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ANTHRACITE CAPITAL INC
Form 8-K
February 23, 2006

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

Date of Report (Date of earliest event reported) February 23, 2006
(February 16, 2006)

Anthracite Capital, Inc.

(Exact name of registrant as specified in its charter)

Maryland

01-13937

13-397-8906

(State or other jurisdiction of
incorporation)

Commission
File Number)

(IRS 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

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to
simultaneously satisfy the filing obligation of the registrant under any of the
following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act
(17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act
(17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the
Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the
Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On February 16, 2006, Anthracite Capital, Inc. issued a press release announcing

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its earnings for the fiscal quarter ended December 31, 2005, which it is furnishing under this Item 2.02 as Exhibit 99.2.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

On February 17, 2006, AHR Capital MS Limited, a subsidiary of Anthracite Capital, Inc. and Morgan Stanley Bank, (the "Initial Lender and Agent") entered into a Multicurrency Revolving Credit Facility Agreement (the "Facility Agreement") and Master Repurchase Agreement (the "Repurchase Agreement"), dated as of February 14, 2006 between the Company and Morgan Stanley Bank.

The Repurchase Agreement provides for an extension of credit in an amount up to \$200 million. Extensions of credit under the facility are secured by certain loans and securities held by the Company designated as collateral from time to time. Interest is payable monthly at varying rates of interest pegged to LIBOR, based on the value of the designated collateral. The Repurchase Agreement contains affirmative and negative covenants customary for a facility of this type which, among other things, require the Company to meet certain financial compliance tests, including a minimum net worth test and a minimum liquid assets test.

Item 7.01 Regulation FD Disclosure

On February 16, 2006, the Company held an earnings conference call to discuss preliminary and unaudited financial results for the fourth quarter ended December 31, 2005. A transcript of the earnings conference call is attached hereto as Exhibit 99.3 and is incorporated by reference into this Item 7.01.

Item 8.01. Other Events.

Anthracite Capital, Inc. (the "Company" or "Anthracite") reported the following results on February 16, 2006:

The Company today reported diluted net income available to common stockholders for the year ended December 31, 2005 of \$1.20 per share versus \$0.50 per share for the year ended December 31, 2004. For the quarters ended December 31, 2005 and 2004, diluted net income available to common stockholders was \$0.47 and \$0.09 per share, respectively.

Chris Milner, Chief Executive Officer of the Company, stated, "Since the implementation of our portfolio re-positioning at the beginning of 2004, we have increased GAAP book value by \$3.21 per share and distributed \$2.24 in dividends, resulting in a nominal return of 85%. We continue to view the current market environment with cautious optimism based on the positive fundamentals and the ability to balance fully priced assets with very attractive funding costs."

Based on the \$0.28 per share dividend declared on December 8, 2005, and the February 15, 2006 closing price of \$10.89, Anthracite's annualized dividend yield is 10.28%.

Fourth Quarter Financial Results

Income from Operating Portfolio

Interest income from commercial real estate assets increased \$10,587, or 20%, from the quarter ended December 31, 2004 and \$5,225, or 9%, from the quarter ended September 30, 2005. The Company's commercial real estate assets have increased 16% year-to-date with an estimated fair value of \$3,774,246 at December 31, 2005 compared with \$3,265,914 at December 31, 2004. This includes non-dollar denominated investments with a U.S. dollar value of \$167,271 at December 31, 2005.

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The Company's weighted average cost of funds increased to 5.7% at December 31, 2005 from 5.1% at December 31, 2004. For the quarter ended December 31, 2005, hedging expense not related to collateralized debt obligations ("CDOs") was \$1,596 (\$0.03 per share), a decrease from \$2,829 (\$0.05 per share) for the quarter ended December 31, 2004. The increase in the Company's cost of funds is attributable to the issuance of \$75,000 of trust preferred securities, \$239,660 of CDO debt and increases in short-term interest rates. The Company's estimated exposure at December 31, 2005 to a 50 basis point move in short-term interest rates remained at \$0.01 per share annually.

During the quarter, the Company incurred incentive fees of \$4,290, of which \$4,131 is related to the net realized gain on CDO HY2 (discussed below). The Company's manager, BlackRock Financial Management, Inc., is paid 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 issue price of \$11.37 per share as of December 31, 2005 (see further description of the Incentive Fee calculation in the Company's Form 10-Q for the quarter ended September 30, 2005, filed with the Securities and Exchange Commission on November 9, 2005.)

