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ANTHRACITE CAPITAL INC

Form 10-K

March 16, 2007

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

FORM 10-K

(Mark one)

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

FOR THE FISCAL YEAR ENDED DECEMBER 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 No. 001-13937

ANTHRACITE CAPITAL, INC.
(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

13-3978906
(I.R.S. Employer
Identification No.)

40 East 52nd Street
New York, New York
(Address of principal executive office)

10022
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.375% SERIES C CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
8.25% SERIES D CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
(Title of each class)	(Name of each exchange on which registered)

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Securities registered pursuant to Section 12(g) of the Act: Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 on the Exchange Act Rule). Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's Common Stock, \$.001 par value, held by non-affiliates of the registrant, computed by reference to the closing sale price of \$12.16 as reported on the New York Stock Exchange on June 30, 2006, was \$688,497,461 (for purposes of this calculation, affiliates include only directors and executive officers of the registrant).

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding as of March 16, 2007 was 57,843,696 shares.

Documents Incorporated by Reference: Portions of the registrant's Definitive Proxy Statement for the 2007 Annual Meeting of Stockholders are incorporated by reference into Part III.

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ANTHRACITE CAPITAL, INC. AND SUBSIDIARIES 2006 FORM 10-K ANNUAL REPORT

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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

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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 and capital markets, which could result in changes in the value of the Company's assets;
- (3) the relative and absolute investment performance and operations of 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 or 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, Merrill Lynch & Co., Inc. or The PNC Financial Services Group, Inc.;
- (11) terrorist activities and international hostilities, which may adversely affect the general economy, domestic and global financial and capital markets, specific industries, 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;
- (14) the impact of changes to tax legislation and, generally, the tax position of the Company;
- (15) the Manager's ability to successfully integrate the Merrill Lynch Investment Managers ("MLIM") business with its existing business; and
- (16) the ability of the Manager to effectively manage the former MLIM assets along with its historical assets under management.

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.

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ITEM 1. BUSINESS

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

General

Anthracite Capital, Inc., a Maryland corporation, and subsidiaries (collectively, the "Company") is a specialty finance company that invests in commercial real estate assets on a global basis. The Company seeks to generate income from the spread between the interest income, gains and net operating income on its commercial real estate assets and the interest expense from borrowings to finance its investments. The Company's primary activities are investing in high yielding commercial real estate debt and equity. 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 began investing in diversified portfolios of commercial real estate in the United States during December 2005. The Company commenced operations on March 24, 1998.

The Company's primary investment activities are conducted in three investment sectors:

- 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 and equity provide attractive risk adjusted returns over shorter periods of time through strategic investments in specific property types or regions.

The Company's common stock, par value \$0.001 per share ("Common Stock"), is traded on the New York Stock Exchange under the symbol "AHR". The Company's primary long-term objective is to distribute 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 and projected hedging costs.

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 \$1.125 trillion of assets under management at December 31, 2006. The Manager provides an operating platform that incorporates significant asset origination, risk management, and operational capabilities.

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The following table indicates the amounts of each category of commercial real estate securities the Company owned at December 31, 2006. The dollar price ("Dollar Price") represents the estimated fair value or adjusted purchase price of a security, respectively, relative to its par value.

Commercial Real Estate Securities	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price*	Dollar Price	Loss Adjusted Yield
-----	-----	-----	-----	-----	-----	-----
Controlling Class CMBS	\$ 909,977	\$ 587,008	\$ 64.51	\$ 541,571	\$59.64	10.25%
Other Below Investment Grade CMBS	170,187	196,860	115.67	187,909	94.16	7.68%
Collateralized debt obligation ("CDO") investments	406,605	117,246	28.84	114,482	28.16	14.19%
Investment Grade Commercial Real Estate Related Securities	1,504,479	1,523,633	101.27	1,481,256	97.58	6.20%
CMBS interest only securities ("IOs")	2,980,467	69,352	2.33	69,183	2.32	7.36%
	5,971,715	2,494,099	41.77	2,394,401	40.10	7.65%
	-----	-----	-----	-----	-----	-----

* Represents the amortized cost of the Company's investments.

Included in the table above are non-U.S. dollar denominated commercial real estate securities with a carrying value of \$181,597, \$37,320, and \$4,580 at December 31, 2006, 2005, and 2004, respectively.

The Company's principal activity is to underwrite and acquire high yield CMBS that are rated below investment grade (BB+ or lower). The Company's CMBS are securities backed by pools of loans secured by first mortgages on commercial real estate throughout the United States and Europe. The commercial real estate securing the first mortgages consists of income-producing properties including office buildings, shopping centers, apartment buildings, industrial properties, healthcare properties, and hotels, among others. The terms of a typical loan include a fixed rate of interest, thirty-year amortization, some form of prepayment protection, and a large interest rate increase if not paid off at the ten-year maturity. The loans are originated by various lenders and pooled together in trusts which issue securities in the form of various classes of fixed rate debt secured by the cash flows from the underlying loans. The securities issued by the trusts are rated by one or more nationally recognized credit rating organizations and are rated AAA down to CCC. The security that is affected first by loan losses is not rated. The principal amount of the pools of loans securing the CMBS securities varies.

The Company focuses on acquiring the securities rated below investment grade. The most subordinated CMBS classes are the first to absorb realized losses in the loan pools. To the extent there are losses in excess of the most subordinated class' stated entitlement to principal and interest, then the remaining CMBS classes will bear such losses in order of their relative subordination. If a loss of face value, or par, is experienced in the underlying loans, a corresponding reduction in the par of the lowest rated security occurs, reducing the cash flow entitlement. The majority owner of the first loss position has the right to influence the workout process and therefore designate

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the trust's special servicer. The Company will generally seek to influence the workout process in each of its CMBS transactions by purchasing the majority of the trust's non-rated securities and sequentially rated securities as high as BB+. Typically, the par amount of these below investment grade classes represents 2.0-3.5% of the par of the underlying loan pools. This is known as the subordination level because 2.0% - 3.5% of the collateral balance is subordinated to the senior, investment grade rated securities.

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Owning commercial real estate loans in these forms allows the Company to earn its loss-adjusted returns over a period of time while achieving significant diversification across geographic areas and property types.

Controlling Class CMBS

At December 31, 2006, the Company owned 29 trusts ("Controlling Class") in which the Company through its investment in subordinated CMBS of such trusts is in the first loss position. As a result of this investment position, the Company influences the workout process on \$42,398,701 of underlying loans. The total par amount owned of these subordinated Controlling Class securities is \$909,977. The Company does not own the senior securities that represent the remaining par amount of the underlying mortgage loans.

Each trust has a designated special servicer. Special servicers are responsible for carrying out loan loss mitigation strategies. In addition, a special servicer will advance funds to a trust to maintain principal and interest cash flows on the trust's securities provided it believes there is a significant probability of recovering those advances from the underlying borrowers. The special servicer is paid interest on advanced funds and a fee for its efforts in carrying out loss mitigation strategies. The special servicer on 25 of the Company's 29 Controlling Class trusts is Midland Loan Services, Inc., the special servicer on two such trusts is GMAC Commercial Mortgage Management, Inc., and the special servicer on the remaining two such trusts is Lennar Partners, Inc. Midland Loan Services, Inc. is a related party of the Manager.

Prior to acquiring Controlling Class securities, the Company performs a significant amount of due diligence on the underlying loans to ensure their risk profiles meet the Company's criteria. Loans that do not meet the Company's criteria are either removed from the pool or price adjustments occur. The debt service coverage and loan to value ratios are evaluated to determine if they are appropriate for each asset class.

As part of its underwriting process, the Company assumes a certain amount of loans will incur losses over time. In performing continuing credit reviews on the 29 Controlling Class trusts, the Company estimates that specific losses totaling \$512,916 related to principal of the underlying loans will not be recoverable, of which \$215,816 is expected to occur over the next five years. The total loss estimate of \$512,916 represents 1.21% of the total underlying loan pools. Due to falling delinquency rates in the CMBS market, the Company no longer assumes an additional layer of unassigned losses. Previously, the Company assumed ten to forty basis points of additional defaults would occur with a 35% loss severity and a one-year recovery period. The effect of this change is to reduce total losses assumed by 15 to 62 basis points, depending on the deal.

The weighted average loss adjusted yield for all subordinated Controlling Class securities at December 31, 2006 was 10.25%. 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

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addition, a write-down of the adjusted purchase price or write-up of loss adjusted yields of the security may be required. (See Item 7A -"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.)

Once acquired, the Company uses a performance monitoring system to track the credit experience of the mortgages in the pools securing both the Controlling Class and the other below investment grade CMBS. The Company receives remittance reports monthly from the trustees and monitors any

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delinquent loans or other issues that may affect the performance of the loans. The special servicer of a loan pool also assists in this process. The Company reviews its loss assumptions every quarter using updated payment and debt service coverage information on each loan in the context of economic trends on both a national and regional level.

The Company's anticipated yields on its investments are based upon a number of assumptions that are subject to certain business and economic uncertainties and contingencies. Examples of such contingencies include, among other things, the timing and severity of expected credit losses, the rate and timing of principal payments (including prepayments, repurchases, defaults, liquidations, special servicer fees, and other related expenses), the pass-through or coupon rate, and interest rate fluctuations. Additional factors that may affect the Company's anticipated yields on its Controlling Class CMBS 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 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 Company's anticipated yields to maturity will be maintained.

