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ANTHRACITE CAPITAL INC
Form 10-K
April 01, 2002

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from: _____ to _____

Commission File No. 001-13937

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

MARYLAND

13-3978906

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

40 East 52nd Street
New York, New York

10022

(Address of principal executive office)

(Zip Code)

(212) 409-3333

(Registrant's telephone number, including area code)

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

COMMON STOCK, \$.001 PAR VALUE
(Title of each class)

NEW YORK STOCK EXCHANGE (NYSE)
(Name of each exchange on
which registered)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act
of 1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports) and (2) has been subject to
such filing requirements for the past 90 days. Yes No

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

As of March 25, 2002, the aggregate market value of the registrant's Common

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Stock, \$.001 par value, held by nonaffiliates of the registrant, computed by reference to the closing price of \$11.74 as reported on the New York Stock Exchange as of the close of business on March 25, 2002: \$537,114,112 (for purposes of this calculation affiliates include only directors and executive officers of the Company).

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding as of March 25, 2002 was 45,924,297 shares.

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Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained herein are not, and certain statements contained in future filings by Anthracite Capital, Inc. (the "Company") with

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the SEC, in the Company's press releases or in the Company's other public or stockholder communications may not be based on historical facts and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements which are based on various assumptions (some of which are beyond the Company's control) may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. government, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

PART I

ITEM 1. BUSINESS

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

General

Anthracite Capital, Inc. (the "Company"), a Maryland corporation, is a real estate finance company that generates income based on the spread between the interest income on its mortgage loans and securities investments and the interest expense from borrowings used to finance its investments. The Company seeks to earn high returns on a risk-adjusted basis to support a consistent quarterly dividend. The Company has elected to be taxed as a Real Estate Investment Trust, therefore, its income is largely exempt from corporate taxation. This allows the Company to generate a higher level of earnings than otherwise attainable by a taxable finance company making similar investments. The Company commenced operations on March 24, 1998.

In the past five years the real estate finance markets have evolved significantly as the capital markets play a larger role along with the traditional commercial banking sources of capital. This has created opportunities for companies that have expertise in both areas. The Company's external manager, BlackRock Financial Management, Inc. (the "Manager" or "BlackRock"), provides significant experience in traditional real estate loan origination and servicing along with capital markets, investing and risk management expertise.

The Company's business focuses on (i) investing in below investment grade Commercial Mortgage Backed Securities (CMBS) where the Company has the right to control the foreclosure/workout process on the underlying loans; (ii) originating high yield commercial real estate loans, which includes senior interests in partnerships that own real property and are reported as real estate or joint venture investments; and (iii) acquiring investment grade real estate related securities, including Government guaranteed residential

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mortgage backed securities to act as a liquidity support for the other two operations.

The Company's management believes that this represents an integrated strategy where each asset class supports the others and creates additional value for shareholders over and above operating each in isolation. The CMBS portfolio provides diversification and high loss adjusted returns over a weighted average life of approximately 10 years, the commercial real estate loans provide high risk adjusted returns for shorter periods of time, and the investment grade securities is an actively managed portfolio that supports the liquidity needs of the Company while earning attractive returns.

These strategies are pursued within an aggregate risk management framework that seeks to limit the exposure of the Company's equity and earnings to changes in interest rates and other exogenous factors beyond the Company's control.

The day-to-day operations of the Company are managed by BlackRock, subject to the direction and oversight of the Company's board of directors (the "Board of Directors"). The Manager is a wholly owned subsidiary of BlackRock, Inc., which is listed for trading on the New York Stock Exchange ("NYSE") under the symbol "BLK". BlackRock, Inc. is 70% owned by PNC Bank, National Association ("PNC Bank"), which is itself a wholly owned subsidiary of PNC Bank Corp (NYSE: PNC). Established in 1988, the Manager is a registered investment adviser under the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act"), and is one of the largest investment management firms in the United States. The Manager, in its discretion, subject to the supervision of the Board of Directors, evaluates and monitors the Company's assets and how long such assets should be held in the Company's portfolio. The Manager is permitted to actively manage the Company's assets, and such assets may or may not be held to maturity. Although the Company intends to manage its assets actively, it does not intend to acquire, hold or sell assets in such a manner that such assets would be characterized as dealer property for Federal income tax purposes.

Commercial Real Estate Loans

High yield commercial real estate loan originations represent the Company's efforts to take advantage of opportunities in the real estate finance markets on a targeted basis. The traditional first lien real estate lender has shifted its focus to originating loans that can be sold into a securitization in the capital markets. To achieve the best execution for this strategy first lien lenders will generally reduce their loan to value ratios. Borrowers continue to require the same leverage to achieve their required equity returns, so alternative sources of capital are needed to fill the financing gap between the first lien lender and the borrower's equity. The Company's high yield commercial real estate loan originations, also known as mezzanine loans, fill this gap on a secured basis at very attractive prices and terms. An effective mezzanine-lending program can achieve superior risk adjusted returns versus alternative investments.

The type of investments in this class include loans secured by second mortgages, subordinated participations in first mortgages, loans secured by partnership interests and preferred equity interests in real estate limited partnerships. The weighted average life of these investments is generally two to three years and average leverage is 1:1 debt to equity generally funded with the debt coterminous with the investment. These investments have fixed or floating rate coupons, and some provide additional earnings through an IRR look back or profit participation.

The Company performs significant due diligence before making investments to

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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 control over the underlying asset.

At December 31, 2001 the Company owned eight separate mezzanine investments with an average investment of approximately \$16,600 and is focused on adding to this on a strategic basis. The real estate underlying each of the Company's mezzanine investments is performing in accordance with underwritten expectations. The typical current returns on Company's equity range from 11% - 24% with additional earning potential from profit participations and IRR look back features. This asset class earns a high yield and allows the Company to maintain flexibility to move quickly in search of the highest risk adjusted returns.

Commercial Mortgage Backed Securities

The Company owns below investment grade classes of ten different CMBS and has been an active bidder for this asset class. These CMBS investments are fixed rate securities backed by pools of first mortgage loans on commercial real estate assets located across the country. Owning commercial real estate loans in this form allows the Company to earn attractive loss adjusted returns while achieving significant diversification across geographic areas and property types. The total par amount of these investments is \$733,830, the total fair market value at year-end was \$360,159 representing an average dollar price of 49.08. The unlevered yield on this portfolio is approximately 10.9% before adjusting for expected losses and 10.1% on a loss-adjusted basis. The Company anticipates receiving approximately two-thirds of its stated par amount with the remainder representing assumed credit losses. Income is reported to shareholders after taking into account assumed credit losses.

The Company uses a sophisticated Intranet-based performance monitoring system to track the credit experience of the loans in the CMBS pools. The Company receives remittance reports monthly and can closely monitor any delinquent loans or other issues that may affect the performance of the loans. The Company also reviews its credit assumptions on a quarterly basis using updated debt service coverage information on each loan in the pools and reviewing economic trends on both a national and regional level.

Investment Grade Real Estate Related Securities

A key element in managing the risk of owning a portfolio of mezzanine loans and below investment grade CMBS is to maintain sufficient liquid assets to support these investments during periods of reduced liquidity in the financial markets. The Company's portfolio of liquid assets is generally comprised of government guaranteed residential fixed rate and adjustable rate mortgages, and BBB or higher rated commercial mortgage backed securities. At year-end, the portfolio represented approximately 75% of the Company's total assets or 30% of the Company's equity (net of financing) and provides a ready source of cash that can be used to support the Company's other investment operations, if needed. This allows the Company to earn attractive returns on equity while still maintaining significant liquidity. This portfolio is leveraged more than the mezzanine and CMBS portfolios but significantly lower than a typical investment grade portfolio.

At December 31, 2001, the Company's assets were allocated among these three categories as follows:

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	Assets -----	Liabilities -----	Net ---	Percent Invested Capital -----
Cash and liquidity portfolio	\$1,730,323 (1)	\$1,598,614	\$131,709	31.8%
Below investment grade CMBS	360,159	178,631	181,528	43.8%
Mezzanine loans, Joint Ventures and Equity Investment	159,738	58,693	101,045	24.4%
	-----	-----	-----	-----
Total Invested Assets	2,250,220 =====	1,835,938 =====	414,282 =====	100.0% =====

- (1) The Cash and liquidity portfolio consists of cash and cash equivalents, restricted cash, in securities and securities held for trading.

The Company's anticipated yields to maturity 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, expectation of credit losses, the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate, and interest rate fluctuations. Additional factors that may affect the Company's anticipated yields to maturity on its subordinated CMBS include interest payment shortfalls due to delinquencies on the underlying mortgage loans and the timing and magnitude of credit losses on the mortgage loans underlying the subordinated 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 achieved.

The following is a summary of the types of assets, among others, that the Company may invest in from time to time;

Mortgage Backed Securities (MBS). The Company acquires both investment grade and non-investment grade classes of MBS from various sources. MBS typically are divided into two or more interests, sometimes called "tranches" or "classes." The senior classes are often securities which, if rated, would have ratings ranging from low investment grade "BBB" to higher investment grades "A," "AA" or "AAA." The junior, subordinated classes typically would include one or more non-investment grade classes, which, if rated, would have ratings below investment grade "BBB." Such subordinated classes also typically include an unrated higher-yielding, credit support class (which generally is required to absorb the first losses on the underlying mortgage loans).

MBS are generally issued either as "CMOs" or "Pass-Through Certificates." CMOs are debt obligations of special purpose corporations, owner trusts or other special purpose entities secured by commercial mortgage loans or MBS. Pass-Through Certificates evidence interests in trusts, the primary assets of which are mortgage loans. CMO Bonds and Pass-Through Certificates may be issued or sponsored by agencies or instrumentalities of the United States Government or private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage bankers, commercial banks, investment banks and other entities. MBS may not be guaranteed by an entity having the credit status of a governmental agency or instrumentality and in

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this instance are generally structured with one or more of the types of credit enhancements described below. In addition, MBS may be illiquid.

The Company acquires both CMBS and Residential Mortgage Backed Securities (RMBS). The mortgage collateral supporting CMBS may be pools of whole loans or other MBS, or both. Unlike RMBS, which typically are collateralized by thousands of single-family mortgage loans, CMBS are collateralized generally by a more limited number of commercial or multifamily mortgage loans with larger principal balances than those of single-family mortgage loans. As a result, a loss on a single mortgage loan underlying a CMBS will have a greater negative effect on the yield of such CMBS, especially the subordinated MBS in such CMBS.

Mortgage Loans. The Company acquires or originates fixed and adjustable-rate mortgage loans secured by senior, mezzanine or subordinate liens on multifamily residential, commercial, single-family (one-to-four unit) residential or other real property as a significant part of its investment strategy ("Mortgage Loans").

Mortgage loans may be originated by or purchased from various suppliers of mortgage assets throughout the United States and abroad, such as savings and loan associations, banks, mortgage bankers, home builders, insurance companies and other mortgage lenders. The Company acquires mortgage loans directly from originators and from entities holding mortgage loans originated by others. The Company also originates its own mortgage loans, particularly on mezzanine financing of mortgage loans and real property portfolios.

The Company may invest in or provide loans used to finance construction, loans secured by real property and used as interim financing, and loans secured by junior liens on real property. The Company may invest in multifamily and commercial mortgage loans that are in default, or for which default is likely or imminent, or for which the borrower is making monthly payments in accordance with a forbearance plan.

The Company may provide mezzanine financing on commercial property that is subject to first lien mortgage debt. The Company's mezzanine financing takes the form of subordinated loans, commonly known as second mortgages, or in the case of loans originated for securitization, partnership loans (also known as pledge loans) or preferred equity investments. For example, on a commercial property subject to a first lien mortgage loan with a principal balance equal to 65% of the value of the property, the Company could lend the owner of the property (typically a partnership) an additional 15% to 20% of the value of the property.

Typically in a mezzanine mortgage loan, as security for its loan, the property owner would pledge to the Company either the property subject to the first lien (giving the Company a second lien position typically subject to an inter-creditor agreement), or the limited partnership and/or general partnership interest in the property owner. If the property owner's general partnership interest is pledged, then the Company would be in a position to take over the operation of the property in the event of a default by the property owner. By borrowing against the additional value in their properties, the property owners obtain additional cash to apply to property improvements, the purchase price of the property, or alternative uses. Mezzanine mortgage loans generally provide the Company with the right to receive a stated interest rate on the loan plus various commitment and/or exit fees. In certain instances, subject to the REIT Provisions of the Internal Revenue Code of 1986 (the "Code"), the Company may negotiate to receive a percentage of net operating income or gross revenues from the property, payable to the Company on an ongoing basis, and a percentage of any increase in value of the property, payable upon maturity or refinancing

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of the loan, or the Company will otherwise seek terms to allow the Company to charge an interest rate that would provide an attractive risk-adjusted return. Alternatively, the mezzanine mortgage loans can take the form of a non-voting preferred equity investment in a single purpose entity borrower with substantially similar economic terms.

The Company may acquire or originate mortgage loans secured by real property located outside the United States or acquire such real property. The Company has no limitations on the geographic scope of its investments in foreign real properties and such investments may be made in a single foreign country or among several foreign countries as the Board of Directors may deem appropriate. Investing in real estate related assets located in foreign countries creates risks associated with the uncertainty of foreign laws and markets and risks related to currency conversion. The Company may be subject to foreign income tax with respect to its investments in foreign real estate related assets. Any foreign tax credit that otherwise would be available to the Company for Federal income tax purposes will not flow through to the Company's stockholders.

Multifamily and Commercial Real Properties. The Company believes that under appropriate circumstances the acquisition of multifamily and commercial real properties may offer significant opportunities to the Company. The Company's policy is to conduct an investigation and evaluation of the real properties in a portfolio of real properties before purchasing such a portfolio. Prior to purchasing real estate related assets, the Manager generally will identify and contact real estate brokers and/or appraisers in the relevant market areas to obtain rent and sale comparables for the assets in the portfolio contemplated to be acquired. This information is used to supplement due diligence performed by the Manager's employees.

The Company may acquire real properties with known material environmental problems and Mortgage Loans secured by such real properties subsequent to an environmental assessment that would reasonably indicate that the present value of the cost of clean-up or remediation would not exceed the realizable value from the disposition of the mortgage property.

The Company may invest in net leased real estate on a leveraged basis. Net leased real estate is generally defined as real estate that is net leased to tenants who are customarily responsible for paying all costs of owning, operating, and maintaining the leased property during the term of the lease, in addition to paying a monthly net rent to the landlord for the use and occupancy of the premises ("Net Leased Real Estate"). The Company will consider investing in Net Leased Real Estate that is either leased to creditworthy tenants or is underlied by real estate that can be leased to other tenants in the event of a default of the initial tenant.

Other Real Estate Related Assets. The Company may invest in a variety of other real estate related investments, the principal features of which are summarized below.

Pass-Through Certificates. The Company's investments in residential mortgage assets are currently and expected to be concentrated in Pass-Through Certificates. The Pass-Through Certificates to be acquired by the Company will consist primarily of pass-through certificates issued by Federal National Mortgage Associates (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Associates (GNMA), as well as privately issued adjustable-rate and fixed-rate mortgage pass-through certificates. The Pass-Through Certificates to be acquired by the Company will represent interests in mortgages that will be secured by liens on single-family (one-to-four units) residential properties, multifamily residential properties, and commercial properties. Pass-Through Certificates backed by adjustable-rate Mortgage Loans are subject to lifetime interest

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rate caps and to periodic interest rate caps that limit the amount an interest rate can change during any given period. The Company's borrowings are generally not subject to similar restrictions. In a period of increasing interest rates, the Company could experience a decrease in net income or incur losses because the interest rates on its borrowings could exceed the interest rates on adjustable-rate Pass-Through Certificates owned by the Company. The impact on net income of such interest rate changes will depend on the adjustment features of the mortgage assets owned by the Company, the maturity schedules of the Company's borrowings and related hedging.

Privately Issued Pass-Through Certificates. Privately Issued Pass-Through Certificates are structured similar to the FNMA, FHLMC and GNMA pass-through certificates discussed below and are issued by originators of and investors in Mortgage Loans, including savings and loan associations, savings banks, commercial banks, mortgage banks, investment banks and special purpose subsidiaries of such institutions. Privately Issued Pass-Through Certificates are usually backed by a pool of conventional Mortgage Loans and are generally structured with credit enhancement such as pool insurance or subordination. However, Privately Issued Pass-Through Certificates are typically not guaranteed by an entity having the credit status of FNMA, FHLMC or GNMA guaranteed obligations.

FNMA Certificates. FNMA is a federally chartered and privately owned corporation. FNMA provides funds to the mortgage market primarily by purchasing Mortgage Loans on homes from local lenders, thereby replenishing their funds for additional lending.

FNMA Certificates may be backed by pools of Mortgage Loans secured by single-family or multi-family residential properties. The original terms to maturity of the Mortgage Loans generally do not exceed 40 years. FNMA Certificates may pay interest at a fixed rate or adjustable rate. Each series of FNMA adjustable-rate certificates bears an initial interest rate and margin tied to an index based on all loans in the related pool, less a fixed percentage representing servicing compensation and FNMA's guarantee fee. The specified index used in each such series has included the Treasury Index, the 11th District Cost of Funds Index, LIBOR and other indices. Interest rates paid on fully-indexed FNMA adjustable-rate certificates equal the applicable index rate plus a specified number of basis points ranging typically from 125 to 250 basis points. In addition, the majority of FNMA adjustable-rate certificates issued to date have evidenced pools of Mortgage Loans with monthly, semi-annual or annual interest rate adjustments. Adjustments in the interest rates paid are generally limited to an annual increase or decrease of either 100 or 200 basis points and to a lifetime cap of 500 or 600 basis points over the initial interest rate. Certain FNMA programs include Mortgage Loans, which allow the borrower to convert the adjustable mortgage interest rate of its adjustable-rate Mortgage Loan to a fixed rate. Adjustable-rate Mortgage Loans which are converted into fixed rate Mortgage Loans are repurchased by FNMA, or by the seller of such loans to FNMA, at the unpaid principal balance thereof plus accrued interest to the due date of the last adjustable rate interest payment.

FNMA guarantees to the registered holder of a FNMA Certificate that it will distribute amounts representing scheduled principal and interest (at the rate provided by the FNMA Certificate) on the Mortgage Loans in the pool underlying the FNMA Certificate, whether or not received, and the full principal amount of any such Mortgage Loan foreclosed or otherwise finally liquidated, whether or not the principal amount is actually received. The obligations of FNMA under its guarantees are solely those of FNMA and are not backed by the full faith and credit of the United States. If FNMA were unable to satisfy such obligations, distributions to holders of FNMA Certificates would consist solely of payments and other recoveries on the underlying Mortgage Loans and, accordingly, monthly distributions to holders

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of FNMA Certificates would be affected by delinquent payments and defaults on such Mortgage Loans.

FHLMC Certificates. FHLMC is a privately owned corporate instrumentality of the United States created pursuant to an Act of Congress. The principal activity of FHLMC currently consists of the purchase of conforming Mortgage Loans or participation interests therein and the resale of the loans and participations so purchased in the form of guaranteed MBS.

Each FHLMC Certificate issued to date has been issued in the form of a Pass-Through Certificate representing an undivided interest in a pool of Mortgage Loans purchased by FHLMC. The Mortgage Loans included in each pool are fully amortizing, conventional Mortgage Loans with original terms to maturity of up to 40 years secured by first liens on one-to-four unit family residential properties or multi-family properties.

FHLMC guarantees to each holder of its certificates the timely payment of interest at the applicable pass-through rate and ultimate collection of all principal on the holder's pro rata share of the unpaid principal balance of the related Mortgage Loans, but does not guarantee the timely payment of scheduled principal of the underlying Mortgage Loans. The obligations of FHLMC under its guarantees are solely those of FHLMC and are not backed by the full faith and credit of the United States. If FHLMC were unable to satisfy such obligations, distributions to holders of FHLMC Certificates would consist solely of payments and other recoveries on the underlying Mortgage Loans and, accordingly, monthly distributions to holders of FHLMC Certificates would be affected by delinquent payments and defaults on such Mortgage Loans.

GNMA Certificates. GNMA is a wholly owned corporate instrumentality of the United States within HUD. GNMA guarantees the timely payment of the principal of and interest on certificates that represent an interest in a pool of Mortgage Loans insured by the FHA and other loans eligible for inclusion in mortgage pools underlying GNMA Certificates. GNMA Certificates constitute general obligations of the United States backed by its full faith and credit.

Collateralized Mortgage Obligations (CMOs). The Company invests, from time to time, in adjustable rate and fixed rate CMOs issued by private issuers or FHLMC, FNMA or GNMA. CMOs are a series of bonds or certificates ordinarily issued in multiple classes, each of which consists of several classes with different maturities and often complex priorities of payment, secured by a single pool of Mortgage Loans, Pass-Through Certificates, other CMOs or other mortgage assets. Principal prepayments on collateral underlying a CMO may cause it to be retired substantially earlier than the stated maturities or final distribution dates. Interest is paid or accrues on all interest bearing classes of a CMO on a monthly, quarterly or semi-annual basis. The principal and interest on underlying Mortgages Loans may be allocated among the several classes of a series of a CMO in many ways, including pursuant to complex internal leverage formulas that may make the CMO class especially sensitive to interest rate or prepayment risk.

CMOs may be subject to certain rights of issuers thereof to redeem such CMOs prior to their stated maturity dates, which may have the effect of diminishing the Company's anticipated return on its investment. Privately-issued single-family, multi-family and commercial CMOs are supported by private credit enhancements similar to those used for Privately-Issued Certificates and are often issued as senior-subordinated mortgage securities. In general, the Company intends to only acquire CMOs or multi-class Pass-Through certificates that represent beneficial ownership in grantor trusts holding Mortgage Loans, or regular interests and residual interests in REMICs, or that otherwise constitute REIT Real Estate Assets.

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Mortgage Derivatives. The Company invests in Mortgage Derivatives, including Interest-Only securities (IOs), Inverse IOs, Sub IOs and floating rate derivatives, as market conditions warrant. Mortgage Derivatives provide for the holder to receive interest only, principal only, or interest and principal in amounts that are disproportionate to those payable on the underlying Mortgage Loans. Payments on Mortgage Derivatives are highly sensitive to the rate of prepayments on the underlying Mortgage Loans. In the event that prepayments on such Mortgage Loans occur more frequently than anticipated, the rates of return on Mortgage Derivatives representing the right to receive interest only or a disproportionately large amount of interest, i.e., IOs, would be likely to decline. Conversely, the rates of return on Mortgage Derivatives representing the right to receive principal only or a disproportional amount of principal, i.e., POs, would be likely to increase in the event of rapid prepayments.

Some IOs in which the Company may invest, such as Inverse IOs, bear interest at a floating rate that varies inversely with (and often at a multiple of) changes in a specific index. The yield to maturity of an Inverse IO is extremely sensitive to changes in the related index. The Company also may invest in inverse floating rate Mortgage Derivatives, which are similar in structure and risk to Inverse IOs, except they generally are issued with a greater stated principal amount than Inverse IOs.

