ANTHRACITE CAPITAL INC
Form 10-K
March 13, 2008

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

FORM 10-K

(Mark one)

x 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

o 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)

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 o No x

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

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 x No o

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. o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

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
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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	79 days	243 days	-
Estimated fair value of assets pledged	$ 570,864	$ 69,462*	-
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	-
Agency 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

*$21,742 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 special purpose entities (each an "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 U.S. dollars, the SPE will also enter into currency swap agreements to minimize any currency exposure. 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. There is no mark-to-market requirement in this structure and the debt cannot be called or terminated by the bondholders. Furthermore, since the debt issued is non-recourse to the issuer, permanent reductions in asset value do not affect the liquidity of the Company. However, since the Company expects to earn a positive spread between the income generated by the assets and the expense of the debt issued, a permanent impairment of any of the assets would negatively affect the spread over time. Other forms of financing used for these types of assets include multi-year committed financing facilities and 30 and 90-day reverse repurchase agreements.

The terms of five of eight CDOs issued by the Company include coverage tests, including over-collateralization tests, used primarily to determine whether and to what extent principal and interest proceeds on the underlying collateral debt securities and other assets may be used to pay principal of and interest on the subordinate classes of bonds in the applicable CDO. In the event the coverage tests are not satisfied, interest and principal that would otherwise be payable on the subordinate classes may be re-directed to pay principal on the senior bond classes. Therefore, failure to satisfy the coverage tests could adversely affect cash flows received by the Company from the CDOs and thereby the Company's liquidity and operating results. As of December 31, 2007, none of the collateral debt securities or other assets in the applicable CDOs is in a condition that would cause expedited amortization.

At December 31, 2007, outstanding borrowings under the Company's CDOs were $1,823,328 with a weighted average borrowing rate of 6.11% and a weighted average maturity of 4.8 years. Estimated fair value of assets pledged was $2,014,047, consisting of 86.1% of commercial real estate securities and 13.9% of commercial real estate loans.

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.

Unsecured Recourse Borrowings

The Company may issue senior unsecured notes, senior convertible notes, junior unsecured notes and junior subordinated notes from time to time as a source of unsecured long-term capital. Senior unsecured notes, junior unsecured notes and junior subordinated notes bear interest at fixed or floating rates and can be redeemed in whole by the Company after a period of time, subject to certain provisions, which could include the payment of fees. Senior convertible notes have a fixed coupon and are convertible to common stock under certain conditions.

Preferred and Common Stock Issuances

The Company may issue preferred stock from time to time as a source of long-term or permanent capital. Preferred stock generally has a fixed coupon and may have a fixed term in the form of a maturity date or other redemption or conversion features. The preferred stockholder typically has the right to a preferential distribution for dividends and any liquidity proceeds.

Another source of permanent capital is the issuance of Common Stock through a follow-on offering. In some cases, investors may purchase a large block of Common Stock in one transaction. A Common Stock issuance can be accretive to the Company's book value per share if the issue price per share exceeds the Company's book value per share. It also can be accretive to earnings per share if the Company deploys the new capital into assets that generate a risk adjusted return that exceeds the return of the Company's existing assets. Furthermore, earnings accretion also can be achieved at reinvestment rates that are lower than the return on existing assets if Common Stock is issued at a premium to book value.

Hedging Activities

The Company enters into hedging transactions to protect its investment portfolio and related borrowings from interest rate fluctuations, foreign exchange rate 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, as well as short-term and foreign exchange rate exposure. These financial instruments are intended to mitigate the effect of changes in interest and foreign exchange rates on the value of the Company's assets and the cost of borrowing. These transactions may include interest rate swaps, currency 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 interest rate risks 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 and foreign exchange rate scenarios. However, no strategy can insulate the Company completely from changes in interest and foreign exchange rates.

Operating Policies

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

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 related parties. 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.

A portion of the CMBS acquired by the Company are collateralized by pools of first mortgage loans where the terms of the CMBS owned by the Company provide the right to monitor the performance of the underlying mortgage loans through loan management and servicing rights and the right to control workout/foreclosure rights in the event of default on the underlying mortgage loans. When such rights 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. 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. 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 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 result would likely 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 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 or its affiliates, 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, with its affiliates, 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.

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 net income in accordance with generally accepted accounting principles in the United States of America ("GAAP") 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 ($11.33 adjusted per share issue price at December 31, 2007). Additionally, up to 30% of the incentive fees earned in 2006 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 2007. The Board of Directors also authorized a stock based incentive plan pursuant to which one-half of one percent of common shares outstanding are paid to the Manager at the end of each calendar year. 289,155 shares were paid to the Manager on March 30, 2007.

The Company's unaffiliated directors approved an extension of the Management Agreement to March 31, 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 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, 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 holdings, distribution levels, and diversity of stock ownership.

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.

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 NYSE Rules, on June 21, 2007, 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.

ITEM 1A. RISK FACTORS

Risks

The Company's business is subject to many risks. In addition to the other information in this document, you should consider carefully the following risk factors. Additional risk factors may impair the Company's business, financial condition or results of operations.

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 some 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 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 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 does not assume any responsibility other than to render the services called for under the Management Agreement and is not 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.

The Company may change its investment and operational policies without stockholder consent.
The Company may change its investment and operational policies, including the Company's policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions, at any time without the consent of the Company's stockholders, which could result in the Company making investments that are different from, and possibly riskier than, the types of investments described in this filing. A change in the Company investment strategy may increase the Company's exposure to interest rate risk, default risk and real estate market fluctuations, all of which could adversely affect the Company's ability to make distributions.

Risks related to the Company's business

If the Company's lenders terminate or fail to renew any of its credit facilities or repurchase agreements, the Company may not be able to continue to fund its business.