Other Below Investment Grade CMBS

The Company does not typically purchase a BB- or lower rated security unless the Company is involved in the new issue due diligence process and has a clear pari-passu alignment of interest with the special servicer, or can appoint the special servicer. The Company purchases BB+ and BB rated securities at their original issue or in the secondary market without necessarily having influence over the workout process. BB+ and BB rated CMBS do not absorb losses until the BB- and lower rated securities have experienced losses of their entire principal amounts. The Company believes the subordination levels of these securities provide additional credit protection and diversification with an attractive risk return profile.

CDOs

The Company issues secured term debt through its CDO offerings. This entails creating a special purpose entity that holds assets used to secure the payments required of the debt issued. For those that qualify as a sale under Statement of Financial Accounting Standards ("SFAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS No. 140"), the Company records the transaction as a sale and carries any retained bonds as a component of securities available-for-sale on its consolidated statement of financial condition. At December 31, 2006 and 2005, respectively,

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the Company had retained bonds with an estimated fair value of \$114,142 and \$121,159 on its consolidated statement of financial condition related to CDO HY1 and CDO HY2. The Company also owns preferred securities in LEAFs CMBS I Ltd ("Leaf"). Leaf issued non-recourse liabilities secured by investment grade commercial real estate securities. At December 31, 2006 and 2005, respectively, Leaf preferred securities were carried at an estimated fair value of \$3,104 and \$3,391 on the Company's consolidated statement of financial condition.

Investment Grade Commercial Real Estate Related Securities

The Company also purchases investment grade commercial real estate related securities in the form of CMBS and unsecured debt of commercial real estate companies. The addition of these higher rated securities is intended to add greater stability to the long-term performance of the Company's portfolio as a whole and to provide greater diversification to optimize secured financing alternatives. The Company seeks to assemble a portfolio of high quality issues that will maintain consistent performance over the

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life of the security.

CMBS IOs

The Company also acquires CMBS IOs. These securities represent a portion of the interest coupons paid by the underlying loans. The Company views this portfolio as possessing attractive relative value versus other alternatives. These securities do not have significant prepayment risk because the underlying loans generally have prepayment restrictions. Furthermore, the credit risk is also mitigated because the IO represents a portion of all underlying loans, not solely the first loss.

COMMERCIAL REAL ESTATE LOANS

The following table summarizes the Company's commercial real estate loan portfolio by property type at December 31, 2006, 2005, and 2004:

Property Type	December 31, 2006		Loans Outstanding December 31, 2005		December 31, 2004		Weighted Average Yie	
	Amount	%	Amount	%	Amount	%	2006	2005
Office	\$130,016	27.0%	\$ 94,432	25.8%	\$ 88,311	33.5%	8.2%	8.9%
Residential	57,917	12.0	57,466	15.7	13,480	5.1	10.7	8.6
Retail	194,938	40.5	76,502	20.9	59,070	22.4	7.7	7.3
Hotel	38,899	8.1	79,840	21.8	102,645	39.0	10.0	8.6
Storage	34,009	7.1	32,913	9.0	--	--	9.0	9.1
Communication Tower	--	--	20,000	5.5	--	--	--	9.4
Industrial	19,317	4.0	2,423	0.7	--	--	9.1	8.1
Other Mixed Use	6,649	1.3	2,230	0.6	--	--	8.7	8.1
Total	\$481,745	100.0%	\$365,806	100.0%	\$263,506	100.0%	8.6%	8.5%

Included in the table above are non-U.S. dollar denominated commercial real

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estate loans with a carrying value of \$243,377, \$129,951, and \$21,119 at December 31, 2006, 2005, and 2004, respectively. The Company finances its non-U.S. dollar denominated loans by borrowing in the applicable local currency and hedging the un-financed portion.

The Company's loan activity is focused on providing mezzanine capital to the commercial real estate industry. The Company targets real estate operators with strong track records and compelling business plans designed to enhance the value of their real estate. These loans generally are subordinated to a senior lender or first mortgage and are priced to reflect a higher return. The Company has significant experience in closing large, complex loan transactions and believes it can deliver a timely and competitive financing package.

The types of investments in this class include subordinated participations in first mortgages, loans secured by partnership interests, preferred equity interests in real estate limited partnerships and loans secured by second mortgages. The weighted average life of these investments is generally two to three years and the investments have fixed or floating rate coupons.

The Company performs significant due diligence before making investments to evaluate risks and opportunities in this sector. The Company generally focuses on strong sponsorship, attractive real estate fundamentals, and pricing and structural characteristics that provide significant influence over the underlying asset.

The Company's activity in this sector generally has been conducted through Carbon Capital, Inc. ("Carbon I") and Carbon Capital II, Inc. ("Carbon II", and collectively with Carbon I, the "Carbon

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Capital Funds"), private commercial real estate income funds managed by the Company's Manager. The Company believes the use of the Carbon Capital Funds allows it to invest in larger institutional quality assets with greater diversification. The Company's consolidated financial statements include its share of the net assets and income of the Carbon Capital Funds. At December 31, 2006, the Company owned approximately 20% of Carbon I as well as approximately 26% of Carbon II. The Company's investments in the Carbon Capital Funds at December 31, 2006 were \$72,403, compared with \$59,646 at December 31, 2005.

The following table summarizes the loans held by the Carbon Capital Funds at December 31, 2006, 2005 and 2004.

Property Type	December 31, 2006		Loans Outstanding December 31, 2005		December 31, 2004		Weighted Average Yie	
	Amount	%	Amount	%	Amount	%	2006	2005
Office	\$162,759	23.1%	\$128,802	23.0%	\$135,487	26.1%	10.5%	10.1%
Residential	138,713	19.7	192,604	34.3	164,096	31.6	12.3	10.3
Retail	73,184	10.4	57,791	10.3	101,166	19.5	9.7	13.2
Hotel	241,086	34.2	146,710	26.1	73,249	14.1	12.1	12.8
Storage	--	--	10,171	1.8	10,171	2.0	--	16.4
Land	53,500	7.6	25,000	4.5	--	--	12.6	15.2
Other Mixed Use	35,384	5.0	--	--	34,739	6.7	8.8	--

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Total	\$704,626	100.0%	\$561,078	100.0%	\$518,908	100.0%	11.4%	11.5%
	=====	=====	=====	=====	=====	=====	=====	=====

COMMERCIAL REAL ESTATE EQUITY

At December 31, 2006, the Company had invested an aggregate of \$92,603 in BlackRock Diamond Property Fund, Inc. ("BlackRock Diamond"). BlackRock Diamond is a private real estate investment trust ("REIT") managed by BlackRock Realty Advisors, Inc., a subsidiary of the Company's Manager. BlackRock Diamond's investment objective is to seek a high risk adjusted return through "value-added" capital appreciation and current income on properties through out the United States. This means the BlackRock Diamond's focuses on operating properties that will be repositioned, renovated, or expanded to achieve maximum returns. Part of the investment strategy includes a budgeted amount of capital expenditures that are used to improve the value of the investment and realize the full value potential of a given property. BlackRock Diamond relies on the Manager's extensive relationships in the real estate markets to source opportunities. BlackRock Diamond focuses on large urban locations where it believes the real estate equity markets will outperform.

BlackRock Diamond is an open-end fund. As such, it allows shares to be redeemed at a price equal to its quarter-end net asset value upon 60 days notice. The assets are subject to quarterly appraisals with one independent appraisal done annually. The Company does not pay a separate management fee to the Manager for management services associated with its investment in BlackRock Diamond.

The Company had a 21% ownership in BlackRock Diamond at December 31, 2006 and recorded \$15,763 of income during 2006 with respect to this investment under the equity method. At December 31, 2006, the Company had \$7,397 of remaining capital commitments to BlackRock Diamond, all of which was called in January 2007.

FINANCING AND LEVERAGE

The Company has financed its assets with the net proceeds of common stock offerings, the issuance of common stock under the Company's Dividend Reinvestment and Stock Purchase Plan (the "Dividend Reinvestment Plan"), the issuance of preferred stock, long-term secured and unsecured borrowings,

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short-term borrowings under reverse repurchase agreements and the credit facilities discussed below. In the future, operations may be financed by offerings of equity securities, as well as unsecured and secured borrowings. The Company expects that, in general, it will employ leverage consistent with the type of assets acquired and the desired level of risk in various investment environments. The Company's governing documents do not explicitly limit the amount of leverage that the Company may employ. Instead, the Board of Directors has adopted an indebtedness policy for the Company that limits its recourse debt to equity ratio to a maximum of 3.0 to 1. The Company's recourse debt-to-equity ratio of 1.7 to 1 at December 31, 2006 was in compliance with the policy. The Company anticipates that it will maintain recourse debt-to-equity ratios between 1.0 to 1 and 3.0 to 1 in the foreseeable future, although this ratio may be higher or lower at any time. The Board of Directors may change the Company's indebtedness policy at any time.

REVERSE REPURCHASE AGREEMENTS AND CREDIT FACILITIES

The Company has entered into reverse repurchase agreements to finance its

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securities that are not financed under its credit facilities or CDOs. The reverse repurchase agreements collateralized by most of these securities bear interest at rates that historically have moved in close relationship to the London Interbank Offered Rate for U.S. dollar deposits ("LIBOR").

