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ANTHRACITE CAPITAL INC
Form 8-K/A
March 09, 2005

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

Amendment No. 1
to
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) March 9, 2005 (March 9, 2005)

Anthracite Capital, Inc.
(Exact name of registrant as specified in its charter)

Maryland	001-13937	13-397-8906
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(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

40 East 52nd Street, New York, New York	10022
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(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 409-3333

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))

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Item 8.01. Other Events

On March 9, 2005, Anthracite Capital, Inc. (the "Company" or "Anthracite") filed with the Securities and Exchange Commission (the "SEC") a Current Report on Form 8-K. Due to a clerical error, a conformed signature was inadvertently omitted. Accordingly, this amended Form 8-K is being filed by the Company to replace in its entirety the Form 8-K filed earlier today with the SEC, solely to provide the required signature.

The Company reported the following results on March 9, 2005:

On March 9, 2005, the Company reported net income available to common stockholders for the fourth quarter of 2004 of \$0.09 per share versus net income to common stockholders of \$0.25 per share for the same three-month period in 2003. For the year ended December 31, 2004, net income available to common stockholders was \$0.50 per share, versus a net loss of \$0.34 per share for the year ended December 31, 2003.

Based on the \$0.28 per share dividend declared on December 10, 2004, and the March 8, 2005 closing price of \$11.83, Anthracite's annualized dividend yield is 9.5%. All dollar amounts discussed herein are in thousands, except per share amounts.

Chris Milner, Chief Executive Officer of the Company, stated, "We are pleased with the overall operating results of 2004. The completion of our portfolio repositioning and the highly successful fourth quarter collateralized debt obligation were critically important steps in our efforts to reduce risk and increase the stability of operating earnings. While the market is clearly more competitive, resulting reductions in credit spreads and strong investor demand for transactions like our fourth quarter collateralized debt obligation led to a 30% increase in book value per share year-over-year."

Richard Shea, President and Chief Operating Officer of the Company, added, "In 2004 we issued over \$500,000 of match funded debt providing the Company with greater operating earnings stability, though at a higher cost of funds. We also completed a re-underwriting of our 1998 vintage CMBS portfolio updating our credit view on these seasoned loans with little change to aggregate credit loss assumptions. Also in the fourth quarter we took an impairment charge for certain commercial mortgage-backed securities as required by relevant accounting rules. The Company's credit assumptions indicate that a substantial amount of this charge will be reflected in income over the remaining life of the bonds."

Fourth Quarter Collateralized Debt Offering ("CDO HY1")

As previously reported, on November 9, 2004, the Company closed CDO HY1 secured by a portfolio of below investment grade commercial mortgage-backed securities ("CMBS") with an average rating of CCC. The CMBS portfolio was carried at fair market 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 relevant accounting guidelines. The Company received cash proceeds of \$140,425 as well as all of the CDO HY1 preferred shares which had a fair market value of \$15,885 as of December 31, 2004. The transaction raised reinvestable proceeds of \$95,799. The following table summarizes the impact of this transaction on fourth quarter 2004 results and per share amounts:

Realized gain at closing of CDO HY1	\$14,769	\$0.28
Realized gain from subsequent sale of A- tranche	1,825	0.03
Increase in accumulated other comprehensive income	29,782	0.56
	-----	-----
Total book value impact	\$46,376	\$0.87

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Book Value

Net book value per share at the end of the fourth quarter of 2004 was \$8.60. This is an 11% increase from the September 30, 2004 book value per share of \$7.72 primarily due to the closing of CDO HY1, and is an increase of approximately 30% from \$6.64 at December 31, 2003. In addition to the closing of CDO HY1, net book value per share increased year-over-year due to tighter credit spreads.

