

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

ANTHRACITE CAPITAL INC
Form 10-Q
May 10, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from: _____ to _____

Commission File Number 001-13937

ANTHRACITE CAPITAL, INC.

(Exact name of registrant as specified in its charter)

Maryland

13-3978906

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

40 East 52nd Street, New York, New York

10022

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number including area code): (212) 810-3333

NOT APPLICABLE

(Former name, former address, and for new fiscal year; if changed
since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

(1) Yes X No___
(2) Yes X No___

Indicate by check mark whether the registrant is a large accelerated
filer, an accelerated filer or a non-accelerated filer. See definition of
"accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange
Act. (Check one)

Large accelerated filer___ Accelerated filer X Non-accelerated filer___

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

(1) Yes ☐ No ☒

As of May 10, 2006, 57,053,435 shares of common stock (\$.001 par value per share) were outstanding.

ANTHRACITE CAPITAL, INC. FORM 10-Q INDEX

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements.....
	Consolidated Statements of Financial Condition (Unaudited) At March 31, 2006 and December 31, 2005.....
	Consolidated Statements of Operations (Unaudited) For the Three Months Ended March 31, 2006 and 2005.....
	Consolidated Statement of Changes in Stockholders' Equity (Unaudited) For the Three Months Ended March 31, 2006.....
	Consolidated Statements of Cash Flows (Unaudited) For the Three Months Ended March 31, 2006 and 2005.....
	Notes to Consolidated Financial Statements (Unaudited).....
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....
Item 3.	Quantitative and Qualitative Disclosures about Market Risk.....
Item 4.	Controls and Procedures.....

Part II - OTHER INFORMATION

Item 1.	Legal Proceedings.....
Item 1A.	Risk Factors.....
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....
Item 3.	Defaults Upon Senior Securities.....
Item 4.	Submission of Matters to a Vote of Security Holders.....
Item 5.	Other Information.....
Item 6.	Exhibits.....
SIGNATURES

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as "trend," "opportunity," "pipeline," "believe," "comfortable," "expect," "anticipate," "current," "intention," "estimate," "position," "assume," "potential," "outlook," "continue," "remain," "maintain," "sustain," "seek," "achieve" and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may" or similar expressions. Anthracite Capital, Inc. (the "Company") cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and the Company assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors previously disclosed in the Company's Securities and Exchange Commission (the "SEC") reports and those identified elsewhere in this report, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- (1) the introduction, withdrawal, success and timing of business initiatives and strategies;
- (2) changes in political, economic or industry conditions, the interest rate environment or financial, capital and real estate markets, which could result in changes in the value of the Company's assets;
- (3) the relative and absolute investment performance and operations of the Company's manager, BlackRock Financial Management, Inc. (the "Manager");
- (4) the impact of increased competition;
- (5) the impact of capital improvement projects;
- (6) the impact of future acquisitions and divestitures;
- (7) the unfavorable resolution of legal proceedings;
- (8) the extent and timing of any share repurchases;
- (9) the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
- (10) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to the Company, the Manager or The PNC Financial Services Group, Inc. ("PNC Bank");
- (11) terrorist activities, which may adversely affect the general economy, real estate, financial and capital markets, specific industries, and the Company and the Manager;
- (12) the ability of the Manager to attract and retain highly talented professionals.
- (13) fluctuations in foreign currency exchange rates; and
- (14) the impact of changes to tax legislation and, generally, the tax position of the Company.

Forward-looking statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Part I - FINANCIAL INFORMATION Item 1. Financial Statements

Anthracite Capital, Inc. and Subsidiaries Consolidated Statements of Financial Condition (in thousands, except per share data) (unaudited)

	March 31, 2006	

ASSETS		
Cash and cash equivalents		\$27
Restricted cash equivalents		1
Securities available-for-sale, at fair value:		
Subordinated commercial mortgage-backed securities ("CMBS")	\$829,678	
Investment grade CMBS	1,364,681	
Residential mortgage-backed securities ("RMBS")	187,551	

Total securities available-for-sale		2,381
Commercial mortgage loan pools, at amortized cost		1,287
Securities held-for-trading, at estimated fair value		
CMBS	21,260	
RMBS	155,259	

Total securities held-for-trading		176
Commercial mortgage loans, net		361
Equity investments		155
Real estate, held-for-sale		5
Other assets		117

Total Assets		\$4,514
		=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Borrowings:

Collateralized debt obligations ("CDOs")	\$1,066,574	
Secured by pledge of subordinated CMBS	113,899	
Secured by pledge of other securities available-for-sale	860,154	
Secured by pledge of commercial mortgage loan pools	1,273,796	
Secured by pledge of securities held-for-trading	132,760	
Secured by pledge of commercial mortgage loans	201,347	
Junior subordinated notes to subsidiary trust issuing preferred securities	180,477	

Total borrowings		\$3,829
Payable for investments purchased		20
Distributions payable		16
Other liabilities		26

Total Liabilities		\$3,893

Commitments and Contingencies

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Stockholders' Equity:

Common Stock, par value \$0.001 per share; 400,000 shares authorized;

57,053 shares issued and outstanding in 2006;

56,339 shares issued and outstanding in 2005

9.375% Series C Preferred stock, liquidation preference \$57,500

Additional paid-in capital

Distributions in excess of earnings

Accumulated other comprehensive income

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

55
619
(127,
72

621

\$4,514
=====

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

Anthracite Capital, Inc. and Subsidiaries Consolidated Statements of Operations (Unaudited) (in thousands, except per share data)

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005
Income:		
Interest from securities available-for-sale	\$38,897	
Interest from commercial mortgage loans	8,015	
Interest from commercial mortgage loan pools	13,227	
Interest from securities held-for-trading	1,925	
Earnings from equity investments	9,342	
Earnings from real estate joint ventures	-	
Interest from cash and cash equivalents	337	
Total income	71,743	
Expenses:		
Interest	44,632	
Interest - securities held-for-trading	1,893	
Management and incentive fee	4,219	
General and administrative expense	1,104	
Total expenses	51,848	
Other gains (losses):		
Sale of securities available-for-sale	34	
Securities held-for-trading	950	
Foreign currency gain (loss)	44	
Loss on impairment of assets	(781)	
Total other gains (losses)	247	
Net income	20,142	

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Dividends on preferred stock	1,348
Net income available to common stockholders	\$18,794
Net income per common share, basic:	\$0.33
Net income per common share, diluted:	\$0.33
Dividend declared per share of Common Stock	\$0.28
Weighted average number of shares outstanding:	
Basic	56,672
Diluted	56,678

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

Anthracite Capital, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2006
(in thousands)

	Common Stock, Par Value	Series C Preferred Stock	Additional Paid-In Capital	Distributions In Excess Of Earnings	Accumulated Other Comprehensive Income
Balance at January 1, 2006	\$56	\$55,435	\$612,368	\$(130,038)	\$60,197
Net income				20,142	
Unrealized gain on cash flow hedges					34,543
Reclassification of losses from cash flow hedges included in net income					1,503
Change in net unrealized loss on securities available-for-sale, net of reclassification adjustment					(23,488)
Other comprehensive income					
Comprehensive income					

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Dividends declared-common stock	(15,975)
Dividends declared - preferred stock	(1,348)

Issuance of common stock	1	7,616
--------------------------	---	-------

Balance at March 31, 2006	\$57	\$55,435	\$619,984	\$(127,219)	\$72,755
---------------------------	------	----------	-----------	-------------	----------

Disclosure of reclassification adjustment:

Unrealized holding loss

Reclassification for realized gains previously recorded as unrealized

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

Anthracite Capital, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

For the Three
Months Ended
March 31, 20

Cash flows from operating activities:

Net income	\$20,14
------------	---------

Adjustments to reconcile net income to net cash provided by operating activities:

Decrease in trading securities	11,90
--------------------------------	-------

Net (gain) loss on sale of securities	(98
---------------------------------------	-----

Earnings from subsidiary trust	(7
--------------------------------	----

Distributions from subsidiary trust	5
-------------------------------------	---

Earnings from equity investments and real estate joint ventures	(9,34
---	-------

Distributions of earnings from equity investments and real estate joint ventures	6,86
--	------

Amortization of collateralized debt obligation issuance costs	55
---	----

Amortization of junior subordinated note issuance costs	3
---	---

Premium amortization (net)	13
----------------------------	----

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Loss on impairment of assets	78
Unrealized net foreign currency gain	(39)
Decrease in other assets	16,32
Decrease in other liabilities	(3,09)