The Company's credit facilities can be used to replace existing reverse repurchase agreement borrowings and to finance the acquisition of mortgage-backed securities and commercial real estate loans. Outstanding borrowings bear interest at a variable rate. The following table summarizes the Company's credit facilities at December 31, 2006 and 2005:

	Maturity Date	December 31, 2006			December 31, 2005	
		Facility Amount	Total Borrowings	Borrowing Capacity	Facility Amount	Unused Total Borrowing
Greenwich Capital, Inc. (1)	7/7/07	\$ 75,000*	\$12,064	\$ --*	\$ 75,000	\$ 75,000
Deutsche Bank, AG (2)	12/20/07	200,000	49,398	150,602	200,000	181,875
Bank of America, N.A. (3)	9/17/08	100,000	--	100,000	n/a	n/a
Morgan Stanley Bank (3) (4)	2/16/08	200,000	13,985	186,015	27,800	27,800
		-----	-----	-----	-----	-----
		\$575,000	\$75,447	\$436,617	\$302,800	\$284,675
		=====	=====	=====	=====	=====

* Commitment expired December 23, 2006. No new borrowings permitted.

(1) USD only

(2) Multicurrency

(3) Non-USD only

(4) Can be increased up to \$15,000 based on the change in exchange rates of the non-US dollar loans. However, any amounts drawn under this provision must be repaid in ninety days.

The Company is subject to various covenants in its credit facilities, including maintaining a minimum net worth measured on a book value of \$305,000 in accordance with generally accepted accounting principles in the United States of America ("GAAP"), a maximum recourse debt-to-equity of 3.0 to 1, a minimum cash requirement based upon certain debt-to-equity ratios. During the first quarter of 2007, the Company amended the debt service coverage ratio covenant on its committed debt facilities. The terms of the calculation were revised and the debt service coverage ratio was reduced from 1.75 to 1.20. The revised calculation better reflects the Company's ability to service debt on a cash basis. At December 31, 2006 and 2005, the Company was in compliance with all other covenants.

Under the credit facilities and the reverse repurchase agreements, the respective lenders retain the right to mark the underlying collateral to estimated fair value. A reduction in the value of pledged assets could require the Company to provide additional collateral or fund cash margin calls. From

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time to time, the Company may be required to provide additional collateral or fund margin calls. The Company maintains adequate liquidity to meet such calls.

Further information with respect to the Company's reverse repurchase agreements, credit facilities, and commercial mortgage loan pools at December 31, 2006 is summarized as follows:

	Reverse Repurchase Agreements -----	Credit Facilities -----	Commercial Mortgage Loan Pools -----
Commercial Real Estate Securities			
Outstanding Borrowings	\$527,316	\$ 48,105	\$ --
Weighted average borrowing rate	5.38%	6.91%	--
Weighted average remaining maturity	79 days	243 days	--
Estimated fair value of assets pledged	\$570,864	\$ 69,462*	\$ --
Residential Mortgage-Backed Securities			
Outstanding Borrowings	\$266,731	\$ --	\$ --
Weighted average borrowing rate	5.34%	--	--
Weighted average remaining maturity	79 days	--	--
Estimated fair value of assets pledged	\$275,729	\$ --	\$ --
Commercial Mortgage Loan Pools			
Outstanding Borrowings	\$ 5,623	\$ 772	\$ 1,250,503
Weighted average borrowing rate	6.06%	6.60%	3.99%
Weighted average remaining maturity	8 days	29 days	5.84 years
Estimated fair value of assets pledged	\$ 7,481	\$ 1,209	\$ 1,271,014
Commercial Real Estate Loans			
Outstanding Borrowings	--	\$ 26,570	--
Weighted average borrowing rate	--	6.34%	--
Weighted average remaining maturity	--	245 days	--
Estimated fair value of assets pledged	--	\$ 41,748	--

* \$21,742 of assets pledged are retained CDO bonds.

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Further information with respect to the Company's reverse repurchase agreements, credit facilities, and commercial mortgage loan pools at December 31, 2005 is summarized as follows:

	Reverse Repurchase Agreements -----	Credit Facilities -----	Commercial Mortgage Loan Pools -----
Commercial Real Estate Securities			
Outstanding Borrowings	\$562,315	\$ 54,347	\$ --
Weighted average borrowing rate	4.53%	5.18%	--
Weighted average remaining maturity	28 days	1.97 years	--
Estimated fair value of assets pledged	\$631,795	\$ 77,510*	\$ --

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Residential Mortgage-Backed Securities

Outstanding Borrowings	\$249,122	\$	--	\$	--
Weighted average borrowing rate	4.34%		--		--
Weighted average remaining maturity	24 days		--		--
Estimated fair value of assets pledged	\$258,770	\$	--	\$	--

Commercial Mortgage Loan Pools

Outstanding Borrowings	\$ 5,205	\$	772	\$	1,272,931
Weighted average borrowing rate	5.03%		5.80%		3.97%
Weighted average remaining maturity	17 days		1.53 years		6.89 years
Estimated fair value of assets pledged	\$ 7,321	\$	1,285	\$	1,292,407

Commercial Real Estate Loans

Outstanding Borrowings	\$ --	\$	229,556	\$	--
Weighted average borrowing rate	--		5.29%		--
Weighted average remaining maturity	--		1.61 years		--
Estimated fair value of assets pledged	\$ --	\$	337,447	\$	--

* \$23,233 of assets pledged are retained CDO bonds.

CDOS

The Company finances the majority of its commercial real estate assets with match funded, secured term debt through CDO offerings. To accomplish this, the Company forms a special purpose entity ("SPE") and contributes a portfolio consisting of below investment grade CMBS, investment grade CMBS, unsecured debt of commercial real estate companies and commercial real estate loans in exchange for the preferred equity interest in the SPE. With the exceptions of the Company's fourth and fifth CDOs ("CDO HY1" and "CDO HY2", respectively), these transactions are considered financings and the SPEs are fully consolidated on the Company's consolidated financial statements. The SPE then will issue fixed and floating rate debt secured by the cash flows of the securities in its portfolio. The SPE will enter into an interest rate swap agreement to convert the floating rate debt issued to a fixed interest rate, thus matching the cash flow profile of the underlying portfolio. For those CDOs not denominated in

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U.S. dollars, the SPE will also enter into currency swap agreements to minimize any currency exposure. The structure of the CDO debt also eliminates the mark to market requirement commonly associated with other types of financing, thus eliminating the need to provide additional collateral if the value of the underlying portfolio declines. The debt issued by the SPE generally is rated AAA down to BB. Due to its preferred equity interest, the Company continues to manage the credit risk of the underlying portfolio as it did prior to the assets being contributed to the CDO. CDO debt is the Company's preferred capital structure to maximize returns on these types of portfolios on a non-recourse basis. Other forms of financing used for these types of assets include multi-year committed financing facilities and 90-day reverse repurchase agreements.

At December 31, 2006, outstanding borrowings under the Company's CDOs were \$1,812,574 with a weighted average borrowing rate of 6.02% and a weighted average maturity of 7.0 years. Estimated fair value of assets pledged was \$2,096,455, consisting of 80.3% of commercial real estate securities and 19.7% of commercial real estate loans.

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At December 31, 2005, outstanding borrowings under the Company's CDOs were \$1,066,930 with a weighted average borrowing rate of 5.86% and a weighted average maturity of 10.8 years. Estimated fair value of assets pledged was \$1,227,222 consisting of 100.0% of commercial real estate securities.

UNSECURED BORROWINGS

During October 2006, the Company issued \$75,000 of unsecured senior notes due in 2016 with a weighted average cost of funds of 7.21%. The unsecured senior notes can be redeemed in whole by the Company subject to certain provisions, which could include the payment of fees.

On September 26, 2005, the Company issued \$75,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust I, a Delaware statutory trust ("Trust I"). The trust preferred securities have a thirty-year term ending October 30, 2035 with interest at a fixed rate of 7.497% for the first ten years and at a floating rate of three-month LIBOR plus 2.9% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in October 2010. Trust I issued \$2,380 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust I to the Company for a purchase price of \$2,380. The Company realized net proceeds from this offering of approximately \$72,618.

On February 2, 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"). 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.

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EQUITY ISSUANCES

For the years ended December 31, 2006 and 2005, respectively, the Company issued 608,747 and 1,318,568 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds under the Dividend Reinvestment Plan to the Company were approximately \$6,517 and \$14,327, respectively. Additionally, the Company issued 1,725,000 shares of Common Stock in a follow-on offering at \$11.59 per share in 2005.

For the year ended December 31, 2006, the Company issued 664,900 shares of Common Stock under a sales agency agreement with Brinson Patrick Securities Corporation. Net proceeds to the Company were approximately \$8,625.

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On February 12, 2007, the Company issued \$86,250 of Series D Cumulative Redeemable Preferred Stock ("Series D Preferred Stock"), including \$11,250 of Series D Preferred Stock sold to underwriters pursuant to an over-allotment option. The Series D Preferred Stock will pay an annual dividend of 8.25%.

HEDGING ACTIVITIES

The Company enters into hedging transactions to protect its investment portfolio and related borrowings from interest rate fluctuations and other changes in market conditions. From time to time, the Company may modify its exposure to market interest rates by entering into various financial instruments that adjust portfolio duration and short-term rate exposure. These financial instruments are intended to mitigate the effect of changes in interest rates on the value of the Company's assets and the cost of borrowing. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as the Manager determines is in the best interest of the Company's stockholders, given the cost of such hedges. The Manager may elect to have the Company bear a level of interest rate risk that could otherwise be hedged when the Manager believes, based on all relevant facts, that bearing such risk is advisable. The Manager has extensive experience in hedging mortgages, mortgage-related assets and related borrowings with these types of instruments.

Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearinghouse, or regulated by any U.S. or foreign governmental authorities. The Company will enter into these transactions only with counterparties with long-term debt rated A or better by at least one nationally recognized credit rating organization. The business failure of a counterparty with which the Company has entered into a hedging transaction most likely will result in a default, which may result in the loss of unrealized profits. Although the Company generally will seek to reserve for itself the right to terminate its hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the counterparty, and the Company may not be able to enter into an offsetting contract in order to cover its risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and the Company may be required to maintain a position until exercise or expiration, which could result in losses.

The Company's hedging activities are intended to address both income and capital preservation. Income preservation refers to maintaining a stable spread between yields from mortgage assets and the Company's borrowing costs across a reasonable range of adverse interest rate environments. Capital preservation refers to maintaining a relatively steady level in the estimated fair value of the Company's capital across a reasonable range of adverse interest rate scenarios. However, no strategy can insulate the Company completely from changes in interest rates.

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Interest rate hedging instruments at December 31, 2006 and 2005 consisted of the following:

At December 31, 2006

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	Notional Value	Estimated Fair Value	Unamortized Cost	Average Remaining Term (years)
	-----	-----	-----	-----
Cash flow hedges	\$644,200	\$5,048	\$ --	7.91
CDO cash flow hedges	895,499	8,230	--	7.19
Trading swaps	80,000	2,033	--	3.27
CDO timing swaps	223,445	212	--	6.08
CDO LIBOR cap	85,000	(38)	1,407	6.40

At December 31, 2005

	Notional Value	Estimated Fair Value	Unamortized Cost	Average Remaining Term (years)
	-----	-----	-----	-----
Cash flow hedges	\$500,350	\$ 6,234	\$ --	8.42
CDO cash flow hedges	701,603	10,616	--	7.51
Trading swaps	133,000	4,032	--	6.83
CDO timing swaps	223,445	(37)	--	7.08
CDO LIBOR cap	85,000	1,419	1,407	7.40

Foreign currency agreements at December 31, 2006 consisted of the following:

At December 31, 2006

	Estimated Fair Value	Unamortized Cost	Average Remaining Term
	-----	-----	-----
Currency swaps	\$ 1,179	\$ --	12.53 years
CDO currency swaps	(1,418)	--	12.53 years
Forwards	(2,659)	--	10 days

At December 31, 2005

	Estimated Fair Value	Unamortized Cost	Average Remaining Term
	-----	-----	-----
Forwards	\$ 1,108	--	10 days

The Company did not have any currency swaps at December 31, 2005.

OPERATING POLICIES

The Company has adopted compliance guidelines, including restrictions on acquiring, holding, and selling assets, to ensure that the Company meets the

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requirements for qualification as a REIT under the United States Internal Revenue Code of 1986, as amended (the "Code"), and is excluded from regulation as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Before acquiring any asset, the Manager determines whether such asset would constitute a "Real Estate Asset" under the REIT provisions of the Code. The Company regularly monitors purchases of commercial real estate assets and the income generated from such assets, including income from its hedging activities, in an effort to ensure that at all times the Company's assets and income meet the requirements for qualification as a REIT and exclusion under the Investment Company Act.

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In order to maintain the Company's REIT status, the Company generally intends to distribute to its stockholders aggregate dividends equaling at least 90% of its taxable income each year. The Code permits the Company to fulfill this distribution requirement by the end of the year following the year in which the taxable income was earned.

REGULATION

The Company intends to continue to conduct its business so as not to become regulated as an investment company under the Investment Company Act. Under the Investment Company Act, a non-exempt entity that is an investment company is required to register with the SEC and is subject to extensive, restrictive, and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, dividends, and transactions with affiliates. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under current interpretation by the staff of the SEC, to qualify for this exemption, the Company, among other things, must maintain at least 55% of its assets in Qualifying Interests. Substantially all of the Company's interests in residential mortgage-backed securities ("RMBS") are Qualifying Interests.

A portion of the CMBS acquired by the Company are collateralized by pools of first mortgage loans where the Company can monitor the performance of the underlying mortgage loans through loan management, servicing rights and workout/foreclosure rights with respect to the underlying mortgage loans. When such arrangements exist, the Company believes that the related Controlling Class CMBS constitute Qualifying Interests for purposes of the Investment Company Act. Therefore, the Company believes that it should not be required to register as an "investment company" under the Investment Company Act as long as it continues to invest in a sufficient amount of such Controlling Class CMBS and/or in other Qualifying Interests.

If the SEC or its staff were to take a different position with respect to whether the Company's Controlling Class CMBS constitute Qualifying Interests, the Company could be required to modify its business plan so that either (i) it would not be required to register as an investment company or (ii) it would register as an investment company under the Investment Company Act. In such event, modification of the Company's business plan so that it would not be required to register as an investment company might entail a disposition of a significant portion of the Company's Controlling Class CMBS or the acquisition of significant additional assets, such as agency pass-through and other mortgage-backed securities, which are Qualifying Interests and modification of the Company's business plan to register as an investment company could result in increased operating expenses and could entail reducing the Company's indebtedness, which also could require it to sell a significant portion of its

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assets. No assurances can be given that any such dispositions or acquisitions of assets, or de-leveraging, could be accomplished on favorable terms. Consequently, any such modification of the Company's business plan could have a material adverse effect on the Company. Further, if it were established that the Company were operating as an unregistered investment company, there would be a risk that the Company would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that the Company would be unable to enforce contracts with third parties, and that third parties could seek to obtain rescission of transactions undertaken during the period it was established that the Company was an unregistered investment company. Any such results would be likely to have a material adverse effect on the Company.

COMPETITION

The Company's net income depends, in large part, on the Company's ability to acquire commercial real estate assets at favorable spreads over the Company's borrowing costs. In acquiring commercial real

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estate assets, the Company competes with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies, and other entities. In addition, there are numerous mortgage REITs with asset acquisition objectives similar to the Company's, and others may be organized in the future. The effect of the existence of additional REITs may be to increase competition for the available supply of commercial real estate assets suitable for purchase by the Company. Some of the Company's competitors are significantly larger than the Company, have access to greater capital and other resources, and may have other advantages over the Company. In addition to existing companies, other companies may be organized for purposes similar to that of the Company, including companies organized as REITs focused on purchasing commercial real estate assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market price of the Company's Common Stock.

EMPLOYEES

The Company does not have any employees. The Company's officers, each of whom is a full-time employee of the Manager, perform the duties required pursuant to the Management Agreement (as defined below) with the Manager and the Company's bylaws.

MANAGEMENT AGREEMENTS

The Company has a Management Agreement, an administrative services agreement and an accounting services agreement with the Manager, the employer of certain directors and all of the officers of the Company, under which the Manager and the Company's officers manage the Company's day-to-day investment operations, subject to the direction and oversight of the Company's Board of Directors. Pursuant to the Management Agreement and these other agreements, the Manager and the Company's officers formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Company's assets and provide certain other advisory, administrative and managerial services in connection with the operations of the Company. For performing certain of these services, the Company pays the Manager under the Management Agreement a base management fee equal to 2.0% of the quarterly average total stockholders' equity for the applicable quarter.

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To provide an incentive, the Manager is entitled to receive an incentive fee under the Management Agreement 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 Company's Common Stock (\$11.37 per common share at December 31, 2006). Additionally, 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 under a compensatory deferred stock plan approved by the stockholders of the Company in 2006. The Board of Directors also authorized a stock based incentive plan where one-half of one percent of common shares outstanding was paid to the Manager in 2006.

The Company's unaffiliated directors approved an extension of the Management Agreement to March 30, 2008 at the Board's March 2007 meeting.

The Manager primarily engages in four investment activities in its capacity as Manager on behalf of the Company: (i) acquiring and originating commercial real estate loans and other real estate related assets; (ii) asset/liability and risk management, hedging of floating rate liabilities, and financing, management and disposition of assets, including credit and prepayment risk management; (iii) surveillance and restructuring of real estate loans and (iv) capital management, structuring, analysis, capital raising, and

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investor relations activities. At all times, the Manager and the Company's officers are subject to the direction and oversight of the Company's Board of Directors.

The Company may terminate, or decline to renew the term of, the Management Agreement without cause at any time upon 60 days' written notice by a majority vote of the unaffiliated directors. Although no termination fee is payable in connection with a termination for cause, in connection with a termination without cause, the Company must pay the Manager a termination fee, which could be substantial. The amount of the termination fee will be determined by independent appraisal of the value of the Management Agreement. Such appraisal is to be conducted by a nationally-recognized appraisal firm mutually agreed upon by the Company and the Manager. The other agreements the Company has with the Manager also may be terminated by the Company; in the case of the administrative services agreement, at any time upon 60 days' written notice, and in the case of the accounting services agreement, following the 24 month anniversary thereof, on 60 days' written notice prior to the 12 month anniversary thereof, or upon 60 days' written notice following the termination of the Management Agreement.

In addition, the Company has the right at any time during the term of the Management Agreement to terminate the Management Agreement without the payment of any termination fee upon, among other things, a material breach by the Manager of any provision contained in the Management Agreement that remains uncured at the end of the applicable cure period.

TAXATION OF THE COMPANY

The Company has elected to be taxed as a REIT under the Code, commencing with its taxable year ended December 31, 1998, and the Company intends to continue to operate in a manner consistent with the REIT provisions of the Code. The Company's qualification as a REIT depends on its ability to meet the various requirements imposed by the Code, through actual operating results, asset

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holdings, distribution levels, and diversity of stock ownership.

