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ANTHRACITE CAPITAL INC  
Form 8-K  
August 06, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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August 6, 2004 (August 6, 2004)

-----  
Date of Report (Date of earliest event reported)

ANTHRACITE CAPITAL, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

Maryland

001-13937

13-397-8906

-----  
(State or Other  
Jurisdiction of  
Incorporation)

-----  
(Commission File No.)

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

40 East 52nd Street  
New York, New York

10022

-----  
(Address of Principal  
Executive Offices)

-----  
(Zip Code)

(212) 409-3333

-----  
(Registrant's telephone number, including area code)

N/A

-----  
(Former Name or Former Address, if Changed Since Last Report)

ITEM 5. OTHER EVENTS.

Anthracite Capital, Inc. (the "Company") reported the following results on August 6, 2004:

On August 6, 2004, the Company reported a net loss to common stockholders for the second quarter of 2004 of \$0.08 per share versus a net loss to common stockholders of \$0.26 per share for the same three-month period last year. The second quarter of 2004 earnings includes a charge of \$0.21 per share for the redemption of the Company's Series B Preferred Stock that was reported as a charge to income in the initial first quarter 2004 earnings release but was subsequently moved to the second quarter to coincide with the timing of the actual redemption payment as reported on May 11, 2004. Net income per share for the prior quarter ended March 31, 2004 was \$0.20, respectively.

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Based on the \$0.28 per share dividend declared on May 25, 2004, and the August 5, 2004 closing price of \$10.80, Anthracite's annualized dividend yield is 10.4%. (All dollar amounts are in thousands, except per share amounts.)

During the second quarter of 2004, the Company largely completed its repositioning into commercial real estate assets; commercial mortgage-backed securities ("CMBS") and commercial real estate loans represent 87% of portfolio assets at quarter-end while residential mortgage-backed securities ("RMBS") represent 13%. During the quarter, the Company acquired commercial real estate assets with a market value of \$135,332, comprised of \$36,785 of below investment grade CMBS, \$68,441 of investment grade CMBS, and \$30,106 of high yield commercial real estate loans. The Company reduced its net RMBS position by \$106,184 during the quarter, which resulted in a realized loss of \$3,870. In July 2004, the Company acquired an additional \$58,836 of commercial real estate securities, and sold \$24,420 of fixed-rate RMBS. The sale of these fixed-rate RMBS will result in a net realized gain of \$119 in the third quarter of 2004 and marks the completion of the repositioning of the Company's investment portfolio.

The Company's debt to capital ratio decreased slightly from 7.6:1 at March 31, 2004 to 7.5:1 at June 30, 2004. This includes a decrease in the recourse debt to capital ratio from 2.0:1 at March 31, 2004 to 1.9:1 at June 30, 2004.

Total interest income from commercial real estate assets rose 31% from the quarter ended June 30, 2003; whereas, total interest income from RMBS declined 67% for the same period. The Company's weighted average cost of funds increased to 4.65% at June 30, 2004 from 3.75% at June 30, 2003, primarily due to the Company's third CDO issuance. For the three months ending June 30, 2004 and 2003, respectively, hedging expenses not related to CDOs decreased to \$3,148 (\$0.06 per share), from \$4,764 (\$0.10 per share). The Company's exposure to a 50 basis point move in short-term interest rates decreased to \$0.023 per share annually from \$0.035 cents per share annually at June 30, 2003. The Company's interest rate risk is substantially mitigated with interest rate swaps.

The Company's \$474,803 RMBS portfolio at June 30, 2004 represents 13% of the Company's portfolio assets and had an unrealized net loss of \$314 that was composed of gross unrealized gains of \$111 and unrealized losses of \$425 as of June 30, 2004. This portfolio will likely remain between 10% and 15% of the Company's total portfolio assets. Additionally, on June 30, 2004, \$305,785 of RMBS securities classified as trading securities was reclassified as available-for-sale securities. The reclassification with respect to these securities was based on the Company's ability and intent to hold these securities.