The Company raised \$75,000 of trust preferred securities in September of 2005. The Company acquired approximately \$50,000 of real estate equity in December 2005 and two Controlling Class CMBS transactions (defined below) in October and December of 2005. The 31% increase in general and administrative expenses for the fourth quarter of 2005 was primarily attributable to costs associated with the Company's global expansion.

The Company's debt to capital ratio decreased to 5.9:1 as of December 31, 2005 from 6.2:1 at December 31, 2004, and the recourse debt to capital ratio increased to 2.0:1 from 1.6:1 over the same period.

Other Income (Loss)

As previously reported, on July 26, 2005, the Company closed 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 the fourth quarter of 2005, at which point CDO HY2 qualified as a sale under relevant accounting guidelines.

The value of the transaction was \$349,237, consisting of cash of \$244,212 and retained non-investment grade debt and preferred shares with a fair market value of \$105,025 in exchange for a portfolio of commercial mortgage-backed securities ("CMBS") and real estate investment trust ("REIT") debt with an estimated fair value of \$323,103. The adjusted purchase price of the portfolio of CMBS and REIT debt was \$323,849. The following table summarizes the impact of this transaction on fourth quarter 2005 results and per share amounts:

Net realized gain related to sale of CDO HY2	\$16,523	\$0.30
Increase in accumulated other comprehensive income	9,611	0.17
Incentive fee attributable to CDO HY2 gain	(4,131)	(0.07)
	-----	-----
Total book value impact	\$22,003	\$0.40
	=====	=====

Richard Shea, President and Chief Operating Officer of the Company, stated, "In addition to unlocking significant economic value for our shareholders, the CDO HY2 transaction reduces income volatility associated with these highly credit

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sensitive assets. The ramp component of the transaction also provided the Company with a unique competitive advantage in the fourth quarter since our long term funding was in place and our cost of capital was fixed."

Mr. Shea continued: "We are currently expanding our operations in Europe where we see a greater role for commercial real estate finance in the capital markets, similar to what has been happening in the U.S. over the last ten years. Our expertise in both real estate finance and capital markets, combined with our growing global reputation will enhance our ability to create a significant platform in this market."

Certain securities held by the Company are accounted for under 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 updates its estimated cash flows for securities subject to EITF 99-20. The Company compares the yields resulting from the updated cash flows to the current GAAP yields. An impairment charge is required under EITF 99-20 if the updated yield is lower than the current GAAP yield and the security has a market value less than its adjusted purchase price. The Company carries these securities at their market value on its consolidated statement of financial condition.

As of December 31, 2005, the Company's portfolio had four CMBS that required an impairment of \$1,857, of which \$1,410 was attributed to higher prepayment rates on a pool of Small Business Administration commercial mortgages. Changes in the timing of credit losses and prepayments caused updated yields on these securities to decline from their GAAP yields.

Commercial Real Estate Credit Risk

The Company's primary focus is to invest in a diversified portfolio of CMBS and commercial real estate loans. The majority of these investments take the form of CMBS that are collateralized by pools of underlying mortgage loans. The underlying loans are secured by first mortgages on office buildings, retail centers, apartment buildings, hotels and other types of commercial properties. The cash flows the Company receives from its CMBS portfolio are dependent upon the credit performance of the underlying mortgage loans. The Company assumes losses will occur on the underlying mortgage loans and the interest income the Company records for its CMBS securities reflects these assumed losses. Loss assumptions are maintained at a level believed by management to be sufficient to absorb estimated credit losses inherent in the underlying loans.

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"). The Company acquired two Controlling Class CMBS transactions during the fourth quarter of 2005 and owns 22 Controlling Class CMBS transactions as of December 31, 2005. However, portions of the non-rated tranches of 17 of the 22 transactions are included in CDO HY1 and CDO HY2 which reduces the Company's exposure to the credit risk in these transactions.

