011, respectively, 138,900 and 120,000 shares of common stock from outstanding stock option awards were excluded from the computation of diluted net loss per common share attributable to Bexil shareholders since the effect as of each year would be anti-dilutive.

Fair Value Option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value. The Company has elected the fair value option on mortgage loans held-for-sale and mortgage loans held-for-investment. Elections were made since management believes the fair value approach more accurately reflects the Company's operating results.

Impairment of Long-Lived Assets, including Intangible Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets, as appropriate, may not be recoverable. When the sum of the undiscounted future net cash flows are not expected to be sufficient to recover an asset's carrying amount, the asset will be written down to fair value based bids received from third parties or a discounted cash flow analysis based on market participant assumptions. There were no impairments during 2012 or 2011.

Income Taxes

The Company records the current and deferred tax consequences of all transactions that have been recognized in the financial statements in accordance with the provisions of the enacted tax laws. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years. The Company records a valuation allowance, when necessary, to reduce deferred tax assets to an amount that more likely than not will be realized.

The Company has reviewed its tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on federal, state, and local income tax returns for open tax years (2009 – 2011) or expected to be taken in the Company's 2012 tax returns.

Intangible Assets

Intangible assets identified on the acquisition of a business are capitalized if the fair value can be measured reliably on initial recognition (transaction date) and, if they are determined to be finite-lived, are amortized and recorded as operating expenses on a straight-line basis over their useful lives which reflects the pattern in which the economic benefits are realized. Intangible assets of the Company include an investment management contract and Government Sponsored Entity ("GSE") approvals. The Company considers its own assumptions, which require management's judgment, about the expected life of the asset, consistent with its expected use of the asset. A change in the useful life of an intangible asset could have a significant impact on the Company's operating expenses. Where evidence exists that the asset has a high likelihood of continued use at little or no cost to the Company, the intangible asset is assigned an indefinite life and reviewed for impairment on an annual basis. The Company reevaluates the useful life determination for intangible assets annually to determine whether events and circumstances warrant a revision to the remaining useful life or an indication of impairment.

Investments in Securities

Investments in equity securities that have readily determinable fair values are accounted for as either trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. Purchases and sales of trading investments are classified as operating activities on the Consolidated Statements of Cash Flows based on the nature and purpose for which the securities were acquired. Available-for-sale securities are all other investments in equity securities not accounted for as trading. Trading and available-for-sale investments are measured at fair value. Gains or losses from changes in the fair value of trading investments are included in income, and gains or losses from changes in the fair value of available-for-sale investments are recorded in accumulated other comprehensive income, net of tax, until the investment is sold or otherwise disposed of, or until the investment is determined to be other-than-temporarily impaired, at which time the cumulative gain or loss previously reported in equity is included in income. The specific identification method is used to determine the realized gain or loss on securities sold or otherwise disposed.

Fair value is determined using a valuation hierarchy generally by reference to an active trading market, using quoted closing or bid prices. Judgment is used to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

The Company periodically evaluates the carrying value of investment in securities for impairment. The Company considers, among other factors, the duration and extent of any decline in fair value, the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value, and recent events specific to the issuer or industry. If the decline in value is determined to be other-than-temporary, the carrying value of the security is written down to fair value through the income statement.

Mortgage Loans Held-for-Investment

Mortgage loans held–for-investment consist primarily of first trust deeds on single-family residences located throughout the United States. These loans were either originated with the intent to sell into the secondary market before the market dislocation for such loans or were loans subsequently repurchased due to quality control, credit deficiency, or early payment default. Mortgage loans held-for-investment are placed on nonaccrual status consistent with the Company's policy described in mortgage loans held-for-sale.

Mortgage Loans Held-for-Sale

During 2012, the Company established a residential mortgage lending operation. Mortgage loans held-for-sale ("LHFS") are accounted for at fair value, with changes in fair value recorded in income. Loan origination fees and expenses are recognized in earnings as incurred and not deferred.

Revenue derived from the Company's mortgage lending activities includes loan fees collected at the time of origination and gain or loss from the sale of LHFS. Loan fees consist of fee income earned on all loan originations, including loans closed and held for sale, and includes amounts earned relating to application and underwriting fees and fees on cancelled loans. Loan fees are recognized as earned and related direct loan origination costs are recognized when incurred. Gain or loss from the sale of LHFS includes both realized and unrealized gains and losses and are included in income in the accompanying Consolidated Statements of Operations. The valuation of LHFS approximates a whole-loan price, which includes the value of the related mortgage servicing right.

The Company has primarily sold its LHFS to private investors. The Company's acquisition of Castle on December 31, 2012 will also allow the Company to sell loans to GSEs. The Company evaluates its loan sales for sales treatment. To the extent the transfer of a loan qualifies as a sale, the Company derecognizes the loan as LHFS and records the gain or loss on the sale date. In the event the Company determines that the transfer of a loan does not qualify as a sale, the transfer normally would be treated as a secured borrowing. Interest received from loans is recorded as income when collected. LHFS are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. A loan returns to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible. There were no loan sales in 2012 that were treated as secured borrowing.

Mortgage Servicing Rights

Upon the settlement of the sale of a mortgage loan with the mortgage servicing right ("MSR") retained, the recorded receivable for the sale is removed from the balance sheet and a MSR is recorded as an asset for the MSR retained. A gain on sale, if applicable, is recorded for the difference between the carrying value of the mortgage loan sale receivable and the sales proceeds, net of origination costs and any mortgage subservicing costs.

All MSRs recorded on the balance sheet of the Company were acquired on the acquisition of Castle, at which time the MSRs were measured at fair value. The Company elected to measure MSRs at fair value and, as such, MSR assets and liabilities are valued using discounted cash flow modeling techniques using assumptions regarding future net servicing cash flow, including prepayment rates, discount rates, servicing cost and other factors. Changes in estimated value are reported in the accompanying Consolidated Statements of Operations within "Other non-interest income."

The Company receives MSR fees typically within a range of the annual rate of 0.25% on the unpaid principal balances of the loans. The fees are collected from the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. The Company generally receives other remuneration from MSRs, such as late charges, collateral re-conveyance charges, and nonsufficient fund fees, and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax, and insurance payments. Since the MSRs were acquired on December 31, 2012, there was no MSR activity included in the accompanying Consolidated Statements of Operations.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance are charged to operations as incurred. Depreciation and amortization is calculated using the straight-line method over the estimated useful life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. The estimated useful lives of the major classifications of property and equipment are as follows: office equipment, 3-7 years; leasehold improvements, shorter of lease term or useful life - generally 1-2 years.

Real Estate Owned

Real estate owned ("REO") consists of residential real estate acquired in satisfaction of loans. REO is carried at the lower of adjusted cost or net realizable value, which includes the estimated fair value of the residential real estate less estimated selling and holding costs and may be offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequent write-downs in the net realizable value of REO are included within non-interest expense in the Consolidated Statements of Operations. No losses were recorded on REO in 2012. As of December 31, 2012, the Company had $133,000 of REO. There were no REO assets held as of December 31, 2011.

Regulation

Bexil Advisers is registered with the Securities and Exchange Commission (SEC) as an investment adviser under the Investment Advisers Act of 1940.

Bexil Securities is a registered broker-dealer and member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation.