Other IOs in which the Company may invest, such as Sub IOs, have the characteristics of a Subordinated Interest. A Sub IO is entitled to no payments of principal; moreover, interest on a Sub IO often is withheld in a reserve fund or spread account to fund required payments of principal and interest on more senior tranches of mortgage securities. Once the balance in the spread account reaches a certain level, excess funds are paid to the holders of the Sub IO. These Sub IOs provide credit support to the senior classes and thus bear substantial credit risks. In addition, because a Sub IO receives only interest payments, its yield is extremely sensitive to the rate of prepayments (including prepayments as a result of defaults) on the underlying Mortgage Loans.

IOs can be effective hedging devices because they generally increase in value as fixed-rate mortgage securities decrease in value. The Company also may invest in other types of derivatives currently available in the market and other Mortgage Derivatives that may be developed in the future if the Manager determines that such investments would be advantageous to the Company.

FHA and GNMA Project Loans. The Company may invest in loan participations and pools of loans insured under a variety of programs administered by the Department of Housing and Urban Development ("HUD"). These loans will be insured under the National Housing Act and will provide financing for the purchase, construction or substantial rehabilitation of multifamily housing, nursing homes and intermediate care facilities, elderly and handicapped housing, and hospitals.

Similar to CMBS, investments in FHA and GNMA Project Loans will be collateralized by a more limited number of loans, with larger average principal balances, than RMBS, and will therefore be subject to greater performance variability. Loan participations are most often backed by a single FHA-insured loan. Pools of insured loans, while more diverse, still provide much less diversification than pools of single-family loans.

FHA insured loans will be reviewed on a case by case basis to identify and analyze risk factors, which may materially impact investment performance. Property-specific data such as debt service coverage ratios, loan-to-value ratios, HUD inspection reports, HUD financial statements and rental

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subsidies will be analyzed in determining the appropriateness of a loan for investment purposes. The Manager will also rely on the FHA insurance contracts and their anticipated impact on investment performance in evaluating and managing the investment risks. FHA insurance covers 99% of the principal balance of the underlying project loans. Additional GNMA credit enhancement may cover 100% of the principal balance.

Other. The Company may invest in fixed-income securities that are not mortgage assets, including securities issued by corporations or issued or guaranteed by U.S. or sovereign foreign entities, loan participations, emerging market debt, high yield debt and collateralized bond obligations.

Hedging Activities

The Company enters into hedging transactions to protect its investment portfolio and related borrowings from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, Mortgage Derivatives 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 and the need to maintain the Company's status as a REIT. The Manager may elect to have the Company bear a level of interest rate risk that could otherwise be hedged when the Manager believes, based on all relevant facts, that bearing such risk is advisable. The Manager has extensive experience in hedging mortgages, mortgage-related assets and related borrowings with these types of instruments.

Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearinghouse, or regulated by any U.S. or foreign governmental authorities. Consequently, there may be no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. The Company will enter into these transactions only with counterparties with long-term debt rated "A" or better by at least one nationally recognized statistical rating organization. The business failure of a counterparty with which the Company has entered into a hedging transaction will most likely result in a default, which may result in the loss of unrealized profits and force the Company to cover its resale commitments, if any, at the then current market price. Although generally the Company 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 market value of the Company's capital across a reasonable range of adverse interest rate scenarios. However, no strategy can insulate the Company completely from changes in interest rates.

The Company's hedging policy with regard to its sterling denominated London Loan, a (pound)21,459 Sterling denominated loan funded in August 1998, is to minimize its exposure to fluctuations in the sterling exchange rate. As of December 31, 2001, the Company had forward contracts outstanding which are intended to hedge currency risk in connection with the Company's investment

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in the London Loan.

From time to time the Company may reduce its exposure to market interest rates by entering into various financial instruments that adjust portfolio duration. These financial instruments are intended to mitigate the effect of interest rates on the value of certain assets in the Company's portfolio. At December 31, 2001, the Company had outstanding short positions of 80 thirty-year U.S. Treasury Bond future contracts, 500 ten-year U.S. Treasury Note future contracts and a short call swaption with a notional amount of \$400,000. At December 31, 2000, the Company did not have U.S. Treasury future contracts or swaptions.

Interest rate swap agreements as of December 31, 2001 and 2000 consisted of the following:

2001					
Notional Value	Estimated Fair Value	Unamortized Cost	Average Remaining Term	Notional Value	Estimated Fair Value
\$792,000	\$(9,380)	\$4,764	8.12 years	\$226,000	\$(12,505)

As of December 31, 2001, the Company had designated \$682,000 of the interest rate swap agreements as cash flow hedges of borrowings under reverse repurchase agreements.

Financing and Leverage

The Company has financed its assets with the net proceeds of its initial public, secondary offering, follow-on offerings, the issuance of preferred stock, short-term borrowings under repurchase agreements, and the lines of credit discussed below. In the future, operations may be financed by future offerings of equity securities, and unsecured and secured borrowings. The Company expects that, in general, it will employ leverage consistent with the type of assets acquired and the desired level of risk in various investment environments. The Company's governing documents do not explicitly limit the amount of leverage that the Company may employ. Instead, the Board of Directors has adopted an indebtedness policy for the Company that limits total leverage to a maximum 6.0:1 debt to equity. At December 31, 2001 and 2000, the Company's debt-to-equity ratio was approximately 4.8 to 1 and 3.2 to 1, respectively. The Company anticipates that it will maintain debt-to-equity ratios between 2.5 to 1 and 5.0 to 1 in the foreseeable future, although this ratio may be higher or lower from time to time. The Company's indebtedness policy may be changed by the Board of Directors in the future.

On July 19, 1999, the Company entered into an \$185,000 committed credit facility with Deutsche Bank, AG (the "Deutsche Bank Facility"). The Deutsche Bank Facility has a two-year term and provides for a one-year extension at the Company's option. The Deutsche Bank Facility was extended for a one-year term thru July 19, 2002, and is currently under negotiation to be extended. The Deutsche Bank Facility can be used to replace existing reverse repurchase agreement borrowings and to finance the acquisition of mortgage-backed securities, loan investments, and investments in real estate joint ventures. As of December 31, 2001 and December 31, 2000, the outstanding borrowings under this facility were \$43,409 and \$53,810,

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respectively. Outstanding borrowings under the Deutsche Bank Facility bear interest at a LIBOR based variable rate

The Company has an agreement with Merrill Lynch which permits the Company to borrow up to \$200,000. As of December 31, 2001 and December 31, 2000, the outstanding borrowings under this line of credit were \$57,113, and \$63,453 respectively. The agreement requires assets to be pledged as collateral, which may consist of rated CMBS, rated RMBS, residential and commercial mortgage loans, and certain other assets. Outstanding borrowings under this line of credit bear interest at a LIBOR based variable rate. On January 15, 2002, the facility was renewed for a twelve-month period.

In September 2000, the Company closed a \$200,000, one-year term facility with Merrill Lynch Mortgage Capital Inc. ("Merrill Lynch"), which was used to finance the Company's residential loan pools. As of December 31, 2001 there were no outstanding borrowings under this facility. As of December 31, 2000 outstanding borrowings were \$37,253. Outstanding borrowings under this facility bear interest at a LIBOR based variable rate. This facility expired pursuant to its terms in September 2001.

On March 14, 2001 the Company entered into a one-year term facility with PNC Funding, Inc. which permits the Company to borrow up to \$50,000. As of December 31, 2001, the outstanding borrowing under this facility was \$13,885. The agreement requires assets to be pledged as collateral. The outstanding borrowings were repaid prior to the expiration on March 13, 2002.

In June 1999, the Company closed a \$17,500, three-year term financing secured by the Company's \$35,000 Santa Monica Loan. As of December 31, 2000, the Company had drawn \$17,500; the financing was paid off in March 2001 when the Santa Monica Loan was paid off.

At the time of the CORE Cap acquisition, CORE Cap was a party to commercial paper facility agreements with ABN Amro which was used to finance residential and commercial loans, which are used to collateralize borrowings under the facility. Following the CORE Cap acquisition, the Company renewed the facility with ABN Amro, in the amount of \$200,000. As of December 31, 2000, outstanding borrowing under the facility was \$30,115; this facility was paid off in 2001.

The Company is subject to various covenants in its lines of credit, including maintaining a minimum GAAP net worth of \$140,000, a debt-to-equity ratio not to exceed 5.0 to 1, a minimum cash requirement based upon certain debt to equity ratios, a minimum debt service coverage ratio of 1.5, and a minimum liquidity reserve of \$10,000. Additionally, the Company's GAAP net worth cannot decline by more than 37% during the course of any two consecutive fiscal quarters. As of December 31, 2001, the Company was in compliance with all such covenants.

On December 2, 1999 the Company authorized and issued 1,200,000 shares of Series A Preferred Stock for aggregate proceeds of \$30,000. The Preferred Stock carries a 10.5% coupon and is convertible into Common Stock at a price of \$7.35 per share. The Series A Preferred Stock has a seven-year maturity at which time, at the option of the holders, the shares may be converted into common shares or liquidated for \$28.50 per share. On December 21, 2001, the only Series A Preferred shareholder converted 1,190,000 shares of the Series A Preferred Stock into 4,096,854 shares of Company Common Stock at a price of \$7.26 per share pursuant to the terms of such preferred stock, which was \$0.09 lower than the original conversion price due to the effects of anti-dilution provisions in the Series A Preferred Stock. The remaining 10,000 shares of Series A Preferred Stock were converted into 34,427 shares of the Company's Common Stock in March 2002.

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On February 14, 2001 the Company completed a secondary offering of 4,000,000 shares of its Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting underwriting fees and expenses) were approximately \$33,300. The Company had granted the underwriters an option, exercisable for 30 days, to purchase up to 600,000 additional shares of Common Stock to cover over-allotments. This option was exercised on March 13, 2001 and resulted in net proceeds to the Company of approximately \$5,000.

On May 11, 2001, the Company completed a follow-on offering of 4,000,000 shares of its Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting underwriting fees and expenses) were approximately \$37,800. The Company had granted the underwriters an option, exercisable for 30 days, to purchase up to 600,000 additional shares of Common Stock to cover over-allotments. This option was exercised on June 6, 2001 and resulted in net proceeds to the Company of approximately \$5,675.

On November 7, 2001 the Company completed a follow-on offering of 4,400,000 shares of its Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting estimated expenses) were approximately \$39.4 million. On November 13, 2001, the underwriters exercised an option to purchase an additional 90,000 shares of Common Stock available through an over-allotment granted to the underwriters and resulted in net proceeds to the Company of approximately \$810.

For the year ended December 31, 2001, the Company issued 2,228,566 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately \$22,945. No shares were issued for the year ended December 31, 2000 under the Dividend Reinvestment Plan.

The Company has entered into reverse repurchase agreements to finance most of its securities available for sale which are not financed under its lines of credit. The reverse repurchase agreements are collateralized by most of the Company's securities available for sale and bear interest at rates that have historically moved in close relationship to LIBOR.

Certain information with respect to the Company's collateralized borrowings at December 31, 2001 is summarized as follows:

	Lines of Credit and Term Loans	Reverse Repurchase Agreements
Outstanding borrowings	\$115,747	\$1,720,191
Weighted average borrowing rate	3.62%	1.94%
Weighted average remaining maturity	186 Days	18 Days
Estimated fair value of assets pledged	\$173,139	\$1,825,971

At December 31, 2001, \$20,356 of borrowings outstanding under the line of credit was denominated in pounds sterling, and interest payable is based on sterling LIBOR.

At December 31, 2001, the Company's collateralized borrowings had the following remaining maturit

	Lines of Credit and	Reverse Repurchase
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	Term Loan	Agreements
Within 30 days	\$58,453	\$1,700,420
31 to 59 days	-	19,771
Over 60 days	57,294	-
	\$115,747	\$1,720,191

As of December 31, 2001, \$141,591 of the Company's \$185,000 committed credit facility with Deutsche Bank, AG was available for future borrowings, and \$142,887 was available under the Company's \$200,000 term facility with Merrill Lynch.

Under the line of credit and the reverse repurchase agreements, the lender retains the right to mark the underlying collateral to estimated market value. A reduction in the value of its 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 maintains adequate liquidity to meet such calls.

Operating Policies

The Company has adopted compliance guidelines, including restrictions on acquiring, holding and selling assets, to ensure that the Company meets the requirements for qualification as a REIT and is excluded from regulation as an investment company. 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 mortgage 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 of 1940.

The Company's unaffiliated directors review all transactions of the Company on a quarterly basis to ensure compliance with the operating policies and to ratify all transactions with PNC Bank and its affiliates, except that the purchase of securities from PNC Bank and its affiliates require prior approval. The unaffiliated directors rely substantially on information and analysis provided by the Manager to evaluate the Company's operating policies, compliance therewith and other matters relating to the Company's investments.

In order to maintain the Company's REIT status, the Company generally intends to distribute to stockholders aggregate dividends equaling at least 95% of its taxable income each year and 90% for years ending after 2000. The code permits the Company to fulfill this distribution requirement by the end of the year following the year the taxable income was earned.

Regulation

The Company intends to continue to conduct its business so as not to become regulated as an investment company under the Investment Company Act. Under the Investment Company Act, a non-exempt entity that is an investment company is required to register with the SEC and is subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise

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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. Pursuant to such SEC staff interpretations, certain of the Company's interests in agency pass-through and mortgage-backed securities and agency insured project loans are Qualifying Interests. In general, the Company will acquire subordinated CMBS only when such mortgage securities are collateralized by pools of first mortgage loans, when the Company can monitor the performance of the underlying mortgage loans through loan management and servicing rights, and when the Company has appropriate workout/foreclosure rights with respect to the underlying mortgage loans. When such arrangements exist, the Company believes that the related subordinated 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 primarily in such subordinated CMBS and/or in other Qualifying Interests. However, if the SEC or its staff were to take a different position with respect to whether the Company's subordinated 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 comply with the Investment Company Act and be able to register as an investment company. In such event, (i) modification of the Company's business plan so that it would not be required to register as an investment company would likely entail a disposition of a significant portion of the Company's subordinated CMBS or the acquisition of significant additional assets, such as agency pass-through and mortgage-backed securities, which are Qualifying Interests or (ii) modification of the Company's business plan to register as an investment company would result in significantly increased operating expenses and would likely entail significantly reducing the Company's indebtedness (including the possible prepayment of the Company's short-term borrowings), which could also require it to sell a significant portion of its assets. No assurances can be given that any such dispositions or acquisitions of assets, or deleveraging, 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 an unregistered investment company, there would be a risk that the Company would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that the Company would be unable to enforce contracts with third parties and that third parties could seek to obtain rescission of transactions undertaken during the period it was established that the Company was an unregistered investment company. Any such results would be likely to have a material adverse effect on the Company.

Competition

The Company's net income depends, in large part, on the Company's ability to acquire mortgage assets at favorable spreads over the Company's borrowing costs. In acquiring mortgage 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, 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 mortgage assets suitable for purchase by the Company. Many of the Company's anticipated 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

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REITs focused on purchasing mortgage 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 other than officers, each of whom are full-time employees of the Manager, whose duties include performing administrative activities for the Company.

Management Agreement

The Company is managed pursuant to a management agreement, dated March 27, 1998, between the Company and the Manager (the "Management Agreement"), pursuant to which the Manager is responsible for the day-to-day operations of the Company and performs such services and activities relating to the assets and operations of the Company as may be appropriate. The initial two year term of the Management Agreement was to expire on March 27, 2000; on March 16, 2000, the Management Agreement was extended for an additional two years, with the unanimous approval of the unaffiliated directors, on terms similar to the prior agreement. On March 25, 2002, the Management Agreement was extended for one year through March 27, 2003, with the unanimous approval of the unaffiliated directors, on terms similar to the prior agreement with the following changes: (i) the incentive fee calculation would be based upon GAAP earnings instead of funds from operations, (ii) the removal of the four year period to value the Management Agreement in the event of termination and (iii) subsequent renewal periods of the Management Agreement would be for one year instead of two years. The Board was advised by Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ("Houlihan Lokey") in the renewal process. Houlihan Lokey is a national investment banking and financial advisory firm. The Manager primarily engages in three activities on behalf of the Company: (i) acquiring and originating mortgage 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; and (iii) capital management, structuring, analysis, capital raising and investor relations activities. In conducting these activities, the Manager formulates operating strategies for the Company, arranges for the acquisition of assets by the Company, arranges for various types of financing and hedging strategies for the Company, monitors the performance of the Company's assets and provides certain administrative and managerial services in connection with the operation of the Company. At all times, the Manager is 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 after the first two years 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. Additionally, at the time of the Core-Cap merger, the Manager agreed to pay GMAC Mortgage Asset Management, Inc. (GMAC) \$12,500 over a ten-year period (Installment Payment). The Company agreed that should it terminate the Manager without cause, the Company would pay to the Manager an amount equal to the Installment Payment less the sum of all payments made by the Manager to GMAC. As of December 31, 2001, the installment payment would be \$11,000 payable over nine years. The Company does not accrue for this contingent liability.

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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.

In order to coincide with the increased scale of the Company, effective July 1, 2001, the Manager reduced the base management fee, payable under the Management Agreement to 0.20% of average invested assets rated above BB+ from 0.35%. Additionally, effective July 1, 2001, the Manager revised the hurdle rate applicable to the incentive fee from 3.5% over the ten-year U.S. Treasury Rate, to the greater of 3.5% over the ten-year U.S. Treasury Rate or 9.5% on the adjusted issue price of the Common Stock. This revision resulted in \$1,689 in savings to the Company during 2001.

Taxation of the Company

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

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

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

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

ITEM 2. PROPERTIES

The Company does not maintain an office and owns no real property. It utilizes the offices of the Manager, located at 40 East 52nd Street, New York, New York 10022.

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ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings.

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2001, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock has been listed and is traded on the New York Stock Exchange under the symbol "AHR" since the 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 distributions declared by the Company with respect to the periods indicated as were traded during these respective time periods.

1999 ----	High -----	Low -----	Last Sale -----	Dividends Declared -----
First Quarter.....	\$7.938	\$6.380	\$7.500	.29
Second Quarter.....	7.689	6.500	6.563	.29
Third Quarter.....	7.125	6.500	6.875	.29
Fourth Quarter.....	6.938	6.000	6.375	.29
2000				

First Quarter.....	7.500	6.250	7.125	.29
Second Quarter.....	7.625	6.625	7.125	.29
Third Quarter.....	8.625	6.813	8.125	.29
Fourth Quarter.....	8.188	7.125	7.750	.30
2001				

First Quarter.....	9.850	7.563	9.650	.30
Second Quarter.....	11.080	9.290	11.050	.32
Third Quarter.....	11.690	10.050	10.400	.32
Fourth Quarter.....	11.210	9.500	10.990	.35
2002				

First Quarter through March 25, 2002...	11.86	10.80	11.74	.35

On March 25, 2002, the closing sale price for the Company's Common Stock, as reported on the New York Stock Exchange, was \$11.74. As of March 25, 2002, there were approximately 544 record holders of the Common Stock and 34 record holders of the Preferred Stock. This figure does not reflect

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beneficial ownership of shares held in nominee name.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below as of and for the years ended December 31, 2001, 2000 and 1999, and the period March 24, 1998 (commencement of operations) through December 31, 1998 has been derived from the Company's audited financial statements. This information should be read in conjunction with "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as the audited financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data".

(In thousands, except per share data)	For the Year Ended December 31, 2001	For the Year Ended December 31, 2000	For the Y Decem 31, 1
Operating Data:			

Total income	\$131,220	\$97,642	
Expenses	72,136	60,839	
Other gains (losses)	(910)	2,523	
Cumulative transition adjustment	(1,903)	-	
Net income (loss)	56,271	39,326	
Net income (loss) available to common shareholders	47,307	32,261	
 Per Share Data:			

Net income (loss):			
Basic	1.41	1.37	
Diluted	1.35	1.28	
Dividends declared per common share	1.29	1.17	
 Balance sheet Data:			

Total assets	2,613,276	1,033,651	
Total liabilities	2,229,903	760,993	
Total stockholders' equity	383,115	242,254	
Redeemable convertible preferred stock	258	30,404	

The net loss in 1998 reflects realized losses of \$18,262 resulting from the sale of a substantial portion of the Company's available for sales securities and termination of an interest rate swap agreement.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, except per share amounts)

General

The Company's primary long-term objective is to distribute consistent dividends supported by operating earnings. The Company considers its operating earnings to be net income available to common shareholders as

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determined under GAAP before realized gains (losses) and FAS 133 hedging adjustments.

Strong GAAP operating earnings are primarily maintained by consistent credit performance on the Company's investments and stability of the Company's liability structure. To achieve its objective the Company is focused on increasing its size and capital base. This should lead to increased diversification of credit exposures and improved diversification of financing sources creating a more stable earnings platform. Where increased size can be achieved without diluting common shareholders equity the Company will pursue it aggressively.

The Company's business focuses on (i) investing in below investment grade CMBS where the Company has the right to control the foreclosure or workout process on the underlying loans; (ii) originating high yield commercial real estate loans, which includes senior interests in partnerships that own real property and are reported as real estate or joint venture investments; and (iii) acquiring investment grade real estate related securities, including Government guaranteed residential mortgage backed securities to act as a liquidity support for the other two operations.

The Company's management believes that this represents an integrated strategy where each asset class supports the others and creates additional value for shareholders over and above operating each in isolation. The CMBS portfolio provides diversification and high loss adjusted returns over a weighted average life of approximately 10 years, the commercial real estate loans provide high risk adjusted returns for shorter periods of time, and the investment grade securities is an actively managed portfolio that supports the liquidity needs of the Company while earning attractive returns.

These strategies are pursued within an aggregate risk management framework that seeks to limit the exposure of the Company's equity and earnings to changes in interest rates, capital availability and other factors beyond the Company's control.

In 2001 the Company continued to focus on maintaining liquidity, increasing capital base and reducing risk where feasible. During 2001, the Company issued 15,918,565 shares of Common Stock for cash at levels that were accretive to shareholder book value. In addition \$65,600 of commercial assets were paid off in the first half of the year. The Company deployed most of its new capital and maturity proceeds into Government guaranteed residential mortgages. This strategy was highly effective in an environment in which the U.S. economy was slowing. The steep yield curve created by the Federal Reserve Board's aggressive reduction of short-term rates resulted in significant income opportunities for investments in this sector. This further served to allow the Company to maintain its cautious approach to the commercial real estate sector, yet still increase earnings per share. This in turn put upward pressure on the dividends resulting in an increase in annualized dividends of \$0.20 per share, a 17% increase.

Invested equity in the investment grade portfolio reached a peak of 47.4% at the end of the third quarter 2001 and fell to 31.8% by the end of the fourth quarter of 2001. The Company records these assets on its balance sheet in the categories Securities available for sale - Investment grade securities and Securities held for trading. Generally, the Company has maintained 25% of its invested equity in this sector to act as a liquidity reserve in support of commercial assets.