	42,89
Net cash provided by operating activities	-----
Cash flows from investing activities:	
	(322,642)
Purchase of securities available-for-sale	12,53
Principal payments received on securities available-for-sale	2,11
Repayments received from commercial mortgage loan pools	(48,883)
Funding of commercial mortgage loans	48,38
Repayments received from commercial mortgage loans	(5,435)
Purchase of real estate held-for-sale	17
Decrease in restricted cash equivalents	
Return of capital from equity investments and joint ventures	11,85
Investment in equity investments	(48,21)

Net cash (used in) provided by investing activities	(350,10)

Cash flows from financing activities:	
Net increase (decrease) in borrowings under reverse repurchase agreements and credit facilities	210,61
Repayments of borrowings secured by commercial mortgage loan pools	(1,90)
Repayments of collateralized debt obligations	(603)
Issuance of junior subordinated notes to subsidiary trust	100,00
Issuance costs of junior subordinated notes	(3,07)
Dividends paid on preferred stock	(1,34)
Proceeds from issuance of common stock, net of offering costs	6,32
Dividends paid on common stock	(15,77)

Net cash provided (used in) by financing activities	294,23

Net decrease in cash and cash equivalents	(12,96)
Cash and cash equivalents, beginning of period	40,55

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Cash and cash equivalents, end of period	\$27,59
=====	
Supplemental disclosure of cash flow information:	
Interest paid	\$31,50
=====	
Investments purchased not settled	\$20,66
=====	
Supplemental disclosure of non-cash investing and financing activities:	
Investments in subsidiary trusts	\$ 3,09
=====	

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

Anthracite Capital, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
(Dollar amounts in thousands, except share and per share data)

Note 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Anthracite Capital, Inc., a Maryland corporation, and its subsidiaries (the "Company") is a real estate finance company that primarily generates income based on the spread between the interest income on its commercial real estate assets and the interest expense from borrowings used to finance those investments. The Company seeks to earn high returns on a risk-adjusted basis to support a consistent quarterly dividend. The Company has elected to be taxed as a real estate investment trust ("REIT") under the United States Internal Revenue Code of 1986, as amended (the "Code") and, therefore, its income is largely exempt from corporate taxation. The Company commenced operations on March 24, 1998.

The Company's ongoing investment activities primarily encompass three core investment activities:

- 1) Commercial Real Estate Securities
- 2) Commercial Real Estate Loans
- 3) Commercial Real Estate Equity

The accompanying March 31, 2006 unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. These consolidated financial statements should be read in conjunction with the annual audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission (the "SEC").

In preparing the consolidated financial statements, management is required to

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions. Significant estimates in the financial statements include the valuation of certain of the Company's mortgage-backed securities and certain other investments.

Recent Accounting Developments

Accounting Changes and Corrections

In June 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS No. 154"). SFAS No. 154 replaces Accounting Principles Board ("APB") Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented in accordance with the new accounting principle. SFAS No. 154 also requires that a change in the method of depreciating or amortizing a long-lived non-financial asset be accounted for prospectively as a change in estimate, and correction of errors in previously issued financial statements should be termed "restatements." SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS No. 154 had no impact on the Company's consolidated financial statements.

Stock Based Compensation

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation, and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service (usually the vesting period) in exchange for the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. As amended by Rule 4-01(a) of Regulation S-X promulgated by the SEC, this statement is effective as of the beginning of the first interim or annual reporting period of the Company's first fiscal year beginning on or after December 15, 2005. The Company adopted SFAS No. 123R, as amended, effective January 1, 2006 with no impact to the consolidated financial statements as there are no unvested options as of December 31, 2005 and the Company applied the fair value method to all options issued after January 1, 2003.

Reverse Repurchase Agreements

The FASB has placed an item on its agenda relating to the treatment of transactions where mortgage-backed securities purchased from a particular counterparty are financed via a repurchase agreement with the same counterparty. Currently, the Company records such assets and the related financing gross on the consolidated statement of financial condition, and the corresponding interest income and interest expense gross on the consolidated statement of operations. Any change in fair value of the security is reported through other

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

comprehensive income under SFAS No. 115, because the security is classified as available-for-sale. However, in a transaction where the mortgage-backed securities are acquired from and financed under a repurchase agreement with the same counterparty, the acquisition may not qualify as a sale from the seller's perspective under the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In such cases, the seller may be required to continue to consolidate the assets sold to the Company, based on their continuing involvement with such investments. Depending on the ultimate outcome of the FASB deliberations, the Company may be precluded from presenting the assets gross on the Company's balance sheet and should instead be treating the Company's net investment in such assets as a derivative. If it is determined that these transactions should be treated as investments in derivatives, the derivative instruments entered into by the Company to hedge the Company's interest rate exposure with respect to the borrowings under the associated repurchase agreements may no longer qualify for hedge accounting, and would then, as with the underlying asset transactions, also be marked to market through the income statement. This potential change in accounting treatment does not affect the economics of the transactions but does affect how the transactions would be reported in the consolidated financial statements. The Company's cash flows, liquidity and ability to pay a dividend would be unchanged, and the Company does not believe its REIT taxable income or REIT status would be affected. The Company's net equity would not be materially affected. At March 31, 2006, the Company has identified available-for-sale securities with a fair value of \$120,999 which had been purchased from and financed with the same counterparty since their purchase. If the Company were to change the current accounting treatment for these transactions at March 31, 2006, total assets and total liabilities would each be reduced by approximately \$120,999.

Impairment of Investments

In November 2005, the FASB issued FASB Staff Position ("FSP") FAS 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which provides guidance for determining when impairment charges should be taken on certain debt and equity securities. FSP FAS 115-1/124-1 requires that debt and equity securities subject to the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and equity securities subject to the provisions of APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, but which are not accounted for under the equity method (i.e., securities accounted for under the cost method) shall be reviewed for impairment when circumstances warrant. For securities subject to SFAS No. 115, a review for other-than-temporary impairments shall occur in each accounting period where the fair value of the security is less than its cost. For securities subject to APB Opinion No. 18, a review for other-than-temporary impairments shall occur in each accounting period where a) circumstances indicate that impairment may exist and b) the fair value of the security is less than its carrying value. The provisions of the FSP were required to be applied to reporting periods beginning after December 15, 2005. The adoption of FSP FAS 115-1/124-1 on January 1, 2006 had no material impact on the Company's condensed consolidated financial statements.

Recent Accounting Developments

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133 and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The Statement provides, among other things, that: (1) companies that have embedded derivatives which would otherwise be required to be bifurcated from their host contracts and accounted for at fair value in accordance with SFAS No. 133 may make an irrevocable election, on an instrument-by-instrument basis, to measure the hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

and (2) clarifies that concentrations of credit risk in the form of subordination are not considered embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to remeasurement after the beginning of an entity's first fiscal year that begins after September 15, 2006. Upon adoption, differences between the total carrying amount of the individual components of an existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as a cumulative effect adjustment to beginning retained earnings. Prior periods should not be restated. The Company is currently evaluating the potential impact of SFAS No. 155 and intends to adopt the Statement on January 1, 2007.

Reclassifications

Certain items previously reported have been reclassified to conform to the current presentation.

Note 2 NET INCOME PER SHARE

Net income per share is computed in accordance with SFAS No. 128, Earnings Per Share. Basic income per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted income per share is calculated using the weighted average number of common shares outstanding during the period plus the additional dilutive effect, if any, of common stock equivalents. The dilutive effect of outstanding stock options is calculated using the treasury stock method.

Numerator:

Net income available to common stockholders

Numerator for basic and diluted earnings per share

Denominator:

Denominator for basic earnings per share--weighted average common shares Outstanding 56,
Dilutive effect of stock options

Denominator for diluted earnings per share--weighted average common shares outstanding and common stock equivalents outstanding 56

Basic net income per weighted average common share:

Diluted net income per weighted average common share and common share equivalents:

Total anti-dilutive stock options excluded from the calculation of net income per share were 1,384,151 and 1,385,151 for the three months ended March 31, 2006 and 2005, respectively.

