

ANTHRACITE CAPITAL INC
Form 10-K
March 13, 2008

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, 2007

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

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(Title of each class)

(Name of each exchange on which registered)

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 smaller reporting company. (See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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, \$0.001 par value, held by non-affiliates of the registrant, computed by reference to the closing sale price of \$12.00 as reported on the New York Stock Exchange on June 30, 2007, was \$765,236,192. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of March 12, 2008 was 63,296,397 shares.

Documents Incorporated by Reference: Portions of the registrant's Definitive Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III.

ANTHRACITE CAPITAL, INC. AND SUBSIDIARIES
2007 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.

Factors that could cause actual results to differ materially from forward-looking statements or historical performance include, without limitation:

- (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. ("BlackRock"), the Company's Manager;
 - (4) the impact of increased competition;
 - (5) the impact of future acquisitions or divestitures;
 - (6) the unfavorable resolution of legal proceedings;
- (7) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to the Company or BlackRock;
- (8) terrorist activities and international hostilities, which may adversely affect the general economy, domestic and global financial and capital markets, specific industries, and the Company;
 - (9) the ability of BlackRock to attract and retain highly talented professionals;
 - (10) fluctuations in foreign currency exchange rates; and
- (11) the impact of changes to tax legislation and, generally, the tax position of the Company.

Additional factors are set forth in the Company's filings with the Securities and Exchange Commission (the "SEC"), including this Annual Report on Form 10-K, accessible on the SEC's website at www.sec.gov.

PART I

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 commenced operations on March 24, 1998 and is organized as a real estate investment trust ("REIT"). 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 and equity.

The Company's primary investment activities are conducted on a global basis 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 ("NYSE") under the symbol "AHR". The Company's primary long-term objective is to generate sufficient earnings to support a dividend at a level which provides an attractive return to stockholders. 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 \$1.357 trillion of assets under management at December 31, 2007. The Manager provides an operating platform that incorporates significant asset origination, risk management, and operational capabilities.

Commercial Real Estate Securities

The following table indicates the amounts of each category of commercial real estate securities the Company owned at December 31, 2007. 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
U.S. Dollar Denominated:						
Controlling Class CMBS	\$ 1,513,132	\$ 688,764	\$ 45.52	\$ 839,141	\$ 55.46	10.39%
Other below investment grade CMBS	60,959	51,856	85.07	54,481	89.37	8.63%
Collateralized debt obligation ("CDO") investments	351,807	49,630	14.11	67,470	19.18	19.50%
Investment grade commercial real estate securities	1,117,584	1,075,162	96.02	1,072,641	95.98	6.76%
CMBS interest only securities ("IOs")	818,670	15,915	1.94	14,725	1.80	8.80%
	3,862,152	1,881,327	48.71	2,048,458	53.04	8.73%
Non-U.S. Dollar Denominated:						
Controlling Class CMBS	73,040	41,599	56.95	42,334	57.96	9.32%
Other below investment grade CMBS	233,062	199,692	85.68	202,484	86.88	8.55%
Investment grade commercial real estate securities	169,438	151,532	89.43	153,384	90.53	6.19%
	475,540	392,823	82.61	398,202	83.74	7.72%
	\$ 4,337,692	\$ 2,274,150	\$ 52.43	\$ 2,446,660	\$ 56.40	8.58%

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

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 where it maintains the right to control the foreclosure/workout process on the underlying loans as controlling class CMBS ("Controlling Class").

Controlling Class CMBS

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 in the United States, Canada, Europe, and Asia. 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 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 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 BBB+. Typically, the par amount of these below investment grade classes has represented 2.0% to 5.0% of the principal of the Underlying Loan pools. This is known as the subordination level because 2.0% to 5.0% of the collateral balance is subordinated to the senior, investment grade rated securities.

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

At December 31, 2007, the Company owned 39 Controlling Class trusts 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 \$59,534,400 of underlying loans. The total par amount owned of these subordinated Controlling Class securities is \$1,586,172. The Company does not own the senior securities that represent the remaining par amount of the underlying mortgage loans.

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 39 Controlling Class trusts, the Company estimates that specific losses totaling \$779,338 related to principal of the underlying loans will not be recoverable, of which \$356,272 is expected to occur over the next five years. The total loss estimate of \$779,338 represents 1.3% of the total underlying loan pools.

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 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.

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. For the Company's 39 Controlling Class trusts, Midland Loan Services, Inc. is the special servicer for 33 trusts, Capmark Finance Inc., is the special servicer for three trusts, Global Servicing Solutions Canada Corp. is the special servicer for two trusts, and the special servicer on the remaining trust is Lennar Partners, Inc. Midland Loan Services, Inc. is a related party of the Manager.

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.

The weighted average loss adjusted yield for all subordinated Controlling Class securities at December 31, 2007 was 9.81%. If the loss assumptions prove to be consistent with actual loss experience, the Company will maintain that level of income for the life of the security. As actual losses differ from the original loss assumptions, yields are adjusted to reflect the updated assumptions. In addition, a write-down of the adjusted purchase price 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.)