During the fourth quarter of 2001, signs of improving economic activity in the United States began to appear, according to some sources and indications. In reaction to this, the Company began to hedge short-term

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rates more actively and shifted its investment focus back to commercial real estate assets. Management saw the trend of tightening first mortgage underwriting and wider spreads was creating more favorable risk adjusted returns in the CMBS markets. Additionally, the feasibility of issuing term debt secured by these assets was improving through an increasingly active collateralized debt obligation ("CDO") market. During the fourth quarter of 2001 the Company closed on approximately \$108,000 par value of CMBS. The focus of these acquisitions has generally been towards office and retail properties throughout the United States with less emphasis on lodging properties. The Company is also aggressively pursuing a matched funding strategy for its CMBS assets as greater liquidity in the capital markets increases the probability of executing a term financing transaction in the CDO market.

Reportable earnings also benefited from economies of scale as the Company has grown. Effective July 1, 2001 the Manager reduced the base management fee payable to the Manager under the Management Agreement by over 42% on investment grade assets. Quarterly base management fees on a per share basis were \$0.047 per share for the quarter ended December 31, 2001, as compared to \$0.059 per share for the quarter ended December 31, 2000. Additionally, the Manager reduced the incentive fee, payable to the Manager under the Management Agreement, by raising the threshold of its participation in income of the Company from 350 basis points over the 10 year Treasury (8.23% for the quarter ended December 31, 2001) to the greater of that amount or 9.50%. This threshold is based on the adjusted issue price of the Common Stock. At December 31, 2001, the adjusted issue price of the Common Stock was \$11.75 compared to the GAAP book value of \$7.53. The increase to a 9.50% threshold on adjusted issue price increased the earnings threshold from \$0.97 to \$1.12 per share and from 12.9% to 14.9% return on equity based upon December 31, 2001 GAAP book value. In aggregate, the fee reductions adopted by the Manager increased return on equity by 122 basis points, and increased GAAP book value by \$0.02 per share, for the quarter ended December 31, 2001.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based on the amounts reported in the Company's consolidated financial statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make various judgments, estimates and assumptions that affect the reported amounts. Changes in these estimates and assumptions could have a material effect on the Company's financial statements. The following is a summary of the Company's accounting policies that are the most affected by management judgments, estimates and assumptions:

Securities Available for Sale

The Company has designated its investments in mortgage-backed securities, mortgage-related securities and certain other securities as available for sale. Securities available for sale are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Many of these investments are relatively illiquid, and their values must be estimated by management. In making these estimates, management generally utilizes market prices provided by dealers who make markets in these securities, but may, under certain circumstances, adjust these valuations based on management's judgment. Changes in the valuations do not affect the Company's reported income or cash flows, but impact stockholders' equity and, accordingly, book value per share.

Management must also assess whether unrealized losses on securities reflect

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a decline in value which is other than temporary, and, accordingly, write the impaired security down to its fair value, through earnings. Significant judgment is required in this analysis.

Income on these securities is recognized based upon a number of assumptions that are subject to uncertainties and contingencies. Examples of these include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. Additional factors that may affect the Company's reported interest income on its mortgage securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing and magnitude of credit losses on the mortgage loans underlying the securities 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. These uncertainties and contingencies are difficult to predict and are subject to future events which may alter the assumptions.

Securities Held for Trading

The Company has designated certain other securities as held for trading. Securities held for trading are also carried at estimated fair value, but changes in fair value are included in income. The valuations of these securities and the interest income recognized are subject to the same uncertainties as those discussed above.

Mortgage Loans

The Company purchases and originates commercial mortgage loans to be held as long-term investments. The Company also has an investment in a private opportunity fund which invests in commercial mortgage loans, and is managed by the same entity that manages the Company. Management must periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is determined to be impaired, the Company would establish a reserve for possible losses, and a corresponding charge to earnings. Given the nature of the Company's loan portfolio and the underlying commercial real estate collateral, significant judgment is required in determining impairment and the resulting loss allowance. To date, the Company has determined that no loss allowances have been necessary on the loans in its portfolio or held by the opportunity fund.

Real Estate Joint Ventures

The Company makes investments in real estate entities over which the Company exercises significant influence, but not control. The real estate held by such entities must be regularly reviewed for impairment, and would be written down to its estimated fair value, through earnings, if impairment is determined to exist. This review involves assumptions about the future operating results of the real estate, and market factors, all of which are subjective and difficult to predict. To date, the Company has determined that none of the real estate held by its joint ventures is impaired.

Derivative Instruments

The Company utilizes various hedging instruments (derivatives) to hedge interest rate and foreign currency exposures or to modify the interest rate or foreign currency characteristics of related Company investments. All derivatives are carried at fair value, generally estimated by management based on valuations provided by the counterparty to the derivative contract. For accounting purposes, Company management must decide whether to designate

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these derivatives as hedging borrowings, securities available for sale, trading securities, or foreign currency exposure. This designation decision affects the manner in which the changes in the fair value of the derivatives are reported.

Market Conditions and Their Effect on Company Performance

The principal performance risks that the Company faces are (i) credit risk on the CMBS and commercial real estate loans it underwrites; (ii) interest rate risk, which affects the market value of the Company's assets and the cost of funds needed to finance these assets and (iii) liquidity risk, which affects the Company's ability to finance itself over the long term.

Credit Risk and Company Performance: The Company's primary risk is commercial real estate credit risk. These investments take two forms: (1) below investment grade CMBS 2) commercial real estate loans.

CMBS are debt instruments with a stated par amount and a fixed or floating rate coupon. The cash flow used to pay the CMBS comes from a pool of commercial real estate secured by first mortgages. The credit losses that occur on the underlying mortgages are charged first to the CMBS with the lowest credit rating. These CMBS are commonly referred to as the "first loss" securities.

Commercial real estate loans are loans made directly to a borrower that are secured by some form of commercial real estate. These loans may be secured by a subordinated interest in a first mortgage, a second mortgage, or interests in a partnership that owns commercial real estate. Additionally, the Company has made preferred equity investments in partnerships that own commercial real estate.

CMBS: The Company considers delinquency information from the Lehman Brothers Conduit Guide for 1998 vintage transactions to be the most relevant measure of credit performance market conditions applicable to its below investment grade CMBS holdings. The broader measure of all transactions tracked in the Conduit Guide since 1994 also provides relevant comparable information. The delinquency statistics are shown in the table below:

Date	Lehman Brothers Conduit Guide For 1998 Vintage Transactions			Lehman Brothers Conduit Guide For 1994 Vintage Transactions	
	Number of Securitizations	Collateral Balance	% Delinquent	Number of Securitizations	Collateral Balance
12/31/01	39	\$51,321,238	1.51%	210	\$18,321,238
12/31/00	41	52,890,768	0.77	180	15,321,238
12/31/99	41	54,338,032	0.47	147	13,321,238
12/31/98	38	53,256,049	0.17	106	9,321,238

Morgan Stanley Dean Witter (MSDW) also tracks CMBS loan delinquencies using a slightly smaller universe. The MSDW index tracks all CMBS transactions with more than \$200,000 of collateral that have been seasoned for at least

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one year. This will generally adjust for the lower delinquencies that occur in newly originated collateral. As of December 31, 2000 the MSDW index indicated that delinquencies on 144 securitizations was 1.01%. As of December 31, 2001 this same index tracked 174 securitizations with delinquencies of 1.85%. See the section titled "Quantitative and Qualitative Disclosures About Market Risks" for a detailed discussion of how delinquencies and loan losses affect the Company.

The Company's below investment grade CMBS portfolio has a total par amount of \$733,830. Of this amount, \$134,433 is the par of the securities that represent the first loss on the underlying mortgages, and \$560,596 is the par of the securities that represent the remaining tranches owned by the Company when the Company owns the first loss security. There are 1,911 underlying loans supporting the Company's first loss CMBS with an aggregate principal balance of over \$9.9 billion as of December 31, 2001. The total below investment grade CMBS portfolio represents 43.8% of invested equity at year end.

The Company manages its credit risk through conservative underwriting, diversification, active monitoring of loan performance and exercise of its right to control the workout process as early as possible. All of these processes are based on the extensive intranet-based analytic systems developed by BlackRock.

In underwriting loans, the Company performs site inspections and/or desktop reviews of all loans in the pools. This process includes detailed analysis of regional economic factors, industry outlooks, project viability and documentation. Unacceptable risks are removed from the pool prior to closing the transaction. An assumption of expected losses is developed and the securities are priced accordingly. Earnings are reported net of the assumption that credit losses will occur.

The Company maintains diversification of credit exposures through its underwriting process and can shift its focus in future investments by adjusting the mix of loans in subsequent acquisitions. During 2001 the Company added \$13,938 of par of first loss CMBS. The collateral profile of the new investment was specifically underwritten to reduce the Company's exposure to the lodging sector. The comparative profiles of the loans underlying the Company's CMBS by property type are:

	12/31/01		12/31/00	
	Exposure		Exposure	
Property Type	Loan Balance	% of Total	Loan Balance	% of Total
Multifamily	\$3,432,708	34.6%	\$3,176,333	34.8%
Retail	2,763,045	27.9	2,429,959	26.6
Office	1,866,338	18.8	1,724,130	18.9
Lodging	853,935	8.6	861,094	9.4
Industrial	604,852	6.1	547,037	6.0
Healthcare	353,697	3.6	367,989	4.0
Parking	35,225	0.4	30,608	0.3
Total	\$9,909,800	100%	\$9,137,150	100%

Active monitoring of loan performance is a critical function that is

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performed via electronic uploads of information gathered from the loan servicers, PNC Bank and external data providers. This Internet-based system allows the Company to monitor payments, debt service coverage ratios, regional economic statistics, general real estate market trends and other relevant factors.

The Company also uses the Internet-based system to monitor delinquencies. The Company updates this information monthly allowing for more detailed analysis of loans before problems develop.

The following table shows a comparison of these delinquencies:

	2001			Principal
	Principal	Number of Loans	% of Collateral	
Past due 30 days to 60 days	\$15,401	5	0.15%	\$6,319
Past due 60 days to 90 days	9,865	4	0.10	7,963
Past due 90 days or more	112,017	18	1.13	28,526
Real Estate owned	8,805	1	0.09	10,145
Total Delinquent	\$146,088	28	1.47%	\$52,953
Total Loan Portfolio	\$9,909,800	1,911		\$9,137,150

Of the 28 delinquent loans as of December 31, 2001, two were delinquent due to technical reasons, one was REO and being marketed for sale, five were in foreclosure, and the remaining 20 loans were in some form of workout negotiations. Aggregate realized losses of \$3,455 were taken in 2001. This brings aggregate losses to \$5,056. This is in line with the Company's loss expectations as realized losses are expected to increase on the 1998 vintage loans as they age.

The subordinated CMBS owned by the Company has a delinquency experience of 1.47%, which is slightly better than 1.51% for directly comparable collateral pursuant to the Lehman Brothers Conduit Guide for 1998 vintage transactions. The Company expects delinquencies to continue to rise throughout 2002 in line with expectations.

During 2001 the Company also experienced early payoffs of \$53,722, which represents 0.54% of the year-end pool balance. These loans were paid-off at par with no loss. The anticipated losses attributable to these loans will be reallocated to the loans remaining in the pools.

Subsequent to December 31, 2001, two of the 28 delinquent loans were brought current and 12 loans became delinquent. Additionally, two other loans with a total balance of \$16,829 were paid off at par with no loss to the Company.

The unrealized loss on the Company's holdings of CMBS at December 31, 2001 was \$96,956. This decline in the value of the investment portfolio represents market valuation changes and is not due to credit experience or

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credit expectations. The adjusted purchase price of the Company's CMBS portfolio as of December 31, 2001 represents approximately 62% of its par amount. The market value of the Company's CMBS portfolio as of December 31, 2001 represents approximately 49% of its par amount. As the portfolio matures the Company expects to recoup the unrealized loss, provided that the credit losses experienced are not greater than the credit losses assumed in the purchase analysis. The Company performs a detailed review of its loss assumptions on a quarterly basis and will adjust them when it believes that credit experience or expectations justify such an adjustment. As of December 31, 2001 the Company concluded that real estate credit fundamentals remain solid, and the Company believes there has been no material change in the credit quality of its portfolio. 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. This would negatively affect the market value and liquidity of the portfolio.

Commercial Real Estate Markets: There is typically a lagged impact of economic conditions on commercial real estate. The most obvious fundamental impacts have been the precipitous drop in office demand and hence asking rents, a reduction in business travel and hence RevPar in the lodging sector, a substantial increase in rent concessions by apartment operators and an increase in tenant bankruptcies, particularly in retail. These effects will continue to be seen even as the public equity markets reflect economic recovery.

The often-noted counterbalance to these negative demand factors is the better-managed supply pipeline. The far greater information availability and transparency of the real estate markets as compared to the 1980's has clearly had a positive effect in aggregate on lender discipline. Aggregate construction starts were down across all property types in 2001 with the biggest year over year percentage declines in office and industrial. The biggest decline by far over the past two years has been in hotel room additions; down 30%. Despite the greater aggregate health of the markets, it is important to note that in "New Economy" submarkets the Company finds conditions as bad or worse than they were in the early 1990's. Just as euphoria gripped sectors of the public equity markets, it similarly affected certain sectors of commercial real estate.

With cap rates trending up on softening fundamentals, the bid/ask spread between buyers and sellers of property widened in 2001 and aggregate transaction volume declined by 13% according to data from Granite Partners. The biggest declines were in office (22%) and multifamily (12%). Despite negative flows from foreign property funds the Company believes there remains substantial liquidity available for U.S. real estate equity investments with unspent allocations from pension funds likely representing the largest single source, and with equity REITs prepared to invest as they see accretive opportunities.

Commercial Real Estate Loans: The Company also owns seven loans and two preferred equity interests in partnerships that own office buildings. The Company's commercial loan portfolio generally emphasizes larger transactions located in metropolitan markets as compared to the loans in the CMBS portfolio. Exposures based on geography and asset type follows:

Location	Principal Balance	%	Property Type	LTV
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Los Angeles	\$22,500	14.9%	Office	78.0%
Tyson's Corner	22,000	14.6	Office	74.0
San Francisco	20,876	13.8	Office	76.0
San Francisco	17,892	11.9	Hotel	69.0
London*	31,199	20.7	Hotel	65.0
New York City	13,170	8.7	Office	66.0
Chicago	15,000	9.9	Multifamily	90.0
Suburban Philadelphia	3,159	2.1	Office	90.0
Tallahassee	5,158	3.4	Office	75.0

Total	\$150,954	100%		74.0%

Diversification by Asset Type

Office	57.6%
Full Service Lodging	32.5%
Multifamily	9.9%

* The London Loan is translated into US dollars using the December 31, 2001 sterling exchange rate of (pound)0.687852.

The Los Angeles Loan, a \$22,500 subordinate class of a \$60,850 loan, is secured by the borrower's interest in a 54-story office tower in downtown Los Angeles, California. The loan matures in December 2002, which may be extended at the borrower's option for two additional one-year periods.

The Tyson's Corner Loan is a \$22,000 subordinate interest in a \$92,000 first mortgage secured by two ten-story office buildings located in Tyson's Corner, Virginia. The loan matures in April 2004, which may be extended at the borrower's option for two additional one-year periods.

The San Francisco Loan consists of two subordinate interests in a \$125,000 note secured by an 11-story 394,457 square foot office building located in the financial district of San Francisco, California. These two subordinated interests total \$20,876 and have a weighted average rating of BB+. The loan matures in December 2007.

The San Francisco Hotel Loan is a \$17,892 mezzanine loan secured by a lien on the borrower's interest in a full service hotel located in San Francisco, California. The loan matures in May 2003.

The London Loan is a (pound)21,459 Sterling denominated loan that was funded in August of 1998. It is secured by five luxury hotel properties in and around London. As of December 31, 2001 the London Loan was valued at 90.0% of par, a decrease from 97.0% of par as of December 31, 2000.

At the beginning of the fourth quarter 2001, the occupancy of both hotel assets declined significantly in the wake of the September 11th tragedy. Occupancy for both assets has subsequently improved and is within the Company's underwritten range of expectations.

The New York City Loan is a \$13,170 subordinate interest in a \$57,750 first mortgage secured by a commercial office building located in midtown New York City. The building is currently 100% leased. The loan matures in January 2004. The Company also owns the \$6,080 BBB- rated CMBS security which is senior to the Company's \$13,170 interest.

The Chicago Loan was a \$30,000 mezzanine loan originated in August of 2000. The loan is secured by a second mortgage on a condominium conversion project

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in Chicago, Illinois, and a first mortgage on an adjacent land parcel, as well as the borrower's partnership interest in the property. The Company originated this loan in September of 2000, for a 24-month term. Condominium unit sales at the project currently exceed expectations. Due to this strong demand the borrower paid off \$15,000 of this loan with prepayment penalties in December of 2000.

None of the loans have experienced any delinquency to-date. All loans are performing at or above underwritten expectations, and all loans are expected to pay off in full at or before their stated maturities.

The suburban Philadelphia investment is a \$3,159 preferred equity interest in a partnership that owns two office buildings totaling approximately 190,000 square feet. One property is in the western suburb of Paoli while the other is in the northern suburb of Newtown. The Paoli property is 100% occupied and the Newtown property is 80% occupied. The expected life of the investment is three years.

The Tallahassee investment is a \$5,158 preferred equity interest in a partnership that owns a 500,000 square foot mixed-use office/retail building. The Company's preferred equity interest represents 36.4% of the partnership. The building is 99% occupied. Primary office tenants include various Florida state government agencies on long-term leases. The expected life of the investment is four years.

Interest Rate Risk and Company Performance: The Company generally makes investments at long-term rates and borrows money to fund those investments at short-term rates. The level of short-term rates and their relationship to long-term rates directly affects the net investment income of the Company. The value of the Company's assets is generally based on market rates for ten-year U.S. Treasury notes and credit spreads. The Company generally pledges its assets when it borrows funds. The value of the assets pledged affects the amount of money the Company can borrow at a given time.

During 2001 the yield on the ten-year U.S. Treasury Note dropped by 7 basis points from 5.11% to 5.04%. During 2001 the yield on the ten-year note was as low as 4.20% and as high as 5.52%. Short-term rates decreased steadily throughout the year as one month LIBOR decreased by 469 basis points from 6.56% to 1.87%. See below the section titled, "Quantitative and Qualitative Disclosures About Market Risk" for a detailed discussion of how interest rates and spreads affect the Company.

Credit spreads represent the premium above the treasury rates required by the market to take credit risk. CMBS credit spreads remain at historically wide levels despite continued strength in the commercial real estate credit markets. The chart below compares the credit spreads for high yield CMBS to high yield corporate bonds.

Average Credit Spreads (in basis points)*

	BB CMBS -----	BB Corporate -----	Difference -----
As of December 31, 2001	590	496	94
As of December 31, 2000	558	523	35
	B CMBS -----	B Corporate -----	Difference -----
As of December 31, 2001	1051	709	342
As of December 31, 2000	987	978	9

* Source - Lehman Brothers CMBS High Yield Index & Lehman Brothers High

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Yield Index

All of the Company's borrowings bear interest at rates that are determined with reference to LIBOR. To the extent that interest rates on the Company's borrowings increase without an offsetting increase in the interest rates earned on the Company's investments and hedges, the Company's earnings could be negatively affected. The chart below compares the rate for ten-year U.S. Treasury securities to the one-month LIBOR rate.

	Ten Year U.S Treasury Securities -----	One month LIBOR -----	Difference -----
December 31, 2001	5.04%	1.87%	3.17%
December 31, 2000	5.12	6.56	1.44

The decrease in LIBOR from December 31, 2000 to December 31, 2001 had a positive impact on the Company's financing costs.

The Company actively hedges its exposure to both short-term and long-term rates. The degree of hedging and the choice of hedging instruments depends on market conditions. This information is reviewed on a daily basis and changes are made accordingly. The Company uses a combination of interest rate futures contracts and interest rate swap agreements to hedge these exposures.

Liquidity Risk: The Company acquires its investments using its capital and borrowed funds. The availability of funds is a key component of the Company's operations. During times of market uncertainty the availability of this type of financing can be very limited. The Company funds itself mainly through short-term secured lending arrangements with various counterparties. These arrangements are generally for 30 day terms and are rolled over for 30 day periods at the end of each term. The Company also has a committed borrowing facility from Deutsche Bank in the amount of \$185 million. This facility matures in July of 2002 and is currently under negotiation to be extended.

The Company's debt to equity ratio has been approximately 4:1 throughout 2001. The three investment operations of the Company are all financed on a secured basis at levels that takes into account the specific risks of that asset class. As of December 31, 2001 the Company's CMBS portfolio is financed at a debt to equity ratio of .98:1, commercial lending at .58:1, and while the high credit quality of the RMBS portfolio allows for financing levels of up to 20:1, the Company operates this portfolio at much more conservative levels of 12:1. Generally the Company maintains debt to equity ratios of 1.5:1 on CMBS, 1:1 on commercial lending and 9:1 on RMBS.

The Company manages this risk by maintaining diverse counterparties, keeping at least 25% of invested equity in liquid assets and seeking matched funding opportunities in secured lending markets such as a CDO.

The Investment Grade assets portfolio acts as the store of liquidity and would be used to support the financing of the credit sensitive assets at times of impaired liquidity. These assets can be sold quickly to raise cash in support of the Company's main investment operations.

Yields on residential mortgage-backed securities fell steadily during the third quarter 2001 as evidence of a weaker economy, exacerbated by the terrorist attacks of September 11, continued to accumulate. Typically, yields of mortgage-backed securities lag declines in other interest rates due to rising prepayment expectations. This was generally the case during the quarter as yield spreads widened against both Treasuries and interest

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rate swaps, particularly along the shorter end of the yield curve. However, during the second half of September 2001, the significant incremental yield of mortgage-backed securities over other short and intermediate duration assets attracted sizable demand from financial institutions. Therefore, despite poor prepayment fundamentals and rising supply, demand indicators were exceptionally strong.

This trend reversed dramatically in the fourth quarter as yields were exceptionally volatile. Investors reduced interest rate exposure in anticipation of a reversal in Federal Reserve Board policy. The sell-off was exacerbated by the lengthening durations of mortgage securities, which thereby increased the amount of securities that needed to be sold. The combination of increased realized volatility and duration uncertainty hurt the sector during the quarter. While rising interest rates should ultimately improve fundamentals and technicals for the sector, the violent nature of the sell-off led to poor relative performance for mortgage-backed securities during November and December.

During 2001 the Company increased the size of the Investment Grade portfolio significantly. The capital markets were favorable for issuing stock and the Company took advantage of that opportunity. The proceeds raised were invested immediately into the investment grade portfolio. Investments were generally made in fixed rate 15 year Government guaranteed residential mortgage backed securities issued by FNMA or FHLMC. The portfolio is comprised mainly of low coupon mortgages that were acquired at a slight discount to par. This would serve to protect the Company during periods of high pre-payment. The prepayment characteristics of RMBS generally cause the value of these securities to increase less in falling interest rate environments and decrease at a greater rate in rising interest rate environments. The equity duration of this portfolio is generally hedged to five years using interest rate swaps and futures.