Fourth Quarter Financial Results

Total interest income from commercial real estate assets rose 39% from the quarter ended December 31, 2003; in contrast, total interest income from residential mortgage-backed securities ("RMBS") declined 64% for the same period. For the year ended December 31, 2004, total interest income from commercial real estate assets increased 36% and interest income from RMBS declined 65%. The Company's \$372,071 RMBS portfolio at December 31, 2004 represented 10% of the Company's portfolio assets. This portfolio is expected to remain between 10% and 15% of the Company's total portfolio assets. The portfolio consists entirely of hybrid adjustable rate mortgages and adjustable rate securities.

The Company's weighted average cost of funds increased slightly to 5.1% at December 31, 2004 from 5.0% at September 30, 2004. For the three months ended December 31, 2004 and 2003, respectively, hedging expenses not related to CDOs decreased to \$2,829 (\$0.05 per share), from \$5,539 (\$0.11 per share); additionally, this is a decrease of \$996 from \$3,825 (\$0.07 per share) at September 30, 2004. The decrease in hedging expense is primarily attributable to the removal of interest rate swaps due to issuance of CDO HY1 fixed-rate liabilities. The Company's estimated exposure at December 31, 2004 to a 50 basis point move in short-term interest rates increased slightly to \$0.018 per share annually from \$0.013 per share annually at September 30, 2004.

The Company estimates that professional fees for ongoing compliance with the Sarbanes-Oxley Act will be approximately \$400 per year.

The Company's debt to capital ratio decreased from 6.8:1 at September 30, 2004 to 6.2:1 at December 31, 2004, and the recourse debt to capital ratio decreased slightly from 1.8:1 to 1.6:1 over the same period, primarily due to the issuance of CDO HY1.

The net interest margin of 3.1% for the fourth quarter of 2004 is consistent with the third quarter of 2004.

In 2001, the Company adopted the rules contained in 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"). These rules require the Company to update its estimated cash flows for its non-investment grade securities and compare the net present value of these cash flows to the adjusted purchase price. The Company complies with EITF 99-20 by comparing 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 all these securities at their market value on its consolidated statement of financial condition.

The Company's portfolio has six 1998 vintage CMBS securities in four separate CMBS transactions that required impairment charges at December 31, 2004 following the application of EITF 99-20. As a result, the Company recorded a loss on impairment of assets of \$26,018 (\$0.49 per share) in the fourth quarter of 2004. A variety of factors influence updated yields for these securities including magnitude of credit loss, timing of credit loss, prepayments and

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servicer advances. The Company completed a re-evaluation of credit assumptions of its 1998 vintage CMBS portfolio in the fourth quarter of 2004. The magnitude of credit losses did not significantly change as a result of this process, as total loss expectations on the underlying loans moved from 2.06% to 2.04%. Changes in the timing of credit losses and prepayments caused updated yields on these securities to decline by a weighted average of 66 basis points from their original yields. Market dislocations in 1998 caused disproportionate unrealized losses in market value on these securities based on price quotes received from third parties. The Company had recorded these unrealized losses as other comprehensive loss on its consolidated statement of financial condition since that time.

Based on current economic conditions and updated credit assumptions, the Company believes these 1998 vintage CMBS securities will be repaid in full and that the impairment charge of \$25,355 with respect to five of the six securities will be recovered over the remaining life of the bonds through operating income. In addition, the Company increased underlying loan loss expectations on one non-rated security resulting in an impairment charge of \$663.

Commercial Real Estate Credit Risk

The Company's primary focus is to invest in a diverse portfolio of commercial real estate loans and CMBS. The majority of these investments take the form of CMBS that are collateralized by pools of underlying mortgage loans. The cash flows the Company receives from its CMBS portfolio are dependent upon the credit performance of the underlying mortgage loans. The Company assumes a certain amount of losses will occur in the underlying mortgage loan pools and reports income net of these losses. 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 affecting investment returns.

Controlling-Class CMBS Investments

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 number of Controlling Class CMBS transactions owned by the Company increased from fourteen to sixteen during the fourth quarter of 2004. However, the non-rated tranches of ten of the sixteen transactions are included in CDO HY1. The unrealized gain on Controlling Class CMBS at December 31, 2004 was \$16,881, as compared to an unrealized loss of \$35,609 at September 30, 2004. The decline in the unrealized loss is primarily attributable to the sale of Controlling Class CMBS in connection with the closing of CDO HY1 as well as the effect of the impairment charge on six of the Company's Controlling Class CMBS as discussed above.