For the
Months E
March 31,

=====

=====

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Note 3 SECURITIES AVAILABLE-FOR-SALE

The Company's securities available-for-sale are carried at estimated fair value. The amortized cost and estimated fair value of securities available-for-sale as of March 31, 2006 are summarized as follows:

Security Description	Amortized Cost	Gross Unrealized Gain
CMBS:		
CMBS interest only securities ("IOs")	\$98,721	\$750
Investment grade CMBS	647,427	39,274
Non-investment grade rated subordinated securities	581,452	54,925
Non-rated subordinated securities	41,343	3,295
Credit tenant leases	24,857	522
Investment grade REIT debt	249,297	6,130
Multifamily agency securities	372,092	-
CDO investments	117,259	1,731
Total CMBS	2,132,448	106,627
Single-family RMBS:		
Agency adjustable rate securities	73,950	16
Residential CMOs	102,829	59
Hybrid adjustable rate mortgages ("ARMs")	14,945	-
Total RMBS	191,724	75
Total securities available-for-sale	\$2,324,172	\$106,702

As of March 31, 2006, the Company's securities available-for-sale included non-dollar denominated assets with an estimated fair value of \$60,555.

As of March 31, 2006, an aggregate of \$2,197,394 in estimated fair value of the Company's securities available-for-sale was pledged to secure its collateralized borrowings.

During the three months ended March 31, 2006 and 2005, respectively, the Company realized gains of \$34 and \$10 on securities available-for-sale.

The following table shows the Company's estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2006.

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

	Less than 12 Months		12 Months or More	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
CMBS IOs	\$52,903	\$ (2,869)	\$22,852	\$ (1,186)
Investment grade CMBS	151,373	(3,584)	114,660	(9,480)
Non-investment grade rated subordinated securities	180,242	(5,360)	23,998	(2,192)
Non-rated subordinated securities	2,371	(174)	-	-
Credit tenant leases	-	-	15,859	(677)
Investment grade REIT debt	38,191	(1,145)	48,858	(3,051)
Multifamily agency securities	338,627	(10,975)	22,039	(451)
CDO investments	56,862	(3,572)	-	-
Agency adjustable rate securities	-	-	70,436	(1,476)
Residential CMOs	99,984	(2,291)	-	-
Hybrid ARMs	-	-	14,464	(481)
Total temporarily impaired securities	\$920,553	\$ (29,970)	\$333,166	\$ (18,994)

The temporary impairment of the available-for-sale securities results from the estimated fair value of the securities falling below the amortized cost basis. These unrealized losses are primarily the result of market factors other than credit impairment and the Company believes the carrying value of the securities are fully recoverable over their expected holding period. Management possesses both the intent and the ability to hold the securities until maturity, allowing for the anticipated recovery in estimated fair value of the securities held. As such, management does not believe any of the securities held are other-than-temporarily impaired at March 31, 2006.

As of March 31, 2006, the anticipated weighted average yield to maturity based upon the amortized cost of the subordinated CMBS ("reported yield") was 10.6% per annum. The anticipated reported yield of the Company's investment grade securities available-for-sale was 5.9%. The Company's anticipated yields on its subordinated CMBS and other securities available-for-sale are based upon a number of assumptions that are subject to certain business and economic uncertainties and contingencies. Examples of these include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults, and liquidations and related expenses), the pass-through or coupon rate, and interest rate fluctuations. The Company considers the CMBS securities where it maintains the right to influence the foreclosure/workout process on the underlying loans its controlling class CMBS ("Controlling Class"). Additional factors that may affect the Company's anticipated yields to maturity on its Controlling Class CMBS include interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing and magnitude of credit losses on the mortgage loans underlying the Controlling Class CMBS that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality) and changes in market rental rates. As these uncertainties and contingencies are difficult to predict and are subject to future events which may alter these assumptions, no assurance can be given that the anticipated yields to maturity, discussed above and elsewhere, will be achieved.

Note 4 IMPAIRMENTS - CMBS

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

The Company updates its estimated cash flows for securities subject to Emerging Issues Task Force Issue 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets ("EITF 99-20") on a quarterly basis. The Company compares the yields resulting from the updated cash flows to the current accrual yields. An impairment charge is required under EITF 99-20 if the updated yield is lower than the current accrual yield and the security has a market value less than its adjusted purchase price. The Company carries all these securities at their market value on its consolidated statement of financial condition.

As of March 31, 2006, the Company had two CMBS that required an impairment of \$781. As of March 31, 2005, the Company had one CMBS that required an impairment of \$159. The decline in the updated yields that caused the impairments is not related to increases in losses but rather changes in the timing of credit losses and prepayments. Based on current economic conditions, the Company believes the impairments will be recovered over the remaining life of the bonds.

Note 5 COMMERCIAL MORTGAGE LOAN POOLS

During the second quarter of 2004, the Company acquired subordinated CMBS in a trust establishing a Controlling Class interest. The Company negotiated for and obtained a greater degree of influence over the disposition of the commercial mortgage loans than is typically granted to the special servicer. As a result of this expanded influence, the trust was not a qualifying special-purpose entity ("QSPE") and FASB Interpretation No. 46, Consolidation of Variable Interest Entities (revised December 2003) ("FIN 46R") required the Company to consolidate the net assets and results of operations of the trust.

Approximately 45% of the par amount of the commercial mortgage loan pool is comprised of investment grade loans and the remaining 55% are unrated. For income recognition purposes, the Company considers the investment grade and unrated commercial mortgage loans in the pool as single assets reflecting the credit assumptions made in establishing loss adjusted yields for Controlling Class securities. The Company has taken into account the credit quality of the underlying loans in formulating its loss assumptions. Credit losses assumed on the entire pool are 1.40% of the principal balance, or 2.53% of the unrated principal balance.

Over the life of the commercial mortgage loan pools, the Company reviews and updates its loss assumptions to determine the impact on expected cash flows to be collected. A decrease in estimated cash flows will reduce the amount of interest income recognized in future periods and may result in a loan loss reserve depending upon the severity of the cash flow reductions. An increase in estimated cash flows will first reduce the loan loss reserve and any additional cash will increase the amount of interest income recorded in future periods.

Note 6 SECURITIES HELD-FOR-TRADING

The Company's securities held-for-trading are carried at estimated fair value. At March 31, 2006, the Company's securities held-for-trading consisted of FNMA Mortgage Pools with an estimated fair value of \$155,259 and CMBS with an estimated fair value of \$21,260. The FNMA Mortgage Pools, and the underlying mortgages, bear interest at fixed rates for specified periods, generally three to seven years, after which the rates are periodically reset to market.

Note 7 EQUITY INVESTMENTS

The Company has a \$100,000 commitment to acquire shares of BlackRock Diamond

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Property Fund ("BlackRock Diamond"). At March 31, 2006, 80.6% of the commitment has been called and the Company owned approximately 34.6% of BlackRock Diamond. The Company's investment in BlackRock Diamond at March 31, 2006 was \$86,415.

The Company recorded \$5,542 of income related to its ownership in BlackRock Diamond for the three months ended March 31, 2006, as reported by BlackRock Diamond. Of the \$5,542 in income, \$370 represented current income and \$5,172 represented unrealized capital appreciation. The Company's investment represents a 34.6% interest in a portfolio of fifteen assets with a total market value of approximately \$367,000. BlackRock Diamond carries its real estate investments at estimated fair values based upon valuations performed internally and upon appraisal reports prepared annually by independent real estate appraisers. The estimated fair values of real estate may differ significantly from those that could be realized if the real estate were actually offered for sale in the market place.

The Company entered into a \$50,000 commitment on July 20, 2001 to acquire shares in Carbon Capital, Inc. ("Carbon I"). On July 12, 2004, the investment period expired. The Company's investment in Carbon I at March 31, 2006 was \$6,634. At March 31, 2006, the Company owned approximately 20% of Carbon I.

The Company entered into an aggregate commitment of \$100,000 to acquire shares in Carbon Capital II, Inc. ("Carbon II"). The Company's investment in Carbon II at March 31, 2006 was \$60,364. The Company's remaining commitment at March 31, 2006 was \$39,472. At March 31, 2006, the Company owned approximately 26% of Carbon II.

On December 22, 2005, the Company entered into an \$11,000 commitment to acquire shares of Dynamic India Fund IV. On March 13, 2006, the Company funded a capital call for 16.5% of its commitment. The Company's investment in Dynamic India Fund IV at March 31, 2006 was \$1,650.

Note 8 REAL ESTATE, HELD-FOR-SALE

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets specifies that long-lived assets to be disposed by sale, which meet certain criteria, should be classified as real estate held-for-sale and measured at the lower of its carrying amount or fair value less costs of sale. In addition, depreciation is not recorded for real estate held-for-sale.