The Company's primary focus is to invest in a diverse portfolio of commercial real estate loans and securities. The majority of these investments take the form of securities that represent pools of underlying mortgage loans. The Company's objective is to maximize the spread between the loss adjusted income and the cost of financing. Credit performance and the cost of financing the Company's portfolio are the most important factors in impacting investment returns.

### CAPITAL MARKETS ACTIVITY/LIQUIDITY

In June 2004 the Company issued 2.1 million shares of common stock to raise \$23,184 of capital. In July 2004 the Company issued 315,000 shares of common stock with net proceeds of approximately \$3,478 pursuant to the underwriter's over-allotment option granted in connection with the June offering. The capital was deployed into or committed to commercial real estate securities and loans during July 2004. The Company maintains a significant amount of liquidity in its high credit quality commercial real estate assets and remaining RMBS portfolio. As of June 30, 2004, total assets in these portfolios net of

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borrowings is \$84,888.

### CREDIT PERFORMANCE

The Company considers CMBS securities where it maintains the right to control the foreclosure/workout process on the underlying loans as controlling class CMBS ("Controlling Class CMBS"). At the end of the second quarter of 2004, the Company's Controlling Class CMBS represent \$17,596,422 of original balance of underlying commercial mortgage loans compared to \$14,054,815 at the end of the first quarter of 2004. As of June 30, 2004, the current par balance of underlying loans securing the Company's Controlling Class portfolio is \$15,897,820. The number of Controlling Class CMBS transactions owned by the Company increased from eleven to thirteen during the second quarter of 2004. The Company also committed to acquire two more Controlling Class CMBS in the third quarter of 2004. One of the Controlling Class CMBS transactions is not accounted for as available-for-sale securities, see "Commercial Mortgage Loan Pools" below.

Delinquencies of 30 days or more as a percent of current loan balances were 1.22% at the end of the second quarter of 2004, compared with 1.08% at the end of the first quarter of 2004. Dispositions of two loans occurred during the second quarter of 2004. The weighted average loss severity experienced for the 1998 and 1999 Controlling Class securities was 33%. No losses have been realized for those Controlling Class securities with vintages from 2001 through 2004; the Company does not own any 2000 vintage Controlling Class securities. Overall credit performance remains consistent with underwritten expectations. Additionally, during the second quarter of 2004 the Company experienced four credit upgrades on two CMBS transactions in the Company's portfolio. No securities were downgraded.

### COMMERCIAL REAL ESTATE SECURITIES

The average yield on the Company's commercial real estate securities (primarily investment grade and below investment grade CMBS, investment grade REIT debt, and CMBS interest only securities) for the second quarter of 2004 was 8.3%, while the average loss adjusted yield on only the below investment grade CMBS was 9.3%. The average cost of financing the commercial real estate securities portfolio during the second quarter of 2004 was 5.2% compared to 6.2% for the second quarter of 2003.

Net interest income and realized gains on the commercial real estate securities portfolio for the quarters ended June 30, 2004 and 2003 is as follows:

	For the quarter ended June 30,	
	2004	2003
Interest Income	\$30,166	\$23,032
Interest Expense*	(16,792)	(11,776)
	-----	
Net Interest Income and Realized Gains from Commercial Real Estate Securities	\$13,374	\$11,256
	=====	

\*Including hedges in the Company's CDOs.

### COMMERCIAL REAL ESTATE LOANS

The average yield on the Company's commercial real estate loan portfolio for the quarter ended June 30, 2004 was 13.8% compared with 10.2% for the quarter ended June 30, 2003. For the three months ended June 30, 2004 and 2003, respectively, the total cost of borrowings secured by loan assets was 2.7% and 3.1%. The Company has two committed warehouse lines that can be used to finance

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these commercial loan assets. The investment period for Carbon Capital, Inc. ("Carbon Capital"), through which the Company holds 32% of its commercial real estate loan portfolio ended on July 12, 2004. The annualized yield on the Company's investment in Carbon was 16.2% for the six months ended June 30, 2004. The Company's investment in Carbon Capital as of June 30, 2004 is \$48,501.