Bexil American and Castle are subject to, among other laws, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, Fair Credit Reporting Act, Fair and Accurate Credit Transaction Act, Fair Housing Act, Gramm- Leach, Bliley Act, Telephone Consumer Protection Act, Can Spam Act, Real Estate Settlement Procedures Act, Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the regulations promulgated thereunder. These laws and regulations, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs, prohibit the payment of kickbacks for the referral of business incident to a real estate settlement service, limit payment for settlement services to the reasonable value of the services rendered and goods furnished, restrict the marketing practices used to find customers, require the safeguard of non-public information about customers and require the maintenance, disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution, price and income level and established national minimum standards for mortgage licenses. Mortgage lending activities are also subject to state and local laws and regulations, including state licensing laws and anti-predatory lending laws, and may also be subject to applicable state usury statutes.

Castle is an approved Housing and Urban Development ("HUD") lender. As a HUD approved lender, Castle is required to submit annually to Fannie Mae, Freddie Mac, and HUD, as applicable, audited financial statements, or the equivalent, according to the financial reporting requirements of each regulatory entity for its sellers/servicers. Castle's affairs are also subject to examination by Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), HUD, and state regulatory agencies at any time to assure compliance with applicable regulations, policies and procedures.

All aspects of our business are subject to extensive federal and state laws and regulations. These laws and regulations are primarily intended to benefit or protect our clients. They generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict the conduct of our business in the event that we fail to comply with laws and regulations. Possible sanctions that may be imposed on us in the event that we fail to comply include the suspension of individual employees, limitations on engaging in certain business activities for specified periods of time, revocation of our investment adviser and other registrations, censures, and fines. Certain of our subsidiaries are subject to net capital requirements including those of various federal and state regulatory agencies. Each of our subsidiaries' net capital, as defined, meets or exceeds all minimum requirements.

Revenue Recognition

The operating revenues of the Company consist of payments for investment management and administrative services performed by a Company subsidiary pursuant to an investment management agreement ("IMA") with a closed end fund. Under the terms of the IMA, the fund pays the subsidiary a fee monthly for the investment management services based on a percentage of assets under management and reimburses the subsidiary quarterly for providing at cost certain administrative services comprised of compliance and accounting services. Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for services provided in the normal course of business. The IMA provides persuasive evidence of an arrangement, services have been provided, collectability is reasonably assured, and the revenue can be reliably measured. Revenue is generally accrued over the period for which the service is provided.

Reclassification

Certain amounts in the prior period consolidated financial statements and related footnotes have been reclassified to conform to the 2012 presentation.

Restricted Cash

Cash balances that have restrictions as to the Company's ability to withdraw funds are considered restricted cash. Such restrictions are due to debt covenant restrictions and margin requirements. At December 31, 2012, restricted cash totaled $2,426,848. There were no cash balance restrictions as of December 31, 2011.

Stock-based Compensation

The Company accounts for stock-based compensation expense using the fair value method. Under the fair value method, stock-based compensation expense reflects the fair value of stock-based awards measured at grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. The fair value of each option award grant is separately estimated for each grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model incorporates assumptions as to price volatility, dividend yield, an appropriate risk-free interest rate, and the expected life of the option. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. Stock-based compensation expense is generally amortized on a straight-line basis between the grant date for the award and each vesting date.

Subsequent Events

Management has evaluated the effect of subsequent events through June 5, 2013, which is the date the consolidated financial statements were available to be issued. There were no events that require adjustment of, or disclosure in, the consolidated financial statements for the year ended December 31, 2012.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain items, including the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are primarily used in the determination of impairment, valuation of share-based compensation, and expenses allocation. Actual results may differ from those estimates.

Newly Issued Accounting Guidance

Effective January 1, 2013, the Company will adopt the amended guidance in Accounting Standards Codification ("ASC") Topic 210, Balance Sheet. The amended guidance addresses disclosure of offsetting financial assets and liabilities. It requires entities to add disclosures showing both gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated disclosures will be implemented retrospectively and will not impact the Company's financial position or results of operations.

3. BUSINESS DEVELOPMENTS

Acquisition of Castle Mortgage Corporation

On December 31, 2012, the Company acquired 90% of the outstanding equity interests of Castle Mortgage Corporation, a mortgage originator and servicer primarily operating in the state of Alabama, for approximately $3.8 million. In connection with the acquisition, the Company obtained GSE approvals which provide the Company access to the GSE marketplace and agency direct programs, such as FNMA, FHLMC and the Government National Mortgage Association ("GNMA"). The Castle acquisition was accounted for using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired, the liabilities assumed, and the non-controlling interest in Castle were recorded at their estimated fair values as of the date of the acquisition. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the respective assets and liabilities. Since the Company was acquired substantially for the GSE licenses, a substantial portion of the purchase price was allocated to intangible assets.

The Company's total consideration paid for Castle included payments to various parties to settle certain liabilities of Castle which increased the purchase price by $1,804,526.

The following tables summarize consideration paid for Castle and the amounts of the assets and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Castle at December 31, 2012:

Cash	$	2,000,000
Liabilities paid during acquisition		1,804,526
Total consideration paid	$	3,804,526

The components of the purchase price allocation for Castle were as follows:

Accounts receivable	$	60,695
Prepaid expenses and other assets		40,391
Mortgage loans held-for-sale		2,707,131
Mortgage loans held-for-investment		349,897
Mortgage servicing assets		788,517
Derivative assets		523,376
Real estate owned		133,000
Intangible assets		4,043,436
Property and equipment, net		39,226
Warehouse borrowings		(2,124,187)
Accounts payable and other liabilities		(1,038,179)
Repurchase liability		(529,278)
Debt assumed		(911,499)
Non-controlling interest in Castle		(278,000)
Total net asssets acquired	$	3,804,526

The fair value of the non-controlling interest in Castle represents the agreed upon contractual purchase option held by the Company to purchase the remaining 10% equity interest in Castle. The Company has ten years from the closing of the acquisition on December 31, 2012 to purchase the remaining 10% equity interest at this price. The Company may elect to exercise this option at any time during the ten year period.

The Company incurred acquisition-related costs (included in "General and administrative" expenses in the Company's Consolidated Statement of Operations for the year ended December 31, 2012) in the amount of $252,772.

Capitalization and Formation of Bexil American Mortgage Inc.

On October 7, 2011, the Company entered into a Stockholders Agreement (the "Stockholders Agreement") with Bexil American and certain individuals (the "Founders Group") to create Bexil American to engage in the mortgage banking business, including but not limited to the origination, production, and/or sale into the secondary mortgage market of first and/or subordinate lien mortgages. Bexil American received $4,000,000 in cash of which $2,700,000 and $1,300,000 was contributed by the Company and the Founders Group, respectively, in exchange for shares of Bexil American common stock at $100 per share, giving the Company at 67.5% ownership interest.

On March 15, 2012, the Company contributed $4,000,000 in cash in exchange for 40,000 shares of Bexil American common stock at $100 per share. On April 25, 2012, the Stockholders Agreement was amended (the "Amendment") for purposes of, among others, (i) revising the timing, milestones and other terms for funding the operations of Bexil American; (ii) converting the common stock in Bexil American held by Bexil to Series A Preferred Stock, as defined in the Amendment, and providing for its conversion back to common stock under certain circumstances, and (iii) adding an option of Bexil to acquire the stock owned by the Founders Group

under certain circumstances. The Amendment was to induce Bexil to provide additional funds to Bexil American and its operations on an expedited basis, and to provide a limited guarantee of collection of certain of Bexil American's obligations to a prospective mortgage loan purchaser.