Provided the Company continues to qualify for taxation as a REIT, it generally will not be subject to Federal corporate income tax on its net income that is currently distributed to stockholders. This treatment substantially eliminates the "double taxation" (at the corporate and stockholder levels) that generally results from an investment in a corporation. If the Company fails to qualify as a REIT in any taxable year, its taxable income would be subject to Federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if the Company qualifies as a REIT, it will be subject to Federal income and excise taxes on its undistributed income.

If in any taxable year the Company fails to qualify as a REIT and, as a result, incurs additional tax liability, the Company may need to borrow funds or liquidate certain investments in order to pay the applicable tax, and the Company would not be compelled to make distributions under the Code. Unless entitled to relief under certain statutory provisions, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. Although the Company currently intends to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax, or other considerations may cause the Company to fail to qualify as a REIT or may cause the Board of Directors to revoke the Company's REIT election.

The Company and its stockholders may be subject to foreign, state, and local taxation in various foreign, state, and local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of the Company and its stockholders may not conform to the Company's Federal income tax treatment.

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WEBSITE

The Company's website address is www.anthracitecapital.com. The Company makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other filings as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC, and also makes available on its website the charters for the Audit, Compensation and Nominating and Corporate Governance Committees of the Board of Directors and its Codes of Business Conduct and Ethics, as well as its corporate governance guidelines. Copies in print of these documents are available upon request to the Secretary of the Company at the address indicated on the cover of this report. To communicate with the Board of Directors electronically, the Company has established an e-mail address, anthracitebod@blackrock.com, to which stockholders may send correspondence to the Board of Directors or any such individual directors or group or committee of directors.

In accordance with New York Stock Exchange ("NYSE") Rules, on June 6, 2006, the Company filed the annual certification by its Chief Executive Officer certifying that he was unaware of any violation by the Company of the NYSE's corporate governance listing standards at the time of the certification.

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ITEM 1A. RISK FACTORS

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RISKS

Risk is an inherent part of investing in high yielding commercial real estate debt and equity. Risk management is considered to be of paramount importance to the Company's day-to-day operations. Consequently, the Company devotes significant resources across all its operations to the identification, measurement, monitoring, management and analysis of risk.

RISKS RELATED TO THE MANAGER

Conflicts of interest of the Manager may result in decisions that do not fully reflect stockholders' best interests.

The Company and the Manager have common officers and directors, which may present conflicts of interest in the Company's dealings with the Manager and its affiliates, including the Company's purchase of assets originated by such affiliates.

The Manager and its employees may engage in other business activities that could reduce the time and effort spent on the management of the Company. The Manager also provides services to REITs not affiliated with the Company. As a result, there may be a conflict of interest between the operations of the Manager and its affiliates in the acquisition and disposition of commercial real estate assets. In addition, the Manager and its affiliates may from time to time purchase commercial real estate assets for their own account and may purchase or sell assets from or to the Company. For example, BlackRock Realty Advisors, Inc., a subsidiary of the Manager, provides real estate equity and other real estate related products and services in a variety of strategies to its institutional investor client base. In doing so, it purchases real estate on behalf of its clients that may underlie the real estate loans and securities the Company acquires, and consequently depending on the factual circumstances involved, there may be conflicts between the Company and those clients. Such conflicts may result in decisions and allocations of commercial real estate assets by the Manager, or decisions by the Manager's affiliates, that are not in the Company's best interests.

Although the Company has adopted investment guidelines, these guidelines give the Manager significant discretion in investing. The Company's investment and operating policies and the strategies that the Manager uses to implement those policies may be changed at any time without the consent of stockholders.

The Company is dependent on the Manager, and the termination by the Company of its Management Agreement with the Manager could result in a termination fee.

The Company's success is dependent on the Manager's ability to attract and retain quality personnel. The market for portfolio managers, investment analysts, financial advisers and other professionals is extremely competitive. There can be no assurance the Manager will be successful in its efforts to recruit and retain the required personnel.

The Management Agreement between the Company and the Manager provides for base management fees payable to the Manager without consideration of the performance of the Company's portfolio and also provides for incentive fees based on certain performance criteria, which could result in the Manager recommending riskier or more speculative investments. Termination of the Management Agreement between the Company and the Manager by the

Company would result in the payment of a substantial termination fee, which could adversely affect the Company's financial condition. Termination of the Management Agreement by the Company could also adversely affect the Company if the Company were unable to find a suitable replacement.

There is a limitation on the liability of the Manager.

Pursuant to the Management Agreement, the Manager will not assume any responsibility other than to render the services called for under the Management Agreement and will not be responsible for any action of the Company's Board of Directors in following or declining to follow its advice or recommendations. The Manager and its directors and officers will not be liable to the Company, any of its subsidiaries, its unaffiliated directors, its stockholders or any subsidiary's stockholders for acts performed in accordance with and pursuant to the Management Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement. The Company has agreed to indemnify the Manager and its directors and officers with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of the Manager not constituting bad faith, willful misconduct, gross negligence or reckless disregard of duties, performed in good faith in accordance with and pursuant to the Management Agreement.

RISKS RELATED TO THE COMPANY'S BUSINESS

Interest rate fluctuations will affect the value of the Company's commercial real estate assets, net income and common stock.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors. Interest rate fluctuations can adversely affect the income and value of the Company's common stock in many ways and present a variety of risks, including the risk of a mismatch between asset yields and borrowing rates, variances in the yield curve, changing prepayment rates and margin calls.

The Company's operating results depend in large part on differences between the income from its assets (net of credit losses) and borrowing costs. The Company funds a substantial portion of its assets with borrowings that have interest rates that reset relatively rapidly, such as monthly or quarterly. The Company anticipates that, in most cases, the income from its floating-rate assets will respond more slowly to interest rate fluctuations than the cost of borrowings, creating a potential mismatch between asset yields and borrowing rates. Consequently, changes in interest rates, particularly short-term interest rates, may influence the Company's net income. Increases in these rates tend to decrease the Company's net income and estimated fair value of the Company's net assets. Interest rate fluctuations that result in the Company's interest expense exceeding interest income would result in the Company incurring operating losses.

The Company also invests in fixed-rate mortgage-backed securities. In a period of rising interest rates, the Company's interest payments could increase while the interest the Company earns on its fixed-rate mortgage-backed securities would not change. This would adversely affect the Company's profitability.

The relationship between short-term and long-term interest rates often is

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referred to as the "yield curve." Ordinarily, short-term interest rates are lower than long-term interest rates. If short-term

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interest rates rise disproportionately relative to long-term interest rates (a flattening of the yield curve), the Company's borrowing costs may increase more rapidly than the interest income earned on the Company's assets. Because the Company's borrowings primarily will bear interest at short-term rates and the Company's assets primarily will bear interest at medium-term to long-term rates, a flattening of the yield curve tends to decrease the Company's net income and estimated fair value of the Company's net assets. Additionally, to the extent cash flows from long-term assets that return scheduled and unscheduled principal are reinvested, the spread between the yields of the new assets and available borrowing rates may decline and also may tend to decrease the net income and estimated fair value of the Company's net assets. It is also possible that short-term interest rates may adjust relative to long-term interest rates such that the level of short-term rates exceeds the level of long-term rates (a yield curve inversion). In this case, the Company's borrowing costs may exceed the Company's interest income and operating losses could be incurred.

A portion of the Company's commercial real estate assets are financed under 90-day repurchase agreements and committed borrowing facilities which are subject to mark-to-market risk. Such secured financing arrangements provide for an advance rate based upon a percentage of the estimated fair value of the asset being financed. Market movements that cause asset values to decline would require a margin call or a cash payment to maintain the relationship between asset value and amount borrowed.

The Company's investments may be subject to impairment charges.

The Company periodically evaluates its investments for impairment indicators. The judgment regarding the existence of impairment indicators is based on a variety of factors depending on the nature of the investment and the manner in which the income related to such investment is calculated for purposes of the Company's financial statements. If the Company determines that a significant impairment has occurred, the Company would be required to make an adjustment to the net carrying value of the investment, which could adversely affect the Company's results of operations in the applicable period.

Interest rate caps on the Company's RMBS may adversely affect the Company's profitability.

The Company's adjustable-rate RMBS typically are subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through maturity of a mortgage-backed security. The Company's borrowings are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the Company could experience a decrease in net income or a net loss because the interest rates on its borrowings could increase without limitation while the interest rates on its adjustable-rate mortgage-backed securities would be limited by caps.

The Company's assets include subordinated CMBS which are subordinate in right of payment to more senior securities.

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The Company's assets include a significant amount of subordinated CMBS, which are the most subordinate class of securities in a structure of securities secured by a pool of loans and accordingly are the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. The Company may not recover the full amount or, in extreme cases, any of its initial investment in such subordinated interests. Additionally, estimated fair values of these subordinated interests tend to be more

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sensitive to changes in economic conditions than more senior interests. As a result, such subordinated interests generally are not actively traded and may not provide holders thereof with liquidity of investment.

The Company's assets include mezzanine loans which have greater risks of loss than more senior loans.

The Company's assets include a significant amount of mezzanine loans that involve a higher degree of risk than long-term senior mortgage loans. In particular, a foreclosure by the holder of the senior loan could result in the mezzanine loan becoming unsecured. Accordingly, the Company may not recover some or all of its investment in such a mezzanine loan. Additionally, the Company may permit higher loan to value ratios on mezzanine loans than it would on conventional mortgage loans when the Company is entitled to share in the appreciation in value of the property securing the loan.