Recent Events

In March 2002 the remaining 10,000 shares of the Series A Preferred Stock were converted into 34,427 shares of Company Common Stock at a price of \$7.26 per share pursuant to its terms.

In February 2002, the Company sold the FMACT Class C bond, resulting in a realized loss of \$3,610.

On March 25, 2002, the Management Agreement was extended for one year through March 27, 2003, with the unanimous approval of the unaffiliated directors, on terms similar to the prior agreement with the following changes; (i) the incentive fee calculation would be based on GAAP earnings instead of FFO, (ii) removal of the four year period to value the investment agreement in case of termination, and (iii) subsequent renewal periods of the Management Agreement would be for one year instead of two years.

Funds From Operations (FFO)

Most industry analysts, including the Company, consider FFO an appropriate supplementary measure of operating performance of a REIT. In general, FFO adjusts net income for non-cash charges such as depreciation, certain amortization expenses and gains or losses from debt restructuring and sales of property. However, FFO does not represent cash provided by operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of the results of the Company's performance or to cash flows as a measure of liquidity.

The Company computes FFO in accordance with the definition recommended by the National Association of Real Estate Investment Trusts. The Company

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believes that the exclusion from FFO of gains or losses from sales of property was not intended to address gains or losses from sales of securities as it applies to the Company. Accordingly, the Company includes gains or losses from sales of securities in its calculation of FFO.

The Company's FFO for the year ended December 31, 2001 and 2000 was \$56,271, and \$39,326, respectively, which was the same as its reported GAAP net income for the periods. The Company reported cash flows (used in)/provided by operating activities of \$(375,715) and \$115,734, cash flows (used in)/provided by investing activities of \$(832,525) and of \$883,913 and cash flows provided by/(used in) financing activities of \$1,213,482 and \$(984,083) in its statement of cash flows for the year ended December 31, 2001 and 2000, respectively.

Results of Operations

Net income for the year ended December 31, 2001 was \$56,271 or \$1.41 per share (\$1.35 diluted). Net income for the year ended December 31, 2000 was \$39,326 or \$1.37 per share (\$1.28 diluted). Net income for the year ended December 31, 1999 was \$26,673, or \$1.27 per share (\$1.26 diluted). The increase in income in 2001 from 2000 is primarily due to the reduction in short-term rates and accretive reinvestment of new capital. The increase in income in 2000 from 1999 is primarily due to the fact that the Company raised additional capital and was able to invest at high-risk adjusted yields.

Interest Income: The following table sets forth information regarding the total amount of income from certain of the Company's interest-earning assets and the resulting average yields. Information is based on monthly average adjusted cost basis during the period.

	For the Year Ended December 31,	
	Interest Income	Average Balance
CMBS	\$ 39,882	\$ 388,800
Other securities available for sale	45,255	736,752
Commercial mortgage loans	15,499	123,802
Mortgage loan pools	1,575	20,778
Cash and cash equivalents	2,581	91,630
Total	\$ 104,792	\$ 1,361,762

	For the Year Ended December 31,	
	Interest Income	Average Balance
CMBS	\$37,619	\$372,465
Other securities available for sale	37,497	468,177
Commercial mortgage loans	14,359	110,287
Mortgage loan pools	6,481	85,501
Cash and cash equivalents	1,313	22,189
Total	\$97,269	\$1,058,619

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	For the Year Ended December 31,	
	Interest Income	Average Balance
CMBS	\$33,788	\$354,713
Other securities available for sale	14,318	223,410
Commercial mortgage loan	5,549	51,787
Cash and cash equivalents	670	11,473
Total	\$54,325	\$641,383

In addition to the foregoing, the Company earned \$24,681, \$25, and \$3,186 in interest income from securities held for trading during the years ended December 31, 2001, 2000, and 1999, respectively, \$1,667 and \$348 in earnings from real estate joint ventures during the years ended December 31, 2001 and 2000, respectively, and \$80 in earnings from an equity investment in 2001.

Interest Expense: The following table sets forth information regarding the total amount of interest expense from certain of the Company's collateralized borrowings. Information is based on daily average balances during the period.

	For the Year Ended December 31,	
	Interest Expense	Average Balance
Reverse repurchase agreements	\$ 45,126	\$ 1,180,115
Lines of credit and term loan	8,204	140,468
Total	\$ 53,330	\$ 1,320,583

	For the Year Ended December 31,	
	Interest Expense	Average Balance
Reverse repurchase agreements	\$34,263	\$505,893
Lines of credit and term loan	16,849	229,863
Total	\$51,112	\$735,756

	For the Year Ended December 31,	
	Interest Expense	Average Balance
Reverse repurchase agreements	\$16,454	\$283,322
Lines of credit and term loan	5,314	82,540

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Total	\$21,768	\$365,862
	=====	=====

The foregoing interest expense amounts for the year ended December 31, 2001 does not include \$428 of hedge ineffectiveness, as well as \$5,643 of interest expense related to swaps. See Note 12, Derivative Instruments, for further description of the Company's hedge ineffectiveness.

Net Interest Margin and Net Interest Spread from the Portfolio: The Company considers its portfolio to consist of its securities available for sale, mortgage loan pools, commercial mortgage loans, and cash and cash equivalents because these assets relate to its core strategy of acquiring and originating high yield loans and securities backed by commercial real estate, while at the same time maintaining a portfolio of liquid investment grade securities to enhance the Company's liquidity.

Net interest margin from the portfolio is annualized net interest income from the portfolio divided by the average market value of interest-earning assets in the portfolio. Net interest income from the portfolio is total interest income from the portfolio less interest expense relating to collateralized borrowings. Net interest spread from the portfolio equals the yield on average assets for the period less the average cost of funds for the period. The yield on average assets is interest income from the portfolio divided by average amortized cost of interest earning assets in the portfolio. The average cost of funds is interest expense from the portfolio divided by average outstanding collateralized borrowings.

The following chart describes the interest income, interest expense, net interest margin, and net interest spread for the Company's portfolio. The following interest income and expense amounts exclude income and expense related to real estate joint ventures and hedge ineffectiveness.

	For the Year Ended December 31, 2001	For the Year Ended December 31, 2000	For the Year Ended December 31, 1999
	-----	-----	-----
Interest Income	129,553	\$97,294	\$54,325
Interest Expense	57,196	\$51,112	\$21,768
Net Interest Margin	4.38%	5.55%	6.02%
Net Interest Spread	3.60%	3.78%	2.59%

Other Expenses: Expenses other than interest expense consist primarily of management fees and general and administrative expenses. Management fees, paid to the Manager of \$11,018 for the year ended December 31, 2001 were comprised of base management fees of \$7,780 and incentive fees of \$3,238. Management fees paid to the Manager of \$7,450 for the year ended December 31, 2000 were comprised of base management fees of \$6,483 and incentive fees of \$967. Management fees paid to the Manager of \$4,565 for the year ended December 31, 1999, were comprised solely of the base management fee paid to the Manager (as provided pursuant to the management agreement between the Manager and the Company), as the Manager earned no incentive fee. Other expenses/income-net of \$1,717 for the year ended December 31, 2001, and \$2,277 for the year ended December 31, 2000, and \$2,839 for the year ended December 31, 1999, respectively, were comprised of accounting agent fees, custodial agent fees, directors' fees, fees for professional services, insurance premiums, broken deal expenses, and due diligence costs. Other expenses/income-net in the year 2001 and 2000 also includes the amortization of negative goodwill.

Other Gains (Losses): During the year ended December 31, 2001, the Company

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sold a portion of its securities available for sale for total proceeds of \$1,452,577, resulting in a realized gain of \$7,401. During the year ended December 31, 2000, the Company sold a portion of its securities available for sale for total proceeds of \$3,176,357, resulting in a realized gain of \$3,212. During the year ended December 31, 1999 the Company sold a portion of its securities available for sale for total proceeds of \$47,843, resulting in a realized loss of \$516. The (loss) gain on securities held for trading of \$(2,604), \$(647), and \$2,992 for the years ended December 31, 2001, 2000 and 1999, respectively, consisted primarily of realized and unrealized gains and losses on U.S. Treasury and agency securities, forward commitments to purchase or sell Agency RMBS, and financial futures contracts. The foreign currency loss of \$5, \$42, and \$34 for the years ended December 31, 2001, 2000, and 1999, respectively, relates to the Company's net investment in a commercial mortgage loan denominated in pounds sterling and associated hedging.

Dividends Declared: During the year ended December 31, 2001, the Company declared dividends to shareholders totaling \$47,458 or \$1.29 per share, of which \$31,607 was paid during the year and \$15,850 was paid on January 31, 2002. On March 14, 2002, the Company declared distributions to its shareholders of \$0.35 per share, payable on April 30, 2002 to shareholders of record on April 4, 2002. During the year ended December 31, 2000, the Company declared dividends to shareholders totaling \$27,591 or \$1.17 per share. During the year ended December 31, 1999, the Company declared dividends to shareholders totaling \$24,348 or \$1.16 per share. For U.S. Federal income tax purposes, the dividends are ordinary income to the Company's stockholders.

Tax Basis Net Income and GAAP Net Income: Net income as calculated for tax purposes (tax basis net income) was estimated at \$52,918 or \$1.31 (\$1.26 diluted) per share, for the year ended December 31, 2001, compared to a net income as calculated in accordance with GAAP of \$56,271, or \$1.41 (\$1.35 diluted) per share.

Tax basis income was \$37,594, or \$1.29 (\$1.22 diluted) per share, for the year ended December 31, 2000, compared to a net income as calculated in accordance with GAAP of \$39,326, or \$1.37 (\$1.28 diluted) per share. Tax basis income was \$28,347, or \$1.36 (\$1.34 diluted) per share, for the year ended December 31, 1999, compared to a net income as calculated in accordance with GAAP of \$26,673 or \$1.27 (\$1.26 diluted) per share.

Differences between tax basis net income and GAAP net income arise for various reasons. For example, in computing income from its subordinated CMBS for GAAP purposes, the Company takes into account estimated credit losses on the underlying loans whereas for tax basis income purposes, only actual credit losses are taken into account. Additionally, in 2000, payments made to GMAC Mortgage Asset Management, Inc. to terminate its management contract with Core Cap, Inc. were deducted for tax purposes. Certain general and administrative expenses may differ due to differing treatment of the deductibility of such expenses for tax basis income. Also, differences could arise in the treatment of premium and discount amortization on the Company's securities available for sale.

Changes in Financial Condition

Securities Available for Sale: At December 31, 2001 and 2000, respectively, an aggregate of \$104,768 and \$102,871 in unrealized losses on securities available for sale was included as a component of accumulated other comprehensive income (loss) in shareholders' equity.

The Company's securities available for sale, which are carried at estimated fair value, included the following at December 31, 2001 and 2000:

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Security Description	December 31, 2001 Estimated Fair Value	Percentage
Commercial mortgage-backed securities:		
CMBS IO's	\$ 79,204	5.5%
Investment grade CMBS	14,590	1.0
Non-investment grade rated subordinated securities	328,532	22.7
Non-rated subordinated securities	31,627	2.2
	453,953	31.4
Single-family residential mortgage-backed securities:		
Agency adjustable rate securities	75,035	5.2
Agency fixed rate securities	804,759	55.7
Residential CMO's	33,522	2.3
Home equity loans	27,299	1.9
Hybrid arms	51,386	3.5
	992,001	68.6
Total securities available for sale	\$ 1,445,954	100.0%

Short-Term Borrowings: To date, the Company's debt has consisted of preferred stock and line-of-credit borrowings, term loans and reverse repurchase agreements, which have been collateralized by a pledge of most of the Company's securities available for sale, securities held for trading and its commercial mortgage loans. The Company's financial flexibility is affected by its ability to renew or replace on a continuous basis its maturing short-term borrowings. To date, the Company has obtained short-term financing in amounts and at interest rates consistent with the Company's financing objectives.

Under the lines of credit, term loans, and the reverse repurchase agreements, the lender retains the right to mark the underlying collateral to market value. A reduction in the value of its pledged assets will require the Company to provide additional collateral or fund margin calls. From time to time, the Company expects that it will be required to provide such additional collateral or fund margin calls.

The following tables set forth information regarding the Company's collateralized borrowings.

	December 31, 2001 Balance	For the Year Ended December 31, 2001 Maximum Balance
Reverse repurchase agreements	\$1,717,326	\$1,771,596

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Line of credit and term loan borrowings	118,612	206,278	1
	=====	=====	=====
		For the Year Ended December 31, 2000	
	----- December 31, 2000 Balance	----- Maximum Balance	
Reverse repurchase agreements	\$517,212	\$1,202,696	
Line of credit and term loan borrowings	202,130	453,841	1
	=====	=====	=====

Hedging Instruments: The Company's hedging policy with regard to its sterling denominated London Loan is to minimize its exposure to fluctuations in the sterling exchange rate. As of December 31, 2001 the Company had forward contracts outstanding which are intended to hedge currency risk in connection with the Company's investment in the London Loan.

From time to time the Company may reduce its exposure to market interest rates by entering into various financial instruments that adjust portfolio duration. These financial instruments are intended to mitigate the effect of interest rates on the value of certain assets in the Company's portfolio. At December 31, 2001, the Company had outstanding short positions of 80 thirty-year U.S. Treasury Bond future contracts, 500 ten-year U.S. Treasury Note future contracts and a short call swaption with a notional amount of \$400,000. At December 31, 2000, the Company did not have any U.S. Treasury future contracts or swaptions.

Interest rate swap agreements as of December 31, 2001 and 2000 consisted of the following:

		2001 ----			
Notional Value	Estimated Fair Value	Unamortized Cost	Remaining Term	Notional Value	Estimated Fair Value

\$792,000	\$(9,380)	\$4,764	8.12 years	\$226,000	\$(12,505)

As of December 31, 2001, the Company had designated \$682,000 of the interest rate swap agreements as cash flow hedges of borrowings under reverse repurchase agreements.

Capital Resources and Liquidity

Liquidity is a measurement of the Company's ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund investments, loan acquisition and lending activities and for other general business purposes. The primary sources of funds for liquidity consist of collateralized borrowings, principal and interest payments on and maturities of securities available for sale, securities held for trading and commercial mortgage loans, and proceeds from sales thereof.

To the extent that the Company may become unable to maintain its borrowings

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at their current level due to changes in the financing markets for the Company's assets, the Company may be required to sell assets in order to achieve lower borrowing levels. In this event, the Company's level of net earnings would decline. The Company's principal strategies for mitigating this risk are to maintain portfolio leverage at levels it believes are sustainable and to diversify the sources and types of available borrowing and capital. The Company has utilized committed bank facilities, preferred stock, and will consider resecuritization or other achievable term funding of existing assets.

On July 11, 2001, the Company filed a registration statement to register with the SEC an additional 10,000,000 shares of Common Stock to be issued under its Dividend Reinvestment and Stock Purchase Plan (the "Plan"). The Plan allows investors the opportunity to purchase additional shares of the Company's Common Stock through the reinvestment of the Company's dividends, optional cash payments and initial cash investments.

On September 21, 2001, the Company filed a registration statement to register an additional \$300,000 of securities with the SEC. The shelf registration statement permits the Company to issue a variety of debt and equity securities in the public markets. There can be no certainty, however, that the Company will be able to issue, on terms favorable to the Company, or at all, any of the securities so registered.

On December 2, 1999 the Company authorized and issued 1,200,000 shares of Series A Preferred Stock for aggregate proceeds of \$30,000. The Series A Preferred Stock carries a 10.5% coupon and is convertible into Common Stock at a price of \$7.35 per share. The Series A Preferred Stock has a seven-year maturity at which time, at the option of the holders, the shares may be converted into common shares or liquidated for \$28.50 per share. On December 21, 2001, the only Series A Preferred shareholder converted 1,190,000 shares of the Series A Preferred Stock into 4,096,854 shares of Company Common Stock at a price of \$7.26 per share pursuant to the terms of such preferred stock, which is \$0.09 lower than the original conversion price due to the effects of anti-dilution provisions in the Series A Preferred Stock. The remaining 10,000 shares of Series A Preferred Stock were converted into 34,427 shares of the Company's Common Stock in March 2002.

On February 14, 2001 the Company completed a secondary offering of 4,000,000 shares of Company Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting underwriting fees and expensed) were approximately \$33,300. The Company had granted the underwriters an option, exercisable for 30 days, to purchase up to 600,000 additional shares of Common Stock to cover over-allotments. This option was exercised on March 13, 2001 and resulted in net proceeds to the Company of approximately \$5,000.

On May 11, 2001, the Company completed a follow-on offering of 4,000,000 shares of its Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting underwriting fees and expenses) were approximately \$37,800. The Company had granted the underwriters an option, exercisable for 30 days, to purchase up to 600,000 additional shares of Common Stock to cover over-allotments. This option was exercised on June 6, 2001 and resulted in net proceeds to the Company of approximately \$5,675.

On November 7, 2001 the Company completed a follow-on offering of 4,400,000 shares of its Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting estimated expenses) were approximately \$39,400. On November 13, 2001, the underwriters exercised an option to purchase an additional 90,000 shares of Common Stock available through an over-allotment granted to the underwriters and resulted in net proceeds to the Company of approximately \$810.

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For the year ended December 31, 2001, the Company issued 2,228,566 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately \$22,945. No shares were issued for the year ended December 31, 2000 under the Dividend Reinvestment Plan.

As of December 31, 2001 \$141,591 of the Company's \$185,000 committed credit facility with Deutsche Bank, AG was available for future borrowings and \$142,887 was available under the Company's \$200,000 term facility with Merrill Lynch.

The Company's operating activities (used) provided cash flows of \$(375,715) and \$115,734 during the years ended December 31, 2001 and 2000, respectively, primarily through net income and purchases of trading securities in excess of sales in 2001.

The Company's investing activities (used) provided cash flows totaling \$(832,525) and \$883,913, during the years ended December 31, 2001 and 2000, respectively, primarily to purchase securities available for sale and to fund commercial mortgage loans, offset by significant sales of securities during 2001 and 2000.

The Company's financing activities provided (used) \$1,213,482 and \$(984,083) during the years ended December 31, 2001 and 2000, respectively, primarily from secondary and follow on offerings in 2001 and reductions of the level of short-term borrowings related to the Company's trading portfolio.

Although the Company's portfolio of securities available for sale was acquired at a net discount to the face amount of such securities, the Company has received to date and expects to continue to have sufficient cash flows from its portfolio to fund distributions to stockholders.

The Company is subject to various covenants in its lines of credit, including maintaining: a minimum GAAP net worth of \$140,000, a debt-to-equity ratio not to exceed 5.0 to 1, a minimum cash requirement based upon certain debt to equity ratios, a minimum debt service coverage ratio of 1.5, and a minimum liquidity reserve of \$10,000. Additionally, the Company's GAAP net worth cannot decline by more than 37% during the course of any two consecutive fiscal quarters. As of December 31, 2001, the Company was in compliance with all such covenants.

The Company's ability to execute its business strategy depends to a significant degree on its ability to obtain additional capital. Factors which could affect the Company's access to the capital markets, or the costs of such capital, include changes in interest rates, general economic conditions and perception in the capital markets of the Company's business, covenants under the Company's current and future credit facilities, results of operations, leverage, financial conditions and business prospects. Current conditions in the capital markets for REITS such as the Company have made permanent financing transactions difficult and more expensive than at the time of the Company's initial public offering. Consequently, there can be no assurance that the Company will be able to effectively fund future growth. Except as discussed herein, management is not aware of any other trends, events, commitments or uncertainties that may have a significant effect on liquidity.

Contingent Liability

At the time of the Core-Cap merger, the Manager agreed to pay GMAC Mortgage Asset Management, Inc. (GMAC) \$12,500 over a ten-year period (Installment Payment). The Company agreed that should it terminate the Manager without cause, the Company would pay to the Manager an amount equal to the

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Installment Payment less the sum of all payments made by the Manager to GMAC. As of December 31, 2001, the installment payment would be \$11,000 payable over nine years. The Company does not accrue for this contingent liability.

Transactions with Affiliates

The Company has a Management Agreement with the Manager, a majority owned indirect subsidiary of PNC Financial Services Group, Inc. ("PNC Bank") and the employer of certain directors and officers of the Company, under which the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. The initial two year term of the Management Agreement was to expire on March 27, 2000; on March 16, 2000, the Management Agreement was extended for an additional two years, with the unanimous approval of the unaffiliated directors, on terms similar to the prior agreement. On March 25, 2002, the Management Agreement was extended for one year through March 27, 2003, with the unanimous approval of the unaffiliated directors, on terms similar to the prior agreement with the following changes: (i) the incentive fee calculation would be based on GAAP earnings instead of FFO, (ii) the removal of the four year period to value the Management Agreement in the event of termination, and (iii) subsequent renewal periods of the Management Agreement would be for one year instead of two years. The Board was advised by Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ("Houlihan Lokey") in the renewal process. Houlihan Lokey is a national investment banking and financial advisory firm. The Company pays the Manager an annual base management fee equal to a percentage of the average invested assets of the Company as defined in the Management Agreement. The base management fee is equal to 1% per annum of the average invested assets rated less than BB- or not rated, 0.75% of average invested assets rated BB- to BB+, and 0.20% of average invested assets rated above BB+. In order to coincide with the increased scale of the Company, effective July 1, 2001, the Manager reduced the base management fee from 0.35% of average invested assets rated above BB+. This revision resulted in \$1,059 in savings to the Company during 2001.

The Company incurred \$7,780, \$6,483 and \$4,565 in base management fees in accordance with the terms of the Management Agreement for the years ended December 31, 2001, 2000, and 1999, respectively. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements to the Manager of \$216, \$120, and \$333 for certain expenses incurred on behalf of the Company during 2001, 2000, and 1999, respectively.

The Company has also paid the Manager on a quarterly basis, as incentive compensation, an amount equal to 25% of the funds from operations of the Company (as defined) plus gains (minus losses) from debt restructuring and sales of property, before incentive compensation in excess of a threshold rate. The threshold rate for 1999, 2000 and the six months ended June 30, 2001 was based upon an annualized return on equity equal to 3.5% over the ten-year U.S. Treasury Rate on the adjusted issue price of the Common Stock. Effective July 1, 2001, the Manager revised the threshold rate to be the greater of 3.5% over the ten-year U.S. Treasury Rate or 9.5%. This revision resulted in \$630 in savings to the Company during 2001.

Pursuant to the March 25, 2002 one-year Management Agreement extension, such incentive fee would be based on 25% of earnings (calculated in accordance with GAAP) of the Company. For purposes of the incentive compensation calculation, equity is generally defined as proceeds from issuance of Common Stock before underwriting discounts and commissions and other costs of issuance. The Company incurred \$3,238 and \$967 in incentive compensation for the years ended December 31, 2001 and 2000, respectively. The Company did not pay incentive compensation during 1999.