On June 28, 2012, the Company contributed $7,000,000 in cash to Bexil American in exchange for 77,000 shares of Series A Preferred Stock, convertible to Bexil American common stock on a one for one basis.

On December 28, 2012, in connection with the acquisition of Castle, the Company contributed cash and 237,741 shares of DNI in-kind valued at $3,213,636 to Bexil American in exchange for 32,000 shares of Bexil American common stock at $100 per share. Bexil American also received from management and another investor contributions totaling $1,980,000 in cash in exchange for an aggregate of 19,800 shares of Bexil American common stock at $100 per share. In addition, the Company loaned Bexil American $3,820,000 in cash and accepted a subordinated, convertible promissory note (the "Note") from Bexil American for the principal sum of $3,820,000. The Note is subordinate, junior and inferior to all other debts and obligations of Bexil American, and convertible into Series A Preferred Stock at $100 per share on or after June 15, 2013. The monthly interest rate is determined quarterly on the last business day of the preceding calendar quarter and is equal to the greater of 10% or seven percentage points over the yield on three year Treasury bills. Interest is calculated on the basis of a 365 day year and actual number of days elapsed. Interest is paid quarterly in arrears on the first day of each calendar quarter beginning April 1, 2013. The principal balance of the Note and the then all accrued interest is due and payable five years from the effective date of December 27, 2012.

Stock issuance costs incurred netted against proceed received in connection with the capitalization of Bexil American were $526,000 and $250,000 for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012, the Company owned 84.3% of Bexil American's outstanding stock which includes common and Series A preferred stock. The preferred stock is convertible participating preferred stock that includes a dividend, if any, equal to the dividend payable for an equivalent number of shares of common stock; a liquidation price and preference equal to the purchase price of the preferred stock, or the purchase price of common stock converted to such preferred stock, and all accrued but unpaid dividends; voting rights equal to the voting right of common stock; the option of the holder to convert each share to a share of common stock at any time; and full ratchet anti-dilution protection, subject to certain customary exclusions. Conversion of the Note to Series A preferred stock and then to common stock would increase the Company's ownership to approximately 86% of Bexil American's outstanding stock.

Acquisition of Investment Management Contract

On February 1, 2011, Bexil Advisers paid $4,200,000 in cash to Chartwell Investment Partners, LP ("CIP") pursuant to an agreement (the "Transaction Agreement") dated November 9, 2010, in connection with becoming the investment manager of DNI (formerly named Chartwell Dividend and Income Fund, Inc.) a closed end registered investment company. On August 1, 2012, a cash payment of $125,000 was paid to CIP upon satisfaction of certain terms and conditions provided for in the Transaction Agreement.

4. INVESTMENT IN SECURITIES

Investment in securities as of December 31, 2012 and 2011 consisted of the following:

as of December 31, 2012	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Value
Investment securities, trading				
Closed end funds	$ 5,852,582	$ -	$ (46,128)	$ 5,806,454
Investment securities, available-for-sale				
Closed end funds	1,605	-	(284)	1,321
Total investment in securities	$ 5,854,187	$ -	$ (46,412)	$ 5,807,775

as of December 31, 2011	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Value
Investment securities, trading				
Closed end funds	$ 4,074,004	$ 79,918	$ -	$ 4,153,922
Investment securities, available-for-sale				
Closed end funds	1,605	-	(252)	1,353
Total investment in securities	$ 4,075,609	$ 79,918	$ (252)	$ 4,155,275

5. FAIR VALUE MEASUREMENTS

The use of fair value to measure the Company's financial instruments is fundamental to its consolidated financial statements and is a critical accounting estimate because a substantial portion of its assets and liabilities are recorded at estimated fair value. The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value.

The hierarchy of valuation techniques is based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 — Quoted prices in active markets for identical instruments or liabilities.

Level 2 — Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing an asset or liability and are developed based on market data obtained from sources independent of the Company. These may include quoted prices for similar assets and liabilities, interest rates, prepayment speeds, credit risk and market-corroborated inputs.

Level 3 — Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company's own assumptions about the factors that market participants use in pricing an asset or liability, and are based on the best information available in the circumstances.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when estimating fair value. The valuation method used to estimate fair value may produce a fair value measurement that may not be indicative of ultimate realizable value. Furthermore, while management believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methods or assumptions to estimate the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such loans or investments existed, or had such loans or investments been liquidated, and those differences could be material to the financial statements.

Investments in securities - Investments in securities consist of shares of closed end management investment companies. The value of the investment securities is based on a traded market price and is considered to be a level 1 measurement.

Mortgage loans held-for-sale and held-for-investment - The Company elected to carry its mortgage loans held-for-sale originated from its mortgage loan origination operation at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants.

Given the meaningful level of secondary market activity for conforming mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale and held-for-investment as a level 2 measurement at December 31, 2012.

Derivative assets and liabilities - The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivative assets are IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments. The derivative liabilities are Hedging Instruments used to hedge the fair value changes associated with changes in interest rates relating to its mortgage loan origination operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value is based on current market prices for similar instruments. The Company's IRLC are valued using significant unobservable market parameters and therefore are classified as a level 3 measurement. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities (excluding IRLC), lending as a level 2 measurement at December 31, 2012.

Mortgage servicing rights - The Company has elected to carry all of its mortgage servicing rights arising from its mortgage loan origination operation at fair value. The fair value of mortgage servicing rights is based upon a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a level 3 measurement at December 31, 2012.

Recurring Fair Value Measurements

The Company's financial assets and liabilities that were measured at fair value on a recurring basis as of December 31, 2012 and 2011 were as follows:

as of December 31, 2012	Level 1	Level 2	Level 3	Total
Assets				
Investment in securities	$ 5,807,775	$ -	$ -	$ 5,807,775
Mortgage loans held-for-sale	-	78,741,441	-	78,741,441
Mortgage loans held-for-investment	-	349,897	-	349,897
Mortgage servicing rights	-	-	788,517	788,517
Derivative assets:				
Interest rate lock commitments	-	-	1,219,740	1,219,740
Forward sales contracts	-	147,978	-	147,978
Total assets at value	$ 5,807,775	$ 79,239,316	$ 2,008,257	$ 87,055,348
Derivative liabilities				
Forward sales contracts	$ -	$ (497,033)	$ -	$ (497,033)

as of December 31, 2011	Level 1	Level 2	Level 3	Total
Assets				
Investments in securities	$ 4,155,275	$ -	$ -	$ 4,155,275

Changes in level 3 recurring value measurements during 2012 were as follows:

	Interest Rate Lock Commitments	Mortgage Servicing Rights	Total
Balance, December 31, 2011			
Total increase in volume and changes in value	$ 774,142	$ -	$ 774,142
Acquired through acquisition of Castle	445,598	788,517	1,234,115
Balance, December 31, 2012	$ 1,219,740	$ 788,517	$ 2,008,257

The determination of the fair value of interest rate lock commitments is based on agreed pricing with the respective investor on each loan and includes a pull through percentage. The pull through percentage represents an estimate of loans in the pipeline to be delivered to an investor versus the total loans committed for delivery. Significant changes in this input could result in a significantly higher or lower fair value measurement. As the pull through percentage is a significant unobservable input, this is deemed a level 3 valuation input. The pull through percentage, which is based upon historical experience, was 66% as of December 31, 2012. An increase or decrease of 20% in the pull through assumption would result in a positive or negative change of $360,000 in the fair value of interest rate lock commitments. The fair value of interest rate lock commitments was $1,220,000 at December 31, 2012.

