Anworth Mortgage Asset Corporation Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from the line of Steve DeLaney with JMP Securities. Please proceed.

Steven DeLaney – JMP Securities

Good afternoon everyone. Lloyd and Joe, I think this is on everybody's mind obviously more so than 4Q results with the current market conditions, and I was wondering if you could share with us any thoughts you have currently as to plans to sell any assets to de-lever a bit and if you discussed any new range for target leverage to help us as far as modeling if you think we should assume lower leverage than the 9.1 times that you are reporting here at the end of the year. Thank you.

Joseph McAdams

I would be happy to address your question. Maybe to take a little bit of a step back from it, I guess, the basic idea of what's the appropriate leverage range and is there a new or different range that we should think about going forward, I think that has been a topic that has been in the market because of discussions about haircuts on agency mortgage-backed security and non-agency mortgage-backed security repurchase agreements as well as some of the price volatility and declines in values that we have seen for some of the same source of relatively high-quality and in the case of agency a very high-quality mortgage-backed securities. Maybe I could could take a second before I get to the leverage question, from our perspective what we see related to those aspects of the market we deal in.

Steven DeLaney – JMP Securities

That would be great.

Joseph McAdams

Historically, we have used relatively longer term repos to finance our own portfolio. We would routinely have 6 months or 12 months, even up to 2-year term repos in the past. In the summer of last year in 2007, when we had the real liquidity crunch in the market, most of our counter parties stopped doing longer term repos, and in fact for a brief period of time, it was difficult to get a repo beyond a term of 1 month. We have been pushing since then in the fourth quarter of 2007 and into 2008 to do longer term repos. Just about all the repos we have done over the past several months at the backend of 2007 have been typically 90-day repos, so we have paid a slightly higher haircut over the past several months because they were a little longer term repos. So our average haircut back in the summer of last year was approximately 4% on our overall portfolio, which again is 99% plus agency mortgage-backed securities and agency mortgage pools. Given the developments in the third quarter and fourth quarter of last year, that average haircut moved up to approximately 4.5% as of the end of the year. We are aware that haircuts on different types of securities particularly non-agency securities and agency CMO floaters have been increasing, and it is our expectation that we will see some additional increases in the haircuts on agency MBS. Given that we already have been operating a little bit of a higher end of the range for haircuts, given our current understanding talking to our repo counterparties, we don't expect the vast majority of those counterparties to move haircuts outside of what has historically been in the 3% to 5% range. Again, we have been operating towards the high end of that rage over the past anyway, and we may see a few counterparties look to move agency haircuts a little higher than that, but it is our expectation that over the next 3 months as our various repos come due, and we do have them stretched out over a 3-month period, we could see our average haircut rise from about 4.5% to right around 5% as a result of some of the changes that we are anticipating, so it is certainly not a substantial change relative to our positioning and I think relative to the amount of leverage that we have historically taken in the past.