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On March 17, 1999, the Company's Board of Directors approved an administration agreement with the Manager and the termination of a previous agreement with an unaffiliated third party. Under the terms of the administration agreement, the Manager provides financial reporting, audit coordination and accounting oversight services. The Company pays the Manager a monthly administrative fee at an annual rate of 0.06% of the first \$125 million of average net assets, 0.04% of the next \$125 million of average net assets and 0.03% of average net assets in excess of \$250 million subject to a minimum annual fee of \$120. The terms of the administrative agreement are substantially similar to the terms of the previous third-party agreement. For the years ended December 31, 2001, 2000 and 1999, the administration fee was \$144, \$120 and \$120, respectively.

During the year ended December 31, 2000, the Company purchased certificates representing a 1% interest in Midland Commercial Mortgage Owner Trust IV, Midland Commercial Mortgage Owner Trust V, Midland Commercial Mortgage Owner Trust VI, Commercial Mortgage Owner Trust VII, PNC Loan Trust VII, and PNC Loan Trust VIII for an aggregate investment of \$7,021. These Midland Trusts were purchased from Midland Loan Services, Inc. and the PNC trusts were purchased from PNC Bank. Midland is a wholly owned indirect subsidiary of PNC Bank and the depositor to the Trusts. The assets of the Trusts consist of commercial mortgage loans originated or acquired by Midland and PNC Bank. In connection with these transactions, the Company entered into a \$4,500 committed line of credit from PNC Funding Corp., a wholly owned indirect subsidiary of PNC Bank, to borrow up to 90% of the fair market value of the Company's interest in the Trusts. Outstanding borrowings against this line of credit bear interest at a LIBOR based variable rate. As of December 31, 2001 and 2000 there were no outstanding borrowings under this line of credit. The Company earned \$163 and \$33 from the Trusts and paid interest of approximately \$138 and \$20 to PNC Funding Corp. during years ended December 31, 2000 and 1999, respectively. These Midland Trusts were all sold prior to December 31, 2000. The gain on sale of these investments was not significant.

During 1999, the Company purchased certificates representing 1% interests in Midland Commercial Mortgage Owner Trust I, Midland Commercial Mortgage Owner Trust II, and Midland Commercial Mortgage Owner Trust III (the "Trusts") from Midland for an aggregate investment of \$5,346. During 1999 the Company's interests in the Midland Commercial Mortgage Owner Trust I and II were sold for \$3,876 resulting in a realized gain of \$87. In connection with these transactions, the Company utilized a \$4,500 committed line of credit from PNC Funding Corp. to borrow up to 90% of the fair market value of the Company's interest in the Trusts. Outstanding borrowings against this line of credit bear interest at a LIBOR based variable rate. The Company paid interest of approximately \$20 to PNC Funding Corp. during the year ended December 31, 1999.

In March 2001, the Company purchased twelve certificates each representing a 1% interest in different classes of Owner Trust NS I Trust ("Owner Trusts") for an aggregate investment of \$37,868. These certificates were purchased from PNC Bank. The assets of the Owner Trusts consist of commercial mortgage loans originated or acquired by an affiliate of PNC. The Company entered into a \$50,000 committed line of credit from PNC Funding Corp. to borrow up to 95% of the fair market value of the Company's interest in the Owner Trusts. Outstanding borrowings against this line of credit bear interest at a LIBOR based variable rate. As of December 31, 2001, there was \$13,885 borrowed under this line of credit. The Company earned \$1,468 from the Owner Trusts and paid interest of approximately \$849 to PNC Funding Corp. as interest on borrowings under a related line of credit for year ended December 31, 2001. During 2001, the Company sold four Owner Trusts. The gain on the sale of those Owner Trusts was \$35. The outstanding borrowings were repaid prior to the expiration on March 13, 2002; at which time the

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remaining trusts were sold at a gain of \$90.

On July 20, 2001, the Company entered into a \$50 million commitment to acquire shares in Carbon Capital, Inc. ("Carbon"), a private commercial real estate income opportunity fund managed by BlackRock Financial Management, Inc., who is also the manager of the Company. The Company does not pay BlackRock management or incentive fees through Carbon. On November 7, 2001 the Company received a capital call notice to fund a portion of its Carbon investment. The total amount of the capital call was \$8,784, which was paid on November 19, 2001. The proceeds were used by Carbon to acquire three commercial loans all of which are secured by office buildings. The Company's remaining commitment is \$41,216. On December 31, 2001, the Company owned 32.5% of the outstanding shares in Carbon, and BlackRock, its affiliates, officers, directors and employees collectively own 5%. In March 2002, Carbon obtained additional commitments from unaffiliated institutional investors, while the Company's commitment remained unchanged. Accordingly, the Company's ownership was reduced from 32.5% to 18.8%.

REIT Status

The Company has elected to be taxed as a REIT and to comply with the provisions of the Code, with respect thereto. Accordingly, the Company generally will not be subject to Federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and stock ownership tests are met. The Company may, however, be subject to tax at corporate rates or at excise tax rates on net income or capital gains not distributed.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk: Market risk is the exposure to loss resulting from changes in interest rates, credit curve spreads, foreign currency exchange rates, commodity prices and equity prices. The primary market risks to which the Company is exposed are interest rate risk and credit curve risk. Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of the Company. Credit risk is highly sensitive to dynamics of the markets for commercial mortgage securities and other loans and securities held by the Company. Excessive supply of these assets combined with reduced demand will cause the market to require a higher yield. This demand for higher yield will cause the market to use a higher spread over the U.S. Treasury securities yield curve, or other benchmark interest rates, to value these assets. Changes in the general level of the U.S. Treasury yield curve can have significant effects on the market value of the Company's portfolio.

The majority of the Company's assets are fixed rate securities valued based on a market credit spread to U.S. Treasuries. As U.S. Treasury securities are priced to a higher yield and/or the spread to U.S. Treasuries used to price the Company's assets is increased, the market value of the Company's portfolio may decline. Conversely, as U.S. Treasury securities are priced to a lower yield and/or the spread to U.S. Treasuries used to price the Company's assets is decreased, the market value of the Company's portfolio may increase. Changes in the market value of the Company's portfolio may affect the Company's net income or cash flow directly through their impact on unrealized gains or losses on securities held for trading or indirectly through their impact on the Company's ability to borrow. Changes in the level of the U.S. Treasury yield curve can also affect, among other things, the prepayment assumptions used to value certain of the Company's securities and the Company's ability to realize gains from the sale of such assets. In addition, changes in the general level of the LIBOR money market rates can affect the Company's net interest income. The majority of the Company's

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liabilities are floating rate based on a market spread to U.S. LIBOR. As the level of LIBOR increases or decreases, the Company's interest expense will move in the same direction.

The Company may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of fluctuations in interest rates on its operations. The use of these types of derivatives to hedge interest-earning assets and/or interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of securities and, indeed, that such losses may exceed the amount invested in such instruments. A hedge may not perform its intended purpose of offsetting losses or increased costs. Moreover, with respect to certain of the instruments used as hedges, the Company is exposed to the risk that the counterparties with which the Company trades may cease making markets and quoting prices in such instruments, which may render the Company unable to enter into an offsetting transaction with respect to an open position. If the Company anticipates that the income from any such hedging transaction will not be qualifying income for REIT income test purposes, the Company may conduct part or all of its hedging activities through a to-be-formed corporate subsidiary that is fully subject to federal corporate income taxation. The profitability of the Company may be adversely affected during any period as a result of changing interest rates.

The following tables quantify the potential changes in the Company's net portfolio value and net interest income under various interest rates and credit-spread scenarios. Net portfolio value is defined as the value of interest-earning assets net of the value of interest-bearing liabilities. It is evaluated using an assumption that interest rates, as defined by the U.S. Treasury yield curve, increase or decrease and the assumption that the yield curves of the rate shocks will be parallel to each other.

Net interest income is defined as interest income earned from interest-earning assets net of the interest expense incurred by the interest bearing liabilities. It is evaluated using the assumptions that interest rates, as defined by the U.S. LIBOR curve, increase or decrease and the assumption that the yield curves of the LIBOR rate shocks will be parallel to each other. Market value in this scenario is calculated using the assumption that the U.S. Treasury yield curve remains constant.

All changes in income and value are measured as percentage changes from the respective values calculated in the scenario labeled as "Base Case." The base interest rate scenario assumes interest rates as of December 31, 2001 and 2000. Actual results could differ significantly from these estimates.

Projected Percentage Change In Portfolio Net Market Value
Given U.S. Treasury Yield Curve Movements

2001 Projected Change in Portfolio Net Market Value	Change in Treasury Yield Curve, +/- Basis Points	2000 Projected Change in Portfolio Net Market Value
4.0%	-200	4.1%
3.9%	-100	2.8%
	Base Case	
(7.8)%	+100	(4.3)%
(19.5)%	+200	(10.1)%

Projected Percentage Change In Portfolio Net Market Value

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Given Credit Spread Movements

2001 Projected Change in Portfolio Net Market Value	Change in Credit Spreads, +/- Basis Points	2000 Projected Change in Portfolio Net Market Value
19.1%	-200	25.5%
11.5%	-100	12.3%
	Base Case	
(15.4)%	+100	(11.3)%
(34.6)%	+200	(21.5)%

Projected Percentage Change In Portfolio Net Interest Income Given LIBOR Movements

2001 Projected Change in Portfolio Net Interest Income	Projected Change in Net Income per Share	Change in LIBOR, +/- Basis Points	2000 Projected Change in Portfolio Net Interest Income
13.4%	\$0.32	-200	12.2%
6.7%	\$0.16	-100	6.2%
3.3%	\$0.08	-50	3.1%
		Base Case	
(3.3)%	(\$0.08)	+50	(3.1)%
(6.7)%	(\$0.16)	+100	(6.2)%
(13.4)%	(\$0.32)	+200	(12.2)%

Credit Risk: Credit risk is the exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, property performance, property management, supply/demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the American economy, and other factors beyond the control of the Company.

All loans are subject to a certain probability of default. The nature of the CMBS assets owned are such that all losses experienced by a pool of mortgages will be borne by the Company. Changes in the expected default rates of the underlying mortgages will significantly affect the value of the Company, the income it accrues and the cash flow it receives. An increase in default rates will reduce the book value of the Company's assets and the Company earnings and cash flow available to fund operations and pay dividends.

The Company manages credit risk through the underwriting process, establishing loss assumptions, and careful monitoring of loan performance. Before acquiring a security that represents a pool of loans, the Company will perform a rigorous analysis of the quality of substantially all of the loans proposed for that security. As a result of this analysis, loans with unacceptable risk profiles will be removed from the proposed security. Information from this review is then used to establish loss assumptions. The Company will assume that a certain portion of the loans will default and

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calculate an expected, or loss adjusted yield based on that assumption. After the securities have been acquired the Company monitors the performance of the loans, as well as external factors that may affect their value. Factors that indicate a higher loss severity or timing experience is likely to cause a reduction in the expected yield and therefore reduce the earnings of the Company, and may require a significant write down of assets.

For purposes of illustration, a doubling of the losses in the Company's credit sensitive portfolio, without a significant acceleration of those losses would reduce the expected yield on adjusted purchase price from 10.1% to approximately 8.77%. This would reduce GAAP income going forward by approximately \$0.16 per common share per annum and cause a significant write down in assets at the time the loss assumption is changed to recapture income previously accrued above the revised loss assumption.

Asset and Liability Management: Asset and liability management is concerned with the timing and magnitude of the repricing and/or maturing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate movements. In general, management's strategy is to match the term of the Company's liabilities as closely as possible with the expected holding period of the Company's assets. This is less important for those assets in the Company's portfolio considered liquid as there is a very stable market for the financing of these securities.

The Company uses interest rate duration as its primary measure of interest rate risk. This metric, expressed when considering any existing leverage, allows the Company's management to approximate changes in the net market value of the Company's portfolio given potential changes in the U.S. Treasury yield curve. Interest rate duration considers both assets and liabilities. As of December 31, 2001, and 2000 the Company's duration on equity was approximately 5.9 and 4.2 years, respectively. This implies that a parallel shift of the U.S. Treasury yield curve of 100 basis points would cause the Company's net asset value to increase or decrease by approximately 5.9% and 4.2%, respectively. The difference in the value change when rates rise versus fall is attributable to the prepayment characteristics of the Company's RMBS portfolio. Because the Company's assets, and their markets, have other, more complex sensitivities to interest rates, the Company's management believes that this metric represents a good approximation of the change in portfolio net market value in response to changes in interest rates, though actual performance may vary due to changes in prepayments, credit spreads and increased market volatility.

Other methods for evaluating interest rate risk, such as interest rate sensitivity "gap" (defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period), are used but are considered of lesser significance in the daily management of the Company's portfolio. The majority of the Company's assets pay a fixed coupon and the income from such assets are relatively unaffected by interest rate changes. The majority of the Company's liabilities are borrowings under its line of credit or reverse repurchase agreements that bear interest at variable rates that reset monthly. Given this relationship between assets and liabilities, the Company's interest rate sensitivity gap is highly negative. This implies that a period of falling short-term interest rates will tend to increase the Company's net interest income while a period of rising short-term interest rates will tend to reduce the Company's net interest income. Management considers this relationship when reviewing the Company's hedging strategies. Because different types of assets and liabilities with the same or similar maturities react differently to changes in overall market rates or conditions, changes in interest rates may affect the Company's net interest income positively or negatively even if the Company were to be perfectly matched in each maturity category.

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The Company currently has positions in forward currency exchange contracts to hedge currency exposure in connection with its commercial mortgage loan denominated in pounds sterling. The purpose of the Company's foreign currency-hedging activities is to protect the Company from the risk that the eventual U.S. dollar net cash inflows from the commercial mortgage loan will be adversely affected by changes in exchange rates. The Company's current strategy is to roll these contracts from time to time to hedge the expected cash flows from the loan. Fluctuations in foreign exchange rates are not expected to have a material impact on the Company's net portfolio value or net interest income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Independent Auditors' Report.....	
Financial Statements:	
Consolidated Statements of Financial Condition at December 31, 2001 and 2000.....	
Consolidated Statements of Operations For the Years Ended December 31, 2001, 2000 and 1999.....	
Consolidated Statements of Changes in Stockholders' Equity For the Years Ended December 31, 2001, 2000 and 1999.....	
Consolidated Statements of Cash Flows For the Years Ended December 31, 2001, 2000 and 1999.....	
Notes to Financial Statements.....	

All schedules have been omitted because either the required information is not applicable or the information is shown in the financial statements or notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Anthracite Capital, Inc.

We have audited the accompanying consolidated statements of financial condition of Anthracite Capital, Inc. and subsidiaries (the "Company") at December 31, 2001 and 2000, and the related statements of operations, changes in stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the

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financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Anthracite Capital, Inc. and subsidiaries at December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

New York, New York
March 22, 2002

Anthracite Capital, Inc.
Consolidated Statements of Financial Condition
(in thousands, except per share data)

	December 31, 2001

ASSETS	
Cash and cash equivalents	\$ 43,0
Restricted cash equivalents	37,3
Securities available for sale, at fair value	
Subordinated commercial mortgage-backed securities (CMBS)	\$360,159
Investment grade securities	1,085,795

Total securities available for sale	1,445,9
Securities held for trading, at fair value	564,0
Mortgage loan pools available for sale, at fair value	
Commercial mortgage loans, net	142,6
Investments in real estate joint ventures	8,3
Equity investment in Carbon Capital, Inc.	8,7
Receivable for investments sold	344,7
Other assets	18,2

Total Assets	\$ 2,613,2
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Borrowings:	
Secured by pledge of subordinated CMBS	\$178,631
Secured by pledge of other securities available for sale and cash equivalents	1,039,469
Secured by mortgage loan pools	-
Secured by pledge of securities held for trading	559,145
Secured by pledge of investments in real estate joint ventures	1,337

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Secured by pledge of commercial mortgage loans	57,356	

Total borrowings		\$ 1,835,9
Payable for investments purchased		346,9
Distributions payable		17,2
Other liabilities		29,8

Total Liabilities		2,229,9

10.5% Series A Preferred Stock, redeemable convertible, liquidation preference \$258 in 2001 and \$34,200 in 2000		2

Commitments and Contingencies		
Stockholders' Equity:		
Common Stock, par value \$0.001 per share; 400,000 shares authorized;		
45,286 shares issued and outstanding in 2001;		
25,136 shares issued and outstanding in 2000		4
10% Series B Preferred Stock, liquidation preference \$55,317 in 2001, \$56,525 in 2000		42,08
Additional paid-in capital		492,53
Distributions in excess of earnings		(13,58
Accumulated other comprehensive loss		(137,95

Total Stockholders' Equity		383,11

Total Liabilities and Stockholders' Equity		\$ 2,613,27
		=====

The accompanying notes are an integral part of these financial statements.

Anthracite Capital, Inc.

Consolidated Statements of Operations (in thousands, except per share data)

	For the year ended December 31, 2001	For the year ended December 31, 2000
	-----	-----
Income:		
Securities available for sale	\$ 85,137	\$ 75,116
Commercial mortgage loans	15,499	14,359
Mortgage loan pools	1,575	6,481
Trading securities	24,681	25
Earnings from real estate joint ventures	1,667	348
Earnings from equity investment	80	-
Cash and cash equivalents	2,581	1,313
	-----	-----
Total income	131,220	97,642
	-----	-----

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Expenses:		
Interest	44,425	51,112
Interest-trading securities	14,976	-
Management and incentive fee	11,018	7,450
Other expenses / income - net	1,717	2,277
	-----	-----
Total expenses	72,136	60,839
	-----	-----
Other gains (losses):		
Gain (loss) on sale of securities available for sale	7,401	3,212
Gain (loss) on securities held for trading	(2,604)	(647)
Foreign currency loss	(5)	(42)
Loss on impairment of asset	(5,702)	-
	-----	-----
Total other gain (loss)	(910)	2,523
	-----	-----
Income before cumulative transition adjustment	58,174	39,326
Cumulative transition adjustment-SFAS 133	(1,903)	-
	-----	-----
Net Income	56,271	39,326
	-----	-----
Dividends and accretion on Preferred Stock	8,964	7,065
	-----	-----
Net Income Available to Common Shareholders	\$47,307	\$32,261
	=====	=====
Net income per common share, basic:		
Income before cumulative transition adjustment	\$1.47	\$1.37
Cumulative transition adjustment - SFAS 133	(0.06)	-
	-----	-----
Net income	\$1.41	\$1.37
	=====	=====
Net income per common share, diluted:		
Income before cumulative transition adjustment	\$1.40	\$1.28
Cumulative transition adjustment - SFAS 133	(0.05)	-
	-----	-----
Net income	\$1.35	\$1.28
	=====	=====
Weighted average number of shares outstanding:		
Basic	33,568	23,587
Diluted	37,616	27,668

The accompanying notes are an integral part of these financial statements.

Anthracite Capital, Inc.
Consolidated Statements of Changes in Stockholders' Equity for the Years
Ended December 31, 2001 and 2000 and 1999 (in thousands)

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	Common Stock, Par Value	Series B Preferred Stock	Additional Paid-In Capital	Distributions In Excess Of Earnings	Accumul Othe Comprehe Los
Balance at December 31, 1998	\$20	\$ -	\$280,994	\$(20,148)	\$(7
Net income				26,673	
Change in net unrealized (loss) on securities available for sale, net of reclassification adjustment					(2
Other Comprehensive loss					
Comprehensive Income					
Dividends declared-Common Stock				(24,348)	
Dividends and accretion on preferred stock				(284)	
Purchase of Common Stock			(234)		
Shares issued under Dividend Reinvestment and Stock Purchase Plan	1		6,726		
Balance at December 31, 1999	21		287,486	(18,107)	(10
Purchase of common shares			(39)		
Net income				39,326	
Change in net unrealized (loss) on securities available for sale, net of reclassification adjustment					(
Other Comprehensive loss					
Comprehensive Income					
Dividends declared-Common Stock				(27,591)	
Dividends and accretion on preferred stock				(7,065)	
Issuance of Common Stock	4		28,086		
Issuance of Series B preferred stock		\$43,004			
Balance at December 31, 2000	\$25	\$43,004	\$315,533	(\$13,437)	(\$10
Net income				56,271	
Cumulative transition adjustment - SFAS 133					
Unrealized loss on cash flow hedges					(1
Reclassification adjustments from cash flow hedges included in net income					
Change in net unrealized (loss) on securities available for sale, net of reclassification adjustment					(2
Other Comprehensive loss					
Comprehensive Income					
Dividends declared-Common Stock				(47,458)	
Dividends and accretion on preferred stock				(8,964)	
Issuance of Common Stock	15		145,438		

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Conversion of Series B preferred stock to Common Stock	1	(918)	917		
Conversion of Series A preferred stock to Common Stock	4		30,492		
Compensation cost - stock options			151		
Balance at December 31, 2001	\$45	\$42,086	\$492,531	(\$13,588)	(\$13,588)

Disclosure of reclassification adjustment:

Years ended December 31,	2001	2000	1999
	----	----	----
Unrealized holding loss	\$ (33,445)	\$ (4,944)	\$ (21,486)
Less: reclassification for realized gains previously recorded as unrealized	7,401	3,212	(516)
	-----	-----	-----
	(26,044)	(1,732)	(22,002)
Cumulative transition adjustment - SFAS 133	1,903	-	-
Unrealized loss on cash flow hedges	(11,941)	-	-
Reclassification adjustments from cash flow hedges included in net income	994	-	-
	-----	-----	-----
Net unrealized loss on securities	\$ (35,088)	\$ (1,732)	\$ (22,002)

The accompanying notes are an integral part of these financial statements.

Anthracite Capital, Inc.
Consolidated Statements of Cash Flow (in thousands)

Years Ended December 31	2001	2000
	----	----
Cash flows from operating activities:		
Net income	\$ 56,271	\$ 39,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net (purchase) sale of trading securities	(454,960)	52,000
Amortization of negative goodwill	(1,942)	(1,000)
Cumulative transition adjustment - SFAS 133	1,903	-
Premium amortization (discount accretion), net	6,376	5,000
Compensation cost - stock options	151	-
Loss on impairment of asset	5,702	-
Noncash portion of net foreign currency loss	5	-
Net (loss) gain on sale of securities	(4,797)	(1,000)
Distributions from joint ventures in excess of earnings	116	-
Decrease (increase) in other assets	12,803	8,000

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Increase (decrease) in other liabilities	2,657	12
Net cash (used in) provided by operating activities	(375,715)	115
<hr/>		
Cash flows from investing activities:		
Purchase of securities available for sale	(2,383,483)	(991)
Principal payments received on securities available for sale	123,578	102
Funding of commercial mortgage loans	(56,070)	(101)
Repayments received from commercial mortgage loans	66,620	17
(Increase) decrease in restricted cash equivalents	(27,892)	(9)
Investment in real estate joint ventures, net	1,921	(10)
Investment in Carbon Capital, Inc.	(8,784)	
Principal payment received on mortgage loan pools	10,981	20
Proceeds from sale of securities available for sale and mortgage loan pools	1,452,577	1,822
Net cash acquired in merger	-	33
Acquisition costs	-	4
Net payments under hedging securities	(11,973)	(4)
Net cash (used in) provided by investing activities	(832,525)	883
<hr/>		
Cash flows from financing activities:		
Net increase (decrease) in borrowings	1,116,596	(962)
Proceeds from issuance of Common Stock, net of offering costs	145,803	
Proceeds from issuance of redeemable convertible preferred stock	-	
Distributions on Common Stock	(40,038)	(26)
Distributions on preferred stock	(8,879)	4
Purchase of common shares	-	
Net cash provided by (used in) financing activities	1,213,482	(984)
<hr/>		
Net increase in cash and cash equivalents	5,242	15
Cash and cash equivalents, beginning of period	37,829	22
Cash and cash equivalents, end of period	\$ 43,071	\$ 37
<hr/>		
Supplemental disclosure of cash flow information:		
Interest paid	\$ 54,852	\$ 47
Investments purchased not settled	\$ 346,913	\$
Investments sold not settled	\$ 344,789	\$
<hr/>		
Supplemental schedule of non-cash investing and financing activities: The Company purchased all of the assets of CORE Cap., Inc during the Year end December 31, 2000 primarily through issuance of the Company's common and preferred stock, as follows:		
Fair value of assets acquired	\$ 1,281,070	
Cash included in acquired assets	33,379	
Liabilities assumed	1,215,534	
Common Stock issued in connection with acquisition	28,090	
Preferred stock issued in connection with the acquisition	43,004	

The accompanying notes are an integral part of these financial statements.