The determination of the fair value of the mortgage servicing rights is based upon a discounted cash flow approach. As of December 31, 2012, the weighted average interest rate on mortgage loans being service by the Company was 4.18%, the weighted average service fee was 26 basis points (“bps”) and the weighted average remaining term of the loans being serviced was 336 months. Together these resulted in a fair market value multiple of 78.2 bps. An increase or decrease of 20% in the fair market value multiple would result in a positive or negative change of $158,000 in the fair value of the mortgage servicing rights.

Non-Recurring Fair Value Measurements

Certain assets and liabilities from the acquisition of Castle include nonrecurring fair value measurements as of December 31, 2012. The carrying value of these assets approximates fair value as of December 31, 2012.

as of December 31, 2012	Level 1	Level 2	Level 3	Total
Assets				
REO	$ -	$ -	$ 133,000	$ 133,000
Intangibles, net	-	-	4,043,436	4,043,436
Total assets at value	$ -	$ -	$ 4,176,436	$ 4,176,436

Intangible assets consist of GSE licenses obtained by the Company as a result of the Castle acquisition, which provides the Company access to the GSE marketplace and agency direct programs, such as FNMA, FHLMC and GNMA. Since Castle was acquired by the Company for the purpose of obtaining such licenses, the Company has classified the excess paid over book value as intangible assets.

There were no nonrecurring fair value measurements at December 31, 2011.

6. MORTGAGE LOANS HELD-FOR-SALE

A summary of the outstanding principal balance of mortgage loans held-for-sale by type as of December 31, 2012 is presented below:

Conventional	$	74,677,911
Government		1,511,556
Value adjustment		2,551,974
Total mortgage loans held-for-sale	$	78,741,441

The Company did not have any mortgage loans held-for-sale as of December 31, 2011. The Company does not have any delinquent or nonaccrual loans as of December 31, 2012.

The Company's repurchase reserve for previously sold loans for the year ended December 31, 2012 was as follows:

Balance, December 31, 2011	$	-
Assumed repurchase liability from Castle acquisition		(529,278)
Provision for repurchases		(34,710)
Balance, December 31, 2012	$	(563,988)

7. DERIVATIVE ASSETS AND LIABILITIES

The mortgage lending operations enters into IRLC and Hedging Instruments to hedge the fair value changes associated with changes in interest rates relating to its mortgage loan origination operations. The following table includes information for the derivative assets and liabilities, as of and for the year ended December 31, 2012:

	Notional Balance December 31, 2012		Value at December 31, 2012	
Derivative assets - IRLC's	$	131,885,063	$	1,219,740
Derivative assets - TBA/FNMA's	$	90,280,978	$	147,978
Derivative liabilities - TBA/FNMA's	$	114,000,000	$	(497,033)

Gains and losses for derivative assets and liabilities are included in realized and unrealized gain on mortgage loans held-for-sale within the accompanying Consolidated Statements of Operations.

8. MORTGAGE SERVICING RIGHTS

As of December 31, 2012, the Company serviced approximately $100.8 million in unpaid principal balance of loans with the following characteristics:

Conventional	$	81,787,086
Government		19,011,440
Total loans serviced	$	100,798,526

9. INTANGIBLE ASSETS

The intangible assets consists of the consideration paid in connection with acquiring DNI's investment management contract and Castle's GSE licenses. Intangible assets with an indefinite useful life are not subject to amortization, but are reviewed annually for impairment. The Company has assigned the investment management contract a useful life of twelve years after considering, among

other factors, the renewal or extension of the term of the arrangement, consistent with its expected use of the asset. The Company's GSE licenses have been deemed to be finite-lived and will be amortized over their useful life of four years.

The following table presents the major classes of the Company's intangible assets as of December 31, 2012 and 2011:

as of December 31, 2012	Gross Book Value	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)
Management contract	$ 4,325,000	$ (360,417)	$ 3,964,583	11
GSE licenses	4,043,436	-	4,043,436	4
Total	$ 8,368,436	$ (360,417)	$ 8,008,019	11

as of December 31, 2011	Gross Book Value	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)
Management contract	$ 4,200,000	$ -	$ 4,200,000	12
Total	$ 4,200,000	$ -	$ 4,200,000	12

The Company reviewed the intangible asset for impairment and determined there was no impairment in the value of the asset.

There was no amortization expense as of December 31, 2011. As of December 31, 2012, estimated future amortization expense is as follows:

Year ending December 31,	
2013	$ 1,371,276
2014	1,371,276
2015	1,371,276
2016	1,371,276
2017	360,417
Thereafter	2,162,498
	$ 8,008,019

10. PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment at December 31, 2012 and 2011:

	2012	2011
Office equipment	$ 43,227	$ -
Software	6,086	6,086
Less: Accumulated depreciation and amortization	(5,169)	(2,029)
Property and equipment, net	$ 44,144	$ 4,057

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was $3,140 and $2,029, respectively.

11. DEBT

At December 31, 2012, the Company was in compliance with all financial covenants. The Company's borrowing arrangements are described below.

Warehouse Borrowings

The Company enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are used to fund, and are secured by, residential mortgage loans that are held for sale.

The following table presents certain information on warehouse borrowings for the periods indicated:

	Maximum Borrowing Capacity	Allowable Advance Rates (%)	Balance Outstanding At December 31, 2012	Interest Rate	Maturity Date
Short-term borrowings:					
Repurchase agreement Wells Fargo Bank	$ 45,000,000	97%	$ 34,292,678	4.25%	July 2, 2013
Repurchase agreement Texas Capital Bank	40,000,000	99%	33,520,204	3.75%	April 10, 2013
Repurchase agreement PennyMac	15,000,000	100%	3,043,700	Variable	December 31, 2013
Repurchase agreement Silvergate [1]	10,100,000	98%	-	WSJ Prime + 1.50%	August 1, 2013
Repurchase agreement Northpointe	10,000,000	98%	2,124,188	6.00%	N/A
Total short-term borrowings	$ 120,100,000		$ 72,980,770		

[1] The Company did not have any advances on this borrowing facility during the year ended December 31, 2012. WSJ Prime is the prime rate as published in the Wall Street Journal from time to time.

Notes Payable

In December 2011, Castle entered into a $2,000,000 revolving line of credit agreement with The Exchange Bank of Alabama. The interest rate is variable at 0.50% over New York Prime with a floor of 4.0% and the maturity date is January 2, 2013. The principal balance outstanding at December 31, 2012 was $37,500. This note is secured by a personal guarantee of a stockholder.

In November 2012, Castle entered into a note payable with The Exchange Bank of Alabama for $70,150. The note bears interest at a rate of 5.0% per annum until maturity on February 17, 2013. This note is secured by REO.