Prepayment rates can increase which would adversely affect yields on the Company's investments.

The yield on investments in mortgage loans and mortgage-backed securities and thus the value of the Company's common stock is sensitive to changes in prevailing interest rates and changes in prepayment rates, which results in a divergence between the Company's borrowing rates and asset yields, consequently reducing future income derived from the Company's investments.

The Company's ownership of non-investment grade commercial real estate assets subjects the Company to an increased risk of loss which could adversely affect yields on the Company's investments.

The Company acquires commercial real estate loans and non-investment grade mortgage-backed securities, which are subject to greater risk of credit loss on principal and non-payment of interest in contrast to investments in senior investment grade securities.

The Company's commercial real estate assets are subject to certain risks.

The Company acquires, accumulates and securitizes commercial real estate assets as part of its investment strategy. While exposed to such commercial real estate assets, either as collateral for a real estate security or directly, the Company is subject to risks of borrower defaults, bankruptcies, fraud and special hazard losses that are not covered by standard hazard insurance. Insurance on owned real estate, commercial mortgage loans and real estate securities collateral may not cover all losses.

The Company's commercial mortgage loans are subject to certain risks.

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The costs of financing and hedging the commercial mortgage loans can exceed the interest income on the commercial mortgage loans. In the event of any default under commercial mortgage loans held by the Company, the Company will bear the risk of loss of principal to the extent of any deficiency between the value of the commercial mortgage collateral and the principal amount of the commercial mortgage loan. In addition, delinquency and loss ratios on the Company's commercial mortgage loans are affected by the performance of third-party servicers and special servicers.

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The Company invests in multifamily and commercial loans which involve a greater risk of loss than single family loans.

The Company's investments include multifamily and commercial real estate loans which are considered to involve a higher degree of risk than single family residential lending because of a variety of factors, including generally larger loan balances, dependency for repayment on successful operation of the mortgaged property and tenant businesses operating therein, and loan terms that include amortization schedules longer than the stated maturity which provide for balloon payments at stated maturity rather than periodic principal payments. In addition, the value of multifamily and commercial real estate can be affected significantly by the supply and demand in the market for that type of property.

Limited recourse loans limit the Company's recovery to the value of the mortgaged property.

A substantial portion of the commercial mortgage loans the Company acquires may contain limitations on the mortgagee's recourse against the borrower. In other cases, the mortgagee's recourse against the borrower is limited by applicable provisions of the laws of the jurisdictions in which the mortgaged properties are located or by the mortgagee's selection of remedies and the impact of those laws on that selection. In those cases, in the event of a borrower default, recourse may be limited to only the specific mortgaged property and other assets, if any, pledged to secure the relevant commercial mortgage loan. As to those commercial mortgage loans that provide for recourse against the borrower and their assets generally, such recourse may not provide a recovery in respect of a defaulted commercial mortgage loan equal to the liquidation value of the mortgaged property securing that commercial mortgage loan.

The volatility of certain mortgaged property values may adversely affect the Company's commercial mortgage loans.

Commercial and multifamily property values and net operating income derived therefrom are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by plant closings, industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; perceptions by prospective tenants, retailers and shoppers of the safety, convenience, services and attractiveness of the property; the willingness and ability of the property's owner to provide capable management and adequate maintenance; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs).

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Leveraging the Company's investments may increase the Company's exposure to loss.

The Company leverages its investments and thereby increases the volatility of its income and net asset value that may result in operating or capital losses. If borrowing costs increase, or if the cash flow generated by the Company's assets decreases, the Company's use of leverage will increase the likelihood that the Company will experience reduced or negative cash flow and reduced liquidity.

The Company's investments may be illiquid and their value may decrease.

Many of the Company's assets are relatively illiquid. In addition, certain of the mortgage-backed securities that the Company has acquired or will acquire will include interests that have not been

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registered under the relevant securities laws, resulting in a prohibition against transfer, sale, pledge or other disposition of those mortgage-backed securities except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. The Company's ability to vary its portfolio in response to changes in economic and other conditions may be relatively limited. The estimated fair value of any of the Company's assets could decrease in the future.

The Company's hedging transactions can limit the Company's gains and increase the Company's exposure to losses.

The Company uses hedging strategies that involve risk and that may not be successful in insulating the Company from exposure to changing interest and prepayment rates. A liquid secondary market may not exist for hedging instruments purchased or sold, and the Company may be required to maintain a position until exercise or expiration, which could result in losses.

The Company's non-U.S. investments are subject to currency rate exposure and the uncertainty of foreign laws and markets which could adversely affect the Company's income.

Failure to maintain REIT status would have adverse tax consequences.

To continue to qualify as a REIT, the Company must comply with requirements regarding the nature of its assets and its sources of income. If the Company is compelled to liquidate its mortgage-backed securities, the Company may be unable to comply with these requirements, ultimately jeopardizing its status as a REIT.

If in any taxable year the Company fails to qualify as a REIT:

- the Company would be subject to Federal and state income tax on its taxable income at regular corporate rates;
- the Company would not be allowed to deduct distributions to stockholders in computing its taxable income; and
- unless the Company were entitled to relief under the Code, the Company also would be disqualified from treatment as a REIT for the four taxable years following the year during which the Company lost qualification.

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If the Company fails to qualify as a REIT, the Company might need to borrow funds or liquidate some investments in order to pay the additional tax liability. Accordingly, funds available for investment or distribution to the Company's stockholders would be reduced for each of the years involved.

Qualification as a REIT involves the application of highly technical and complex provisions of the Code to the Company's operations and the determination of various factual matters and circumstances not entirely within the Company's control. There are only limited judicial or administrative interpretations of these provisions. Although the Company operates in a manner consistent with the REIT qualification rules, the Company may not remain so qualified.

In addition, the rules dealing with Federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the United States Department of the Treasury. Changes to the tax law could adversely affect the Company's stockholders.

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Increased competition in the marketplace may adversely affect the Company's ability to acquire assets.

Because of increased competition in the marketplace, the Company may not be able to acquire mortgage-backed securities at favorable yields.

Failure to maintain an exemption from the Investment Company Act would restrict the Company's operating flexibility.

The Company conducts its business so as not to become regulated as an investment company under the Investment Company Act. Accordingly, the Company does not expect to be subject to the restrictive provisions of the Investment Company Act. Failure to maintain an exemption from the Investment Company Act would adversely affect the Company's ability to operate.

The Company may become subject to environmental liabilities.

The Company may become subject to environmental risks when it acquires interests in properties with material environmental problems. Such environmental risks include the risk that operating costs and values of these assets may be adversely affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation. Such laws often impose liability regardless of whether the owner or operator knows of, or was responsible for, the presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of hazardous substances could exceed the value of the property. The Company's income and ability to make distributions to stockholders could be affected adversely by the existence of an environmental liability with respect to the Company's properties.

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None.

ITEM 2. PROPERTIES

The Company does not maintain an office. It does not pay rent and utilizes the offices of the Manager, located at 40 East 52nd Street, New York, New York 10022.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2006, there were no pending legal proceedings in which the Company was a defendant or of which any of its property was subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2006 through the solicitation of proxies or otherwise.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock has been listed and traded on the New York Stock Exchange under the symbol "AHR" since its initial public offering in March 1998. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the New York Stock Exchange for the Company's Common Stock and the dividends declared by the Company with respect to the periods indicated as were traded during these respective time periods.

	High	Low	Last Sale	Dividends Declared
	-----	-----	-----	-----
2006				
First Quarter.....	\$11.22	\$10.56	\$10.98	\$0.28
Second Quarter.....	12.28	10.27	12.16	0.29
Third Quarter.....	13.44	11.86	12.86	0.29
Fourth Quarter.....	14.42	11.50	12.73	0.29
2005				
First Quarter.....	12.21	10.85	11.14	0.28
Second Quarter.....	12.40	10.50	11.85	0.28
Third Quarter.....	12.19	11.33	11.58	0.28
Fourth Quarter.....	11.28	10.16	10.53	0.28

On March 2, 2007, the closing sale price for the Company's Common Stock, as reported on the New York Stock Exchange, was \$12.10. At March 2, 2007, there were approximately 1,089 record holders of the Common Stock. This figure does not reflect beneficial ownership of shares held in nominee name.

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Information relating to the Company's equity compensation plans in the Company's definitive proxy statement for its 2007 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed with the SEC, is incorporated herein by reference.

The Company made no purchases of its equity securities in 2006.

Recent Sales of Unregistered Securities

During the year ended December 31, 2006, the Company issued 194,077 shares of unregistered Common Stock with an aggregate value of \$2,164,979 as follows. Pursuant to resolutions of the Board of Directors which authorized that a portion of incentive fees earned by the Manager may be paid in shares of the Company's Common Stock, the Company issued 189,077 shares to the Manager as payment of a portion of the Manager's incentive fees. The Company issued 5,000 shares to its unaffiliated directors pursuant to its annual grant of restricted stock to unaffiliated directors as part of their annual compensation. The issuances of common stock were made in reliance upon the exemption from registration under Section 4(2) of the Securities Act.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below at and for the years ended December 31, 2006, 2005, 2004, 2003, and 2002 has been derived from the Company's audited financial statements. This information should be read in conjunction with "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as the audited financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data".