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* ("FAS 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 statements of financial condition. At December 31, 2007 and 2006, respectively, the Company had retained bonds with an estimated fair value of \$35,055 and \$114,142 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, 2007 and 2006, respectively, Leaf preferred securities were carried at an estimated fair value of \$14,576 and \$6,493 on the Company's consolidated statements of financial condition.

Investment Grade Commercial Real Estate Related Securities

The Company invests in 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 life of the security.

CMBS Interest Only securities ("CMBS IOs")

The Company invests in 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 for certain periods of time. 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 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 timely and competitive financing.

The types of commercial real estate loans 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 commercial real estate loans also has been conducted through Carbon Capital, Inc. ("Carbon I") and Carbon Capital II, Inc. ("Carbon II", and collectively with Carbon I, the "Carbon Funds"), private commercial real estate income funds managed by the Company's Manager. The Company believes the use of the Carbon 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 Funds. At December 31, 2007, the Company owned approximately 20% of Carbon I as well as approximately 26% of Carbon II. The Company's investments in the Carbon Funds at December 31, 2007 were \$99,398, compared with \$72,403 at December 31, 2006.

Commercial Real Estate Equity

BlackRock Diamond Property Fund, Inc. ("BlackRock Diamond") is a REIT managed by BlackRock Realty Advisors, Inc., a subsidiary of the Company's Manager. The Company invested \$100,000 in BlackRock Diamond. The Company redeemed \$25,000 of its investment on June 30, 2007 and redeemed the remaining \$75,000 and accumulated earnings on September 30, 2007. Over the life of this investment, the Company recognized a cumulative profit of \$34,853, an annualized return of 20.8%.

Financing and Leverage

The Company has historically financed its assets with the net proceeds of Common Stock offerings, the issuance of Common Stock, the issuance of preferred stock, long-term secured and unsecured borrowings, short-term borrowings under reverse repurchase agreements and the credit facilities discussed below. In the future, assets may be financed in a similar manner. 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 1.0, which is consistent with the financial covenants in the Company's credit facilities (see discussion of credit facilities below). The Company's recourse debt-to-equity ratio of 2.8 to 1 at December 31, 2007 was in compliance with the policy. The Board of Directors may reduce 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 securities that are not financed under its credit facilities or CDOs. Reverse repurchase agreements are secured loans generally with a term of 30 to 90 days. 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"). After the initial period expires, there is no obligation for the lender to extend credit for an additional period. This type of financing generally is available only for more liquid securities. The interest rate charged on reverse repurchase agreements is usually lower compared with interest rates charged on alternatives due to the lower risk inherent in reverse repurchase transactions.

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. Committed financing facilities represent multi-year agreements to provide secured financing for a specific asset class. These facilities include a mark-to-market provision requiring the Company to repay borrowings if the value of the pledged asset declines in excess of a threshold amount and bear interest at a variable rate. A significant difference between committed financing facilities and reverse repurchase agreements is the term of the financing. A committed facility provider generally is required to provide financing for the full term of the agreement, rather than for thirty or ninety days as is customary in reverse repurchase transactions. This longer term makes the financing of less liquid assets viable.

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 will require the Company to provide additional collateral or fund cash margin calls. From time to time, the Company expects that it will be required to provide such additional collateral or fund margin calls. The Company received and funded margin calls totaling \$82,570 during 2007, \$73,793 from January 1, 2008 through March 10, 2008, and will fund another \$11,118 on March 14, 2008.

Further information with respect to the Company's reverse repurchase agreements, credit facilities, and commercial mortgage loan pools at December 31, 2007 is summarized as follows:

	Reverse Repurchase Agreements	Credit Facilities	Commercial Mortgage Loan Pools
Commercial Real Estate Securities			
Outstanding Borrowings	\$ 71,161	\$ 405,568	-
Weighted average borrowing rate	5.46%	5.64%	-
Weighted average remaining maturity	7 days	1.09 years	-
Estimated fair value of assets pledged	\$ 83,990	\$ 590,031	-
Commercial Real Estate Loans			
Outstanding Borrowings	-	\$ 259,905	-
Weighted average borrowing rate	-	5.83%	-
Weighted average remaining maturity	-	1.72 years	-
Estimated fair value of assets pledged	-	\$ 368,762	-
Agency Residential Mortgage-Backed Securities			
Outstanding Borrowings	\$ 8,958	-	-
Weighted average borrowing rate	5.15%	-	-
Weighted average remaining maturity	10 days	-	-
Estimated fair value of assets pledged	\$ 9,126	-	-
Commercial Mortgage Loan Pools			
Outstanding Borrowings	-	\$ 6,128	\$ 1,219,094
Weighted average borrowing rate	-	5.90%	3.99%
Weighted average remaining maturity	-	233 days	4.90 years
Estimated fair value of assets pledged	-	\$ 10,346	\$ 1,240,793

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			