Note Payable to Former Stockholder of Castle

In connection with the Castle acquisition, Castle delivered a note payable to a selling stockholder of Castle (the "former stockholder") in the amount of $803,999. The note payable to former stockholder is non-interest bearing and $250,000 is payable on June 30, 2013 and December 31, 2013, with the full remaining balance due on June 30, 2014. Castle imputed interest at 5.0% from the interest free loan during 2012 and recorded $63,681 as interest expense and as a contribution from the former stockholder during 2012 as a result of the interest free loan. Per the terms of the acquisition agreement, the former stockholder and the Company were to subsequently enter into a subsequent agreement to collateralize the note, but no such agreement was in place as of May 31, 2013.

12. STOCK-BASED COMPENSATION

The Company has a long term stock incentive plan intended to facilitate the use of equity based incentives and rewards for officers, employees, directors, and consultants of the Company and its affiliates. On July 7, 2011, the shareholders of the Company approved the 2011 Stock Incentive Plan (the "SIP"). Awards under the SIP may include incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, deferred stock, and other stock-based awards. The Board of Directors determines the terms and conditions of awards under the SIP. The exercise price per share of common stock purchasable under a stock option grant may not

be less than 110% of the fair market value on the date of grant. The SIP provides for the granting of a maximum 152,639 options to purchase common stock and, as of December 31, 2012, 22,739 were available for grant.

The SIP replaced the Company's former stock-based compensation plan, the 2004 Incentive Compensation Plan, as amended (the "ICP"). No future awards may be granted under the ICP, although any previously issued options granted under the ICP remain effective until either they expire, are forfeited, or are exercised. Under the ICP, the Board of Directors determined the terms and conditions of awards and the exercise price per share of common stock purchasable under a stock option grant could not be less than 110% of the fair market value on the date of grant. The ICP provided for the granting of a maximum 175,918 options to purchase common stock.

The Company granted 38,600 options at an exercise price of $37.24 for the year ended December 31, 2012 and 108,000 options at exercise prices ranging from $22.55 to $23.93 for the year ended December 31, 2011. The grant date fair value of the options issued was $10.26 to $15.65 and $6.05 to $6.47 per option for the years ended December 31, 2012 and 2011, respectively.

A summary of the stock options activity for the years ended December 31, 2012 and 2011 is as follows:

	Shares Under Option	Weighted Average Exercise Price	
Balance, December 31, 2010	15,000	$	29.34
Granted	108,000	$	22.59
Exercised	(1,000)	$	27.90
Expired	(2,000)	$	27.90
Balance, December 31, 2011	120,000	$	23.30
Granted	38,600	$	37.24
Forfeited	(16,700)	$	22.55
Expired	(2,000)	$	32.33
Exercised	(1,000)	$	32.33
Balance, December 31, 2012	138,900	$	27.07

At December 31, 2012 and 2011, there were exercisable outstanding stock options of 106,825 and 79,550, respectively. The weighted average exercise price of the exercisable outstanding stock options at December 31, 2011 and 2010 was $25.87 and $23.68, respectively.

Stock options outstanding and exercisable at December 31, 2012 are as follows:

Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Options Exercisable	Weighted Average Exercise Price of Exercisable Options	
$22.55 - $29.00	97,300	8.1	83,775	$	22.97
$31.08 - $37.24	41,600	6.8	23,050	$	36.44
	138,900	7.7	106,825	$	25.87

At December 31, 2012, the aggregate intrinsic value of all outstanding options was $4,180,947.

A summary of the methodology applied to develop each assumption used in determining the fair value of options granted by applying the Black-Scholes option pricing valuation model is as follows:

	2012	2011
Expected price volatility	37.35%	34.5% - 34.6%
Risk-free interest rate	0.68% - 1.57%	1.6% - 1.7%
Weighted average expected life in years	6.5	5
Dividend yield	0%	0%

The expected price volatility is based on the Company's historical stock prices over the most recent period commensurate with the estimated expected life of the award. The expected life is the period of time the option holders are expected to hold the options, including the vesting period, and is based, in part, on actual experience with other grants. The expected dividend yield, excluding any special dividends that the Company may declare from time to time, is based on the Company's current dividend yield and the best estimate of projected dividend yields for future periods within the expected life of the option.

For the years ended December 31, 2012 and 2011, total stock-based compensation under the SIP was $373,125 and $475,130, respectively, which resulted in the recognition of tax benefits of $152,981 and $194,803, respectively.

As of December 31, 2012, the total compensation expense related to non-vested awards which are expected to vest but not yet recognized is $179,895 with an expense recognition period of approximately 3 years.

There were 1,000 and 1,000 stock options exercised for the years ended December 31, 2012 and 2011, respectively, with a total intrinsic value of $0 and $100 for the years ended December 31, 2012 and 2011, respectively. The Company received $10 and $10 in cash and accepted five year promissory notes in connection with the exercise of stock options for the years ended December 31, 2012 and 2011, respectively.

The exercise of stock options will result in a tax deduction before the actual realization of the related tax benefit because the Company has a current year net operating loss. The tax benefit and a credit to additional paid in capital for the excess deduction will not be recognized until that deduction reduces taxes payable.

Bexil American Stock Incentive Plan

On October 7, 2011 (the "Effective Date"), Bexil American adopted the Bexil American Mortgage Inc. Stock Incentive Plan (the "BAM Plan"), a long term stock incentive plan intended to facilitate the use of equity based incentives and rewards for its employees, directors, and consultants with the opportunity to acquire shares of Bexil American's common stock. The BAM Plan shall remain in effect until the tenth anniversary of the Effective Date, or until terminated by action of its Board of Directors, whichever occurs sooner. Awards under the BAM Plan may include incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based awards. The Bexil American Board of Directors determines the terms and conditions of awards under the BAM Plan. There are 43,000 shares of Bexil American's common stock authorized to be issued under the BAM Plan and as of December 31, 2012, 13,000 were available for grant.

Bexil American granted 30,000 stock options on the Effective Date with an exercise price of $100 per share. Vesting of the options is ratable and cumulative beginning on the first anniversary of the grant date and, under certain terms and conditions, the options become fully vested on the fourth anniversary of the grant date. As of December 31, 2011, no options were exercisable.

Bexil American recorded $104,544 and $26,137 of stock-based compensation expense for the year ended December 31, 2012 and period ended December 31, 2011, respectively. As of December 31, 2012, the total compensation expense related to non-vested awards which are expected to vest but not yet recognized is $287,514 with an expense recognition period of approximately 3 years.