At December 31, 2007, borrowings under the Company's credit facilities totaled $671,000. These facilities contain various representations and warranties, covenants, conditions and events of default that if breached, not satisfied, or triggered could result in termination of the facilities. In addition, there can be no assurance that the Company will be able to extend the term of any of its existing financing arrangements or obtain sufficient funds to repay any amounts outstanding under any financing arrangement before it expires, either from one or more replacement financing arrangements or an alternative debt or equity financing. Consequently, if one or more of these facilities were to terminate prior to its expected maturity date or if any such facility were not renewed, the Company's liquidity position could be materially adversely affected, and it may not be able to satisfy its outstanding loan commitments, originate new loans or continue to fund its operations.

The Company's liquidity position could be adversely affected if it were unable to complete additional CDOs on favorable terms or at all.

The Company has completed several CDOs through which it raised a significant amount of debt capital. Relevant considerations regarding the Company's ability to complete additional term debt transactions include:

· to the extent that the capital markets generally, and the asset-backed securities market in particular, suffer disruptions, the Company may be unable to complete CDOs;

· disruptions in the credit quality and performance of the Company's commercial real estate securities and loan portfolio, particularly that portion which previously has been securitized and serves as collateral for existing CDOs, could reduce or eliminate investor demand for its CDOs in the future;

· any material downgrading or withdrawal of ratings given to securities previously issued in the Company's CDOs would reduce demand for additional term debt by it; and

· structural changes imposed by rating agencies or investors may reduce the leverage it is able to obtain, increase the cost and otherwise adversely affect the efficiency of its CDOs.

If the Company is unable to continue completing these CDO transactions on favorable terms or at all, its ability to obtain the capital needed would be adversely affected. In turn, this could have a material adverse effect on the Company's growth and its Common Stock price.

The Company's repurchase agreements and its CDO financing agreements may limit its ability to make investments.

In order to borrow money to make investments under the Company's repurchase agreements, its lenders have the right to review the potential investment for which the Company is seeking financing. The Company may be unable to obtain the consent of its lenders to make investments that it believes are favorable to the Company. If the Company's lenders do not consent to the inclusion of the potential asset in a repurchase facility, the Company may be unable to obtain alternate financing for that investment. The Company's lender's consent rights with respect to its repurchase agreements may limit its ability to execute its business plan.

Each CDO financing in which the Company engages will contain certain eligibility criteria with respect to the collateral that it seeks to acquire and sell to the CDO issuer. If the collateral does not meet the eligibility criteria for eligible collateral as set forth in the transaction documents of such CDO transaction, the Company may not be able to acquire and sell such collateral to the CDO issuer. The inability of the collateral to meet eligibility requirements with respect to the Company's CDOs may limit its ability to execute its business plan.

Interest rate fluctuations will affect the value of the Company's commercial real estate assets and may adversely affect the Company's net income and the price of its 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, changes in 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 referred to as the "yield curve." Ordinarily, short-term interest rates are lower than long-term interest rates. If short-term 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 reverse 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 could 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 materially adversely affect the Company's results of operations in the applicable period.

Some of the Company's investments may be recorded at fair value as determined in good faith by the Manager and, as a result, there will be uncertainty as to the value of these investments.

Some of the Company's portfolio investments may be in the form of assets that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. The Company values these investments quarterly at fair value as determined in good faith by the Manager. Because such valuations are inherently uncertain, may fluctuate over short periods of time, and may be based on estimates, the Company's determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of the Common Stock could be adversely affected if the Company's determinations regarding the fair value of these investments were materially higher than the values that the Company ultimately realizes upon their disposal.

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

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 securities.

In general, losses on an asset securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, and then by the class of most junior security holders. In the event of default and the exhaustion of any equity support, reserve fund and letter of credit, classes of junior securities in which the Company invests may not be able to recover some or all of its investment in the securities it purchases. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related mortgage-backed securities, the securities in which it invests may incur significant losses.

The estimated fair values of lower credit quality CMBS and similar investments tend to be less sensitive to interest rate changes than those of more highly rated investments, but more sensitive to changes in economic conditions and underlying borrower developments. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality CMBS because the ability of borrowers to make principal and interest payments on the mortgages underlying the mortgage-backed securities may be impaired. In such event, existing credit support in the securitization structure may be insufficient to protect the Company against loss of its principal on these securities. In addition, such subordinated interests generally are not actively traded and may not provide the Company as a holder thereof with liquidity of investment.

The subordinate interests in whole loans in which the Company invests may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to the Company.

A subordinate interest in a whole loan is a mortgage loan typically (i) secured by a whole loan on a single large commercial property or group of related properties and (ii) subordinated to a senior interest secured by the same whole loan on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for subordinate interest owners after payment to the senior interest owners. Subordinate interests reflect similar credit risks to comparably rated CMBS. However, since each transaction is privately negotiated, subordinate interests can vary in their structural characteristics and risks. For example, the rights of holders of subordinate interests to control the process following a borrower default may be limited in certain investments. The Company cannot predict the terms of each subordinate investment. Further, subordinate interests typically are secured by a single property, and so reflect the increased risks associated with a single property compared to a pool of properties. Subordinate interests also are less liquid than CMBS, thus the Company may be unable to dispose of underperforming or non-performing investments. The higher risks associated with its subordinate position in these investments could subject the Company to increased risk of losses.

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

The commercial mortgage and mezzanine loans the Company originates or acquires and the commercial mortgage loans underlying the CMBS in which the Company invests are subject to delinquency, foreclosure and loss, which could result in losses to the Company.

The Company's commercial mortgage and mezzanine loans are secured by commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged, any need to address environmental contamination at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values and declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, and acts of God, terrorism, social unrest and civil disturbances.