During the quarter, the Company purchased a defaulted loan from a Controlling Class CMBS trust. The loan was secured by a first mortgage on a multi-family property in Texas. Subsequent to the loan purchase, the property was acquired by the Company at foreclosure. The Company's plan is to enhance leasing activity and increase occupancy rates. Subsequently, the performance of the asset has improved and the Company has entered into a contract to sell the property for an amount in excess of the Company's basis. The sale is contingent on due diligence and other closing matters. The multi-family property acquired during the quarter meets the requirement of SFAS No. 144 and is carried at its acquisition cost of \$5,435 and no depreciation was recorded during the quarter.

Note 9 BORROWINGS

The Company's borrowings consist of credit facilities, reverse repurchase agreements, CDOs, trust preferred securities, and commercial mortgage loan pools.

Reverse Repurchase Agreements and Credit Facilities

On February 16, 2006, the Company entered into a \$200,000 committed non-dollar

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

credit facility with Morgan Stanley Mortgage Servicing, Inc. which matures in February 2008. Outstanding borrowings under this credit facility bear interest at a LIBOR based variable rate. As of March 31, 2006, there were no borrowings under this facility.

On March 17, 2006, the Company entered into a \$100,000 committed non-dollar credit facility with Bank of America, N.A. which matures in September 2008. Outstanding borrowings under this credit facility bear interest at a LIBOR based variable rate. As of March 31, 2006, there were no borrowings under this facility.

Under the credit facilities and the reverse repurchase agreements, the respective lender retains the right to mark the underlying collateral to estimated fair value. A reduction in the estimated fair value of its pledged assets will require the Company to provide additional collateral or fund margin calls. From time to time, the Company expects that it will be required to provide such additional collateral or fund margin calls.

CDOs

On May 2, 2006, the Company announced the pricing of its sixth CDO issuance ("CDO HY3") resulting in the issuance of \$417,000 of non-recourse debt. The debt will be secured by a portfolio of CMBS and subordinated commercial real estate loans. This debt, rated AAA through BBB-, will be privately placed, and the Company will receive additional CDO debt rated BB and 100% of the preferred shares issued by the CDO. The transaction is expected to close on May 23, 2006.

The terms of the offering permit the Company to contribute to the CDO up to \$50,000 of additional CMBS during a ramp-up period. These CMBS assets will be contributed at par value. The debt issuance is intended to match fund existing Company assets to be contributed to the CDO at closing, and the assets to be purchased during the ramp-up period, with long-term liabilities. The Company intends to account for this transaction on its balance sheet as a financing. All debt placed will either carry a fixed rate or will be hedged to create a current cost of funds of approximately 6.3% after issuance expenses and will have a weighted average life of 8.1 years. The Company will use the net proceeds of the offering to pay down existing debt on the CDO collateral. Since the CDO collateral was not fully levered, the Company expects excess cash of \$93,000 after the pay down of existing debt in addition to the \$50,000 ramp facility. Following the closing of CDO HY3, approximately 93% of the Company's subordinated CMBS will be match funded in CDOs.

Certain information with respect to the Company's collateralized borrowings at March 31, 2006 is summarized as follows:

	Reverse Repurchase Agreements	Credit Facilities	Commercial Mortgage Loan Pools	Collateralized Debt Obligations
Outstanding borrowings	\$1,060,329	\$254,016	\$1,267,611	\$1,066,345
Weighted average borrowing rate	4.89%	5.75%	3.97%	6.53%
Weighted average remaining maturity	25 days	1.15 years	6.57 years	6.53 years
Estimated fair value of assets pledged	\$1,099,519	\$397,002	\$1,287,277	\$1,236,798

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

As of March 31, 2006, the Company's collateralized borrowings had the following remaining maturities:

	Reverse Repurchase Agreements	Credit Facilities	Commercial Mortgage Loan Pools	Collateral Debt Obliga
Within 30 days	\$1,027,784	\$-	\$-	
31 to 59 days	4,244	12,698	-	
60 days to less than 1 year	28,301	86,445	-	
1 year to 3 years	-	154,873	-	
3 years to 5 years	-	-	-	
Over 5 years	-	-	1,267,611	1,
	\$1,060,329	\$254,016	\$1,267,611	\$1,
	=====	=====	=====	=====

* As of March 31, 2006, collateralized debt obligations are comprised of \$418,834 of CDO debt with a weighted average remaining maturity of 6.04 years, \$292,585 of CDO debt with a weighted average remaining maturity of 6.42 years, and \$367,440 of CDO debt with a weighted average remaining maturity of 7.14 years.

Trust Preferred

On January 31, 2006, the Company issued \$50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust II, a Delaware statutory trust ("Trust II"). The trust preferred securities have a thirty-year term ending April 30, 2036 with interest at a fixed rate of 7.73% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in April 2011. Trust II issued \$1,550 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust II to the Company for a purchase price of \$1,550. The Company realized net proceeds from this offering of approximately \$48,491.

On March 16, 2006, the Company issued \$50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust III, a Delaware statutory trust ("Trust III" and collectively with Trust II, the "Trusts"). The trust preferred securities have a thirty-year term ending March 15, 2036 with interest at a fixed rate of 7.77% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in March 2011. Trust III issued \$1,547 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust III to the Company for a purchase price of \$1,547. The Company realized net proceeds from this offering of approximately \$48,435.

The Trusts used the proceeds from the sale of the trust preferred securities and the common securities to purchase the Company's junior subordinated notes. The terms of the junior subordinated notes match the terms of the trust preferred securities. The notes are subordinate and junior in right of payment to all present and future senior indebtedness and certain other of our financial obligations.

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

The Company's interests in the Trusts are accounted for using the equity method and the assets and liabilities of the Trusts are not consolidated into the Company's financial statements. Interest on the junior subordinated notes is included in interest expense on the consolidated statement of operations while the common securities are included as a component of other assets on the Company's consolidated statement of financial condition.

Note 10 COMMON STOCK

Pursuant to its 2006 Management Agreement (defined below), 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock. On March 20, 2006 the Company issued 117,679 shares of Common Stock related to \$1,287 of fourth quarter 2005 incentive fees. See Note 11 of the consolidated financial statements, Transactions with Affiliates, for further discussion of the Company's Management Agreement.

For the three months ended March 31, 2006, the Company issued 590,216 shares of Common Stock under its Dividend Reinvestment and Stock Purchase Plan (the "Dividend Reinvestment Plan"). Net proceeds to the Company were approximately \$6,270. For the three months ended March 31, 2005, the Company issued 7,706 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately \$91. As of February 24, 2006, the Company suspended the Dividend Reinvestment Plan for all future investments dates.

During the three months ended March 31, 2006, 7,000 stock options with an exercise price of \$8.44 per share were exercised pursuant to the Company's stock option plan (the "1998 Stock Option Plan"). Net proceeds to the Company were \$59.

On February 24, 2006, the Company declared dividends to its common stockholders of \$0.28 per share, payable on May 1, 2006 to stockholders of record on March 31, 2006. For U.S. federal income tax purposes, the dividends are expected to be ordinary income to the Company's stockholders.

Note 11 TRANSACTIONS WITH AFFILIATES

The Company has a Management Agreement with the Manager, a majority owned indirect subsidiary of The PNC Financial Services Group, Inc. and the employer of certain directors and all of the officers of the Company, under which the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. Pursuant to the Management Agreement, the Manager formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain other advisory and managerial services in connection with the operations of the Company. For performing these services, the Company pays the Manager a base management fee equal to 2.0% of the quarterly average total stockholders' equity for the applicable quarter.

To provide an incentive, the Manager is entitled to receive an incentive fee equal to 25% of the amount by which the rolling four-quarter GAAP net income before the incentive fee exceeds the greater of 8.5% or 400 basis points over the ten-year Treasury note multiplied by the adjusted per share issue price of the common stock (\$11.36 per common share at March 31, 2006).

The Company's unaffiliated directors approved an extension of the Management Agreement to March 31, 2007 at the Board of Directors' February 2006 meeting. Additionally, pursuant to a resolution of the Company's Board of Directors adopted at the February 2006 meeting, up to 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock subject to certain provisions. The Board of Directors also authorized the Company to seek

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

stockholder approval of a compensatory deferred stock plan. Pending stockholder approval, the Company would establish a stock based incentive plan where one half of one percent of common shares outstanding will be paid to the Manager in 2006.

The Company incurred \$3,050 and \$2,579 in base management fees in accordance with the terms of the Management Agreement for the three months ended March 31, 2006 and 2005, respectively. The Company incurred \$1,169 in incentive fees for the three months ended March 31, 2006. The Company did not incur incentive fees for the three months ended March 31, 2005. As of March 31, 2006 and 2005, respectively, management and incentive fees of \$4,095 and \$2,438 are payable to the Manager. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements to the Manager of \$100 and \$40 for certain expenses incurred on behalf of the Company for the three months ended March 31, 2006 and 2005, respectively, which are included in general and administrative expense on the accompanying consolidated statements of operations.