Changes in Bexil American's outstanding stock options during the year ended December 31, 2012 and the period from the Effective Date to December 31, 2011 are presented below:

	Shares Under Option		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Balance, October 7, 2011	-	$	-	-
Granted	30,000	$	100	5.8
Exercises	-	$	-	-
Forfeited/ Canceled	-	$	-	-
Balance, December 31, 2011	30,000	$	100	5.8
Granted	-	$	-	-
Exercises	-	$	-	-
Forfeited/ Canceled	-	$	-	-
Balance, December 31, 2012	30,000	$	100	4.8

13. INCOME TAXES

The income tax provision (benefit) consisted of the following for the years ended December 31, 2012 and 2011:

		2012		2011
Current provision (benefit):				
Federal	$	(12)	$	(14,498)
State and local		13,700		1,120
Total current provision		13,688		(13,378)
Deferred provision (benefit):				
Net operating loss		1,169,941		(360,149)
Stock-based compensation		322,119		(187,780)
Intangible assets		(95,667)		95,667
Unrealized gain on investments		(32,663)		32,766
Total deferred provision (benefit)		1,363,730		(419,496)
Total provision (benefit) for income taxes	$	1,377,418	$	(432,874)

Deferred tax assets (liabilities) consisted of the following at December 31, 2012 and 2011:

		2012		2011
Net operating loss	$	3,578,864	$	1,169,941
Stock-based compensation		463,669		322,119
Intangible assets		(116,224)		(95,667)
Unrealized (gain) loss on investments		19,029		(32,663)
Capitalized start-up costs		(298,158)		-
Accrued vacation		(45,246)		-
Loan loss reserve		(14,231)		-
Deferred rent		(30,287)		-
Net deferred tax assets		3,557,416		1,363,730
Valuation allowance		(3,557,416)		-
Deferred tax assets after valuation allowance	$	-	$	1,363,730

Based on reoccurring losses over the past four years, the Company has determined that it may not utilize all of its deferred tax assets in the future. Therefore, the Company established a full valuation allowance against all of its deferred tax assets during 2012. As such, the change in the valuation allowance during 2012 was 3,557,416; there was no change during 2011. The difference between the federal statutory rate of 34% and the Company's rate of 0% is due to a full valuation allowance. During 2011, the difference between the federal statutory rate and the Company's effective income tax rate was due to the exclusion of the Bexil American's net operating loss from the consolidated taxable loss due to Bexil owning less than 80% of Bexil American's outstanding stock at December 31, 2011.

As of December 31, 2012, the Company has federal and state net operating loss carryovers of approximately $8 million. These losses will begin to expire in 2030.

The utilization of net operating loss carryovers may be subject to limitations under provision of the Internal Revenue Code Section 382 and similar state provisions.

14. RELATED PARTIES

Certain officers of the Company also serve as officers and/or directors of Winmill & Co. Incorporated ("Winco"), Tuxis Corporation ("Tuxis"), and their affiliates (collectively with Bexil, but excluding Bexil American, the "Affiliates"). At December 31, 2012, Winco owned 222,644 shares of the Company, and 234,665 shares of Tuxis, or approximately 22% and 21%, respectively, of the outstanding common stock. Pursuant to an arrangement between a professional employer organization ("PEO") and the Affiliates, the PEO provides payroll, benefits, compliance, and related services for employees of the Affiliates in accordance with applicable rules and regulations of the Internal Revenue Service, and in connection therewith Midas Management Corporation ("MMC"), a subsidiary of Winco, acts as a conduit payer of compensation and benefits to Affiliate employees including those who are concurrently employed. At December 31, 2012 and 2011, the Company had a payable to MMC relating to compensation and benefit expenses of $11,209 and $53,417, respectively.

Rent expense of concurrently used office space and overhead expenses for various concurrently used administrative and support functions incurred by the Affiliates are allocated at cost among them. The Company's allocated rent and overhead costs were $126,216 and $139,100 for the years ended December 31, 2012 and 2012, respectively, and it had a related receivable for these costs of $254 at December 31, 2012 and a related payable for these costs of $1,520 at December 31, 2011.

The Company invests in DNI. The Company's carrying value in DNI was $5,806,454 and $4,153,922 as of December 31, 2012 and 2011, respectively, and earned dividends of $672,263 and $81,673 for the years ended December 31, 2012 and 2011, respectively. Certain officers and directors of the Company are also officers and/or directors of DNI.

The Company invests in Global Income Fund, Inc. ("GIFD"), a closed end investment company advised by a subsidiary of Winco. The Company's carrying value in GIFD was $1,321 and $1,353 at December 31, 2012 and 2011, respectively, and dividends earned were $168 and $93 for the years ended December 31, 2012 and 2011, respectively. Certain officers and directors of the Company are also officers and/or directors of GIFD.

The Company has accepted promissory notes from certain directors, officers, and employees in connection with their exercise of stock options to purchase the common stock of the Company. The notes have five year maturities and bear interest at fixed rates ranging from 1.20% to 2.85% per annum which is payable semiannually. The notes, as well as accrued interest thereon, may be prepaid in part or in full at any time or from time to time without penalty. In the event of default in the payment of principal or interest, the full principal amount and any accrued and unpaid interest shall be immediately due and payable. The outstanding principal balance was $2,887,433 and $2,855,113, at December 31, 2012 and 2011, respectively. As of December 31, 2012, $2,705,783, $121,440, $27,890, and $32,320 are due and payable in 2014, 2015, 2016, and 2017, respectively. The Company earned interest income of $57,847 and $57,070 for the years ended December 31, 2012 and 2011, respectively, and had a receivable for interest due of $20,544 and $5,871 at December 31, 2012 and 2011, respectively.

On December 28, 2012, the Company loaned certain executives of Bexil American $135,000 in cash and accepted promissory notes for the principal sum of $135,000 in connection with capital contributed to Bexil American in December 2012 related the acquisition of Castle The notes have three year maturities and bear interest at 0.24% per annum which is payable semiannually. The notes, as

well as accrued interest thereon, may be prepaid in part or in full at any time or from time to time without penalty. In the event of default in the payment of principal or interest, the full principal amount and any accrued and unpaid interest shall be immediately due and payable. The outstanding principal balance was $135,000 at December 31, 2012.

15. EMPLOYEE BENEFIT PLAN

The Affiliates participate in a 401(k) retirement savings plan for substantially all qualified employees. A matching expense based upon a percentage of contributions to the plan by eligible employees is incurred and allocated among the Affiliates. The matching expense is accrued and funded on a current basis and may not exceed the amount permitted as a deductible expense under the Internal Revenue Code. The Company's allocated matching expense under the plan was $35,090 and $33,848 for the years ended December 31, 2012 and 2011, respectively

16. REGULATORY REQUIREMENTS

Net Capital Requirements
Bexil Securities, a registered broker-dealer, is subject to the Uniform Net Capital Rule under Rule 15c3-1 of the Securities Exchange Act of 1934, which requires broker-dealers to maintain a minimum level of net capital, as defined. As of December 31, 2012, Bexil Securities had net capital of $1,707,772, which exceeded its $100,000 required minimum capital by $1,607,772.

Net Worth Requirements
Bexil American is subject to net worth requirements, as required by HUD. As of December 31, 2012, Bexil American's consolidated net worth was $9,889,682, which was $8,889,682 in excess of the $1,000,000 required minimum net worth.

17. CONCENTRATIONS OF CREDIT AND OTHER RISKS

Bexil American's operations are centered in real estate-related assets and are primarily located in the states of California and Alabama.

In 2012, Bexil American sold approximately 54% of its mortgage loans to a single investor. While Bexil American continues to pursue additional partners to acquire loans, the inability to obtain additional customers at desired rates could hinder growth plans. Bexil American maintains its cash and cash equivalents with various financial institutions, and at times, balances may exceed federally insured limits.

Bexil American has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. All non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to $250,000 per depositor at each financial institution and Bexil American's non-interest bearing cash balances may again exceed federally insured limits.