Net interest income of the commercial real estate loan portfolio for the quarters ended June 30, 2004 and 2003 is as follows:

	For the quarter ended June 30, 2004	2003
Interest Income	\$4,140	\$3,043
Interest Expense	(145)	(115)
Net Interest Income from Commercial Real Estate Loans	\$3,995	\$2,928

### COMMERCIAL MORTGAGE LOAN POOLS

As previously reported, the Company settled its eleventh Controlling Class CMBS transaction during the second quarter of 2004. The securities acquired had a total par value of \$41,495 with \$13,890 not rated and the balance rated BBB- through B-. In addition to these securities, the real estate mortgage investment conduit ("REMIC") trust formed for this transaction also issued \$1,193,118 par value of investment grade rated securities that were not acquired by the Company. The adjusted issue price of these securities at June 30, 2004 is \$1,197,982. The principal and interest payments of all these securities are secured by the principal and interest payments on \$1,234,613 par value of commercial mortgage loans. The adjusted issue price of these commercial mortgage loans at June 30, 2004 is \$1,232,475. As the Controlling Class holder, the Company has the ability to control dispositions or workouts of any defaulted loans in this pool. The Company negotiated for and obtained a greater degree of discretion over the disposition of the commercial mortgage loans than is typically granted to the special servicer. As a result of this expanded discretion, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R") requires the Company to consolidate the net assets and results of operations of the issuing REMIC trust.

In addition to the securities described above, the REMIC trust also issued two classes of interest-only securities that entitles the interest only security holders to a portion of the interest payments made on the loans in the trust, but does not entitle the holders to any principal payments. The amortized issue price of the interest only securities that increased the amount of long-term borrowings outstanding was \$100,654 as of June 30, 2004. This amount and the unamortized premium on the mortgage loan pools (\$88,182 as of June 30, 2004) are included in the Company's June 30, 2004 consolidated statement of financial condition.

The net effect on the Company's consolidated statement of financial condition at June 30, 2004 from the consolidation of the net assets of the REMIC trust represents the adjusted purchase price of the Controlling Class interests acquired (see table below). The debt associated with the REMIC trust is non-recourse to Anthracite, and is secured only by the commercial mortgage loan pools. The consolidation of the REMIC trust results in an increase in the Company's total debt to capital ratio, but has no effect on the Company's recourse debt to capital ratio. For income recognition purposes, the Company will record revenue on the underlying loans and establish a loss reserve consistent with the credit assumptions made in establishing loss adjusted

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yields for Controlling Class securities.

A summary of the impact to the statement of financial condition related to the consolidation of the commercial mortgage loan pools under FIN 46R is as follows:

Commercial mortgage loan pools at par	\$1,232,475
Commercial mortgage loan pools unamortized premium	88,182
Loan loss reserve	(1,124)
Other Assets - Principal Receivable/Due Diligence	980
Long term Borrowings:	
Secured by pledge of commercial mortgage loan pools	(1,197,982)
Interest only securities issued by the trust	(100,654)
	-----
Net Assets related to Commercial Mortgage Loan Pools	\$21,877
	=====

Approximately 45% of the par amount of the commercial mortgage loan pool is comprised of loans that are rated A2 or better by Moody's Investors Service and AA by Standard & Poor's. The Company has taken into account this high credit quality for underlying loans and has adjusted its loss assumptions accordingly. Credit losses assumed on the entire pool are 1.40% of the principal balance, or 2.53% of the unrated principal balance.