Delinquencies of 30 days or more as a percent of current loan balances were 1.01% at the end of the fourth quarter of 2004, compared with 1.24% at the end of the third quarter of 2004. With the disposition of seven loans during the fourth quarter of 2004, the weighted average loss severity experienced for the 1998 and 1999 Controlling Class securities decreased from 31.1% at September 30, 2004 to 30.9% at December 31, 2004. No losses have been realized for those Controlling Class securities with vintages from 2001 through 2004 and the Company does not own any 2000 vintage Controlling Class securities. Additionally, during the fourth quarter of 2004, the Company experienced one credit upgrade on a Controlling Class CMBS in the Company's portfolio. During the fourth quarter of 2004, there were no credit downgrades on any of the Company's Controlling Class CMBS.

Commercial Real Estate Securities

During the fourth quarter of 2004, the Company purchased \$115,591 of commercial real estate securities. In addition, \$109,933 of the Company's below investment grade CMBS are now collateralizing CDO HY1. The average yields on the Company's

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commercial real estate securities for the fourth quarter of 2004 and 2003, respectively, were as follows:

	December 31, 2004	2003
Investment grade commercial real estate securities	6.2%	6.1%
Non-investment grade CMBS securities	9.7%	9.2%
All commercial real estate securities	8.0%	7.9%

The average cost of financing the commercial real estate securities portfolio during the fourth quarter of 2004 was 5.2%, compared to 5.1% for the third quarter of 2004.

Net interest income from the commercial real estate securities portfolio for the quarters ended December 31, 2004 and 2003, respectively, are as follows:

	For the quarter ended December 31,	
	2004	2003
Interest income	\$31,785	\$26,384
Interest expense*	(18,290)	(12,860)
Net interest income	13,495	13,524

*Including hedges in the Company's CDOs.

Commercial Real Estate Loans

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, 2004 were as follows:

	Carrying Value	Average Yield	Average Spread to LIBOR
Fixed Rate	\$98,354	9.86%	
Floating Rate	174,764		5.19%
	\$273,117		
	\$273,117		

For the three months ended December 31, 2004 and 2003, respectively, the total cost of borrowings secured by loan assets was 3.4% and 3.0%. 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 18.4% for the quarter ended December 31, 2004. The Company's investments in the Carbon Capital Funds as of December 31, 2004 were \$56,812.

Net interest income from the commercial real estate loan portfolio for the quarters ended December 31, 2004 and 2003, respectively, is as follows:

For the quarter ended December 31,	
2004	2003

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Interest income	\$7,948	\$ 2,828
Interest expense	(1,185)	(163)
Net interest income from commercial real estate loans	\$6,763	\$ 2,665

Dividend Reinvestment Plan

If you are a participant in the Company's Dividend Reinvestment and Stock Purchase Plan (the "Plan"), please note that, as previously announced, 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 212-810-3333. 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 \$341.8 billion in global assets under management as of December 31, 2004. 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 diversified financial services organization. Through its affiliates, PNC originates commercial, multifamily and residential real estate loans, and services \$98.4 million in commercial mortgage loans for third parties through its Midland Loan Services, Inc. subsidiary as of December 31, 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," "potential," "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:

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(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, 2003 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.

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

Item 2.02. Results of Operations and Financial Condition

On March 9, 2005, Anthracite Capital, Inc. issued a press release announcing its earnings for the fiscal quarter ended December 31, 2004, which it is furnishing under this Item 2.02 as Exhibit 99.2.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

99.1 Anthracite Capital, Inc., Consolidated Statements of Financial Condition and Consolidated Statements of Operation.

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: March 9, 2005

ANTHRACITE CAPITAL, INC.

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CURRENT REPORT ON FORM 8-K
Report dated March 9, 2005 (March 9, 2005)

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 March 9, 2005.