The Company has an administration and investment accounting agreement with the Manager. Under the terms of the administration agreement, the Manager provides financial reporting, audit coordination and accounting oversight services to the Company. Under the terms of the investment accounting agreement, the Manager provides investment accounting services to the Company. For the three months ended March 31, 2006 and 2005, the Company recorded administration and investment accounting fees of \$182 and \$51, respectively, which are included in general and administrative expense on the accompanying consolidated statements of operations.

The special servicer on 20 of the Company's 24 Controlling Class trusts is Midland Loan Services, Inc. ("Midland"), a wholly owned indirect subsidiary of PNC Bank, and therefore an affiliate of the Manager. The Company's fees for Midland's services are at market rates.

The Company has a \$100,000 commitment to acquire shares of BlackRock Diamond. BlackRock Diamond is a private REIT managed by BlackRock Realty Advisors, Inc., a subsidiary of the Manager. At March 31, 2006, 80.6% of the commitment has been called and the Company owned approximately 34.6% of BlackRock Diamond. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in BlackRock Diamond. The Company's investment in BlackRock Diamond at March 31, 2006 was \$86,116. The Company's unaffiliated directors approved this transaction in September 2005.

During 2001, the Company entered into a \$50,000 commitment to acquire shares in Carbon Capital, Inc. ("Carbon I"), a private commercial real estate income opportunity fund managed by the Manager. The Carbon I investment period ended on July 12, 2004 and the Company's investment in Carbon I as of March 31, 2006 was \$6,634. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon I. On March 31, 2006, the Company owned approximately 20% of the outstanding shares in Carbon I. The Company's unaffiliated directors approved this transaction in July 2001.

The Company entered into an aggregate commitment of \$100,000 to acquire shares in Carbon II, a private commercial real estate income opportunity fund managed by the Manager. At March 31, 2006, the Company's investment in Carbon II was \$60,364 and the Company's remaining commitment to Carbon II is \$39,472. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon II. The Company's unaffiliated directors approved this transaction in September 2004.

During 2000, the Company completed the acquisition of CORE Cap, Inc. At the time of the CORE Cap, Inc. acquisition, the Manager agreed to pay GMAC (CORE Cap, Inc.'s external advisor) \$12,500 over a ten-year period ("Installment Payment") to purchase the right to manage the CORE Cap, Inc. assets under the existing

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

management contract ("GMAC Contract"). The GMAC Contract had to be terminated in order to allow the Company to complete the merger, as the Company's management agreement with the Manager did not provide for multiple managers. As a result the Manager offered to buy-out the GMAC Contract as the Manager estimated it would receive incremental fees above and beyond the Installment Payment, and thus was willing to pay for, and separately negotiate, the termination of the GMAC Contract. Accordingly, the value of the Installment Payment was not considered in the Company's allocation of its purchase price to the net assets acquired in the acquisition of CORE Cap, Inc. The Company agreed that should the Management Agreement with its Manager be terminated, not renewed or not extended for any reason other than for cause, the Company would pay to the Manager an amount equal to the Installment Payment less the sum of all payments made by the Manager to GMAC. As of March 31, 2006, the Installment Payment would be \$5,000 payable over five years. The Company does not accrue for this contingent liability.

Note 12 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company accounts for its derivative investments under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated statement of financial condition at estimated fair value. If the derivative is designated as a cash flow hedge, the effective portions of change in the estimated fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the estimated fair value of cash flow hedges are recognized in earnings. If the derivative is designated as a fair value hedge, the changes in the estimated fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings.

The Company uses interest rate swaps to manage exposure to variable cash flows on portions of its borrowings under reverse repurchase agreements and the floating rate debt of its CDOs and as trading derivatives intended to offset changes in estimated fair value related to securities held as trading assets. On the date in which the derivative contract is entered, the Company designates the derivative as either a cash flow hedge or a trading derivative.

Occasionally, counterparties will require the Company or the Company will require counterparties to provide collateral for the interest rate swap agreements in the form of margin deposits. Net deposits are recorded as a component of either other assets or other liabilities. Should the counterparty fail to return deposits paid, the Company would be at risk for the estimated fair value of that asset. At March 31, 2006 and December 31, 2005, respectively, the balance of such net margin deposits held by the Company as collateral under these agreements totaled \$1,069 and \$1,246.

As of March 31, 2006, the Company had interest rate swaps with notional amounts aggregating \$1,446,091 designated as cash flow hedges of borrowings under reverse repurchase agreements and the floating rate debt of its CDOs. Cash flow hedges with an estimated fair value of \$53,096 are included in other assets on the consolidated statement of financial condition and cash flow hedges with an estimated fair value of \$2,914 are included in other liabilities on the consolidated statement of financial condition. For the three months ended March 31, 2006, the net change in the estimated fair value of the interest rate swaps was an increase of \$35,158, of which \$615 was deemed ineffective and is included as a decrease of interest expense and \$34,543 was recorded as an addition to OCI. As of March 31, 2006, the \$1,446,091 notional of swaps designated as cash flow hedges had a weighted average remaining term of 7.65 years.

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

During the quarter ended March 31, 2006, the Company terminated one of its interest rate swaps with a notional amount of \$36,000 that was designated as a cash flow hedge of borrowings under reverse repurchase agreements. The Company will reclassify the \$1,733 gain in value incurred from OCI to interest expense over 7.19 years, which was the remaining term of the swap at the time it was closed out. For the quarter ended March 31, 2006, \$20 was reclassified as a decrease to interest expense and \$241 will be reclassified as a decrease to interest expense for the next 12 months. As of March 31, 2006 the Company has, in aggregate, \$31,962 of losses related to terminated swaps in OCI. For the quarter ended March 31, 2006, \$1,503 was reclassified as an increase to interest expense and \$5,693 will be reclassified as an increase to interest expense for the next twelve months.

As of March 31, 2006, the Company had interest rate swaps with notional amounts aggregating \$323,445 designated as trading derivatives. Trading derivatives with an estimated fair value of \$4,994 are included in other assets on the consolidated statement of financial condition and trading derivatives with an estimated fair value of \$105 are included in other liabilities on the consolidated statement of financial condition. For the three months ended March 31, 2006, the change in estimated fair value for these trading derivatives was an increase of \$2,304 and is included as a reduction of loss on securities held-for-trading in the consolidated statements of operations. As of March 31, 2006, the \$323,445 notional of swaps designated as trading derivatives had a weighted average remaining term of 6.49 years.

At March 31, 2006, the Company had a forward LIBOR cap with a notional amount of \$85,000 and an estimated fair value at March 31, 2006 of \$370 which is included in other assets, and the change in estimated fair value related to this derivative is included as a component of gain (loss) on securities held-for-trading in the consolidated statements of operations.

Foreign Currency

The U.S. dollar is considered the functional currency for the Company's international subsidiaries. Foreign currency transaction gains or losses related to the Company's non-dollar denominated assets and liabilities are recognized in the period incurred and are included in other gain (loss) in the consolidated statement of operations. The Company uses foreign currency forward commitments to hedge the Company's net foreign investments. Gains and losses on foreign currency forward commitments are included in other gain (loss) in the consolidated statement of operations. The Company recorded net foreign currency transaction gain (loss) of \$44 and \$(168) for the three months ended March 31, 2006 and 2005, respectively. At March 31, 2006 and December 31, 2005, the Company also had foreign currency forward commitments with an estimated fair value of \$(84,495) and \$(55,390) included in other liabilities on the consolidated statement of financial condition.

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

All dollar figures expressed herein are expressed in thousands, except share or per share amounts or as otherwise noted.

I. General

Anthracite Capital, Inc., a Maryland corporation, and subsidiaries (the "Company") is a commercial real estate company that invests in commercial real estate opportunities in the United States and Europe. The company seeks to generate income from the spread between the interest income, gains and net

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

operating income on its commercial real estate assets and the interest expense from borrowings to finance its investments. The Company's primary activity is investing in high yielding commercial real estate debt. The Company combines traditional real estate underwriting and capital markets expertise to maximize the opportunities arising from the continuing integration of these two disciplines. The Company focuses on acquiring pools of performing loans in the form of commercial mortgage-backed securities ("CMBS"), issuing secured debt backed by CMBS and providing strategic capital for the commercial real estate industry in the form of mezzanine loan financing. The Company also recently began investing in diversified portfolios of commercial real estate in the United States. The Company commenced operations on March 24, 1998.