### BOOK VALUE

Net book value per share at the end of the second quarter of 2004 was \$6.88. Net book value per share at June 30, 2004 decreased approximately 2.5% from \$7.06 at March 31, 2004 due to the preferred stock redemption charge. During the quarter, Ten-Year Treasury interest rates increased by 78 basis points. A substantial amount of the Company's portfolio is valued using Ten-Year Treasury interest rates; therefore, an increase in this rate would decrease the Company's book value. The effect of the Ten-Year Treasury interest rate increase was largely offset by tighter credit spreads and credit upgrades on four CMBS investments. In addition, increased hedging activity by the Company resulted in \$12 million of unrealized gains in interest rate swap agreements. As the Company's portfolio matures, unrealized losses on credit sensitive CMBS securities should decline provided that the Company's credit loss estimates and actual experience are comparable. The unrealized loss on all Controlling Class CMBS at June 30, 2004 was \$66,511.

### DIVIDEND REINVESTMENT PLAN

If you are a participant in the Company's Dividend Reinvestment and Stock Purchase Plan (the "Plan"), please note that the dividend reinvestment portion of the Plan has been reinstated for all dividend payments made after August 2, 2004, and for all future dividend payment dates, with a discount of 2%. The optional cash purchase portion of the Plan remains suspended; however, it may be resumed at any time. The Company appreciates your continued support.

To request a prospectus and receive enrollment materials or to ask questions about the Plan, interested investors and stockholders may contact the Company's transfer agent, American Stock Transfer & Trust Company, at 1-877-248-6416, or Investor Relations, Anthracite Capital, Inc., at 212-409-3333. The Company's website address is [www.anthracitecapital.com](http://www.anthracitecapital.com).

### ABOUT ANTHRACITE

Anthracite Capital, Inc. is a specialty finance company focused on investments in high yield commercial real estate loans and related securities. Anthracite is externally managed by BlackRock Financial Management, Inc., which is a subsidiary of BlackRock, Inc. ("BlackRock") (NYSE:BLK), one of the largest publicly traded investment management firms in the United States with approximately \$310 billion in global assets under management as of June 30, 2004. BlackRock is a member of The PNC Financial Services Group, Inc. ("PNC")

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(NYSE:PNC), a diversified financial services organization. Through its affiliates, PNC originates commercial, multifamily and residential real estate loans, and services \$89.6 million in commercial mortgage loans for third parties through its Midland Loan Services, Inc. subsidiary as of June 30, 2004.

### FORWARD LOOKING STATEMENTS

This press release may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act 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 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 Anthracite 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 Anthracite's Securities and Exchange Commission (the "SEC") reports and those identified elsewhere in this press release, 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 and capital markets, which could result in changes in the value of Anthracite's assets; (3) the relative and absolute investment performance and operations of Anthracite's manager; (4) the impact of increased competition; (5) the impact of capital improvement projects; (6) the impact of future acquisitions; (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 Anthracite, BlackRock or PNC; (11) terrorist activities, which may adversely affect the general economy, real estate, financial and capital markets, specific industries, and Anthracite and BlackRock; (12) the ability of Anthracite's 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.

The Company is filing the Anthracite Capital, Inc. Consolidated Statements of Financial Condition and Consolidated Statements of Operations as Exhibit 99.1.

### ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) Exhibit No. -----	Description -----
99.1	Anthracite Capital, Inc. Consolidated Statements of Financial Condition and Consolidated Statements of Operation

### ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 6, 2004, Anthracite Capital Inc. issued a press release announcing

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its earnings for the fiscal quarter ended June 30, 2004, which it is furnishing under this Item 12 as Exhibit 99.2.

SIGNATURE

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

ANTHRACITE CAPITAL, INC.

By: /s/ Robert L. Friedberg

-----  
Name: Robert L. Friedberg  
Title: Vice President and Secretary

Dated: August 6, 2004

ANTHRACITE CAPITAL, INC.  
CURRENT REPORT ON FORM 8-K  
Report dated August 6, 2004 (August 6, 2004)

EXHIBIT INDEX

Exhibit No. -----	Description -----
99.1	Anthracite Capital, Inc. Consolidated Statements of Financial Condition and Consolidated Statements of Operation.
99.2	Press Release issued by Anthracite Capital, Inc., dated August 6, 2004.