The Company's assets include mezzanine loans that 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 not only changes in prevailing interest rates but also changes in prepayment rates, which results in a divergence between the Company's borrowing rates and asset yields, consequently reducing future net income derived from the Company's investments. The Company's borrowing costs also may exceed its interest income from its investments, and it could incur operating losses.

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 from them 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).

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 operating results 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 use of leverage also increases the risk that a decrease in the value of its assets may cause its lenders to make margin calls, which could force it to sell assets at a time when it does not wish to do so or adversely affect the Company's operating results and financial condition.

The Company's investments may be illiquid and their value may decrease, which could adversely affect the Company's business.

Many of the Company's assets are relatively illiquid. In addition, certain of the investments that the Company has acquired or will acquire, including interests in certain mortgage-backed securities, have not been registered under the relevant securities laws, resulting in a prohibition against transfer, sale, pledge or other disposition of those investments 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 or limit its gains.

The Company may make non-U.S. dollar denominated investments and investments in non-U.S. dollar denominated securities, which subject it to currency rate exposure and the uncertainty of foreign laws and markets.

The Company purchases mortgage-backed securities denominated in foreign currencies and also acquires interests in loans to non-U.S. companies, which may expose the Company to risks not typically associated with U.S. or U.S. dollar denominated investments. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, multiple and conflicting tax laws, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards, and greater price volatility. Any of these risks could adversely affect the Company's receipt of interest income from these investments.

To the extent that any of the Company's investments are denominated in foreign currency, these non-U.S. dollar denominated investments will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. Although the Company may employ hedging techniques to minimize foreign currency risk, it can offer no assurance that these strategies will be effective and may incur losses on these investments as a result of currency rate fluctuations.

The Company's ability to grow its business depends on its ability to obtain external financing.

To qualify as a REIT, the Company generally must distribute to its stockholders 90% of its REIT taxable income, including taxable income where the Company does not receive corresponding cash. The Company historically has obtained the cash required for its operations through the issuance of equity, convertible debentures and subordinated debt, and by borrowing money through credit facilities, securitization transactions and repurchase agreements. The Company's continued access to these and other types of external capital depends upon a number of factors, including general market conditions, the market's perception of its growth potential, its current and potential future earnings, cash distributions, and the market price of its Common Stock. The Company cannot assure investors that sufficient funding or capital will be available to it in the future on terms that are acceptable to the Company. If the Company cannot obtain sufficient funding on acceptable terms, there may be a negative impact on the market price of its Common Stock and its ability to pay dividends to its stockholders.

The Company is subject to significant competition.

The Company is subject to significant competition in seeking investments. It competes with other companies, including other REITs, insurance companies and other investors, including funds and companies affiliated with the Manager. Some of its competitors have greater resources than it has and it may not be able to compete successfully for investments. Competition for investments may lead to the returns available from such investments decreasing which may further limit its ability to generate its desired returns. The Company cannot assure you that additional companies will not be formed that compete with it for investments or otherwise pursue investment strategies similar to the Company's.

Adverse changes in general economic conditions can adversely affect the Company's business.

The Company's success is dependent on the general economic conditions in the geographic areas in which a substantial number of its investments are located. Adverse changes in national economic conditions or in the economic conditions of the regions in which it conducts substantial business likely would have an adverse effect on real estate values and, accordingly, the Company's financial performance, the market prices of its securities and its ability to pay dividends.

In a recession or under other adverse economic conditions, non-earning assets and write-downs are likely to increase as debtors fail to meet their payment obligations. Although the Company maintains reserves for credit losses and an allowance for doubtful accounts in amounts that it believe are sufficient to provide adequate protection against potential write-downs in its portfolio, these amounts could prove to be insufficient.

Maintenance of the Company's Investment Company Act exemption imposes limits on its operations. Failure to maintain its Investment Company Act exemption could adversely affect the Company's ability to operate.

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.

A portion of the CMBS acquired by the Company are collateralized by pools of first mortgage loans where the terms of the CMBS owned by it provide the right to monitor the performance of the underlying mortgage loans through loan management and servicing rights and the right to control workout/foreclosure rights in the event of default on the underlying mortgage loans. When such rights 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. 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 its Controlling Class CMBS or the acquisition of significant additional assets, such as agency pass-through and other mortgage-backed securities, which are Qualifying Interests. Modification of its business plan to register as an investment company could result in increased operating expenses and could entail reducing indebtedness, which also could require the Company to sell a significant portion of its 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. Further, if it were established that the Company were operating as an unregistered investment company, there would be a risk that it would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that it 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 result would likely have a material adverse effect on the Company.

The Company may become subject to environmental liabilities.

The Company may become subject to material environmental risks when it acquires interests in properties with significant 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.

The price of the Company's Common Stock may fluctuate significantly, which could negatively affect holders of its Common Stock.

The trading price of the Company's Common Stock may be volatile in response to a number of factors, including actual or anticipated variations in the Company's quarterly financial results or dividends, changes in financial estimates by securities analysts, additions or departures of key management personnel, prevailing interest rates, issuances of the Company's Common Stock, preferred stock or debt securities, and changes in market valuations of other companies in the real estate industry, even if not similar to the Company. In addition, the Company's financial results may be below the expectations of securities analysts and investors. If this were to occur, the market price of its Common Stock could decrease significantly.

In addition, the U.S. securities markets or sectors of these markets from time to time have experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets or sectors. Broad market and industry factors may negatively affect the price of the Company's Common Stock, regardless of its operating performance.

Future offerings of debt securities, which would rank senior to the Company's Common Stock upon its liquidation, and future offerings of equity securities, including preferred stock senior to the Company's Common Stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of the Company's Common Stock.