The Company's common stock is traded on the New York Stock Exchange under the symbol "AHR". The Company's primary long-term objective is to distribute consistent dividends supported by earnings. The Company establishes its dividend by analyzing the long-term sustainability of earnings given existing market conditions and the current composition of its portfolio. This includes an analysis of the Company's credit loss assumptions, general level of interest rates, projected hedging costs and the estimated return potential of its real estate investments.

The Company is managed by BlackRock Financial Management, Inc. (the "Manager"), a subsidiary of BlackRock, Inc., a publicly traded (NYSE:BLK) asset management company with approximately \$463 billion of assets under management, including more than \$10 billion in real estate equity and debt as of March 31, 2006. The Manager provides an operating platform that incorporates significant asset origination, risk management, operational and property management capabilities.

The Company's ongoing investment activities primarily encompass three core investment activities:

- 1) Commercial Real Estate Securities
- 2) Commercial Real Estate Loans
- 3) Commercial Real Estate Equity

The commercial real estate securities portfolio provides diversification and high yields that are adjusted for anticipated losses over a period of time (typically, a ten-year weighted average life) and can be financed through the issuance of secured debt that matches the life of the investment. Commercial real estate loans provide attractive risk adjusted returns over shorter periods of time through strategic investments in specific property types or regions. The Company's equity strategy is to invest in a diverse portfolio of commercial real estate with the objective of repositioning the property to maximize its value. The return objective is to provide strong returns over a medium term period of 4 to 7 years through a combination of real estate operating income and capital gains. It is expected that, over the short term, current returns will fluctuate as gains and losses are reported based on a valuation process each quarter. The Company believes that the combination of these activities will result in a strong, sustainable dividend stream for our shareholders.

The Company's fixed income investment activity continues to be managed to maintain a positive, though controlled, exposure to both long- and short-term interest rates through its active hedging strategies. See "Item 3 - Quantitative and Qualitative Disclosures About Market Risk" for a discussion of interest rates and their effect on earnings and book value.

The following table illustrates the mix of the Company's asset types as of March 31, 2006 and December 31, 2005:

Carrying Value as of

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

	March 31, 2006		December 31, 2005	
	Amount	%	Amount	%
Commercial real estate securities	\$2,215,620	50.8%	\$2,005,383	49.7%
Commercial mortgage loan pools(1)	1,287,277	29.5	1,292,407	32.0
Commercial real estate loans((2))	428,720	9.8	425,453	10.6
Commercial real estate equity	88,065	2.0	51,003	1.3
Residential mortgage-backed securities	342,810	7.9	259,026	6.4
Total	\$4,362,492	100.0%	\$4,033,272	100.0%

(1) Represents a Controlling Class CMBS that is consolidated for accounting purposes. See Note 5 of the consolidated financial statements.

(2) Includes the Company's investments in the Carbon Capital Funds at March 31, 2006 and December 31, 2005.

During the first quarter of 2006, the Company purchased a total of \$313,142 of commercial real estate assets. Included in this amount is \$40,317 of non-dollar denominated assets as the Company continues to expand its non-U.S. investment activities. Commercial real estate assets purchased were comprised of: \$128,032 of CMBS, \$105,092 of multifamily agency securities, \$48,637 of commercial real estate loans and \$31,381 of real estate equity. In addition, the Company purchased \$98,225 of investment grade residential mortgage-backed securities.

Commercial Real Estate Securities Portfolio Activity

The following table details the par, estimated fair value, adjusted purchase price, and loss adjusted yield of the Company's commercial real estate securities included in as well as outside the CDOs as of March 31, 2006:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Do
Investment grade CMBS	\$182,474	\$180,421	98.87	\$190,926	Pr
Investment grade real estate investment trust ("REIT") debt	23,000	21,516	93.55	22,834	
CMBS rated BB+ to B	198,689	164,771	82.93	169,373	
CMBS rated B- or lower	188,359	65,683	34.87	61,934	
CDO Investments	423,349	115,418	27.26	117,259	
CMBS Interest Only securities ("IOs")	3,461,113	95,415	2.76	98,721	
Multifamily agency securities	361,931	360,666	99.65	372,092	
Total commercial real estate securities outside CDOs	4,838,915	1,003,890	20.75	1,033,139	
Investment grade CMBS	515,555	512,565	99.42	476,849	
Investment grade REIT debt	223,445	229,715	102.81	226,463	
CMBS rated BB+ to B	510,302	440,602	86.34	389,022	
CMBS rated B- or lower	5,439	4,145	76.21	4,292	
Credit tenant lease	24,187	24,703	102.13	24,857	

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Total commercial real estate securities included in CDOs	1,278,928	1,211,730	94.75	1,121,483
Total commercial real estate securities	\$6,117,843	\$2,215,620	36.22	\$2,154,622

The following table details the par, estimated fair value, adjusted purchase price and loss adjusted yield of the Company's commercial real estate securities included in as well as outside the CDOs as of December 31, 2005:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price
Investment grade CMBS	\$150,128	\$151,889	101.17	\$161,314	107.75
Investment grade real estate investment trust ("REIT") debt	23,000	21,828	94.90	22,828	99.25
CMBS rated BB+ to B	104,784	90,289	86.17	92,931	88.81
CMBS rated B- or lower	132,242	47,854	36.19	45,070	34.15
CDO Investments	423,349	124,549	29.42	112,577	26.83
CMBS Interest Only securities("IOs")	3,505,646	103,363	2.95	103,120	2.94
Multifamily agency securities	256,398	263,362	102.72	268,319	104.68
Total commercial real estate securities outside CDOs	4,595,547	803,134	17.48	806,159	17.54
Investment grade CMBS	375,502	377,291	100.48	354,561	94.42
Investment grade REIT debt	223,445	233,939	104.70	226,583	101.37
CMBS rated BB+ to B	656,207	566,181	86.28	513,446	78.21
Credit tenant lease	24,317	24,837	102.14	24,995	102.80
Total commercial real estate securities included in CDOs	1,279,472	1,202,248	93.96	1,119,585	87.50
Total commercial real estate securities	\$5,875,019	\$2,005,383	34.13	\$1,925,744	32.78

During the three months ended March 31, 2006, the Company's commercial real estate securities portfolio increased by approximately 10.5% from an estimated fair value of \$2,005,383 at December 31, 2005, compared with \$2,215,620 at March 31, 2006.

The Company's CDO offerings allow the Company to match fund its commercial real estate portfolio by issuing long-term debt to finance long-term assets. The CDO debt is non-recourse to the Company; therefore, the Company's losses are limited to its equity investment in the CDO. The CDO debt is also hedged to protect the Company from an increase in short-term interest rates. At March 31, 2006, over 65% of the estimated fair value of the Company's subordinated CMBS is match funded in the Company's CDOs in this manner. Following the closing of CDO HY3, approximately 93% of the Company's subordinated CMBS will be match funded in CDOs.

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

The Company retained 100% of the equity of CDOs I, II and III (as defined below) and recorded the transactions on its consolidated financial statements as secured financing. The table below summarizes the Company's CDO debt and collateral at March 31, 2006.

	Collateral as of March 31, 2006		Debt as of March 31, 2006		
	Adjusted Purchase Price	Loss Adjusted Yield	Adjusted Issue Price	Weighted Average Cost of Funds *	Ne
CDO I	\$442,181	9.19%	\$406,429	7.05%	
CDO II	326,861	7.96%	292,708**	5.80%	
CDO III	377,881	7.22%	367,437**	5.03%	
Total **	\$1,146,923	8.19%	\$1,066,575	6.01%	

* Weighted Average Cost of Funds is the current cost of funds plus hedging expenses.

** The Company chose not to sell \$10,000 of par of CDO II debt rated BB and \$13,069 of par of CDO III debt rated BB.

Securitizations

On July 26, 2005, the Company closed its fifth CDO ("CDO HY2") and issued non-recourse liabilities with a face amount of \$365,010. Senior investment grade notes with a face amount of \$240,134 were issued and sold in a private placement. The Company retained the floating rate BBB- note, the below investment grade notes and the preferred shares. The Company recorded CDO HY2 as a secured financing for accounting purposes and consolidated the assets, liabilities, income and expenses of CDO HY2 until the sale of the floating rate BBB- note in December 2005, at which point CDO HY2 qualified as a sale under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 140").