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Anthracite Capital, Inc.
Notes to Consolidated Financial Statements
(In thousands, except share and per share data)

Note 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Anthracite Capital, Inc. (the "Company") was incorporated in Maryland in November, 1997 and commenced operations on March 24, 1998. The Company's principal business activity is to invest in a diversified portfolio of multifamily, commercial and residential mortgage loans, mortgage-backed securities and other real estate related assets in the U.S. and non-U.S. markets. The Company is organized and managed as a single business segment.

In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions. Significant estimates in the financial statements include the valuation of the Company's mortgage-backed securities and certain other investments.

A summary of the Company's significant accounting policies follows:

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Securities Available for Sale

The Company has designated its investments in mortgage-backed securities, mortgage-related securities and certain other securities as assets available for sale because the Company may dispose of them prior to maturity. Securities available for sale are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Unrealized losses on securities that reflect a decline in value which is judged by management to be other than temporary, if any, are charged to earnings. At disposition the realized net gain or loss is included in income on a specific identification basis. The amortization of premiums and accretion of discounts are computed using the effective yield method after considering actual and estimated prepayment rates, if applicable, and credit losses. Actual prepayment and credit loss experience is reviewed quarterly and effective yields are recalculated when differences arise between prepayments and credit losses originally anticipated and amounts actually received plus anticipated future prepayments and credit losses.

The Company may, in the future, acquire similar securities that it intends to hold to maturity, or change its intent with respect to certain securities currently in its portfolio, and designate such securities as "held to maturity." Securities so designated would be carried at amortized cost, subject to an impairment test.

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Securities Held for Trading

The Company has designated certain securities as assets held for trading because the Company intends to hold them for short periods of time. Securities held for trading are carried at estimated fair value with net unrealized gains or losses included in income.

Mortgage Loans

The Company purchases and originates certain commercial mortgage loans to be held as long-term investments. Loans held for long-term investment are recorded at cost at the date of purchase. Premiums and discounts related to these loans are amortized over their estimated lives using the effective interest method. Any origination fee income, application fee income and direct costs associated with originating or purchasing commercial mortgage loans are deferred and the net amount is included in the basis of the loans on the statement of financial condition. The fees are amortized over the life of the loans using the effective interest method. The Company recognizes impairment on the loans when it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company measures impairment (both interest and principle) based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

The Company acquired certain residential mortgage loan pools in the CORE Cap merger (Note 13). Residential loan pools are treated as available-for-sale debt securities and are carried at estimated fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Unrealized losses that reflect a decline in value, which is judged by management to be other than temporary, if any, are charged to earnings.

Equity Investments and Real Estate Joint Ventures

Investments in real estate entities over which the Company exercises significant influence, but not control, are accounted for under the equity method. The Company recognizes its share of each venture's income or loss, and reduces its investment balance by distributions received. Real estate held by such entities is regularly reviewed for impairment, and would be written down to its estimated fair value if impairment is determined to exist.

Short Sales

As part of its short-term trading strategies (see Note 3), the Company may sell securities that it does not own ("short sales"). To complete a short sale, the Company may arrange through a broker to borrow the securities to be delivered to the buyer. The proceeds received by the Company from the short sale are retained by the broker until the Company replaces the borrowed securities, generally within a period of less than one month. In borrowing the securities to be delivered to the buyer, the Company becomes obligated to replace the securities borrowed at their market price at the time of the replacement, whatever that price may be. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited as to dollar amount, will be recognized upon the termination of a short sale if the market price is less than or greater than the proceeds originally received. The Company's liability under the short sales is recorded at fair value, with unrealized gains or losses included in net gain or loss on securities held for trading in the statement of operations.

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The Company is exposed to credit loss in the event of nonperformance by any broker that holds a deposit as collateral for securities borrowed. However, the Company does not anticipate nonperformance by any broker.

Forward Commitments - Trading

As part of its short-term trading strategies (see Note 3), the Company may enter into forward commitments to purchase or sell U.S. Treasury or agency securities, which obligate the Company to purchase or sell such securities at a specified date at a specified price. When the Company enters into such a forward commitment, it will, generally within sixty days or less, enter into a matching forward commitment with the same or a different counterparty which entitles the Company to sell (in instances where the original transaction was a commitment to purchase) or purchase (in instances where the original transaction was a commitment to sell) the same or similar securities on or about the same specified date as the original forward commitment. Any difference between the specified price of the original and matching forward commitments will result in a gain or loss to the Company. Changes in the fair value of open commitments are recognized on the statement of financial condition and included among assets (if there is an unrealized gain) or among liabilities (if there is an unrealized loss). A corresponding amount is included as a component of net gain or loss on securities held for trading in the statement of operations.

The Company is exposed to interest rate risk on these commitments, as well as to credit loss in the event of nonperformance by any other party to the Company's forward commitments. However, the Company does not anticipate nonperformance by any counterparty.

Financial Futures Contracts - Trading

As part of its short-term trading strategies (see Note 3), the Company may enter into financial futures contracts, which are agreements between two parties to buy or sell a financial instrument for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period that the futures contract is open, changes in the value of the contract are recognized as gains or losses on securities held for trading by "marking-to-market" on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are received or made, depending upon whether gains or losses are incurred.

The Company is exposed to interest rate risk on the contracts, as well as to credit loss in the event of nonperformance by any other party to the contract. However, the Company does not anticipate nonperformance by any counterparty.

Derivative Instruments

As part of its asset/liability management activities, the Company may enter into interest rate swap agreements, forward currency exchange contracts and other financial instruments in order to hedge interest rate and foreign currency exposures or to modify the interest rate or foreign currency characteristics of related items in its statement of financial condition.

Income and expenses from interest rate swap agreements that are, for accounting purposes, designated as hedging borrowings under reverse repurchase agreements are recognized as a net adjustment to the interest expense of the hedged item. During the term of the interest rate swap agreement, changes in fair value are recognized on the statement of financial condition and included among assets (if there is an unrealized gain) or among liabilities (if there is an unrealized loss). A corresponding

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amount is included as a component of accumulated other comprehensive income (loss) in stockholders' equity. The Company accounts for revenues and expenses from the interest rate swap agreements under the accrual basis over the period to which the payment relates. Amounts paid to acquire these instruments are capitalized and amortized over the life of the instrument. Amortization of capitalized fees paid as well as payments received under these agreements are recorded as an adjustment to interest income. If the underlying hedged securities are sold, the amount of unrealized gain or loss in accumulated other comprehensive income (loss) relating to the corresponding interest rate swap agreement is included in the determination of gain or loss on the sale of the securities. If interest rate swap agreements are terminated, the associated gain or loss is deferred over the shorter of the remaining term of the swap agreement, or the underlying hedged item, provided that the underlying hedged item has not been sold.

Revenues and expenses from forward currency exchange contracts are recognized as a net adjustment to foreign currency gain or loss. During the term of the forward currency exchange contracts, changes in fair value are recognized on the statement of financial condition and included among assets (if there is an unrealized gain) or among liabilities (if there is an unrealized loss). A corresponding amount is included as a component of net foreign currency gain or loss in the statement of operations.

Financial futures contracts that are, for accounting purposes, designated as hedging securities available for sale, are carried at fair value, with changes in fair value included in other comprehensive income (loss). Realized gains and losses on closed contracts are deferred and recognized in the basis of the hedged available for sale security, and amortized as a yield adjustment over the security's remaining term.

The Company monitors its hedging instruments throughout their terms to ensure that they remain effective at their intended purpose. The Company is exposed to interest rate and/or currency risk on these hedging instruments, as well as to credit loss in the event of nonperformance by any other party to the Company's hedging instruments. However, the Company does not anticipate nonperformance by any counterparty.

Negative Goodwill

Negative goodwill reflects the excess of the estimated fair value of the net assets acquired in the CORE Cap Inc. merger (See Note 13) over the purchase price for such assets. Negative goodwill was being amortized using the straight-line method from the date of acquisition over approximately 5.7 years, the weighted average lives of the assets acquired in the merger that the Company intended to retain. In March 2001, the Company sold approximately \$60,211 of the assets acquired in the CORE Cap merger. Effective in April 2001 the Company began amortizing the remaining balance of negative goodwill over 4.5 years, which represents the weighted average life of the remaining assets. This amortization is included in other expenses/income - net. Negative goodwill, net, was \$6,327 at December 31, 2001, and is included in other liabilities. Pursuant to SFAS 142 (See Recent Accounting Pronouncements), the Company will recognize the unamortized negative goodwill balance in income during the first quarter of 2002.

Income Taxes

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") and to comply with the provisions of the Internal Revenue Code of 1986, as amended, with respect thereto. Accordingly, the Company generally will not be subject to Federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and stock ownership tests are met. As of December 31, 2001, the Company had a capital loss

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carryover of \$4,348 available to offset future capital gains.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001; the Company is required to implement SFAS 142 on January 1, 2002. For the Company, this will result in the unamortized balance of negative goodwill being recognized in income during the first quarter of 2002 as the cumulative effect of implementing the new accounting standard. The gain recognized upon implementation will be \$6,327.

In July of 2000, the FASB's Emerging Issues Task Force reached a consensus on Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Interests." This issue provides guidance on the appropriate methodology to be used in recognizing changes in the estimated yield on asset-backed securities, and in determining whether impairment exists. This consensus was applied by the Company beginning in the second quarter of 2001, and did not have an impact on the Company's financial statements, but it may require earlier recognition of impairment of CMBS investments than under previous guidance, should the Company experience credit losses on the loans underlying a CMBS investment in amounts greater than anticipated at acquisition.

In August of 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (effective January 1, 2003) and SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets" (effective January 1, 2002). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. The Company is in the process of evaluating the financial statement impact of the adoption of these two standards.

Reclassifications

Certain amounts from 2000 and 1999 have been reclassified to conform to the 2001 presentation.

Note 2 SECURITIES AVAILABLE FOR SALE

The Company's securities available for sale are carried at estimated fair value. The amortized cost and estimated fair value of securities available for sale as of December 31, 2001 are summarized as follows:

Security Description	Amortized Cost	Gross Unrealized Gain

Commercial mortgage-backed securities ("CMBS"):		

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CMBS IO's	\$ 77,470	\$ 2,322
Investment grade CMBS	20,318	-
Non-investment grade rated subordinated securities	416,171	3,461
Non-rated subordinated securities	40,944	1,173
	-----	-----
Total CMBS	554,903	6,956
	-----	-----
Single-family residential mortgage-backed securities ("RMBS"):		
Agency adjustable rate securities	74,185	850
Agency fixed rate securities	810,691	3,740
Residential CMO's	33,319	203
Home Equity Loans	26,302	997
Hybrid Arms	51,322	64
	-----	-----
Total RMBS	995,819	5,854
	-----	-----
Total securities available for sale	\$ 1,550,722	\$ 12,810
	=====	=====

As of December 31, 2001, an aggregate of \$1,336,622 in estimated fair value of the Company's securities available for sale was pledged to secure its collateralized borrowings.

The amortized cost and estimated fair value of securities available for sale as of December 31, 2000 are summarized as follows:

Security Description	Amortized Cost	Gross Unrealized Gain
	-----	-----
Commercial mortgage-backed securities ("CMBS"):		
CMBS IO's	\$ 66,711	\$ 2,133
Investment grade CMBS	52,071	2,834
Non-investment grade rated subordinated securities	341,445	754
Non-rated subordinated securities	35,140	436
	-----	-----
Total CMBS	495,367	6,157
	-----	-----
Single-family residential mortgage-backed securities ("RMBS"):		
Agency adjustable rate securities	159,673	1,269
Agency fixed rate securities	104,665	408
Total RMBS	264,338	1,677
	-----	-----
Total securities available for sale	\$759,705	\$ 7,834
	=====	=====

As of December 31, 2000, an aggregate of \$620,067 in estimated fair value of the Company's securities available for sale was pledged to secure its collateralized borrowings.

As of December 31, 2001 and 2000 there were 1,911 and 1,765 loans underlying the subordinated CMBS held by the Company, with a principal balance of \$9,909,800 and \$9,137,150, respectively.

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As of December 31, 2001, and 2000, the aggregate estimated fair value by underlying credit rating of the Company's securities available for sale are as follows:

Security Rating	December 31, 2001 Estimated Fair Value	Percentage	December 31, 2000 Estimated Fair Value
Agency and agency insured securities	\$875,039	60.5%	\$203,073
AAA	160,249	11.1	68,844
AA	35,917	2.5	62,613
A	-	-	7,743
BBB	14,590	1.0	47,163
BB+	74,610	5.2	25,870
BB	34,246	2.4	26,876
BB-	56,935	4.0	48,581
B+	19,274	1.3	15,487
B	93,946	6.5	87,763
B-	37,954	2.6	38,351
CCC	17,637	1.2	18,561
Not rated	25,557	1.7	27,197
Total securities available for sale	\$1,445,954	100.0%	\$678,122

As of December 31, 2001 and 2000, the mortgage loans underlying the CMBS held by the Company were secured by properties of the types and at the locations identified below:

Property Type	Percentage (1)		Geographic Location	Percentage
	2001	2000		2001
Multifamily	34.6%	34.8%	California	12.8%
Retail	27.9	26.6	Texas	10.7
Office	18.8	18.9	New York	9.1
Lodging	8.6	9.4	Florida	7.0
Other	10.1	10.3	Illinois	4.5
Total	100.0%	100.0%	Other (2)	55.9
			Total	100.0%

- (1) Based on a percentage of the total unpaid principal balance of the underlying loans.
(2) No other individual state comprises more than 5% of the total.

The following table sets forth certain information relating to the aggregate principal balance and payment status of delinquent mortgage loans underlying the subordinated CMBS held by the Company as of December 31:

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	2001			
	Principal	Number of Loans	% of Collateral	Principal
Past due 30 days to 60 days	\$15,401	5	0.15%	\$6,319
Past due 60 days to 90 days	9,865	4	0.10	7,963
Past due 90 days or more	112,017	18	1.13	28,526
Resolved loans	-	-	-	-
Real Estate owned	8,805	1	0.09	10,145
Total Delinquent	\$146,088	28	1.47%	\$52,953
Total Principal Balance	\$9,909,800	1,911		\$9,137,150

Of the 28 delinquent loans as of December 31, 2001, two were delinquent due to technical reasons, one was REO and being marketed for sale, five were in foreclosure, and the remaining 20 loans were in some form of workout negotiations. One of the loans in foreclosure is the subject of litigation with the loan seller. The matter involves a significant breach of representations and warranties made when the loan was contributed to the securitization transaction. The Company caused the loan trust to file a claim against the seller for representing that a loan secured by a limited service hotel in Phoenix, AZ was a flagged hotel when, in fact, it was not. The Company believes strongly in the merits of the breach claim and has caused the special servicer to institute legal action against the loan seller.

The subordinate CMBS owned by the Company has a delinquency experience of 1.47%, which is slightly better than the 1.51% for directly comparable collateral pursuant to the Lehman Brothers CMBS 1998 vintage collateral delinquency index.

During 2001 the Company also experienced early payoffs of \$53,722, which represents 0.54% of the year-end pool balance. These loans were paid-off at par with no loss. The anticipated losses attributable to these loans will be reallocated to the loans remaining in the pools.

To the extent that realized losses, if any, or such resolutions differ significantly from the Company's original loss estimates, it may be necessary to reduce the projected GAAP yield on the applicable CMBS investment to better reflect such investment's expected earnings net of expected losses, from the date of purchase. While realized losses on individual assets may be higher or lower than original estimates, the Company currently believes its aggregate loss estimates and GAAP yields are appropriate.

The CMBS held by the Company consist of subordinated securities collateralized by adjustable and fixed rate commercial and multifamily mortgage loans. The RMBS held by the Company consist of adjustable rate and

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fixed rate residential pass-through or mortgage-backed securities collateralized by adjustable and fixed rate single-family residential mortgage loans. Agency RMBS were issued by Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) or Government National Mortgage Association (GNMA). Privately issued RMBS were issued by entities other than FHLMC, FNMA or GNMA. The agency insured project loan held by the Company consists of a participation interest in a mortgage loan guaranteed by the Federal Housing Administration (FHA). The Company's securities available for sale are subject to credit, interest rate and/or prepayment risks.

The CMBS owned by the Company provide credit support to the more senior classes of the related commercial securitization. Cash flow from the mortgages underlying the CMBS generally is allocated first to the senior classes, with the most senior class having a priority entitlement to cash flow. Then, any remaining cash flow is allocated generally among the other CMBS classes in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages, resulting in reduced cash flows, the most subordinated CMBS class will bear this loss first. 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.

As of December 31, 2001 and 2000, the anticipated weighted average unleveraged yield to maturity based upon adjusted cost of the Company's subordinated CMBS was 10.1% and 9.78% per annum, respectively, and of the Company's other securities available for sale was 6.04% and 7.46% per annum, respectively. The Company's anticipated yields to maturity on its subordinated CMBS and other securities available for sale are based upon a number of assumptions that are subject to certain business and economic uncertainties and contingencies. Examples of these include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. Additional factors that may affect the Company's anticipated yields to maturity on its subordinated CMBS include interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing and magnitude of credit losses on the mortgage loans underlying the subordinated 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 anticipated yields to maturity, discussed above and elsewhere, will be achieved.

The agency adjustable rate RMBS held by the Company are subject to periodic and lifetime caps that limit the amount the interest rates of such securities can change during any given period and over the life of the loan.

The Company's mortgage loan pools as of December 31, 2000, consist of 191 loans secured by first mortgages on single-family homes. The amortized cost of these pools is \$70,698, the balance owed is \$70,787, the weighted average maturity is 27.68 years, the weighted average coupon is 7.36%, the minimum interest payable is 5.125%, and the maximum interest payable is 9.375%. The top five largest geographical concentrations are Michigan, California, Colorado, Florida and Illinois, representing 60% of the balance owed for the mortgage loan pools. In April 2001, the Company sold all of the mortgage loan pools at a slight gain to the Company. The estimated fair value of the mortgage loan pools at December 31, 2000 was \$71,535, resulting in an unrealized gain of \$837.

As of December 31, 2001, the unamortized net discount on all securities

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available for sale was \$1,786,400, which represented 53.53% of the then remaining face amount of such securities. During 2001, the Company sold securities available for sale and mortgage loan pools for total proceeds of \$1,452,577, resulting in a realized gain of \$7,401. During 2000, the Company sold securities available for sale for total proceeds of \$1,568,805 resulting in a realized gain of \$3,212.

As part of the acquisition of CORE Cap, Inc. in May 2000 (see Note 13) the Company acquired securities backed by franchise loans originated by Franchise Mortgage Acceptance Corporation ("FMAC 1998-BA trust"). The trust is collateralized by loans on 365 properties to 75 borrowers. The properties are largely franchise restaurants and gas station convenience stores. Collateral performance has been poor. In March of 2001 the class B securities were downgraded to BBB and the class C securities were downgraded to BB. In July 2001 the class B was downgraded to BBB- and class C was downgraded to B. The Company concluded that due to poor collateral performance, future cash flows on the class C bond were not likely to be received as originally provided and, accordingly, the bond was deemed to be impaired. During the second quarter of 2001, the Company took a charge to income of \$5,702 on the class C bond, to write this bond down to its estimated fair value. At December 31, 2001, the Company owned \$16,366 of class B principal and \$10,829 of class C principal. In February 2002, the class C bond was sold for a loss of \$3,610.

Note 3 SECURITIES HELD FOR TRADING

Securities held for trading reflect short-term trading strategies, which the Company employs from time to time, designed to generate economic and taxable gains. As part of its trading strategies, the Company may acquire long or short positions in U.S. Treasury or agency securities, forward commitments to purchase such securities, financial futures contracts and other fixed income or fixed income derivative securities. Any taxable gains from such strategies will be applied as an offset against the tax basis capital loss carry forward that the Company incurred during 1998 as a result of the sale of a substantial portion of its securities available for sale.

The Company's securities held for trading are carried at estimated fair value. At December 31, 2001, the Company's securities held for trading consisted of FNMA and Federal Home Loan Corp. mortgage pools with an estimated fair value of \$578,008 and short positions of 80 thirty-year U.S. Treasury Bond future contracts and 500 ten-year U.S. Treasury Note future contracts expiring in March 2002, which represented \$50,000 and \$8,000 in face amount of U.S. Treasury Bonds and Notes respectively. The estimated fair value of these contracts was approximately \$(61,235) at December 31, 2001. Also, the Company had outstanding a short position of 140 Eurodollar futures of which 35 expire in each of June, September, and December 2003, and 35 in March 2004, and an outstanding a short call swaption with a notional amount of \$400,000, which expires in December 2004. The estimated fair value of these Eurodollar futures contracts was approximately \$(32,987) and the estimated fair value of the swaption contract was approximately \$(10,500) as of December 31, 2001. In February 2002, the Company closed the swaption position. At December 31, 2000, the Company's securities held for trading consisted of U.S. Treasury securities with an estimated fair value of \$54,179 and a long position of 13 ten-year U.S. Treasury Note future contracts expiring March 30, 2001, which represented \$1,300 in face amount of U.S. Treasury notes. The estimated value at December 31, 2000 of the future contracts was \$(136).

The Company's trading strategies are subject to the risk of unanticipated changes in the relative prices of long and short positions in trading securities, but are designed to be relatively unaffected by changes in the overall level of interest rates.