The Company may from time to time offer additional debt or equity securities. Upon liquidation, holders of the Company's debt securities and shares of its preferred stock and lenders with respect to other borrowings will receive a distribution of the Company's available assets prior to the holders of its Common Stock. Additional equity offerings may dilute the holdings of the Company's existing stockholders and reduce the market price of its Common Stock. Any preferred stock the Company issues may have a preference on liquidating distributions or a preference on dividend payments that could limit its ability to make a dividend distribution to the holders of its Common Stock.

Sales of substantial amounts of the Company's Common Stock, or the perception that these sales could occur, could have a material adverse effect on the price of its Common Stock. Holders of the Company's Common Stock bear the risk of its future offerings causing the market price of its Common Stock to decline and diluting their stock holdings in the Company.

The Company's staggered board of directors and other provisions of its charter and bylaws may prevent a change in its control, which could adversely affect the price of the Company's Common Stock.

The Company's board of directors is divided into three classes of directors. The current terms of the directors expire in 2008, 2009 and 2010. Directors of each class serve three-year terms, and each year one class of directors is elected by the stockholders. The staggered terms of the Company's directors may delay, prevent or reduce the possibility of a tender offer or an attempt at a change in control, even though the Company's stockholders might consider a tender offer or change in control in their best interests. In addition, the Company's charter and bylaws also contain other provisions that may delay or prevent a transaction or a change in control that might be in the best interest of its stockholders. See "—Restrictions on ownership of the Company's Common Stock may inhibit market activity in the Company's Common Stock and restrict its business combination opportunities."

Risks Relating to Taxation as a REIT

The Company's failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to its stockholders.

The Company operates in a manner intended to qualify as a REIT for federal income tax purposes. The Company's ability to satisfy the asset tests depends upon its analysis of the fair market values of its assets, some of which are not susceptible to a precise determination, and for which it will not obtain independent appraisals. The Company's compliance with the REIT income and quarterly asset requirements also depends upon its ability to successfully manage the composition of its income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for federal income tax purposes, and the tax treatment of participation interests that the Company holds in mortgage loans and mezzanine loans, may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. Accordingly, there can be no assurance that the Internal Revenue Service ("IRS") will not contend that the Company's interests in subsidiaries or other issuers will not cause a violation of the REIT requirements.

If the Company were to fail to qualify as a REIT in any taxable year, it would be subject to federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates, and distributions to stockholders would not be deductible by the Company in computing its taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to the Company's stockholders, which in turn could have an adverse impact on the value of, and trading prices for, its stock. Unless entitled to relief under certain Code provisions, the Company also would be disqualified from taxation as a REIT for the four taxable years following the year during which it ceased to qualify as a REIT.

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 believes that it operates in a manner consistent with the REIT qualification rules, the Company may not be able to 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 IRS and the United States Department of the Treasury. Changes to the tax law could adversely affect the Company's stockholders.

REIT distribution requirements could adversely affect the Company's ability to execute its business plan.

The Company generally must distribute annually at least 90% of its net taxable income, excluding any net capital gain, in order for corporate income tax not to apply to earnings that it distributes. The Company intends to make distributions to its stockholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require the Company to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code. Certain of the Company's assets may generate substantial mismatches between taxable income and available cash. As a result, the requirement to distribute a substantial portion of its net taxable income could cause the Company to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms or (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, in order to comply with REIT requirements. Further, amounts distributed will not be available to fund investment activities. If the Company fails to obtain debt or equity capital in the future, it could limit its ability to grow or continue operations, which could adversely affect the value of its Common Stock.

Restrictions on ownership of the Company's Common Stock may inhibit market activity in the Company's stock and restrict its business combination opportunities.

In order for the Company to maintain its qualification as a REIT under the Code, not more than 50% in value of its outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code) at any time during the last half of each taxable year. To facilitate its meeting the requirements for qualification as a REIT at all times, the Company's charter generally prohibits any person from acquiring or holding, directly or indirectly, shares of capital stock in excess of 9.8% (in value or in number of shares, whichever is more restrictive) of the aggregate of the outstanding shares of any class of its capital stock. The Company's charter further prohibits (i) any person from beneficially or constructively owning shares of capital stock that would result in the Company being "closely held" under Section 856(h) of the Code or would otherwise cause the Company to fail to qualify as a REIT, and (ii) any person from transferring shares of capital stock if such transfer would result in shares of capital stock being beneficially owned by fewer than 100 persons. If any transfer of shares of capital stock occurs which, if effective, would result in a violation of one or more ownership limitations, then that number of shares of capital stock, the beneficial or constructive ownership of which otherwise would cause such person to violate such limitations (rounded to the nearest whole share) shall be automatically transferred to a trustee of a trust for the exclusive benefit of one or more charitable beneficiaries, and the intended transferee may not acquire any rights in such shares; provided, however, that if any transfer occurs which, if effective, would result in shares of capital stock being owned by fewer than 100 persons, then the transfer shall be null and void and the intended transferee shall acquire no rights to the stock. Subject to certain limitations, the Company's board of directors may waive the limitations for certain investors.

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The Company's authorized capital stock includes preferred stock issuable in one or more series. The issuance of preferred stock could have the effect of making an attempt to gain control of the Company by means of a merger, tender offer, proxy contest or otherwise more difficult. The currently outstanding preferred stock has a preference on dividend payments that could affect the Company's ability to make dividend distributions to the common stockholders.

The provisions of the Company's charter or relevant Maryland law may inhibit market activity and the resulting opportunity for the holders of its Common Stock to receive a premium for their Common Stock that might otherwise exist in the absence of such provisions. Such provisions also may make the Company an unsuitable investment vehicle for any person seeking to obtain ownership of more than 9.8% of the outstanding shares of its Common Stock.