	For the Year Ended December 31,				
	2006	2005	2004	2003	
	(In thousands, except per share data)				
Operating Data:					
Interest income	\$ 275,986	\$ 231,768	\$ 194,967	\$ 159,456	\$
Other income	27,431	12,146	8,899	4,322	
Interest expense	212,388	163,458	128,166	83,249	
Other operating expenses	25,830	19,181	12,383	11,707	
Other gains (losses) (1)	13,906	9,322	(20,125)	(77,464)	
Cumulative transition adjustment (2)	--	--	--	--	
Income from discontinued operations (3)	1,366				
Net income (loss)	80,471	70,597	43,192	(8,642)	
Net income (loss) available to common stockholders	75,079	65,205	25,768	(16,386)	
Per Share Data:					
Net income (loss):					
Basic	1.31	1.20	0.50	(0.34)	

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Diluted	1.31	1.20	0.50	(0.34)	
Dividends declared per common share	1.15	1.12	1.12	1.26	
Balance Sheet Data:					
Total assets	5,218,263	4,234,825	3,729,134	2,398,846	2,
Total liabilities	4,562,154	3,636,807	3,215,396	1,981,416	2,
Total stockholders' equity	656,109	598,018	513,738	417,430	

- (1) Other gains (losses) for the year ended December 31, 2006 of \$13,906 consist primarily of a loss of \$(7,880) related to impairments on assets, a gain of \$3,254 related to securities held-for-trading, a gain of \$2,161 related to foreign currency, a loss of \$(12,661) related to a change in the Company's hedging policy and a gain of \$29,032 related to the sale of securities available-for-sale. Other gains (losses) for the year ended December 31, 2005 of \$9,322 consist primarily of a loss of \$(5,088) related to impairments on assets and a gain of \$16,543 related to securities available-for-sale. Other gains (losses) for the year ended December 31, 2004 of \$(20,125) consist primarily of a gain of \$17,544 related to securities available-for-sale, a loss of \$(26,018) related to impairments on assets and a loss of \$(11,464) related to securities held-for-trading. Other gains (losses) for the year ended December 31, 2003 of \$(77,464) consist primarily of a loss of \$(32,426) related to impairments on assets and a loss of \$(38,206) related to securities held-for-trading. Other gains (losses) for the year ended December 31, 2002 of \$(28,949) consist primarily of a loss of \$(10,273) related to impairments on assets, a loss of \$(29,255) related to securities held-for-trading, and a gain of \$11,391 related to the sale of securities available-for-sale.

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- (2) The cumulative transition adjustment represents the Company's adoption of SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142") for the year ended December 31, 2002.
- (3) The Company purchased a defaulted loan from a Controlling Class CMBS trust during the first quarter of 2006. The Company sold the property during the second quarter of 2006 and recorded a gain from discontinued operations of \$1,366 on the consolidated statement of operations.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All dollar figures expressed herein are expressed in thousands, except share and per share amounts.

General

Anthracite Capital, Inc., a Maryland corporation, and subsidiaries (collectively, the "Company") is a specialty finance company that invests in commercial real estate assets on a global basis. The Company seeks to generate income from the spread between the interest income, gains and net operating income on its commercial real estate assets and the interest expense from borrowings to finance its investments. The Company's primary activities are investing in high yielding commercial real estate debt and equity. The Company

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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 began investing in diversified portfolios of commercial real estate in the United States during December 2005. 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 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 and projected hedging costs.

The Company's principal focus is to invest in a diverse portfolio of primarily high yield commercial real estate loans and CMBS. The CMBS that the Company purchases are fixed income instruments similar to bonds that carry an interest coupon and stated principal. The cash flow used to pay the interest and principal on the CMBS comes from a designated pool of first mortgage loans on commercial real estate (the "Underlying Loans"). Underlying Loans usually are originated by commercial banks or investment banks and are secured by a first mortgage on office buildings, retail centers, apartment buildings, hotels and other types of commercial real estate. A typical loan pool may contain several hundred Underlying Loans with principal amounts of as little as \$1,000 to over \$100,000. The pooling concept permits significant geographic diversification. Converting loans into CMBS in this fashion allows investors to purchase these securities in global capital markets and to participate in the commercial real estate sector with significant diversification among property types, sizes and locations in one fixed income investment.

The type of CMBS issued from a typical loan pool is generally broken down by credit rating. The highest rated CMBS will receive payments of principal first and is therefore least exposed to the credit performance of the Underlying Loan. These securities will carry a credit rating of AAA and will be issued with a principal amount that represents some portion of the total principal amount of the Underlying Loan pool.

The CMBS that receive principal payments last are generally rated below investment grade (BB+ or lower.) As the last to receive principal, these CMBS are also the first to absorb any credit losses incurred in the Underlying Loan pool. Typically, the principal amount of these below investment grade classes represents 2.0-3.5% of the principal of the Underlying Loan pools. The investor that owns the lowest rated, or non-rated, CMBS class is designated as the controlling class representative for the underlying loan pool. This designation allows the holder to assert a significant degree of influence over

any workouts or foreclosures of defaulted Underlying Loans. These securities are generally issued with a high yield to compensate for the credit risk inherent in owning the CMBS class which is the first to absorb losses.

The Company's high yield commercial real estate loan strategy encompasses B notes (defined below) and mezzanine loans. B notes and mezzanine loans are based on a similar concept of investing in a portion of the principal and interest of a specific loan instead of a pool of loans as in CMBS. In the case of B notes

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the principal amount of a single loan is separated into a senior interest ("A note") and a junior interest ("B note"). Prior to a borrower default, the A note and the B note receive principal and interest pari passu; however after a borrower default, the A note would receive its principal and interest first and the B note would absorb the credit losses that occur, if any, up to the full amount of its principal. The B note holder generally has certain rights to influence workouts or foreclosures. The Company invests in B notes as they provide relatively high yields with a degree of influence over dispositions. Mezzanine loans generally are secured by ownership interests in an entity that owns real estate. These loans generally are subordinate to a first mortgage and would absorb a credit loss prior to the senior mortgage holder.

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 \$1.125 trillion of assets under management at December 31, 2006. The Company believes that the trend toward highly structured investment products requires significant expertise in traditional real estate underwriting as well as in the capital markets. Through its external management contract with the Manager, the Company can source and manage more opportunities by taking advantage of a unique platform that combines these two disciplines.

The table below is a summary of the Company's investments by asset class for the last five years:

	Carrying Value at December 31,							
	2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate securities	\$2,494,099	53.0%	\$2,005,383	49.7%	\$1,623,939	44.6%	\$1,393,010	62.0%
Commercial mortgage loan pools(1)	1,271,014	27.0	1,292,407	32.0	1,312,045	36.1	--	--
Commercial real estate loans(2)	554,148	11.8	425,453	10.6	329,930	9.1	97,984	4.3
Commercial real estate equity	109,744	2.3	51,003	1.3	--	--	--	--
Commercial real estate assets	4,429,005	94.1	3,774,246	93.6	3,265,914	89.8	1,490,994	67.0
Residential mortgage-backed securities ("RMBS")	276,344	5.9	259,026	6.4	372,071	10.2	726,717	32.0
Total	\$4,705,349	100.0%	\$4,033,272	100.0%	\$3,637,985	100.0%	\$2,217,711	100.0%

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

(2) Includes equity investments and real estate joint ventures.

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SUMMARY OF COMMERCIAL REAL ESTATE ASSETS

A summary of the Company's commercial real estate assets with estimated fair values in local currencies at December 31, 2006 is as follows:

	Commercial Real Estate Securities	Commercial Real Estate Loans (1)	Commercial Real Estate Equity	Commercial Mortgage Loan Pools	Total Commercial Real Estate Assets	Total Commercial Real Estate Assets (U
	-----	-----	-----	-----	-----	-----
USD	\$2,312,503	\$310,771	\$ 105,894	\$1,271,014	\$ 4,000,182	\$4,000,1
GBP	L 27,532	L 28,977	--	--	L 56,509	110,6
Euro	E 80,923	E141,422	--	--	E 222,345	293,4
Canadian Dollars	\$ 24,339	--	--	--	\$ 24,339	20,8
Indian Rupees	--	--	Rs169,823	--	Rs 169,823	3,8
	-----	-----	-----	-----	-----	-----
Total USD Equivalent	\$2,494,100	\$554,148	\$ 109,744	\$1,271,014	\$ 4,429,006	\$4,429,0
	-----	-----	-----	-----	-----	-----

(1) Includes the Company's investments in the Carbon Capital Funds at December 31, 2006.

A summary of the Company's commercial real estate assets with estimated fair values in local currencies at December 31, 2005 is as follows:

	Commercial Real Estate Securities	Commercial Real Estate Loans (1)	Commercial Real Estate Equity	Commercial Mortgage Loan Pools	Total Commercial Real Estate Assets	Total Commercial Real Estate Assets (U
	-----	-----	-----	-----	-----	-----
USD	\$1,968,063	\$295,499	\$51,003	\$1,292,407	\$3,606,972	\$3,606,9
GBP	L 16,334	L 33,139	--	--	L 49,473	\$ 85,0
Euro	E 7,809	E 61,642	--	--	E 69,451	\$ 82,2
	-----	-----	-----	-----	-----	-----
Total USD Equivalent	\$2,005,383	\$425,453	\$51,003	\$1,292,407	\$3,774,246	\$3,774,2
	-----	-----	-----	-----	-----	-----

(1) Includes the Company's investments in the Carbon Capital Funds at December 31, 2005.