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Note 4 COMMERCIAL MORTGAGE LOANS

The following table summarizes the Company's loan investments at December 31, 2001 and 2000:

Date of Initial Investment	Scheduled Maturity/Date of Repayment or Sale	Location	Property Type	Amount Outstanding 2001
3/28/00	6/20/01	New York, NY	Office	\$ -
2/12/99	3/27/01	Santa Monica, CA	Office	-
8/15/00	5/1/03	San Francisco, CA(2)	Hotel	17,892
8/26/98	6/30/03	London, England (1)	Hotel	31,199
12/20/00	12/19/02	Los Angeles, CA	Office	22,500
12/17/01	4/9/04	Tyson's Corner, VA(2)	Office	22,000
9/22/00	9/21/02	Chicago, IL(3)	Multifamily	15,000
11/7/01	11/11/07	San Francisco, CA (4)	Office	10,987
11/7/01	11/11/07	San Francisco, CA(4)	Office	9,889
6/25/01	1/11/06	New York, NY (5)	Office	13,170
				\$142,637
				=====

- (1) The exchange rate for the British pound at December 31, 2001 was (pound)0.687852 to US \$1.00; at December 31, 2000 the exchange rate was (pound)0.668762 to US \$1.00. The entire principal balance of the Company's investment in the London Loan is pledged to secure line of credit borrowings.
- (2) The entire principal balance of the Company's investment is pledged to secure line of credit borrowings.
- (3) Payments are interest only based at 12%. Additional interest of 8% is due upon pay-off.
- (4) Two subordinate interests in a \$125,000 note secured by one 11-story office building.
- (5) The entire principal balance of the Company's investment is pledged to secure reverse repurchase agreements.

Reconciliation of commercial mortgage loans:	2001	2000
Balance at beginning of period	\$153,187	\$69,611
Discount accretion	-	-
Advances made during the period	56,070	101,100
Proceeds from repayment of mortgage loans	(66,620)	(17,524)
Balance at end of period	\$142,637	\$153,187
	=====	=====

Note 5 EQUITY INVESTMENT AND REAL ESTATE JOINT VENTURES

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On July 20, 2000 the Company made an investment aggregating \$5,121 in two limited partnerships for the purpose of purchasing a 99 thousand square foot office building and a 120 thousand square foot office building, both of which are located in suburban Philadelphia. The Company's ownership interest is 64.81% in each partnership. The Company receives a preferred return of 12% compounded, on its unreturned capital, payable monthly and a share of the proceeds from a sale or refinancing. In July 2001, the Company received a return of capital distribution from the partnerships in the amount of \$1,921.

On December 14, 2000, the Company made an investment aggregating approximately \$5,149 in a limited liability company, a 36.4% interest, for the purpose of acquiring a 500 thousand square foot office and retail complex in Tallahassee, Florida. The Company receives a preferred return of 13.25% and a return of capital of \$3, payable monthly.

On July 20, 2001, the Company entered into a \$50 million commitment to acquire shares in Carbon Capital, Inc. ("Carbon"), a private commercial real estate income opportunity fund managed by BlackRock Financial Management, Inc., who is also the manager of the Company (Note 9). On November 7, 2001 the Company received a capital call notice to fund a portion of its Carbon investment. The total amount of the capital call was \$8,784, which was paid on November 19, 2001. The proceeds were used by Carbon to acquire three commercial loans all of which are secured by office buildings. The Company's remaining commitment is \$41,216. On December 31, 2001, the Company owned 32.5% of the outstanding shares in Carbon. In March 2002, Carbon obtained additional commitments from unaffiliated institutional investors while the Company's commitment remained unchanged. Accordingly, the Company's ownership was reduced from 32.5% to 18.8%.

Combined summarized financial information of the unconsolidated equity investment and real estate joint ventures is as follows:

	December 31,	
	2001	2000
Balance Sheets:		
Real estate, net	\$58,078	
Commercial mortgage loans, net	26,469	
Other assets	8,687	
	-----	-----
Total Assets	\$93,234	-----
	=====	=====
Mortgage debt	\$45,603	
Other liabilities	2,201	
Partners' and shareholders' equity	45,430	
	-----	-----
Total liabilities and shareholders' equity	\$93,234	-----
	=====	=====
Anthracite Capital, Inc.'s share of equity	\$16,865	-----
	=====	=====
Carrying value of unconsolidated equity investments and real estate joint ventures	\$17,101	

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	For the years ended December	
	2001	2000
Statements of Operations:		
Revenues	\$11,119	\$1,723
Expenses		
Interest expense	3,796	901
Depreciation and amortization	1,840	317
Operating expenses	3,560	559
Total expenses	9,196	1,777
Net Income	\$1,923	\$ (54)
Anthracite Capital, Inc.'s share of net income	\$1,747	\$348

The following table summarizes the loan investments held by Carbon Capital, Inc. at December 31, 2001 and 2000:

Date of Initial Investment	Scheduled Maturity/Date of Repayment or Sale	Location	Property Type	Amount Outstanding 2001	2000
11/19/01	9/11/04	New York, NY(1)	Office	\$10,000	\$
11/20/01	12/11/07	San Francisco, CA(2)	Office	12,144	
12/17/01	4/9/04	Tyson's Corner, VA(3)	Office	10,000	
				\$32,144	\$

- (1) The loan was issued at a discount, which will amortize to its par value on a straight-line basis. The carrying value of the loan at December 31, 2001 was \$9,760 and the yield was 9.6%.
- (2) The loan matures in December 2030, but due to the hyper amortization structure, is expected to be repaid by December 2007, as the interest rate increases by 2% and the borrower is required to use all cash flow after interest expense to reduce the loan balance. The loan was issued at a discount, which will amortize to its par value at a yield to maturity of 16.6%. The carrying value

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of the loan at December 31, 2001 was \$9,343. Anthracite Capital, Inc. owns two subordinate interests, which are senior to the interest owned in its unconsolidated equity investment.

- (3) The loan was issued at a discount, which will amortize to its par value on a straight-line basis. The carrying value of the loan at December 31, 2001 was \$7,366, and the yield was 19.6%. Anthracite Capital, Inc. owns a subordinate interest, secured by the same collateral, which is to the interest owned in its unconsolidated equity investment.

Reconciliation of commercial mortgage loans:	Par	Book Value
	-----	-----
Investments in commercial mortgage loans	\$32,152	\$26,390
Proceeds from principal repayments	(8)	(8)
Accretion of loan discount	-	87
	-----	-----
Total	\$32,144	\$ 26,469
	=====	=====

Note 6 FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standard No. 107, Disclosures about Fair Value of Financial Instruments requires the disclosure of the estimated fair value of financial instruments. The following table presents the carrying value and estimated fair value of financial instruments as of December 31, 2001 and 2000:

	2001			
	Notional Amount	Carrying Value	Estimated Fair Value	Notional Amount
	-----	-----	-----	-----
Securities available for sale	\$ -	\$ 1,445,954	\$ 1,445,954	\$ -
Securities held for trading	-	564,081	564,081	-
Mortgage loan pools	-	-	-	-
Commercial mortgage loans	-	142,637	146,635	-
Secured borrowings	-	(1,835,938)	(1,835,938)	-
Currency forward contracts	12,350	(489)	(489)	12,137
Interest rate swap agreements	792,000	(9,380)	(9,380)	226,000
Futures	930,000	(94,221)	(94,221)	-

Notional amounts are a unit of measure specified in a derivative instrument. The fair values of the Company's securities available for sale, securities held for trading, mortgage loan pools, currency forward contracts, and interest rate swap agreements are based on market prices provided by certain dealers who make markets in these financial instruments. The fair values reported reflect estimates and may not necessarily be indicative of the amounts the Company could realize in a current market exchange. Commercial mortgage loans and secured borrowings are floating rate instruments. Therefore their carrying value is approximate fair value.

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Note 7 COMMON STOCK

On January 5, 2000, the Company repurchased 6,100 shares of its Common Stock for \$39 in open market transactions. This purchase was made at a price of \$6.42 per share (including commissions). The remaining number of shares authorized for repurchase is 2,713,519. During 1999, the Company repurchased 36,800 shares of its Common Stock for \$234 in open market transactions; these purchases were made at an average price of \$6.35 per share. In accordance with Maryland corporate regulations, all repurchased shares are retired.

As part of the CORE Cap merger (see Note 13), the Company issued 4,180,552 shares of its Common Stock to CORE Cap shareholders on May 15, 2000.

On July 11, 2001, the Company filed a registration statement to register with the SEC an additional 10,000,000 shares of Common Stock to be issued under its Dividend Reinvestment and Stock Purchase Plan (the "Plan"). The Plan allows investors the opportunity to purchase additional shares of the Company's Common Stock through the reinvestment of the Company's dividends, optional cash payments and initial cash investments.

On September 21, 2001, the Company filed a registration statement to register an additional \$300,000 of securities with the SEC. The shelf registration statement permits the Company to issue a variety of debt and equity securities in the public markets. There can be no certainty, however, that the Company will be able to issue, on terms favorable to the Company, or at all, any of the securities so registered.

On February 14, 2001 the Company completed a secondary offering of 4,000,000 shares of its common stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting underwriting fees and expenses) were approximately \$33,300. The Company had granted the underwriters an option, exercisable for 30 days, to purchase up to 600,000 additional shares of Common Stock to cover over-allotments. This option was exercised on March 13, 2001 and resulted in net proceeds to the Company of approximately \$5,000.

On May 11, 2001, the Company completed a follow-on offering of 4,000,000 shares of its Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting underwriting fees and expenses) were approximately \$37,800. The Company had granted the underwriters an option, exercisable for 30 days, to purchase up to 600,000 additional shares of Common Stock to cover over-allotments. This option was exercised on June 6, 2001 and resulted in net proceeds to the Company of approximately \$5,675.

On November 7, 2001 the Company completed a follow-on offering of 4,400,000 shares of its Common Stock in an underwritten public offering. The aggregate net proceeds to the Company (after deducting estimated expenses) were approximately \$39,400. On November 13, 2001, the underwriters exercised an option to purchase an additional 90,000 shares of Company Common Stock available through an over-allotment granted to the underwriters and resulted in net proceeds to the Company of approximately \$810.

For the year ended December 31, 2001, the Company issued 2,228,566 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately \$22,945. No shares were issued for the year ended December 31, 2000 under the Dividend Reinvestment Plan.

During the year ended December 31, 2001, the Company declared dividends to shareholders totaling \$47,458 or \$1.29 per share, of which \$31,607 was paid during the year and \$15,850 was paid on January 31, 2002. On March 14, 2002, the Company declared distributions to its shareholders of \$.35 per share,

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payable on April 30, 2002 to stockholders of record on April 4, 2002. For U.S. Federal income tax purposes, the dividends are ordinary income to the Company's stockholders.

During the year ended December 31, 2000, the Company declared dividends to shareholders totaling \$27,591 or \$1.17 per share, of which \$20,005 was paid during the year and \$7,541 was paid on January 31, 2001. On March 14, 2001, the Company declared distributions to its shareholders of \$.30 per share, payable on April 30, 2001 to stockholders of record on March 30, 2001. For U.S. Federal income tax purposes, the dividends are ordinary income to the Company's stockholders.

During the year ended December 31, 1999, the Company declared dividends to shareholders totaling \$24,348 or \$1.16 per share, of which \$18,270 was paid during the year and \$6,078 was paid on January 17, 2000. For U.S. Federal income tax purposes, the dividends are ordinary income to the Company stockholders.

Note 8 PREFERRED STOCK

On December 2, 1999 the Company authorized and issued 1,200,000 shares of 10.5% Series A Senior Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), \$0.001 par value per share, for aggregate proceeds of \$30,000. The Series A Preferred Stock carries a 10.5% coupon and is convertible into the Company's Common Stock at a price of \$7.35. The Series A Preferred Stock has a seven-year maturity at which time, at the option of the holders, the shares may be converted into common shares or liquidated ("Liquidation Preference") for \$28.50 per share. On December 21, 2001, the only Series A Preferred shareholder converted 1,190,000 shares of the Series A Preferred Stock into 4,096,854 shares of Company Common Stock at a price of \$7.26 per share pursuant to its terms, which is \$0.09 lower than the original conversion price due to the effects of anti-dilution provisions in the Series A Preferred Stock. The remaining 10,000 shares of Series A Preferred Stock were converted into 34,427 shares of the Company's Common Stock in March 2002.

The Series A Preferred Stock was privately sold by the Company, and there was no underwriting discount paid. At the closing of the CORE Cap merger (see Note 13), the Liquidation Preference of the Series A Preferred Stock was increased from \$27.75 to \$28.50 per share.

As part of the CORE Cap merger, the Company authorized and issued 2,261,000 shares of 10% Series B Cumulative Redeemable Convertible Preferred Stock ("Series B Preferred Stock"), \$0.001 par value per share to CORE Cap shareholders. The Series B Preferred Stock is perpetual, carries a 10% coupon, has a preference in liquidation as of December 31, 2001 of \$55,317, and is convertible into the Company's Common Stock at a price of \$17.09 per share, subject to adjustment. If converted, the Series B Preferred Stock would convert into approximately 3,237,065 shares of the Company's Common Stock. In 2001, 48,300 shares of 10% Series B Preferred Stock with a liquidation preference of \$1,207 were converted at the shareholder's option into 70,660 shares of the Company's Common Stock.

As of December 31, 2001, the Company has authorized and un-issued preferred stock of 96,539,000 shares.

Note 9 TRANSACTIONS WITH AFFILIATES

The Company has a Management Agreement with the "Manager", a majority owned indirect subsidiary of PNC Financial Services Group, Inc. ("PNC Bank") and the employer of certain directors and officers of the Company, under which

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the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. The initial two year term of the Management Agreement was to expire on March 27, 2000; on March 16, 2000, the Management Agreement was extended for an additional two years, with the unanimous approval of the unaffiliated directors, on terms similar to the prior agreement. On March 25, 2002, the Management Agreement was extended for one year through March 27, 2003, with the unanimous approval of the unaffiliated directors, on terms similar to the prior agreement with the following changes: (i) the incentive fee calculation would be based on GAAP earnings instead of FFO, (ii) the removal of the four year period to value the Management Agreement in the event of termination, and (iii) subsequent renewal periods of the Management Agreement would be for one year instead of two years. The Board was advised by Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ("Houlihan Lokey") in the renewal process. Houlihan Lokey is a national investment banking and financial advisory firm. The Company pays the Manager an annual base management fee equal to a percentage of the average invested assets of the Company as defined in the Management Agreement. The base management fee is equal to 1% per annum of the average invested assets rated less than BB- or not rated, 0.75% of average invested assets rated BB- to BB+, and 0.20% of average invested assets rated above BB+. In order to coincide with the increased scale of the Company, effective July 1, 2001, the Manager reduced the base management fee from 0.35% of average invested assets rated above BB+. This revision resulted in \$1,059 in savings to the Company during 2001.

The Company incurred \$7,780, \$6,483 and \$4,565 in base management fees in accordance with the terms of the Management Agreement for the years ended December 31, 2001, 2000, and 1999, respectively. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements to the Manager of \$216, \$120, and \$333 for certain expenses incurred on behalf of the Company during 2001, 2000, and 1999, respectively.

The Company has also paid the Manager on a quarterly basis, as incentive compensation, an amount equal to 25% of the funds from operations of the Company (as defined) plus gains (minus losses) from debt restructuring and sales of property, before incentive compensation in excess of a threshold rate. The threshold rate for 1999, 2000, and the six months ended June 30, 2001 was based upon an annualized return on equity equal to 3.5% over the ten year U.S. Treasury Rate on the adjusted issue price of the Common Stock. Effect July 1, 2001, the Manager revised the threshold rate to be the greater of 3.5% over the ten-year U.S. Treasury Rate or 9.5%. This revision resulted in \$630 in savings to the Company during 2001.

Pursuant to the March 25, 2002 one-year Management Agreement extension, such incentive fee will be based on 25% of earnings (calculated in accordance with GAAP) of the Company. For purposes of the incentive compensation calculation, equity is generally defined as proceeds from issuance of Common Stock before underwriting discounts and commissions and other costs of issuance. The Company incurred \$3,238 and \$967 in incentive compensation for the years ended December 31, 2001 and 2000, respectively. The Company did not pay incentive compensation during 1999.

On March 17, 1999, the Company's Board of Directors approved an administration agreement with the Manager and the termination of a previous agreement with an unaffiliated third party. Under the terms of the administration agreement, the Manager provides financial reporting, audit coordination and accounting oversight services. The Company pays the Manager a monthly administrative fee at an annual rate of 0.06% of the first \$125 million of average net assets, 0.04% of the next \$125 million of average net assets and 0.03% of average net assets in excess of \$250 million subject to a minimum annual fee of \$120. The terms of the administrative agreement are substantially similar to the terms of the previous third-party agreement.

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For the years ended December 31, 2001, 2000 and 1999, the administration fee was \$144, \$120 and \$120, respectively.

During the year ended December 31, 2000, the Company purchased certificates representing a 1% interest in Midland Commercial Mortgage Owner Trust IV, Midland Commercial Mortgage Owner Trust V, Midland Commercial Mortgage Owner Trust VI, Commercial Mortgage Owner Trust VII, PNC Loan Trust VII, and PNC Loan Trust VIII for an aggregate investment of \$7,021. These Midland Trusts were purchased from Midland Loan Services, Inc. and the PNC trusts were purchased from PNC Bank. Midland is a wholly owned indirect subsidiary of PNC Bank and the depositor to the Trusts. The assets of the Trusts consist of commercial mortgage loans originated or acquired by Midland and PNC Bank. In connection with these transactions, the Company entered into a \$4,500 committed line of credit from PNC Funding Corp., a wholly owned indirect subsidiary of PNC Bank, to borrow up to 90% of the fair market value of the Company's interest in the Trusts. Outstanding borrowings against this line of credit bear interest at a LIBOR based variable rate. As of December 31, 2001 and 2000 there were no outstanding borrowings under this line of credit. The Company earned \$163 and \$33 from the Trusts and paid interest of approximately \$138 and \$20 to PNC Funding Corp. during years ended December 31, 2000 and 1999, respectively. These Midland Trusts were all sold prior to December 31, 2000. The gain on sale of these investments was not significant.

During 1999, the Company purchased certificates representing 1% interests in Midland Commercial Mortgage Owner Trust I, Midland Commercial Mortgage Owner Trust II, and Midland Commercial Mortgage Owner Trust III (the "Trusts") from Midland for an aggregate investment of \$5,346. During 1999 the Company's interests in the Midland Commercial Mortgage Owner Trust I and II were sold for \$3,876 resulting in a realized gain of \$87. In connection with these transactions, the Company utilized a \$4,500 committed line of credit from PNC Funding Corp. to borrow up to 90% of the fair market value of the Company's interest in the Trusts. Outstanding borrowings against this line of credit bear interest at a LIBOR based variable rate. The Company paid interest of approximately \$20 to PNC Funding Corp. during the year ended December 31, 1999.

In March 2001, the Company purchased twelve certificates each representing a 1% interest in different classes of Owner Trust NS I Trust ("Owner Trusts") for an aggregate investment of \$37,868. These certificates were purchased from PNC Bank. The assets of the Owner Trusts consist of commercial mortgage loans originated or acquired by an affiliate of PNC. The Company entered into a \$50,000 committed line of credit from PNC Funding Corp. to borrow up to 95% of the fair market value of the Company's interest in the Owner Trusts. Outstanding borrowings against this line of credit bear interest at a LIBOR based variable rate. As of December 31, 2001, there was \$13,885 borrowed under this line of credit. The Company earned \$1,468 from the Owner Trusts and paid interest of approximately \$849 to PNC Funding Corp. as interest on borrowings under a related line of credit for year ended December 31, 2001. During 2001, the Company sold four Owner Trusts. The gain on the sale of those Owner Trusts was \$35. The outstanding borrowings were repaid prior to the expiration on March 13, 2002; at which time the remaining trusts were sold at a gain of \$90.

On July 20, 2001, the Company entered into a \$50 million commitment to acquire shares in Carbon Capital, Inc. ("Carbon"), a private commercial real estate income opportunity fund managed by BlackRock Financial Management, Inc., who is also the manager of the Company. The Company does not pay BlackRock management or incentive fees through Carbon and has received a reduced fee for this investment on its own management contract with BlackRock. On November 7, 2001 the Company received a capital call notice to fund a portion of its Carbon Capital, Inc. investment. The total amount of

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the capital call was \$8,784, which was paid on November 19, 2001. The proceeds were used by Carbon to acquire three commercial loans all of which are secured by office buildings. The Company's remaining commitment is \$41,216. On December 31, 2001, the Company owned 32.5% of the outstanding shares in Carbon, and BlackRock Financial Management, Inc., its affiliates, officers, directors and employees collectively own 5%. In March 2002, Carbon obtained additional commitments from unaffiliated institutional investors while the Company's commitment remained unchanged. Accordingly, the Company's ownership was reduced from 32.5% to 18.8%.

At the time of the Core-Cap merger, the Manager agreed to pay GMAC Mortgage Asset Management, Inc. (GMAC) \$12,500 over a ten-year period (Installment Payment). The Company agreed that should it terminate the Manager without cause, the Company would pay to the Manager an amount equal to the Installment Payment less the sum of all payments made by the Manager to GMAC. As of December 31, 2001, the installment payment would be \$11,000 payable over nine years. The Company does not accrue for this contingent liability.

Note 10 STOCK OPTIONS

The Company has adopted a stock option plan (the "1998 Stock Option Plan") that provides for the grant of both qualified incentive stock options that meet the requirements of Section 422 of the Code, and non-qualified stock options, stock appreciation rights and dividend equivalent rights. Stock options may be granted to the Manager, directors, officers and any key employees of the Company, directors, officers and key employees of the Manager and to any other individual or entity performing services for the Company.

The exercise price for any stock option granted under the 1998 Stock Option Plan may not be less than 100% of the fair market value of the shares of Common Stock at the time the option is granted. Each option must terminate no more than ten years from the date it is granted. Subject to anti-dilution provisions for stock splits, stock dividends and similar events, the 1998 Stock Option Plan authorizes the grant of options to purchase an aggregate of up to 2,470,453 shares of Common Stock.

For option grants prior to December 15, 1998, the Company considered its officers and directors to be employees for the purposes of stock option accounting. In accordance with the FASB's Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, the Company's officers and directors are not considered to be employees for grants made subsequent to that date.

Of the options issued under the 1998 Stock Option Plan, options covering 979,426 shares of the Company's Common Stock were granted prior to December 15, 1998 to individuals deemed to be employees. The Company adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for such options. Accordingly, no compensation cost for these options has been recorded in the statement of operations. Had compensation cost for these options been determined based on the fair value of the options at the grant date consistent with the provisions of SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have changed to the pro forma amounts indicated below:

	2001	2000	1999
Net income (loss) - as reported	\$56,271	\$39,326	\$26,000

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Net income (loss) - pro forma	56,218	39,158
Basic income (loss) per share - as reported	1.41	1.37
Basic income (loss) per share - pro forma	1.41	1.36
Diluted income (loss) per share - as reported	1.35	1.28
Diluted income (loss) per share - pro forma	1.35	1.28

For the Company's pro forma net loss, the compensation cost is amortized over the vesting period of the options.