Material provisions of the Maryland General Corporation Law ("MGCL") relating to "business combinations" and a "control share acquisition" and of the Company's charter and bylaws may also have the effect of delaying, deterring or preventing a takeover attempt or other change in control of the Company that would be beneficial to stockholders and might otherwise result in a premium over then prevailing market prices. Although the Company's bylaws contain a provision exempting the acquisition of its Common Stock by any person from the control share acquisition statute, there can be no assurance that such provision will not be amended or eliminated at any time in the future. These ownership limits could delay or prevent a transaction or a change in its control that might involve a premium price for its Common Stock or otherwise be in the best interest of its stockholders.

Even if the Company remains qualified as a REIT, it may face other tax liabilities that reduce its cash flow.

Even if the Company remains qualified for taxation as a REIT, it may be subject to certain federal, state, local and foreign taxes on its income and assets, including taxes on any undistributed income, tax on income from certain activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to its stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, the Company may hold some of its assets through taxable REIT subsidiaries. Such subsidiaries will be subject to corporate level income tax at regular rates.

Complying with REIT requirements may cause the Company to forgo otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, the Company must continually satisfy tests concerning, among other things, the sources of its income, the nature and diversification of its assets, the amounts it distributes to its stockholders and the ownership of its stock. The Company also may be required to make distributions to stockholders at disadvantageous times or when it does not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder the Company's ability to make certain attractive investments.

The "taxable mortgage pool" rules may increase the taxes that the Company or its stockholders may incur, and may limit the manner in which it effects future securitizations.

Certain of the Company's securitizations have resulted in the creation of taxable mortgage pools for federal income tax purposes. As a REIT, so long as the Company owns 100% of the equity interests in a taxable mortgage pool, it generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from the Company that is attributable to the taxable mortgage pool. In addition, to the extent that the Company's stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities that are not subject to tax on unrelated business income, it may incur a corporate level tax on a portion of its income from the taxable mortgage pool. In that case, the Company may reduce the amount of its distributions to any disqualified organization whose stock ownership gave rise to the tax.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2007, there were no pending legal proceedings in which the Company or any of its subsidiaries was a defendant or of which any of their 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 three months ended December 31, 2007 through the solicitation of proxies or otherwise.

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 on the New York Stock Exchange and traded 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 dividend per share declared by the Company.

2007	High	Low	Last Sale	Dividends Declared
Fourth Quarter	$ 10.20	$ 6.67	$ 7.24	$ 0.30
Third Quarter	12.11	6.53	9.10	0.30
Second Quarter	12.94	11.50	11.70	0.30
First Quarter	14.08	11.01	12.00	0.29
2006				
Fourth Quarter	$ 14.48	$ 10.77	$ 12.73	$ 0.29
Third Quarter	13.57	11.65	12.86	0.29
Second Quarter	12.44	10.25	12.16	0.29
First Quarter	11.28	10.34	10.98	0.28

On March 10, 2008, the closing sale price for the Company's Common Stock, as reported on the New York Stock Exchange, was $5.27. At February 22, 2008, there were approximately 1,053 record holders of the Company's Common Stock. This figure does not reflect beneficial ownership of shares held in nominee name.

Information relating to the Company's equity compensation plans in the Company's definitive proxy statement for its 2008 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed with the SEC, is incorporated herein by reference.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announce Plans or Programs	Maximum Number of Shares That May Yet Be Purchased
January 2007	-	-	-	-
February 2007	-	-	-	-
March 2007	-	-	-	-
April 2007	-	-	-	-
May 2007	-	-	-	-
June 2007	-	-	-	-
July 2007	-	-	-	-
August 2007	1,307,189	$ 9.18	-	-
September 2007	-	-	-	-
October 2007	-	-	-	-

November 2007	-	-	-	-
December 2007	-	-	-	-
Total	1,307,189	$ 9.18	-	-

On August 23, 2007, the Company repurchased 1,307,189 shares of its Common Stock on the open market at $9.18 per share, the closing sales price of the Company's Common Stock on the New York Stock Exchange on August 23, 2007. The repurchase settled on August 29, 2007. The Company used approximately $12,100 of the net proceeds from its Rule 144A sale of convertible senior notes in August 2007 to effect this repurchase.

Recent Sales of Unregistered Securities

During the year ended December 31, 2007, the Company issued 514,595 shares of unregistered Common Stock with an aggregate value of $6,169 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 509,595 restricted shares to the Manager under the Company's 2006 Stock Award and Incentive Plan (the "2006 Stock Plan") and pursuant to the provision of the amended and restated investment advisory agreement between the Company and the Manager (the "Management Agreement") providing that 30% of the Manager's incentive fees earned under the Management Agreement shall be paid in shares of the Company's Common Stock subject to certain provisions under the Management Agreement and the 2006 Stock Plan. 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.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below at and for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with "Item 1. Business", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", and the audited consolidated financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data". The Company derived the selected financial data as of December 31, 2005, 2004 and 2003 and for each of the two years in the period ended December 31, 2004 from the Company's audited consolidated financial statements and notes thereto not included elsewhere in this report.