The Company has foreign currency rate exposure related to its non-U.S. dollar denominated assets. The Company's primary currency exposures are Euro and British pound. Changes in currency rates can adversely impact the estimated fair value and earnings of the Company's non-U.S. holdings. Outside its collateralized debt obligations ("CDOs"), the Company mitigates this impact by utilizing local currency-denominated financing on its foreign investments and foreign currency forward commitments to hedge the net exposure. In its Euro CDO, the Company mitigates the exposure to foreign exchange rates with currency swaps agreements. Net foreign currency gain (loss) was \$2,161 and \$(134) for the years ended December 31, 2006 and 2005, respectively.

COMMERCIAL REAL ESTATE ASSETS 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 of the Company's CDOs at December 31, 2006. The dollar price ("Dollar Price") represents the estimated fair value or adjusted purchase price of a security, respectively, relative to its par value.

	Par	Carrying Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Ex
	-----	-----	-----	-----	-----	-----
Commercial real estate securities outside CDOs						
Investment grade CMBS	\$ 23,060	\$ 21,426	92.92	\$ 21,753	102.58	
Investment grade REIT debt	23,121	21,566	93.28	22,973	99.36	
CMBS rated BB+ to B	108,176	86,677	80.13	87,486	81.59	
CMBS rated B- or lower	148,310	50,165	33.82	46,043	31.27	
CDO Investments	406,605	117,246	28.84	114,482	28.16	1
CMBS Interest Only securities ("IOs")	2,980,467	69,352	2.33	69,183	2.32	
Multifamily agency securities	447,191	449,827	100.59	452,781	101.25	
Commercial mortgage loan pools	1,207,212	1,271,014	105.29	1,271,014	105.29	
	-----	-----	-----	-----	-----	
Total commercial real estate assets outside CDOs	5,344,142	2,087,273	39.06	2,085,715	39.08	
	-----	-----	-----	-----	-----	
Commercial real estate loans and equity outside CDOs						
Commercial real estate loans	63,439	140,985		141,951		
Commercial real estate	96,453	109,744		96,453		
	-----	-----		-----		
Total commercial real estate loans and equity outside CDOs	159,892	250,729		238,404		
	-----	-----		-----		
Commercial real estate assets included in CDOs						
Investment grade CMBS	779,653	794,622	101.92	750,662	94.34	
Investment grade REIT debt	223,324	227,678	101.95	224,964	100.73	
CMBS rated BB+ to B	614,780	554,185	90.14	508,908	78.28	
CMBS rated B- or lower	193,236	77,038	39.87	70,727	36.60	1
Credit tenant lease	23,793	24,318	102.20	24,439	102.71	
Commercial real estate loans	357,111	413,163	115.70	400,559	96.95	
	-----	-----	-----	-----	-----	
Total commercial real estate assets included in CDOs	2,191,897	2,091,004	95.40	1,980,259	85.91	
	-----	-----	-----	-----	-----	
Total commercial real estate assets	\$7,695,931	\$4,429,006		\$4,304,378		
	=====	=====		=====		

During the year ended December 31, 2006, the Company increased its commercial real estate assets by 17% from \$3,774,246 to \$4,429,006. This increase was primarily attributable to the purchase of subordinated CMBS, multifamily agency securities, and investment grade CMBS that have an estimated fair value at

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December 31, 2006 of \$336,176, \$193,395, and \$75,841, respectively. The purchase of the aforementioned securities was offset by the sale of assets with an estimated fair value of \$182,211.

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The following table details the par, carrying value, adjusted purchase price and expected yield of the Company's commercial real estate assets included in as well as outside its CDOs at December 31, 2005:

	Par	Carrying Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Ex
	-----	-----	-----	-----	-----	-----
Commercial real estate securities outside CDOs						
Investment grade CMBS	\$ 150,128	\$ 151,889	96.22	\$ 161,314	102.17	
Investment grade REIT debt	23,000	21,828	94.90	22,828	99.25	
CMBS rated BB+ to B	104,784	90,289	78.38	92,931	80.69	
CMBS rated B- or lower	132,242	47,854	34.05	45,070	31.59	
CDO Investments	423,349	124,549	29.42	112,577	26.59	1
CMBS IOs	3,505,646	103,363	2.95	103,120	2.94	
Multifamily agency securities	256,398	263,362	102.72	268,319	104.65	
Commercial mortgage loan pools	1,221,302	1,292,407	105.82	1,292,407	105.82	
	-----	-----	-----	-----	-----	-----
Total commercial real estate securities outside CDOs	5,816,849	2,095,541	17.19	2,098,566	17.24	
	-----	-----	-----	-----	-----	-----
Commercial real estate loans and equity outside CDOs						
Commercial real estate loans	368,433	405,782		404,217		
Commercial real estate	50,704	51,004		50,704		
	-----	-----		-----		
Total commercial real estate loans and equity outside CDOs	419,137	456,786		454,921		
	-----	-----		-----		
Commercial real estate securities included in CDOs						
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	101.40	
CMBS rated BB+ to B	656,207	566,181	86.28	513,446	78.24	
Credit tenant lease	24,317	24,837	102.14	24,995	102.79	
Commercial real estate loans	20,175	19,671	97.49	20,160	99.93	
	-----	-----	-----	-----	-----	-----
Total commercial real estate assets included in CDOs	1,299,647	1,221,919	94.02	1,139,745	87.70	
	-----	-----	-----	-----	-----	-----
Total commercial real estate assets	\$7,535,633	\$3,774,246		\$3,693,232		
	=====	=====		=====		

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 December 31, 2005, over 82% of the estimated fair value of the Company's subordinated CMBS was

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match funded in the Company's CDOs in this manner. The Company retained 100% of the equity of CDOs I, II, III, HY3 and Euro (each as defined below) and recorded the transactions on its consolidated financial statements as secured financing.

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The table below summarizes the Company's CDO collateral and debt at December 31, 2006.

	Collateral at December 31, 2006		Debt at December 31, 2006		
	Adjusted Purchase Price	Loss Adjusted Yield	Adjusted Issue Price	Weighted Average Cost of Funds *	Net Spread
CDO I	\$ 467,786	8.08%	\$ 405,490	7.33%	.75%
CDO II	335,293	7.56%	291,261**	6.02%	1.54%
CDO III	378,932	7.08%	366,019**	5.00%	2.08%
CDO HY3	444,615	9.69%	402,089	6.42%	3.27%
Euro CDO	359,084	7.29%	347,715	5.10%	2.19%
	-----	----	-----	----	----
Total **	\$1,985,710	8.02%	\$1,812,574	6.02%	2.00%
	=====	=====	=====	=====	=====

* 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, \$13,069 of par of CDO III debt rated BB and \$12,500 of par of Euro CDO debt rated BB.

The Company's first CDO transaction ("CDO I") was issued as Anthracite CDO 2002 CIBC-1 and closed on May 15, 2002. The Company issued \$403,633 of debt secured by a portfolio of commercial real estate securities with a total par of \$515,880 and an adjusted purchase price of \$431,995.

On December 10, 2002, the Company issued \$280,607 of debt through Anthracite CDO 2002-2 ("CDO II") secured by a separate portfolio of commercial real estate securities with a par of \$313,444 and an average adjusted purchase price of \$289,197. Included in the Company's second CDO was a ramp facility that was utilized to fund the purchase of an additional \$50,000 of par of below investment grade CMBS. The Company utilized the ramp in February 2003 and July 2003, to contribute \$30,000 of par of CSFB 03-CPN1 and \$20,000 of par of GECCM 03-C2, respectively. In July 2004, the Company issued a bond with a par of \$12,850 from CDO II. Before issuing this security, the Company amended the indenture to reduce the coupon from 9.0% to 7.6%.

On March 30, 2004, the Company issued its third CDO ("CDO III") through Anthracite CDO 2004-1. The total par value of bonds sold was \$372,456. The total cost of funds on a fully hedged basis was 5.0%. Included in CDO III was a \$50,000 ramp facility that was fully utilized at December 31, 2004.

On May 23, 2006, the Company closed its sixth CDO issuance ("CDO HY3") resulting in the issuance of \$417,000 of non-recourse debt to investors. The debt is secured by a portfolio of CMBS and subordinated commercial real estate loans.

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This debt was rated AAA through BBB- and the Company retained additional debt rated BB and 100% of the preferred shares issued by the CDO HY3.

On December 14, 2006, the Company closed its seventh CDO ("Euro CDO"). The Euro CDO sold E263,500 of non-recourse debt at a weighted average spread to Euro Libor of 60 basis points. The E263,500 consists of E251,000 of investment grade debt at a weighted average spread to Euro Libor of 50 basis points and E12,500 of below investment grade debt. The Company retained an additional E12,500 of below investment grade debt and all of the CDO's preferred shares. This transaction represents the Company's first CDO that was not U.S. dollar denominated.

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SECURITIZATIONS

On November 9, 2004, the Company closed its fourth CDO ("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, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("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.

On July 26, 2005, the Company closed its fifth CDO ("CDO HY2") and issued non-recourse debt with a face amount of \$365,010. Senior investment grade notes with a face amount of \$240,134 were issued. 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.

REAL ESTATE CREDIT PROFILE OF BELOW INVESTMENT GRADE CMBS

The Company views its below investment grade CMBS investment activity as two portfolios: Controlling Class CMBS and other below investment grade CMBS. The Company considers the CMBS securities where it maintains the