18. STOCKHOLDER RIGHTS PLAN

The Board of Directors has adopted a stockholder rights plan pursuant to a Rights Agreement dated November 10, 2005 (the "Rights Agreement") and other action. To implement the rights plan, the Board of Directors declared a dividend distribution of one right for each outstanding share of Bexil common stock, par value $.01 per share, to holders of record of the shares of common stock at the close of business on November 21, 2005. Each right entitles the registered holder to purchase from Bexil one one-thousandth of a share of preferred stock, par value $.01 per share. The rights were distributed as a non-taxable dividend. The rights are evidenced by the underlying Bexil common stock, and no separate preferred stock purchase rights certificates were distributed. The rights to acquire preferred stock will become exercisable only if a person or group, other than certain exempt persons, acquires or commences a tender offer for 10% or more of Bexil's common stock. If a person or group, other than certain exempt persons, acquires or commences a tender offer for 10% or more of Bexil's common stock, each holder of a right, except the acquirer, will be entitled, subject to Bexil's right to redeem or exchange the right, to exercise, at an exercise price of $67.50, the right for one one-thousandth of a share of Bexil's newly created Series A Participating Preferred Stock, or the number of shares of Bexil common stock equal to the holder's number of rights multiplied by the exercise price and divided by 50% of the market price of Bexil's common stock on the date of the occurrence of such an event. Bexil's Board of Directors may terminate the rights plan at any time or redeem the rights, for $0.01 per right, at any time before a person acquires 10% or more of Bexil's common stock. On November 11, 2011, in consideration of a Standstill Agreement providing, among other things, that the Boulderado Group (as defined in the Standstill Agreement) does not acquire equal

to or greater than 15.0% of the common stock of the Company, the Company entered into a First Amendment to the Rights Agreement (the "Amendment") to exclude the Boulderado Group (as defined in the Amendment) from being deemed an "Acquiring Person" as defined in the Rights Agreement and to extend the "Final Expiration Date" of the Rights Agreement from November 21, 2015 until November 21, 2020. The parties entered into a First Amendment to the Standstill Agreement, dated as of June 1, 2012, to increase the allowed ownership percentage of the Boulderado Group from not equal to or greater than 15.0% to not equal to or greater than 16.0% of the common stock of the Company and to a Second Amendment to the Rights Agreement, dated as of June 1, 2012, to increase the beneficial ownership threshold of the Boulderado Group, without being deemed to be an "Acquiring Person", from less than 15% to less than 16% of the Common Shares and to exclude certain parties from being deemed an "Acquiring Person."

In conjunction with the stockholder rights plan, the Board of Directors authorized the reclassification of 100,000 unissued shares of common stock of the Company (from among 1,000,000,000 shares of common stock, $0.01 par value, of the Company which are authorized) into 100,000 shares of Series A Participating Preferred Stock, par value $0.01 per share, of the Company.

19. COMMITMENTS AND CONTINGENCIES

The Company entered into a Death Benefit Agreement (the "DBA") among the Affiliates and its former Chairman, Bassett S. Winmill. Following his death, the DBA provides for annual payments from the Company and its affiliates, equal to 90% of his average annual base salary received from the Company, its affiliates, subsidiaries, and other related entities for the three year period prior to his death subject to certain adjustments to his wife until her death. The Company's obligations under the DBA are not secured and not assignable. On May 15, 2012, following the death of Bassett S. Winmill, the Company's obligation to his wife under the DBA became effective. The Company's estimated total liability under the DBA is approximately $1.3 million. Promissory notes accepted by the Company from Mr. Winmill in 2009 in connection with the exercise of stock options to common stock were outstanding at the time of his death. Principal and interest payments due the Company under the notes are currently being repaid ratably through deductions to the periodic DBA liability payments. Terms of payment on the notes are being settled by the Company and the estate of Mr. Winmill.

Bexil Securities leases office space under a sublease agreement with Winco expiring on September 29, 2013. The future minimum lease payments under the sublease is $1,800 for the year ending December 31, 2013.

Bexil American leases its operating facilities under operating leases. Rental expense for the year ended December 31, 2012 and for the period from September 16, 2011(inception) through December 31, 2011 was approximately $251,158 and $11,548, respectively. The total commitment on all operating leases is $327,155 and $220,000for the years ended December 31, 2013 and 2014, respectively.

20. SETTLEMENT OF LITIGATION

In 2009, a verified complaint, Case Number: 24-C-09-008499 OC, was filed in the Circuit Court for Baltimore City, Maryland ("Court") by Steven Bronson and Kimberly Bronson, individually and on behalf of a putative class of similarly situated persons, as plaintiffs, against Bexil Corp., Bassett S. Winmill, Thomas B. Winmill, Charles A. Carroll, Edward G. Webb, Jr., and Douglas Wu, as defendants ("Maryland Litigation"). The Court did not certify a class in this action. The plaintiffs sought as a remedy dissolution of the Company, an order requiring that defendants purchase the shares of the minority shareholders at their full 2008 book value, plus interest from April 2006, compensatory damages from the individual defendants in the amount of $12 million, plus prejudgment interest, and such other relief as the Court may deem appropriate. The plaintiffs also sought unspecified punitive damages solely as to the Winmills, but that claim was dismissed based on the initial pleadings by the Court.

As of April 18, 2011, the defendants and the individual plaintiffs in the Maryland Litigation agreed to settle all claims set forth in the complaint on mutually acceptable terms and conditions, including the dismissal of the complaint with prejudice, release by plaintiffs of all claims against defendants and their affiliates, and the payment by defendants of $150,000 to plaintiffs' counsel, representing a portion of plaintiffs' attorneys fees and expenses. No other compensation was paid to the individual plaintiffs in connection with the settlement. The Company advanced and paid on behalf of all defendants the $150,000 amount. No class was certified in this action and the settlement only binds the signatories to the agreement. The parties agreed that the settlement shall not be construed as, deemed evidence of, or deemed an admission on the part of any of the defendants of any fault, wrongdoing, or liability. Defendants entered the settlement without conceding any infirmity in their defenses and solely to put to rest all controversies between them and plaintiffs and to avoid the expense and disruption that continued litigation would likely have entailed. All defendants deny any liability or that they

were indebted to plaintiffs for any amount. A notice of dismissal of the Maryland Litigation with prejudice was filed with the Court on May 4, 2011.

21. SUBSEQUENT EVENTS

On April 30, 2013, the Company converted its Bexil American common stock in to Bexil American Series A preferred stock on a one for one basis.

The Company's common stock is quoted in the over the counter market under the ticker symbol BXLC.

The high and low sales prices of the common stock during each quarterly period over the last two fiscal years were as follows (unaudited):

	2012		2011	
	High	Low	High	Low
First quarter	$ 33.00	$ 29.59	$ 31.90	$ 24.75
Second quarter	$ 35.00	$ 29.60	$ 26.50	$ 21.50
Third quarter	$ 37.27	$ 31.75	$ 21.75	$ 17.50
Fourth quarter	$ 50.00	$ 36.00	$ 33.00	$ 17.05

DIRECTORS
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THOMAS B. WINMILL
DOUGLAS WU

OFFICERS AND STAFF
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President, Chief Executive Officer, General Counsel

THOMAS O'MALLEY
Treasurer, Chief Financial Officer

JOHN F. RAMIREZ
Vice President, Secretary, Associate General Counsel, Chief Compliance Officer

MARK C. WINMILL
Vice President

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2012 COMMENTARY BY ALEX ROZEK ON BEXIL AND THE MORTGAGE MARKET OPPORTUNITY

Bexil Update

In the second quarter of 2012, after making its first mortgage in May, Bexil reported mortgage banking revenue of $78,415. The following quarter, mortgage banking revenue grew to $1,579,591. There is a long way to go before the size of this business reaches the levels that attracted us to this opportunity. The path to pursuing "The Big Long" (more on that below) is anything but a straight shot and full of risks and new challenges every day.