	Year ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Operating Data:					
Interest income	$ 326,436	$ 275,986	$ 231,768	$ 194,967	$ 159,456
Earnings from equity investments	32,093	27,431	12,146	8,899	4,322
Interest expense	241,000	212,388	163,458	128,166	83,249
Other operating expenses	27,521	25,830	19,181	12,383	11,707
Other gain (loss) (1)	(6,032)	13,906	9,322	(20,125)	(77,464)
Income from continuing operations	83,976	79,105	70,597	43,192	(8,642)
Income from discontinued operations (2)	-	1,366	-	-	-
Net income (loss)	83,976	80,471	70,597	43,192	(8,642)
Net income (loss) available to common stockholders	72,320	75,079	65,205	25,768	(16,386)
Net income (loss) from continuing operations per share of Common Stock					
Basic	1.18	1.29	1.20	0.50	(0.34)
Diluted	1.18	1.29	1.20	0.50	(0.34)
Income from discontinued operations per share of Common Stock					
Basic	-	0.02	-	-	-
Diluted	-	0.02	-	-	-
Net income (loss):					
Basic	1.18	1.31	1.20	0.50	(0.34)
Diluted	1.18	1.31	1.20	0.50	(0.34)
Balance Sheet Data (at period end):					
Total assets	5,247,710	5,218,263	4,234,825	3,729,134	2,398,846
Total liabilities	4,796,339	4,562,154	3,636,807	3,215,396	1,981,416
Total stockholders' equity	451,371	656,109	598,018	513,738	417,430

(1) Other gains (losses) for the year ended December 31, 2007 of $(6,032) consist primarily of a loss of $(12,469) related to impairments on assets, a loss of $(5,151) related to securities held-for-trading, a gain of $6,272 related to foreign currency, and a gain of $5,316 related to the sale of securities available-for-sale. 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.

(2) 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 its consolidated statement of operations.

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 commenced operations on March 24, 1998. 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 Common Stock is traded on the New York Stock Exchange ("NYSE") 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 typically 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% to 5.0% 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, 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 $1.357 trillion of assets under management at December 31, 2007. The Company believes that the investment in highly structured 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,									
	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate securities	$ 2,274,151	49.3%	$ 2,494,099	53.0%	$ 2,005,383	49.7%	$ 1,623,939	44.6%	$ 1,393,010	62.8%
Commercial mortgage loan pools[(1)]	1,240,793	26.9	1,271,014	27.0	1,292,407	32.0	1,312,045	36.1	-	-
Commercial real estate loans[(2)]	1,082,785	23.5	554,148	11.8	425,453	10.6	329,930	9.1	97,984	4.4
Commercial real estate equity	9,350	0.2	109,744	2.3	51,003	1.3	-	-	-	-
Commercial real estate assets	4,607,079	99.9	4,429,005	94.1	3,774,246	93.6	3,265,914	89.8	1,490,994	67.2
Residential mortgage-backed securities ("RMBS")	10,183	0.1	276,344	5.9	259,026	6.4	372,071	10.2	726,717	32.8
Total	$ 4,617,262	100.0%	$ 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 4 of the consolidated financial statements.

(2) Includes investments in the Carbon Funds and real estate joint ventures.

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, 2007 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 (USD)
USD	$	1,881,328	$	445,618	$	-	$	1,240,793	$	3,567,739	$	3,567,739
GBP	£	35,247	£	45,944		-		-	£	81,191		161,618
Euro	€	131,645	€	354,458		-		-	€	486,103		710,707
Canadian Dollars	C$	89,805	C$	6,249		-		-	C$	96,054		97,324
Japanese Yen	¥	4,378,759		-		-		-	¥	4,378,759		39,196
Swiss Francs		-	CHF	23,939		-		-	CHF	23,939		21,145
Indian Rupees		-		-	Rs	368,483		-	Rs	368,483		9,350
Total USD Equivalent	$	2,274,151	$	1,082,785	$	9,350	$	1,240,793	$	4,607,079	$	4,607,079

(1) Includes the Company's investments of $99,398 in the Carbon Funds at December 31, 2007.

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 (USD)
USD	$	2,312,503	$	310,771	$	105,894	$	1,271,014	$	4,000,182	$	4,000,182
GBP	£	27,532	£	28,977		-		-	£	56,509		110,681
Euro	€	80,923	€	141,422		-		-	€	222,345		293,408
Canadian Dollars	C$	24,339		-		-		-	C$	24,339		20,885
Indian Rupees		-		-	Rs	169,823		-	Rs	169,823		3,850
Total USD Equivalent	$	2,494,100	$	554,148	$	109,744	$	1,271,014	$	4,429,006	$	4,429,006

(1) Includes the Company's investments of $72,403 in the Carbon Funds at December 31, 2006.

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 seventh CDO ("Euro CDO"), the Company mitigates the exposure to foreign exchange rates with currency swaps agreements. Net foreign currency gain (loss) was $6,272, $2,161 and $(134) for the years ended December 31, 2007, 2006 and 2005, respectively.

Commercial Real Estate Assets Portfolio Activity

The following table details the par, estimated fair value, adjusted purchase price (or "amortized cost"), 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, 2007. The Dollar Price represents the estimated fair value or adjusted purchase price of a security, respectively, relative to its par value.

