Care Investment Trust Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Jerry Doctrow - Stifel Nicolaus & Company.

Jerry Doctrow - Stifel Nicolaus & Company

Congratulations on restructuring with CIT. That's certainly a big step. On that, the one thing that I was curious about is to why it's still based on book equity so presumably as you seek additional equity or the company grows, the management fee actually will go up. I was wondering if that was discussed or what the thinking was on keeping it book equity based as opposed to some based on assets or something else?

F. Scott Kellman

It's a good question Jerry. Here's how we view it. When we originally went public we were viewing ourselves as primarily a mortgage real estate investment trust. As such, our anticipated capitalization was 20% to 25% equity and the remainder debt. To the extent that we've transformed ourselves to an equity REIT, we now anticipate that our long-term equity capitalization will be 50% of our total capital. So by cutting the management fee in half what we've essentially done is over time as we grow our equity base, CIT will receive the same amount of compensation on a percentage basis because our equity percentage of our total composition of our total capital will increase two-fold over what we had originally anticipated. That being said, there's a short-term shortfall until we issue additional equity that CIT is taking a direct hit to their bottom line and their compensation for what they currently do. And as everyone on this call knows, when you're small you incur more fixed costs relative to your overall assets, your overall income. So we felt that the restructuring by cutting it in half more appropriately reflected the economics of an equity REIT strategy but we still do receive extensive benefits from our relationship with CIT and we want them to continue currently as our external manager, so we certainly have to pay them and quite frankly, a $2.5 million payment is not substantial given the services that they render. So that was the thinking that actually went into cutting it in half but allowing it to grow over time as a percentage of equity. The recent cap source filing indicates that they are actually charging 50 basis points on assets I believe which is actually a hair above the 8.75% on equity assuming that our equity is 50% of our asset base. So I think we're in the ballpark to what comparable equity REITs are doing in the market place today.