The current principal balance of the loans underlying the Company's 22 Controlling Class CMBS is \$29,668,349. Delinquencies of 30 days or more on these loans as a percent of current loan balances were 0.64% at the end of the fourth quarter of 2005, compared with 0.75% at the end of the third quarter of 2005. With the disposition of three loans during the fourth quarter of 2005, the weighted average loss severity experienced for the 1998 and 1999 Controlling Class CMBS decreased from 23.0% at September 30, 2005 to 22.8% at December 31, 2005. During the fourth quarter of 2005, there were five credit upgrades on three of the Company's Controlling Class CMBS and no credit downgrades. The aforementioned data and other information on the credit quality of the underlying commercial mortgage loans are considered by the Company when it estimates future cash flows on each Controlling Class structure to compute

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revised yields in accordance with EITF 99-20.

Commercial Real Estate Securities

During the fourth quarter of 2005, the Company purchased \$148,662 of commercial real estate securities, of which \$55,497 were investment grade multifamily agency securities. However, the Company's commercial real estate securities portfolio decreased by approximately 3% to an estimated fair value of \$2,005,383 at December 31, 2005, compared with \$2,070,725 at September 30, 2005 due to the sale of CDO HY2. The average yields on the Company's commercial real estate securities for the quarters ended December 31, 2005 and 2004 were as follows:

	For the quarter ended December 31,	
	2005	2004
Investment grade commercial real estate securities	5.7%	6.2%
Non-investment grade CMBS securities	10.1%	9.7%
All commercial real estate securities	7.8%	8.0%

The average cost of financing the commercial real estate securities portfolio during the fourth quarter of 2005 was 5.6%, compared to 5.1% for the fourth quarter of 2004.

Net interest income and net realized and unrealized gain from the commercial real estate securities portfolio for the quarters ended December 31, 2005 and 2004 are as follows:

	For the quarter ended December 31,	
	2005	2004
Interest income	\$39,392	\$31,785
Interest expense*	(25,044)	(18,290)
Net interest income	14,348	13,495
Net realized and unrealized gain	16,334	16,237
Loss on impairment of assets	(1,857)	(26,018)
Net interest income and gain from commercial real estate securities	\$28,825	\$3,714

*Including hedges in the Company's CDOs.

Commercial Real Estate Loans

During the quarter ended December 31, 2005, the Company purchased \$40,835 U.S. dollar denominated commercial real estate loans with a total principal balance of \$44,000, Euro denominated commercial real estate loans with a cost of (euro)39,860 (\$46,740) and a total principal balance of (euro)40,000, as well as a British Pound denominated commercial real estate loan with a cost of (pound)22,374 (\$39,534) and a principal balance of (pound)22,374. During the quarter ended December 31, 2005, the Company experienced repayments and the sale of a commercial real estate loan related to CDO HY2 in the aggregate amount of \$53,016. This activity brings total commercial real estate loans to \$424,709 as of December 31, 2005, up from \$353,402 at September 30, 2005. The carrying value and average yields on the Company's commercial real estate loans, exclusive of the Company's investments in Carbon Capital, Inc. and Carbon Capital II, Inc. (collectively, the "Carbon Capital Funds"), as of December 31, 2005 were as

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follows:

	Carrying Value	Carrying Value (Local Currency)	Average Yield	Average Spread to 1-month USD LIBOR	Average Spread to 3-month GBP LIBOR	Average 3-m EUR
Fixed Rate	\$142,490		9.11%			
Floating Rate	93,859			5.64%		
Floating Rate	56,955	(pound) 33,134			4.31%	
Floating Rate	72,997	(euro) 61,571				
	=====					
	\$366,301					
	=====					

For the three months ended December 31, 2005 and 2004, the total cost of borrowings secured by loan assets was 5.4% and 3.4%, respectively. The Company has three committed warehouse lines that can be used to finance these commercial loan assets. The Company's investments in the Carbon Capital Funds are included in commercial real estate loans. The annualized yield on the Company's investments in the Carbon Capital Funds was 22.1% for the quarter ended December 31, 2005. The Company's investments in the Carbon Capital Funds as of December 31, 2005 were \$59,643, as compared to \$56,812 as of December 31, 2004.