The Company received cash proceeds of \$244,212 as well as all of the retained interests that had an estimated fair value of \$105,025 at December 31, 2005. The transaction raised investable proceeds of \$56,226. The following table summarizes the impact of this transaction on 2005 results:

Net realized gain related to sale of CDO HY2	\$16,523
Increase in accumulated other comprehensive income	9,611

Total stockholders' equity impact	\$26,134
	=====

On November 9, 2004, the Company closed its fourth collateralized debt obligation ("CDO HY1") secured by a portfolio of below investment grade CMBS with an average rating of CCC. The CMBS portfolio was carried at its estimated fair value of \$109,933 on the Company's consolidated statement of financial condition based on price quotes received from third parties. The transaction was accounted for as a sale under SFAS No. 140. The Company received cash proceeds of \$140,425 as well as all of the CDO HY1 preferred shares that had an estimated fair value of \$15,885 at December 31, 2004. The transaction raised investable proceeds of \$95,799. The following table summarizes the impact of this

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

transaction on 2004 results:

Realized gain at closing of CDO HY1	\$14,769
Realized gain from subsequent sale of A- tranche	1,825
Increase in accumulated other comprehensive income	29,782

Total stockholders' equity impact	\$46,376
	=====

Real Estate Credit Profile of Below Investment Grade CMBS

The Company divides its below investment grade CMBS investment activity into two portfolios; Controlling Class CMBS and other below investment grade CMBS. The Company considers the CMBS securities where it maintains the right to influence the foreclosure/workout process on the underlying loans its controlling class CMBS ("Controlling Class"). The distinction between the two is in the rights the Company obtains with its investment in Controlling Class CMBS. Controlling Class rights allow the Company to influence the workout and/or disposition of defaults that occur in the underlying loans. These securities absorb the first losses realized in the underlying loan pools. The coupon payment on the non-rated security also can be reduced for special servicer fees charged to the trust. The next highest rated security in the structure then generally will be downgraded to non-rated and become the first to absorb losses and expenses from that point on. At March 31, 2006, the Company owns 24 different trusts where it is in the first loss position and is designated as the controlling class representative by owning the lowest rated or non-rated CMBS class. The total par of the loans underlying these securities was \$33,598,059. At March 31, 2006, subordinated Controlling Class CMBS with a par of \$708,070 were included on the Company's consolidated statement of financial condition. Subordinated Controlling Class CMBS with a par of \$711,644 were held as collateral for CDOs HY1 and HY2.

The Company's other below investment grade CMBS have more limited rights associated with its ownership to influence the workout and/or disposition of underlying loan defaults. The total par of the Company's other below investment grade CMBS at March 31, 2006, was \$194,718; the average credit protection, or subordination level, of this portfolio is 3.92%.

The Company's investment in its subordinated Controlling Class CMBS by credit rating category at March 31, 2006 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Adjusted Dollar Price	Subordination Level
BB+	\$119,110	\$105,829	88.85	\$101,434	85.16	4.08%
BB	130,902	111,688	85.32	95,089	72.64	3.14%
BB-	122,786	94,939	77.32	88,471	72.05	3.40%
B+	84,788	60,281	71.10	56,696	66.87	2.60%
B	62,125	41,768	67.23	35,658	57.40	2.07%
B-	36,771	19,848	53.98	19,359	52.65	1.27%
NR	151,588	45,833	30.24	14,574	28.09	n/a
Total	\$708,070	\$480,186	67.82	\$439,281	62.04	

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

The Company's investment in its subordinated Controlling Class CMBS by credit rating category at December 31, 2005 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Weighted Average Subordination Level
BB+	\$139,541	\$131,676	94.36	\$120,541	86.38	5.64%
BB	92,583	81,469	88.00	76,527	82.66	4.43%
BB-	110,514	92,116	83.35	85,829	77.66	4.15%
B+	79,564	56,651	71.20	52,828	66.40	2.60%
B	132,247	84,201	63.37	77,784	58.82	2.81%
B-	23,775	13,216	55.59	12,303	51.75	1.24%
NR	96,626	27,777	28.75	25,727	26.63	n/a
Total	\$674,850	\$487,106	72.18	\$451,539	66.91	

Future delinquencies and losses may cause par reductions and cause the Company to conclude that a change in loss adjusted yield is required along with a write down of the adjusted purchase price through the income statement according to Emerging Issue Task Force ("EITF") 99-20. During the three months ended March 31, 2006, the loan pools were paid down by \$153,842. Pay down proceeds are distributed to the highest rated CMBS class first and reduce the percent of total underlying collateral represented by each rating category.

For all of the Company's Controlling Class securities, the Company follows a policy of assigning estimated losses to specific loans as well as adding a general loss assumption that is not loan specific. In performing continuing credit reviews on the 24 Controlling Class trusts, the Company estimates that specific losses totaling \$497,635 related to principal of the underlying loans will not be recoverable, of which \$186,335 is expected to occur over the next five years. The total loss estimate of \$497,638 represents 1.48% of the total current underlying loan pools at March 31, 2006. Additionally, the Company assumes a constant default rate of approximately ten to forty basis points with a 35% loss severity and a one year recovery period. These estimates were developed based on an analysis of individual loan characteristics and prevailing market conditions at the time of origination. All estimated workout expenses including special servicer fees are included in these assumptions. These loss assumptions are then used to compute a loss adjusted yield, which is then used to record income on the Company's consolidated financial statements. If the loss assumptions prove to be consistent with actual loss experience, the Company will maintain that level of income for the life of the security. As actual losses differ from the original loss assumptions, yields are adjusted to reflect the updated assumptions. In addition, a write down of the adjusted purchase price or write up of loss adjusted yields of the security may be required. (See Item 3 - "Quantitative and Qualitative Disclosures About Market Risk" for more information on the sensitivity of the Company's income and adjusted purchase price to changes in credit experience.)

The Company considers delinquency information from the Lehman Brothers Conduit Guide to be the most relevant benchmark to measure credit performance and market conditions applicable to its Controlling Class CMBS holdings. The year of issuance, or vintage year, is important, as older loan pools will tend to have more delinquencies than newly underwritten loans. Comparable delinquency statistics referenced by vintage year as a percentage of par outstanding as of

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

March 31, 2006 are shown in the table below:

Vintage Year	Underlying Collateral	Delinquencies Outstanding	Lehman Brothers Conduit Guide
1998	\$5,804,361	1.42%	1.49%
1999	629,114	1.51%	1.73%
2001	869,555	2.99%	1.29%
2002	1,144,715	0.32%	0.53%
2003	2,112,823	0.67%	0.47%
2004	6,699,032	0.56%	0.24%
2005	12,160,658	0.00%	0.16%
2006	4,177,801	0.00%	0.00%
Total	\$33,598,059	0.51%	0.48%*

* Weighted average based on current principal balance.

Delinquencies on the Company's CMBS collateral as a percent of principal are in line with expectations and are consistent with comparable data provided in the Lehman Brothers Conduit Guide. Morgan Stanley also tracks CMBS loan delinquencies for the specific CMBS transactions with more than \$200,000 of collateral and that have been seasoned for at least one year. These seasoning criteria generally will adjust for the lower delinquencies that occur in newly originated collateral. At March 31, 2006, the Morgan Stanley index indicated that delinquencies on 350 securitizations were 0.92%, and at December 31, 2005, this same index indicated that delinquencies on 338 securitizations were 1.21%.

The following table sets forth certain information relating to the aggregate principal balance and payment status of delinquent mortgage loans underlying the Controlling Class CMBS held by the Company as of March 31, 2006.

	March 31, 2006		
	Principal	Number of Loans	% of Collateral
Past due 30 days to 60 days	\$39,532	5	0.12%
Past due 61 days to 90 days	10,240	4	0.03%
Past due 91 days or more	60,096	16	0.18%
Real estate owned ("REO")	59,514	7	0.18%
Foreclosure	3,617	1	0.01%
Total delinquent	\$172,999	33	0.51%
Total principal balance	\$33,598,059		

Of the 33 delinquent loans at March 31, 2006, 7 loans were real estate owned and being marketed for sale, 1 loan was in foreclosure and the remaining 25 loans were in some form of workout negotiations. The Controlling Class CMBS owned by the Company have a delinquency rate of 0.51%, which is consistent with industry averages. During the three months ended March 31, 2006, the underlying

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

collateral experienced early payoffs of \$153,842 representing 0.46% of the quarter-end pool balance. These loans were paid off at par with no loss. Aggregate losses related to the underlying collateral of \$3,398 were realized during the three months ended March 31, 2006. This brings cumulative realized losses to \$93,568, which is 18.8% of total estimated losses. These losses include special servicer and other workout expenses. This experience to date is in line with the Company's loss expectations. Realized losses and special servicer expenses are expected to increase on the underlying loans as the portfolio matures. Special servicer expenses are also expected to increase as portfolios mature.