Commercial real estate securities outside CDOs	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Loss Adjusted Yield
Investment grade CMBS	$ 179,638	$ 149,856	$ 83.42	$ 158,216	$ 88.07	6.56%
Investment grade real estate investment trust ("REIT")debt	23,121	20,034	86.65	22,995	99.45	5.49%
CMBS rated BB+ to B	546,299	316,210	57.88	417,204	76.37	8.71%
CMBS rated B- or lower	513,189	144,797	28.21	166,381	32.42	10.73%
CDO Investments	347,807	46,241	13.30	63,987	18.40	20.56%
CMBS Interest Only securities ("IOs")	818,670	15,915	1.94	14,725	1.80	8.80%
Multifamily agency securities	35,955	37,123	103.25	36,815	102.39	5.37%
Total commercial real estate securities outside CDOs	2,464,679	730,176	29.61	880,323	35.70	9.34%
Commercial real estate loans and equity outside CDOs						
Commercial real estate loans	531,516	618,328		601,144		
Commercial mortgage loan pools	1,174,659	1,240,793	105.63	1,240,793	105.63	4.15%
Commercial real estate	9,350	9,350		9,350		
Total commercial real estate loans and equity outside CDOs	1,715,525	1,868,471	105.63	1,851,287	105.63	4.15%
Commercial real estate assets included in CDOs						
Investment grade CMBS	801,748	768,671	95.87	759,524	94.73	7.09%
Investment grade REIT debt	223,324	226,060	101.23	224,608	100.57	5.85%
CMBS rated BB+ to B	627,550	466,564	74.35	486,162	77.47	10.01%
CMBS rated B- or lower	193,155	54,342	28.13	68,693	35.56	14.98%
CDO Investments	4,000	3,390	84.75	3,483	87.07	7.79%
Credit tenant lease	23,235	24,949	107.38	23,867	102.72	5.66%
Commercial real estate loans	476,782	464,456	97.41	434,364	91.10	8.73%
	2,349,794	2,008,432	85.47	2,000,701	85.14	8.28%

Total commercial real estate assets included in CDOs			
Total commercial real estate assets	$ 6,529,998	$ 4,607,079	$ 4,732,311

During the year ended December 31, 2007, the Company's commercial real estate assets increased by 4.0% from $4,429,006 to $4,607,079. This increase was primarily attributable to the purchase of subordinated CMBS and investment grade CMBS that have an estimated fair value at December 31, 2007 of $379,277 and $113,200, respectively. The purchase of the aforementioned securities was offset by the sale of assets with an estimated fair value of $541,676.

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, 2006:

Commercial real estate securities outside CDOs	Par	Carrying Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Expected Yield
Investment grade CMBS	$ 23,060	$ 21,426	92.92	$ 21,753	102.58	5.51%
Investment grade REIT debt	23,121	21,566	93.28	22,973	99.36	5.49%
CMBS rated BB+ to B	108,176	86,677	80.13	87,486	81.59	8.01%
CMBS rated B- or lower	148,310	50,165	33.82	46,043	31.27	9.06%
CDO Investments	406,605	117,246	28.84	114,482	28.16	14.19%
CMBS IOs	2,980,467	69,352	2.33	69,183	2.32	7.36%
Multifamily agency securities	447,191	449,827	100.59	452,781	101.25	5.07%
Total commercial real estate securities outside CDOs	4,136,930	816,259	19.73	814,701	19.77	7.11%
Commercial real estate loans and equity outside CDOs						
Commercial real estate loans	63,439	140,985		141,951		
Commercial mortgage loan pools	1,207,212	1,271,014	105.29	1,271,014	105.29	4.14%
Commercial real estate	96,453	109,744		96,453		
Total commercial real estate loans and equity outside CDOs	1,367,104	1,521,743	105.29	1,509,418	105.29	4.14%
Commercial real estate assets included in CDOs						
Investment grade CMBS	779,653	794,622	101.92	750,662	94.34	7.00%
Investment grade REIT debt	223,324	227,678	101.95	224,964	100.73	5.92%
CMBS rated BB+ to B	614,780	554,185	90.14	508,908	78.28	9.31%
CMBS rated B- or lower	193,236	77,038	39.87	70,727	36.60	14.87%
Credit tenant lease	23,793	24,318	102.20	24,439	102.71	5.67%
Commercial real estate loans	357,111	413,163	115.70	400,559	96.95	8.36%
Total commercial real estate assets included	2,191,897	2,091,004	95.40	1,980,259	85.91	8.01%

in CDOs			
Total commercial real estate assets	$ 7,695,931	$ 4,429,006	$ 4,304,378

During the year ended December 31, 2006, the Company's commercial real estate assets increased 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 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 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, 2007, over 81% of the estimated fair value of the Company's subordinated CMBS was 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.

The table below summarizes the Company's CDO collateral and debt at December 31, 2007.

	Collateral at December 31, 2007		Debt at December 31, 2007		
	Adjusted Purchase Price	Loss Adjusted Yield	Adjusted Issue Price	Weighted Average Cost of Funds *	Net Spread
CDO I	$ 463,751	8.12%	$ 396,176	7.29%	0.83%
CDO II	328,380	7.64%	291,991	6.03%	1.61%
CDO III	379,757	7.13%	376,581	5.15%	1.98%
CDO HY3	414,109	9.79%	373,330	6.29%	3.50%
Euro CDO	420,320	8.50%	385,250**	5.71%	2.79%
Total **	$ 2,006,317	8.28%	$ 1,823,328	6.11%	2.17%

* Weighted Average Cost of Funds is the current cost of funds plus hedging expenses.

** The Company chose not to sell $12,500 of par of Euro CDO debt rated BB.

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

On December 14, 2006, the Company closed the Euro CDO. The Euro CDO sold €263,500 of non-recourse debt at a weighted average spread to Euro LIBOR of 60 basis points. The €263,500 consists of €251,000 of investment grade debt at a weighted average spread to Euro LIBOR of 50 basis points and €12,500 of below investment grade debt. The Company retained an additional €12,500 of below investment grade debt and all of the CDO's preferred shares. This transaction was the Company's first CDO that was not U.S. dollar denominated.

There were no CDOs issued in 2007.

Securitizations

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 FAS 140.

There were no securitizations closed during 2006 and 2007.