Net interest income from the commercial real estate loan portfolio for the quarters ended December 31, 2005 and 2004 is as follows:

	For the quarter ended December 31,	
	2005	2004
Interest income	\$10,827	\$7,948
Interest expense	(2,135)	(1,185)
	-----	-----
Net interest income from commercial real estate loans	\$8,692	\$6,763
	=====	=====

Commercial Real Estate Equity

On December 14 and 19 of 2005, the Company invested an aggregate of \$50,704 in the BlackRock Diamond Property Fund ("BlackRock Diamond"). BlackRock Diamond is a private REIT managed by BlackRock Realty Advisors, Inc. BlackRock Diamond's investment objective is to seek current income and capital appreciation from a portfolio of equity real estate assets while preserving capital. The Company has a 27% ownership in BlackRock Diamond as of December 31, 2005 and recorded \$299 of income during the fourth quarter under the equity method. The Company has \$24,296 of remaining capital commitments to BlackRock Diamond, which is expected to increase to \$49,296 in the first quarter of 2006.

Book Value

Net book value per share at the end of the fourth quarter of 2005 was \$9.59. This is an increase of 3.3% from \$9.28 at September 30, 2005 and an increase of 12.0% from \$8.56 at December 31, 2004.

Below is a calculation of book value per share* for the years ended December 31, 2005, 2004, and 2003, as well as the quarter ended September 30, 2005.

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	12/31/2005	9/30/2005	12/31/2004	12/31/2003
Total Stockholders' Equity	\$598,018	\$572,486	\$513,738	\$480,000
Less:				
Series B Preferred Stock Liquidation Value	-	-	-	(1,000)
Series C Preferred Stock Liquidation Value	(57,500)	(57,500)	(57,500)	(57,500)
Common Equity	\$540,518	\$514,986	\$456,238	\$371,500
Shares Outstanding	56,339	55,511	53,289	53,289
Book Value Per Share	\$9.59	\$9.28	\$8.56	\$7.00

*Book value per share calculations prior to the fourth quarter of 2005 deducted the carrying value of preferred share classes. For the fourth quarter of 2005 and all future periods, the Company will present book value per share based on liquidation value calculation, as shown above.

Dividend Reinvestment Plan

The optional cash portion of the Company's Dividend Reinvestment and Stock Purchase Plan (the "Plan") has been reinstated for all investment dates after July 26, 2005 with a discount of 2% to the trailing 12-business day average provided the stock price remains above threshold levels established by the Company at the time. The dividend reinvestment portion of the Plan remains in effect with a discount of 2% as well.

During the quarter ended December 31, 2005, the Company issued 821,380 shares under the Plan at a collective weighted-average issuance price of \$10.45 per share. The optional cash portion plan of the Plan allows participants to invest up to \$20,000 per month at a 2% discount. The optional cash portion of the plan represents 809,542 of the shares that were issued during the quarter under the Plan. The remaining 11,838 shares issued under the Plan during the quarter are attributable to the dividend reinvestment portion of the Plan.

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 212-810-3333. The Company's website address is 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 \$453 billion in global assets under management as of December 31, 2005. BlackRock Realty Advisors, Inc., another subsidiary of BlackRock, provides real estate equity and other real estate-related products and services in a variety of strategies to meet the needs of institutional investors. BlackRock is a member of The PNC Financial Services Group, Inc. ("PNC") (NYSE:PNC), a

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diversified financial services organization. Through its affiliates, PNC originates commercial, multifamily and residential real estate loans, and services \$159 billion in commercial mortgage loans for third parties through its Midland Loan Services, Inc. subsidiary as of December 31, 2005.

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," "potential," "opportunity," "pipeline," "believe," "comfortable," "expect," "anticipate," "current," "intention," "estimate," "position," "assume," "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 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 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.

Anthracite's Annual Report on Form 10-K for the year ended December 31, 2004 and Anthracite's subsequent reports filed with the SEC, accessible on the SEC's website at www.sec.gov, identify additional factors that can affect forward-looking statements.

To learn more about Anthracite, visit our website at www.anthracitecapital.com.

The information contained on the Company's website is not a part of this release.

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

Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

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- 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 February 16, 2006.
- 99.3 Transcript of Anthracite Capital Inc.'s Earnings Conference Call on February 16, 2006.

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/ James J. Lillis

Name: James J. Lillis
Title: Chief Financial Officer

Dated: February 23, 2006

ANTHRACITE CAPITAL, INC.
CURRENT REPORT ON FORM 8-K
Report dated February 23, 2006 (February 16, 2006)

EXHIBIT INDEX

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