To the extent that realized losses differ from the Company's original loss estimates, it may be necessary to reduce or increase the projected yield on the applicable CMBS investment to better reflect such investment's expected earnings net of expected losses, from the date of purchase. While realized losses on individual assets may be higher or lower than original estimates, the Company currently believes its aggregate loss estimates and yields remain appropriate.

The Company manages its credit risk through disciplined underwriting, diversification, active monitoring of loan performance and exercise of its right to control the workout process for delinquent loans as early as possible. The Company maintains diversification of credit exposures through its underwriting process and can shift its focus in future investments by adjusting the mix of loans in subsequent acquisitions. The comparative profiles of the loans underlying the Company's CMBS by property type as of March 31, 2006 and December 31, 2005 are as follows:

Property Type	March 31, 2006 Exposure		December 31, 2005 Exposure	
	Loan Balance	% of Total	Loan Balance	% of Total
Retail	\$10,577,237	31.5%	\$9,195,747	31.0%
Office	10,359,572	30.8	9,406,148	31.7
Multifamily	7,391,306	22.0	6,874,450	23.2
Industrial	2,510,225	7.5	2,060,953	7.0
Lodging	2,119,098	6.3	1,670,436	5.6
Healthcare	297,530	0.9	299,692	1.0
Other	343,092	1.0	160,923	0.5
Total	\$33,598,059	100%	\$29,668,349	100%

As of March 31, 2006, the estimated fair value of the Company's holdings of subordinated Controlling Class CMBS is \$40,904 higher than the adjusted cost for these securities which consists of a gross unrealized gain of \$48,153 and a gross unrealized loss of \$7,249. The adjusted purchase price of the Company's subordinated Controlling Class CMBS portfolio as of March 31, 2006 represents approximately 62% of its par amount. The estimated fair value of the Company's subordinated Controlling Class CMBS portfolio as of March 31, 2006 represents approximately 68% of its par amount. As the portfolio matures, the Company expects to recoup the \$7,249 of unrealized loss, provided that the credit losses experienced are not greater than the credit losses assumed in the projected cash flow analysis. As of March 31, 2006, the Company believes there has been no material deterioration in the credit quality of its portfolio below current expectations.

As the portfolio matures and expected losses occur, subordination levels of the lower rated classes of a CMBS investment will be reduced. This may cause the lower rated classes to be downgraded, which would negatively effect their estimated fair value and therefore the Company's net asset value. Reduced

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

estimated fair value would negatively effect the Company's ability to finance any such securities that are not financed through a CDO or similar matched funding vehicle. In some cases, securities held by the Company may be upgraded to reflect seasoning of the underlying collateral and thus would increase the estimated fair value of the securities. During the three months ended March 31, 2006, there were eight credit upgrades on four of the Company's Controlling Class CMBS and no credit downgrades. Additionally, the Company experienced 23 upgrades and no downgrades related to non-Controlling Class commercial real estate securities during the three months ended March 31, 2006.

The Company's interest income calculated in accordance with EITF 99-20 for its CMBS is computed based upon a yield, which assumes credit losses will occur. The yield to compute the Company's taxable income does not assume there would be credit losses, as a loss can only be deducted for tax purposes when it has occurred. As a result, for the years 1998 through March 31, 2006, the Company's GAAP income accrued on its CMBS assets was approximately \$33,626 lower than the taxable income accrued on the CMBS assets.

Effect of Hurricanes on Below Investment Grade CMBS

During 2005, four properties which are security for mortgages in four separate Controlling Class CMBS transactions were damaged by Hurricane Katrina. The Company believes that two properties have adequate insurance coverage and the cash flows related to those Controlling Class CMBS transactions should not be adversely affected. As a result, the Company has not adjusted the loss assumed for these properties. However, two properties with aggregate outstanding loan balances of \$14,640 have suffered significant damage. Based on the Company's on-site review of the damage incurred and information available to date, the anticipated loss for these properties has been adjusted and reflected in the Company's EITF 99-20 calculations. As more information is received, losses may be adjusted further.

In addition, the Company has concluded that no properties in its Controlling Class CMBS transactions were substantially affected by Hurricane Wilma.

Commercial Real Estate Loan Activity

The Company's commercial real estate loan portfolio generally emphasizes larger transactions located in metropolitan markets, as compared to the typical loan in the CMBS portfolio.

The following table summarizes the Company's commercial real estate loan portfolio by property type as of March 31, 2006 and December 31, 2005:

Property Type	Carrying Value				Weighted Average	
	March 31, 2006		December 31, 2005		Yield	
	Amount	%	Amount	%	2006	2005
Office	\$94,087	26.0%	\$94,432	25.8%	8.9%	8.9%
Residential	49,481	13.7	57,466	15.7	8.9	8.6
Retail	113,152	31.3	76,502	20.9	7.8	7.3
Hotel	54,541	15.1	79,840	21.8	9.1	8.6
Storage	32,833	9.1	32,913	9.0	9.1	9.1
Communication Tower	-	-	20,000	5.5	-	9.4
Industrial	15,462	4.2	2,423	0.7	8.8	8.1

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Other Mixed Use	2,167	.6	2,230	0.6	8.1	8.1
Total	\$361,723	100.0%	\$365,806	100.0%	8.6%	8.5%

During the quarter ended March 31, 2006, the Company purchased \$35,600 U.S. dollar denominated commercial real estate loans with a total principal balance of \$40,000 and a British Pound denominated commercial real estate loan with a cost of (pound)7,474 (\$13,283) and a principal balance of (pound)7,500. During the quarter ended March 31, 2006, the Company experienced repayments in the aggregate amount of \$48,385 related to its U.S. dollar denominated commercial real estate loan portfolio. The Company finances its non-dollar denominated loans by borrowing in the applicable local currency and hedging the un-financed portion.

The carrying value and average yields on the Company's commercial real estate loans as of March 31, 2006 were as follows:

	Carrying Value	Carrying Value (Local Currency)	Average Yield	Average Spread to 1-month USD LIBOR	Average to 3-mo LIB
Fixed Rate	\$177,346		8.88%		
Floating Rate	48,905			5.85%	
Floating Rate	69,189	(pound) 39,777			4.3
Floating Rate	66,283	(euro) 54,588			
	=====				
	\$361,723				
	=====				

Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations are based on the amounts reported in the Company's consolidated financial statements. These financial statements are prepared in accordance with GAAP. In preparing the financial statements, management is required to make various judgments, estimates and assumptions that affect the reported amounts. Changes in these estimates and assumptions could have a material effect on the Company's consolidated financial statements. The following is a summary of the Company's accounting policies that are the most affected by management judgments, estimates and assumptions:

Securities Available-for-sale

The Company has designated certain investments in mortgage-backed securities, mortgage-related securities and certain other securities as available-for-sale. Securities available-for-sale are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Many of these investments are relatively illiquid, and management must estimate their values. In making these estimates, management generally utilizes market prices provided by dealers who make markets in these securities, but may, under certain circumstances, adjust these valuations based on management's judgment. Changes in the valuations do not affect the Company's reported net income or cash flows, but impact stockholders' equity and, accordingly, book value per share.

Edgar Filing: ANTHRACITE CAPITAL INC - Form 10-Q

Management must also assess whether unrealized losses on securities reflect a decline in value that is other than temporary, and, accordingly, write the impaired security down to its fair value, through earnings. Significant judgment by management is required in this analysis, which includes, but is not limited to, making assumptions regarding the collectability of the principal and interest, net of related expenses, on the underlying loans.

Income on these securities is recognized based upon a number of assumptions that are subject to uncertainties and contingencies. Examples of these assumptions include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. Additional factors that may affect the Company's reported interest income on its mortgage securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans, the timing and magnitude of credit losses on the mortgage loans underlying the securities that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality) and changes in market rental rates. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter the assumptions.

The Company recognizes interest income from its purchased beneficial interests in securitized financial interests ("beneficial interests") (other than beneficial interests of high credit quality, sufficiently collateralized to ensure that the possibility of credit loss is remote, or that cannot contractually be prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment) in accordance with EITF 99-20. Accordingly, on a quarterly basis, when changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, the Company calculates a revised yield based on the current amortized cost of the investment (including any other-than-temporary impairments recognized to date) and the revised cash flows. The revised yield is then applied prospectively to recognize interest income.