The Big Long

Two years after the Federal Government stepped in to rescue the housing market, Michael Lewis released his book "The Big Short" and in a brilliant narrative explained many of the complicated details of the financial markets leading up to the recent collapse of the housing market along with stories of the investors who profited from it. In 2014, this story may make its way to the big screen as Brad Pitt's production company purchased the rights and is rumored to be in development now.

There is another story developing today that is getting much less attention but has the potential of being as important and as profitable...I call it "The Big Long."

The overall environment of the mortgage market of the last few years, and the specific economics available currently in the origination business, have made it possible for mortgage lenders today to make returns in excess of 100% on their capital.

There is another asset being created and sold in the mortgage market today at record low prices that has the potential to become massively valuable if and when interest rates ever rise. These are mortgage servicing rights (MSRs).

When a mortgage is made, a borrower gets money from a lender to buy a home and an MSR is born. The MSR asset gives its holder the contractual right to collect the principal and interest from that mortgage every month. If the lender sells the mortgage they have the option of selling or retaining the MSR. If they keep the MSR and sell the mortgage, they are required to advance the interest and principal collected to the new owner of the loan. If the cost to collect these monthly principal and interest payments is less than the amount they are contractually paid to "service" the loan, the MSR holder keeps the difference. However, if the borrower is delinquent, it can cost a lot to collect those monthly payments and the mortgage servicer still owes the monthly principal and interest to the mortgage holder.

This relationship between the borrower, the mortgage servicer and the owner of the mortgage has become exceptionally important over the years. To understand how important, it helps to have a perspective on the size of this market.

The vast majority of mortgages end up in pools of mortgage backed securities. This bond market of mortgages dwarfs the total amount of Federal Debt held by foreign and international investors and is over 75% as large as all public Federal Debt![1] The vast majority of mortgage backed securities are

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[1] Federal Debt Held by Foreign and International Investors as of 7/1/12 was $5.46 trillion (St. Louis Fed); Federal Debt Held by the Public as of 7/1/12 was $11.27 trillion (St. Louis Fed); U.S. Mortgage - Related Securities Outstanding as of 3Q 2012 were $8.678 trillion (SIFMA)

issued by the three major Government Agencies (Fannie Mae, Freddie Mac and Ginnie Mae).[2] This ecosystem, created after the Great Depression, has evolved as a necessary and critical circulatory system of the $20 trillion dollars worth of U.S. homes. Without it our economy would freeze to a halt, and in fact almost did in 2008.

So back to MSRs...now that the size of the market has been defined, one can see that if the conveyor belt of cash from the homeowner/borrower to the holder of the mortgage backed security were to break down for any reason, trillions of dollars of mortgage backed securities would become worth a lot less. The investors in Michael Lewis' book saw that real estate values were in a bubble and profited handsomely from the resulting breakdown in this financing machine. In the interim, the Mortgage Servicing Right took a beating.

Here is why MSRs are selling at record low prices. This particular asset is only worth the present value of all the future servicing fees collected, minus the expenses incurred collecting those fees. If a borrower stops making their mortgage payment for any reason, or if a borrower refinances their mortgage (which happens frequently when interest rates go down) then MSRs lose a lot of value. With a refinance, the MSR stream of fees disappears and the servicer has to write off whatever value he was expecting from that stream of cash.

So it is easy to appreciate that after one of the worst real estate crises in the country's history, following delinquencies and foreclosures hitting all time highs and interest rates falling to all time lows, the effect on MSRs has not been good.

To borrow a line from Wayne Gretzky, we want to skate to where the puck is going to be, not where it has been. Today's interest rates are low, borrower quality is high and MSRs are both cheap and potentially the most valuable ever created.

Underwriting standards are at all time highs, borrowers are fully documenting every penny of their assets and income, to qualify for a mortgage requires higher FICO scores than in the past, and borrowers are putting in real money for their down payment. The cost of servicing today's MSRs is not at all comparable to the cost of servicing the loans made during the bubble years. It costs a lot less to collect payments from a borrower who has the mortgage bill on autopay!

Now to the good part.

Today's MSRs are being valued at two or three times the annual servicing fee. For example, Fannie Mae mortgages pay 25 basis points annually of the unpaid principal balance to service the loan and these MSRs can be purchased in the market for 55 to 75 basis points. Let's be conservative for this exercise and use the higher price and let's also use a higher than market servicing expense, say 8 bps.

The current expectation is that the average life of these assets may be three to four years, consistent with past experience as refinances have pummeled MSR values with each tick down of interest rates. But at some point, interest rates may not continue to fall. They may stabilize and may even someday rise.

When rates tick up, the historical performance of MSRs is entirely consistent with the logical behavior of borrowers...not too many people rush to refinance their 3.5% 30 fixed rate mortgage into a 4.5% and the lifespan of the MSR extends dramatically. All of a sudden, MSRs sold with the expectation they would roll off in three years end up sticking around for their owners for seven or more years and the present value that stream of cash flows increases materially.

And what if rates continue to decline? The best way to protect the value of your new MSR is to own a

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[2] FNMA, FHLMC, GNMA issued 99.5% of all MBS through first 9 months 2012 (Inside Mortgage Finance).

mortgage originator to refinance the loan. If interest rates go down and the borrower refis, then the originator can recapture the MSR and make a tidy profit at the same time. Depending on a number of variables, recapturing somewhere between 10% to 30% of your pool will preserve your investment in MSRs and significantly add to your returns.

So the natural question is, if MSRs are so cheap, and mortgage originations are so profitable, why wouldn't everyone just open a mortgage business?

The answer: there is a barrier to entry to this business created by regulatory issues and counterparty requirements that would make John D. Rockefeller green with envy.

For example, in January of this year, there were more than 3,000 pages of new rules and guidelines released by the government related to mortgage lending. Once a new mortgage lender has gotten through that, they then apply for lending licenses with each state's financial services authority, many of whom require personal financial declarations for control parties that get a lot more personal than the IRS.

And these aren't even the difficult hurdles.

The longest line to The Big Long forms outside the three government agencies when applying to receive seller/servicer licenses. If you want to sell your loans to the government (and their market share is more than 90%) or if you want to service loans sold to the government, you have to be approved. Waiting times for these approvals are usually measured in years, not months.

While the natural tendency would be to complain about this barrier to entry, upon further examination, the safety and soundness of this large machine is paramount, and the reason for this long description of the U.S. mortgage servicing apparatus becomes clear. The government has to do its best protecting the integrity of payments from each mortgage borrower to each mortgage owner. Having witnessed the detail and intricacy of this business firsthand gives me a true appreciation for the work of Fannie Mae, Freddie Mac and Ginnie Mae. From my perspective, and all politics aside, Americans should be proud of what the employees of these institutions are accomplishing today. Guaranteeing the safety and soundness of capital flows in the U.S. residential housing finance system benefits all homeowners, bondholders and America at large for years to come.

With a mortgage origination platform, experienced management team and a willingness to navigate the rivers of regulatory complexity, it's conceivable that an investor could find the path for private capital to pursue the Big Long. Perhaps with a little luck and a lot of persistence, one day that investor may even prove that the recovery was as good if not more profitable than the collapse.

BEXIL

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