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 where it maintains the right to control the foreclosure/workout process on the underlying loans as controlling class CMBS ("Controlling Class"). The distinction between the two is in the rights the Company obtains with its investment in Controlling Class CMBS. Controlling Class rights allow the Company to influence the workout and/or disposition of defaults that occur in the underlying loans. These securities absorb the first losses realized in the underlying loan pools. The coupon payment on the non-rated security also can be reduced for special servicer fees charged to the trust. The next highest rated security in the structure then generally will be downgraded to non-rated and become the first to absorb losses and expenses from that point on. At December 31, 2007, the Company owns 39 trusts where it is in the first loss position and is designated as the controlling class representative by owning the lowest rated or non-rated CMBS class. The total par of the loans underlying these securities was $59,534,400. At December 31, 2007, subordinated Controlling Class CMBS with a par of $1,586,172 were included on the Company's consolidated statement of financial condition and subordinated Controlling Class CMBS with a par of $233,136 were held as collateral for CDO HY1 and CDO HY2.

The Company's other below investment grade CMBS have more limited rights associated with its ownership to influence the workout and/or disposition of underlying loan defaults. The total par of the Company's other below investment grade CMBS at December 31, 2007 was $2,561,897; the average credit protection, or subordination level, of this portfolio is 0.76%.

The Company's investment in its subordinated Controlling Class CMBS by credit rating category at December 31, 2007 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Weighted Average Subordination Level
BB+	$ 277,946	$ 189,351	68.13	$ 228,054	82.05	3.59%
BB	191,808	117,702	61.36	154,916	80.77	2.55%
BB-	192,875	121,665	63.08	137,092	71.08	4.33%
B+	103,352	55,664	53.86	67,214	65.03	2.15%
B	140,275	71,947	51.29	83,949	59.85	1.76%
B-	123,683	49,817	40.28	63,282	51.17	1.29%
CCC	22,313	6,293	28.21	7,814	35.01	0.88%
NR	533,920	118,473	22.19	139,714	26.17	n/a
Total	$ 1,586,172	$ 730,912	46.08	$ 882,035	55.61	

The Company's investment in its subordinated Controlling Class CMBS by credit rating category at December 31, 2006 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Weighted Average Subordination Level
BB+	$ 158,220	$ 142,415	90.01	$ 130,966	82.77	3.51%
BB	135,874	116,085	85.44	111,000	81.69	2.81%

BB-		120,226		94,256	78.40		86,317	71.80	3.13%
B+		71,277		51,030	71.59		47,861	67.15	2.05%
B		88,217		60,237	68.28		52,988	60.07	1.88%
B-		66,160		37,680	56.95		35,001	52.90	1.28%
CCC		9,671		3,823	39.53		3,596	37.19	0.88%
NR		260,332		81,480	31.30		73,842	28.36	n/a
Total	$	909,977	$	587,006	64.51	$	541,571	59.54	

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During 2007, the par amount of the Company's Controlling Class CMBS was reduced by $4,600; of this amount, $1,001 of the par reductions were related to Controlling Class CMBS held in CDO HY1 and CDO HY2. Further delinquencies and losses may cause the par reductions to continue and cause the Company to conclude that a change in loss adjusted yield is required along with a write-down of the adjusted purchase price through the consolidated statement of operations according to Emerging Issues Task Force ("EITF") Issue 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets* ("EITF 99-20"). Also during 2007, the loan pools were paid down by $2,402,486. Pay down proceeds are distributed to the highest rated CMBS class first and reduce the percent of total underlying collateral represented by each rating category.

As the portfolio matures and expected losses occur, subordination levels of the lower rated classes of a CMBS investment will be reduced. This may cause the lower rated classes to be downgraded, which would negatively affect their estimated fair value and therefore the Company's net asset value. Reduced estimated fair value would negatively affect the Company's ability to finance any such securities that are not financed through a CDO or similar matched funding vehicle. In some cases, securities held by the Company may be upgraded to reflect seasoning of the underlying collateral and thus would increase the estimated fair value of the securities. During the year ended December 31, 2007, 14 securities in eight of the Company's Controlling Class CMBS were upgraded by at least one rating agency and two securities in two of the Company's Controlling Class CMBS were downgraded by at least one rating agency. Additionally, at least one rating agency upgraded 48 of the Company's non-Controlling Class commercial real estate securities. Seven of the Company's investment grade REIT debt securities were downgraded during the year ended December 31, 2007.

The Company considers delinquency information from the Lehman Brothers Conduit Guide to be the most relevant benchmark to measure credit performance and market conditions applicable to its Controlling Class CMBS holdings. The year of issuance, or vintage year, is important, as older loan pools will tend to have more delinquencies than newly underwritten loans. The Company owns Controlling Class CMBS issued in 1998, 1999 and 2001 to 2007. Comparable delinquency statistics referenced by vintage year as a percentage of par outstanding at December 31, 2007 are shown in the table below:

Vintage Year		Underlying Collateral	Delinquencies Outstanding	Lehman Brothers Conduit Guide
1998		3,362,368	0.84%	0.81%
1999		520,718	2.12%	0.83%
2001		811,079	0.00%	0.83%
2002		954,414	0.00%	0.62%
2003		1,958,317	1.71%	0.87%
2004		6,366,795	0.98%	0.39%
2005		12,005,784	0.55%	0.41%
2006		13,740,025	0.73%	0.27%
2007		19,814,900	0.25%	0.17%
Total	$	59,534,400	0.59%*	0.35%*

* Weighted average based on current principal balance.

Delinquencies on the Company's CMBS collateral as a percent of principal are in line with expectations. These seasoning criteria generally will adjust for the lower delinquencies that occur in newly originated collateral. See Item 7A - "Quantitative and Qualitative Disclosures About Market Risks" for a detailed discussion of how delinquencies and loan losses affect the Company.

The following table sets forth certain information relating to the aggregate principal balance and payment status of delinquent commercial mortgage loans underlying the Controlling Class CMBS held by the Company at December 31, 2007 and 2006:

	December 31, 2007			December 31, 2006
	Principal	Number of Loans	% of Collateral	