For the options to purchase 786,915 shares of the Company's Common Stock granted to non employees under the 1998 Stock Option Plan, compensation cost is accrued based on the estimated fair value of the options issued, and amortized over the vesting period. Because vesting of the options is contingent upon the recipient continuing to provide services to the Company to the vesting date, the Company estimates the fair value of the non-employee options at each period end, up to the vesting date, and adjusts expensed amounts accordingly. The value of these non-employee options at each period end was negligible.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the periods ending December 31, 2000, and 1999. There were no options granted in 2001.

	December 31	
	2000	1999
Estimated volatility	25%	25%
Expected life	7 years	8 years
Risk-free interest rate	6.0%	5.82%
Expected dividend yield	11.35%	15.91%

On May 15, 2000 pursuant to the acquisition of CORE Cap, the Company granted stock options on the Company's stock to the directors of CORE Cap similar in term and vesting to the stock options the directors held immediately prior to the date of acquisition. The strike price was adjusted for the effect of the acquisition. The options granted are as follows:

Number of Options Granted	Exercise Price	% Vested
76,998	\$15.58	100%
15,400	15.84	100%
15,400	9.11	100%
15,400	7.82	100%

The fair value of the CORE Cap option grants at the grant date was estimated by the Company using the Black-Scholes option-pricing model; the resulting valuation was negligible.

The following table summarizes information about options outstanding under the Plan:

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	2001		2000	
	Shares	Weighted-Exercise Price	Shares	Weighted-Exercise Price
Outstanding at January 1	1,766,341	\$13.87	1,718,143	\$14.03
Granted	0		193,198	11.73
Exercised	0		0	0
Cancelled	0		(145,000)	12.91
Outstanding at December 31	1,766,341	\$13.87	1,766,341	\$13.87
Options exercisable at December 31	1,400,554	\$13.70	919,770	\$14.02
Weighted-average fair value of options granted during the year ended December 31 (per option)	\$0.12		\$0.12	

The following table summarizes information about options outstanding under the Plan at December 31, 2001:

Exercise Price	Options Outstanding at December 31, 2001	Remaining Contractual Life	Options Exercisable at 2001
7.82	15,400	8.1 Years	15,400
8.02	50,000	8.2 Years	25,000
8.44	230,000	7.2 Years	230,000
9.11	15,400	7.2 Years	15,400
15.00	1,363,143	6.2 Years	1,022,356
15.58	76,998	5.7 Years	76,998
15.83	15,400	6.2 Years	15,400
7.82-\$15.83	1,766,341	6.43 Years	1,400,554

Shares available for future grant under the plan at December 31, 2001 were 704,122.

Note 11 BORROWINGS

The Company's borrowings consist of lines of credit borrowings and reverse repurchase agreements.

In September of 2000, the Company closed a \$200,000, one-year term facility with Merrill Lynch Mortgage Capital Inc. ("Merrill Lynch"), which will be

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used to finance the Company's residential mortgage loan pools. As of December 31, 2001, there were no outstanding borrowings under this facility. As of December 31, 2000, outstanding borrowings under this facility were \$37,253. Outstanding borrowings under this facility bear interest at a LIBOR based variable rate. This facility expired pursuant to its terms.

The Company has another agreement with Merrill Lynch, which permits the Company to borrow up to \$200,000. As of December 31, 2001 and December 31, 2000, the outstanding borrowings under this line of credit were \$57,113 and \$63,453, respectively. The agreement requires assets to be pledged as collateral, which may consist of rated CMBS, rated RMBS, residential and commercial mortgage loans, and certain other assets. Outstanding borrowings under this line of credit bear interest at a LIBOR based variable rate. On January 15, 2002, the facility was renewed for a twelve-month period.

In June 1999, the Company closed a \$17,500, three year term financing secured by the Company's \$35,000 Santa Monica Loan. As of December 31, 2000, the Company had drawn \$17,500 under this loan. The loan was paid off in March 2001 when the Santa Monica Loan was paid off.

On July 19, 1999, the Company entered into an \$185,000 committed credit facility with Deutsche Bank, AG (the "Deutsche Bank Facility"). The Deutsche Bank Facility has a two-year term and provides for a one-year extension at the Company's option. The Deutsche Bank Facility was extended for a one-year term thru July 19, 2002, and is currently under negotiation to be extended. The Deutsche Bank Facility can be used to replace existing reverse repurchase agreement borrowings and to finance the acquisition of mortgage-backed securities, loan investments, and investments in real estate joint ventures. As of December 31, 2001 and December 31, 2000, the outstanding borrowings under this facility were \$43,409 and \$53,810, respectively. Outstanding borrowings under the Deutsche Bank Facility bear interest at a LIBOR based variable rate.

At the time of the CORE Cap acquisition, CORE Cap was a party to commercial paper facility agreements with each of ABN Amro which was used to finance residential and commercial loans, which are used to collateralize borrowings under the facility. Following the CORE Cap acquisition, the Company renewed the facility with ABN Amro, which facility is in the amount of \$200,000, and matured on June 18, 2001. As of December 31, 2000, outstanding borrowing under the ABN Amro facility was \$30,115; this facility was paid off in 2001.

The Company is subject to various covenants in its lines of credit, including maintaining a minimum GAAP net worth of \$140,000, a debt-to-equity ratio not to exceed 5.0 to 1, a minimum cash requirement based upon certain debt to equity ratios, a minimum debt service coverage ratio of 1.5, and a minimum liquidity reserve of \$10,000. Additionally, the Company's GAAP net worth cannot decline by more than 37% during the course of any two consecutive fiscal quarters. As of December 31, 2001 and 2000, the Company was in compliance with all such covenants.

The Company has entered into reverse repurchase agreements to finance most of its securities available for sale that are not financed under its lines of credit. The reverse repurchase agreements are collateralized by most of the Company's securities available for sale and bear interest at a LIBOR based variable rate.

Certain information with respect to the Company's collateralized borrowings at December 31, 2001 is summarized as follows:

Lines of

Reverse

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	Credit and Term Loans	Repurchase Agreements
Outstanding borrowings	\$ 115,747	\$1,720,191
Weighted average borrowing rate	3.62%	1.94%
Weighted average remaining maturity	186 days	18 days
Estimated fair value of assets pledged	\$173,139	\$1,825,971

At December 31, 2001, \$20,356 of borrowings outstanding under the line of credit was denominated in pounds sterling, and interest payable is based on sterling LIBOR.

As of December 31, 2001, the Company's collateralized borrowings had the following remaining maturity

	Lines of Credit and Term Loan	Reverse Repurchase Agreements	Total Collateralized Borrowings
Within 30 days	\$58,453	\$1,700,420	\$1,758,873
31 to 59 days	-	19,771	19,771
Over 60 days	57,294	-	57,294
	\$115,747	\$1,720,191	\$1,835,938

Certain information with respect to the Company's collateralized borrowings as of December 31, 2000 is summarized as follows:

	Lines of Credit and Term Loans	Reverse Repurchase Agreements
Outstanding borrowings	\$ 202,130	\$517,212
Weighted average borrowing rate	7.71%	7.06%
Weighted average remaining maturity	152 days	22 days
Estimated fair value of assets pledged	\$354,108	\$588,657

As of December 31, 2000, \$23,129 of borrowings outstanding under the line of credit were denominated in pounds sterling and interest payable based on sterling LIBOR.

As of December 31, 2000, the Company's collateralized borrowings had the following remaining maturity

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	Lines of Credit and Term Loans	Reverse Repurchase Agreements	Total Collaterali Borrowing
Within 30 days	\$63,453	\$376,588	\$44
31 to 59 days	-	140,624	14
Over 60 days	138,677	-	13
	=====	=====	=====
	\$202,130	\$517,212	\$71
	=====	=====	=====

Under the lines of credit and the reverse repurchase agreements, the respective lender retains the right to mark the underlying collateral to estimated market value. A reduction in the value of its pledged assets will require the Company to provide additional collateral or fund margin calls. From time to time, the Company expects that it will be required to provide such additional collateral or fund margin calls.

Note 12 DERIVATIVE INSTRUMENTS

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of change in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

The Company uses interest rate swaps to manage exposure to variable cash flows on portions of its borrowings under reverse repurchase agreements and as trading derivatives intended to offset changes in fair value related to securities held as trading assets. On the date in which the derivative contract is entered, the Company designates the derivative as either a cash flow hedge or a trading derivative.

The reverse repurchase agreements bear interest at a LIBOR based variable rate. Increases in the LIBOR rate could negatively impact earnings. The interest rate swap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

Interest rate swap agreements contain an element of risk in the event that the counterparties to the agreements do not perform their obligations under the agreements. The Company minimizes its risk exposure by entering into agreements with parties rated at least A+ by Standard & Poor's Rating Services. Furthermore, the Company has interest rate swap agreements established with several different counterparties in order to reduce the risk of credit exposure to any one counterparty. Management does not expect any counterparty to default on their obligations.

On January 1, 2001 the Company reclassified certain of its adjustable rate agency debt securities, with an amortized cost of \$64,432 from available-for-sale to trading. An interest rate swap agreement with a

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\$25,000 notional amount that had been designated as hedging these debt securities was similarly reclassified. The unrealized gain of \$895 related to the adjustable rate agency debt securities and the unrealized loss of \$2,798 related to the interest rate swap as of January 1, 2001 were reclassified from OCI and recorded as the cumulative transition adjustment to earnings upon adoption of SFAS 133. The net cumulative effect of adopting SFAS 133 was (\$1,903) and is reflected as "Cumulative Transition Adjustment - SFAS 133" on the consolidated statement of operations.

In addition, on January 1, 2001, the Company re-designated interest rate swap agreements with notional amounts aggregating \$98,000 that had been hedging available-for-sale debt securities as cash flow hedges of its variable rate borrowings under reverse repurchase agreements. The fair value of these swap agreements on January 1, 2001, an unrealized loss of (\$9,853), remained in OCI at the date of adoption of FAS 133, and therefore, did not result in a transition adjustment.

Because of the de-designation and re-designation of the \$98,000 interest rate swaps, the Company is required to reclassify the related \$9,853 recorded in OCI. Reclassification is on a straight-line basis over the shorter of the life of the swap or the previously hedged assets and is recognized as a reduction of interest income. For the year ended December 31, 2001, \$994 was reclassified as a reduction of interest income and \$248 will be reclassified as a reduction of interest income each quarter for the next 12 months.

In addition, on January 1, 2001 the Company re-designated interest rate swap agreements with notional amounts aggregating \$57,744 that had been hedging available-for-sale debt securities to hedges of trading securities. These interest rate swap agreements were sold in January 2001; the loss of \$795 is included in loss on securities held for trading. As of December 31, 2000 the accumulated loss for these interest rate swaps was \$3,226. This accumulated loss is being reclassified from OCI as a reduction of income from securities available for sale over the weighted average life of the securities these interest rate swaps were hedging on December 31, 2000. For the year ended December 31, 2001, \$257 was reclassified as a reduction of interest income.

As of December 31, 2001, the Company had interest rate swaps with notional amounts aggregating \$682,000 that were designated as cash flow hedges of borrowings under reverse repurchase agreements. Their aggregate fair value was a \$9,343 liability included in other liabilities on the statement of financial condition. This liability was collateralized with cash listed as restricted cash on the Company's statement of financial condition. For the year ended December 31, 2001, the net change in the fair value of the interest rate swaps was (\$12,369) of which \$428 was deemed ineffective and is included as additional interest expense and \$11,941 was recorded as a reduction of OCI. As of December 31, 2001, the \$682,000 notional of swaps which were designated as cash flow hedges had a weighted average remaining term of 4.6 years.

During the year ended December 31, 2001, the Company terminated two of its interest rate swaps with notional amounts aggregating \$105,000 that were designated as cash flow hedges of borrowings under reverse repurchase agreements. The Company will reclassify from OCI as an increase to interest expense the \$7,291 loss in value incurred during 2001 thru the sale date, over 8.8 years, which was the weighted average remaining term of the swaps at the time they were closed out. For the year ended December 31, 2001, \$118 was reclassified as an increase to interest expense and \$203 will be reclassified as an increase to interest expense each quarter for the next 12 months.

As of December 31, 2001, the Company had interest rate swaps with notional

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amounts aggregating \$110,000 designated as trading derivatives. Their aggregate fair value at December 31, 2001 of (\$37) is included in trading securities. For the year ended December 31, 2001, the change in fair value for these trading derivatives was \$2,320 and is included as a reduction of loss on securities held for trading in the consolidated statement of operations. As of December 31, 2001, the \$110,000 notional of swaps which were designated as trading derivatives had a weighted average remaining term of 29.9 years.

As of December 31, 2000, the Company had interest rate swaps with notional amounts aggregating \$226,000 designated as hedges of available for sale securities. Their aggregate fair value at December 31, 2000 was a liability of \$12,505 and is included in other liabilities in the consolidated statement of financial condition, the amortized cost was \$9,471, and the weighted average remaining term was 19.3 years.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. The Company assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting prospectively.

In July 2000 the Company redesignated two interest rate agreements from hedging certain of the Company's available-for-sale securities to securities held for trading. These interest rate agreements were redesignated in September 2000 back to hedging certain of the Company's available-for-sale securities. The loss in value of these interest rate agreements during the period they were designated as trading securities was \$612 and is included in gain on securities held for trading in the statement of operations.

Occasionally, counterparties will require the Company or the Company will require counterparties to provide collateral for the interest rate swap agreements in the form of margin deposits. Net deposits are recorded as a component of accounts receivable or other liabilities. Should the counterparty fail to return deposits paid, the Company would be at risk for the fair market value of that asset. At December 31, 2001 and 2000, the balance of such net margin deposits owed to counterparties as collateral under these agreements totaled \$1,311 and \$81, respectively.

The implementation of SFAS 133 did not change the manner in which the Company accounts for its forward currency exchange contracts. Hedge accounting is not applied for these contracts and they are carried at fair value, with changes in fair value included as a component of net foreign currency gain or loss in the consolidated statement of operations. These contracts are intended to manage currency risk in connection with the Company's investment in the London Loan, which is denominated in pounds sterling.

As of December 31, 2001 the Company agreed to exchange (pound)8,831 (pounds sterling) for \$12,350 (U.S. dollars) on January 22, 2002. On January 22, 2002 the Company agreed to exchange (pound)8,831 (pounds sterling) for \$12,679 on July 22, 2002. As of December 31, 2000 the Company agreed to exchange (pound)8,000 (pounds sterling) for \$12,137 (U.S. dollars) on January 18, 2001. These contracts are intended to economically hedge currency risk in connection with the Company's investment in the London Loan, which is denominated in pounds sterling. The estimated fair value of the forward currency exchange contracts was a liability of \$489 and an asset of \$749 at December 31, 2001 and 2000, respectively, which was recognized as a (reduction) addition of foreign currency losses. In certain circumstances,

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the Company may be required to provide collateral to secure its obligations under the forward currency exchange contracts, or may be entitled to receive collateral from the counter party to the forward currency exchange contracts. At December 31, 2001 and 2000 no collateral was required under the forward currency exchange contracts.

The contracts identified in the remaining portion of this footnote have been entered into to limit the Company's mark to market exposure to long-term interest rates.

At December 31, 2001, the Company had outstanding short positions of 80 thirty-year U.S. Treasury Bond future contracts and 500 ten-year U.S. Treasury Note future contracts expiring in March 2002, which represented \$8,000 and \$50,000 in face amount of U.S. Treasury Bonds and Notes respectively. The estimated fair value of these contracts was approximately \$(61,235) at December 31, 2001, and the change in fair value related to these contracts in included as a component of loss on securities held for trading. At December 31, 2000 the Company did not have U.S. Treasury future contracts.

At December 31, 2001, the Company had outstanding a short position of 140 Eurodollar futures which expire 35 in each of June, September and December 2003, and 35 in March 2004. The estimated fair value of these contracts was approximately \$(32,987) at December 31, 2001, and the change in fair value related to these contracts in included as a component of loss on securities held for trading. At December 31, 2000 the Company did not have Eurodollar future contracts.

In addition in December 2001 the Company wrote a call option on a 5-year interest rate swap agreement with a notional amount of \$400,000. The option has an expiration date of December 2004. Proceeds received from the sale were \$13,180. This transaction was entered into to provide additional short-term rate protection in a rising interest rate environment. The Company wrote the option to accomplish this and take advantage of the high market value of option prices at that time. The estimated fair value of this contract was a liability of \$10,500 as of December 31, 2001, and is included in securities held for trading at a gain of \$2,680. The Company closed this position in February 2002. At December 31, 2000, the Company did not own any call swaptions.

Note 13 Acquisition of CORE Cap, Inc.

On May 15, 2000, the Company acquired all of the outstanding capital stock of CORE Cap, Inc. ("CORE Cap"), a private real estate investment trust investing in mortgage loans and mortgage-backed securities, in exchange for 4,180,552 of the Company's common shares and 2,261,000 Series B preferred shares. The common and preferred shares issued by the Company were valued at approximately \$71,094 on May 15, 2000. The acquisition was accounted for under the purchase method. Application of purchase accounting resulted in an excess of the value of the acquired net assets over the value of the Company's common and preferred shares issued in the acquisition, plus transaction costs. This deferred credit totaled \$9,687 and is being amortized as described in "Negative Goodwill" above. The operations of CORE Cap are included in the Company's financial statements from May 15, 2000. Pursuant to SFAS 142 (See Recent Accounting Pronouncements), the Company will recognize the December 31, 2001 unamortized negative goodwill balance of \$6,327 in income during the first quarter of 2002.

The following unaudited consolidated proforma results of operations for the years ended December 31, 2000 and 1999 assume the CORE Cap acquisition occurred as of the beginning of each period presented:

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	2000	1999
Total income	\$131,482	\$174,441
Net income	44,427	48,693
Net income available to common shareholders	35,242	41,587
Earnings per share:		
Basic	1.49	1.66
Diluted	1.39	1.70

Note 14 NET INCOME (LOSS) PER SHARE

Net income per share is computed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. Basic income (loss) per share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated using the weighted average number of common shares outstanding during the period plus the additional dilutive effect of Common Stock equivalents. The dilutive effect of outstanding stock options is calculated using the treasury stock method, and the dilutive effect of preferred stock is calculated using the "if converted" method.

	For the year 2001

Numerator:	
Net Income available to common shareholders before cumulative transition adjustment	\$ 49,210
Cumulative transition adjustment - SFAS 133	(1,903)

Numerator for basic earnings per share	47,307
Effect of 10.5% series A senior cumulative redeemable preferred stock	3,420

Numerator for diluted earnings per share	\$50,727
	=====
Denominator:	
Denominator for basic earnings per share--weighted average common shares outstanding	33,568
Effect of 10.5% series A senior cumulative redeemable preferred stock	3,993
Dilutive effect of stock options	55

Denominator for diluted earnings per share--weighted average common shares outstanding and common share equivalents outstanding	37,616
	=====
Basic net income per weighted average common share:	

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Income before cumulative transition adjustment	\$1.47
Cumulative transition adjustment - SFAS 133	(0.06)

Net income	\$1.41
	=====

Diluted net income per weighted average common share and common share equivalents:

Income before cumulative transition adjustment	\$1.40
Cumulative transition adjustment - SFAS 133	(0.05)

	\$1.35
	=====

The Company's stock options were antidilutive in 2001 and the Series B Preferred Stock was were antidilutive for all periods presented.

Note 15 SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of quarterly results of operations.

	March 31		June 30		Quarters Ending September 30	
	2001	2000	2001	2000	2001	2000
Interest Income	\$26,340	\$16,622	\$28,405	\$26,003	\$36,246	\$
Expenses:						
Interest	12,272	7,467	11,665	15,096	18,341	1
Management fee and other	3,135	2,177	2,951	2,248	3,381	
Total Expenses	15,407	9,644	14,616	17,344	21,722	1
Gain (loss) on sale of securities available for sale	1,947	24	5,134	682	175	
Gain (loss) on securities held for trading	692	328	(124)	-	1,875	
Foreign currency (loss) gain	104	(4)	5	(7)	(91)	
Loss on impairment of asset	-	-	(5,702)	-	-	
Net income before cumulative transition adjustment	\$13,676	\$7,326	\$13,102	\$9,334	\$16,483	\$1
Cumulative transition adjustment - SFAS 133	(1,903)	-	-	-	-	
Net Income	\$11,773	\$7,326	\$13,102	\$9,334	\$16,483	\$1
Dividends and accretion on redeemable convertible preferred stock	2,289	866	2,287	1,575	2,290	
Net income available to common shareholders	\$9,484	\$6,460	\$10,815	\$7,759	\$14,193	\$

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Net income per share:					
Basic	\$0.35	\$0.31	\$0.33	\$0.34	\$0.40
Diluted	\$0.33	\$0.29	\$0.32	\$0.32	\$0.38

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the Company's annual report to security holders for the year ended December 31, 2001

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the Company's annual report to security holders for the year ended December 31, 2001

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the Company's annual report to security holders for the year ended December 31, 2001

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the Company's annual report to security holders for the year ended December 31, 2001

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) (3) Exhibit Index
- **3.1 Articles of Amendment and Restatement of the Registrant
- **3.2 Bylaws of the Registrant
- **10.1 Investment Advisory Agreement between the Registrant and BlackRock Financial Management, Inc.
- **10.2 Form of 1998 Stock Option Incentive Plan
- 10.3 Amendment No.3 to the Investment Advisory Agreement between the Registrant and Black Rock Financial Mangement, Inc. dated March 25, 2002
- **21.1 Subsidiaries of the Registrant
- 23.1 Consent of Deloitte & Touche
- 24.1 Power of Attorney (included on signature page hereto)

** Previously filed.

- 1. Reports on Form 8-K.

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- o Current Report on Form 8-K filed on December 21, 2001.
- o Current Report on Form 8-K filed on November 14, 2001.
- o Current Report on Form 8-K filed on October 29, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ANTHRACITE CAPITAL, INC.

Date: March 28, 2002

By: /s/ Hugh R. Frater

 Hugh R. Frater
 President and Chief Executive Officer
 and Director
 (duly authorized representative)

KNOW ALL MEN BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Richard M. Shea his true and lawful attorney-in-fact and agents with full power of substitution and resubstitution, for his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Form 10-K and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This power of attorney may be executed in counterparties.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 28, 2002

By: /s/ Hugh R. Frater

 Hugh R. Frater
 President and Chief Executive Officer
 and Director

Date: March 28, 2002

By: /s/ Laurence D. Fink

 Laurence D. Fink
 Chairman of the Board of Directors

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Date: March 28, 2002

By: /s/ Donald G. Drapkin

Donald G. Drapkin
Director

Date: March 28, 2002

By: /s/ Carl F. Guether

Carl F. Guether
Director

Date: March 28, 2002

By: /s/ Jeffrey C. Keil

Jeffrey C. Keil
Director

Date: March 28, 2002

By: /s/ Kendrick R. Wilson, III

Kendrick R. Wilson, III
Director

Date: March 28, 2002

By: /s/ David M. Applegate

David M. Applegate
Director

Date: March 28, 2002

By: /s/ Leon T. Kendall

Leon T. Kendall
Director