FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Dennis Oakes
CapitalSource, Inc. - IR

John Delaney
CapitalSource, Inc. - Chairman and CEO

Tom Fink
CapitalSource, Inc. - SVP and CFO

CONFERENCE CALL PARTICIPANTS

Bob Napoli
Piper Jaffray - Analyst

Don Fandetti
Citigroup - Analyst

John Hecht
JMP Securities - Analyst

Moshe Orenbuch
Credit Suisse - Analyst

Sameer Gokhale
Keefe, Bruyette & Woods - Analyst

Carl Drake
SunTrust Robinson Humphrey - Analyst

Henry Coffey
Ferris, Baker Watts - Analyst

James Shanahan
Wachovia Securities - Analyst

Scott Valentin
Friedman, Billlings, Ramsey - Analyst

Mike Taiano
Sandler O'Neill - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter and full year 2007 CapitalSource Incorporated earnings conference call. My name is Katina and I will be your coordinator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this conference. (OPERATOR INSTRUCTIONS) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Dennis Oakes, Vice President of Investor Relations. Please proceed.

Dennis Oakes - *CapitalSource, Inc. - IR*

Thank you, Katina. Good morning and thank you for joining us for the CapitalSource fourth-quarter 2008 earnings conference call. With me today are John Delaney, our Chairman and Chief Executive Officer, and Tom Fink, our Chief Financial Officer. This call is being webcast live on our website and a recording of the call will be available beginning at approximately 10:30 AM Eastern time today. Our press release and website provide details on accessing the archived call.

I urge you to read the forward-looking statement language in our earnings release but essentially it says statements in this earnings call which are not historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements including statements regarding future financial operating results involve risks, uncertainties, and contingencies, many of which are beyond the control of CapitalSource and which may cause actual results to differ materially from anticipated results.

More detailed information about these risk factors can be found in our press release issued this morning and in our reports filed with the SEC. CapitalSource is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise, and we expressly disclaim any such obligation.

We have received many inquiries this week from investors regarding the status of our acquisition of TierOne Bank. As you know, we issued a press release on Monday which indicated CapitalSource is continuing to evaluate the merger and that our Board of Directors has authorized our Chairman and CEO to either renegotiate or terminate the merger agreement. Our application is still pending approval in the Office of Thrift Supervision and the current terms of the merger agreement remain in effect, though with a February 17 date having past, either party may now terminate at will and without payment of the breakup fees that were in effect prior to that date.

Given the totality of circumstances and the contractual and securities law implications surrounding the proposed merger, our legal counsel has advised me and our senior management not to answer questions specific to the TierOne transaction. As a result, we respectfully ask callers not to pose such questions today, but John and Tom will be happy to address related or more general questions. At such time as there are additional material developments, we will report them promptly as required by SEC, NYSE, and other applicable rules and laws.

I will turn the call over now to John Delaney. John?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Thank you, Dennis, and good morning, everyone. This quarter, as you see, we earned $0.51 in adjusted earnings and $2.32 for the full year, which we view as very strong performance particularly in light of the utter collapse of the capital markets. The central issue in the financial markets these days is credit and asset quality, and our credit continued to be very strong in the quarter, with charge-offs down significantly and nonaccruals down slightly.

The fourth quarter and all of 2007 were characterized by strong credit performance, ample liquidity to fund our business, improved operating efficiencies, and the continued origination of assets with superior risk-adjusted returns. Of particular importance, the Company navigated 2007 with no funding or financing issues, which I view as a huge testament to the quality of the work and planning of our finance group. All of the things we can control, we controlled very well.

Our results from both the quarter and the year were compressed by two things. First, we raised more capital than we anticipated through both our dividend reinvestment program and our direct stock purchase program. While this is not a negative in the classic sense of the word, it did result in deleveraging of the business, which obviously lowers return on equity and adjusted earnings per share.

Second, we executed some higher cost financings in the second half of the year and experienced some highly unusual spread compression due to the dramatic swings in LIBOR and commercial paper rates. Each of these things, deleveraging of the business, executing higher cost financings, and spread compression due to unusual short-term funding volatility are completely manageable, maybe temporary, and don't undermine the foundation of our business model. The heart of our business is credit, liquidity, quality asset origination and underwriting expertise. In those areas, which also happen to be the essence of value in financial services, we continue to excel.

As we look forward, I want to focus investors on fourth things, our dividend, opportunities in the markets, impacts of a recession on our business, and our financing plan. First, we expect to pay quarterly cash dividends of $0.60 per share in 2008. Since the effects on our business I just outlined have been related to matters that don't impair the fundamental value of the business, we see no reason to alter our dividend payments.

Second, new lending opportunities are the best I have ever seen and it is my bet they will even get better. We will talk about this in more detail at our investor conference in a few weeks, but by any measure, price, terms, and structure, they are incredibly attractive. We are cautious, however, as we expect opportunities to continue to improve.

Third, let me frame my view as to how the economic downturn or an economic downturn affects our business. Based on past experience, three of our businesses will be relatively unaffected in an economic downturn. They are healthcare, our security finance business, and our rediscount business. The first two comprising almost 40% of the balance sheet serve as terrific anchors in recessionary times.

The rediscount business, at almost 17% of the portfolio, is a highly structured asset secured portfolio specifically designed to be able to self-liquidate, and therefore is also likely to perform fine in a downturn. The remaining 40% to 45% of our business is in commercial real estate and corporate finance. While these are clearly the areas that will have greater headwinds in a recession, we have a portfolio that in my judgment is not only currently in good shape from a credit perspective, but also one that was built with an eye towards managing risk.

For example, in commercial real estate, we avoided much of the condo lending that is plaguing so many others and in corporate finance, we remain focused on building a very diverse, principally senior secured portfolio. In sum, our balance sheet was built with an eye that things could get worse. We have never taken the view that trees grow to the sky and certainly that view has informed the building of our portfolio.

Finally, we are very focused on restarting our capital markets program. Our past three securitizations have been single buyer transactions and we want the next one to return to a broader distribution model. Across the last several weeks, Tom and I have been visiting with debt investors. I would characterize those meetings as positive and encouraging. As a result, I am cautiously optimistic that we will be able to again execute the more traditional transactions we used in the past to fund the growth of our business.

My confidence is based on my view of how the markets for structured debt will return and why CapitalSource remains a very good fit for them. Without going into too much detail, in the last couple of years, the securitization markets evolved into markets where the ultimate buyer of securities knew very little about the seller of those securities. This was very different from when we began the Company and started using the securitization markets.

In recent years, the traditional lender and borrower relationship disappeared and less relevant benchmarks like ratings and insurance usurped fundamental credit work and intimate knowledge of the asset class. This is a far cry from the first securitizations when we would sit with investors and review in great detail both CapitalSource as an originator and the specific loan assets themselves.

Today the securitization markets remain largely closed because there is both a total lack of confidence in asset values and pricing remains so volatile that only non mark-to-market investors can invest. In my judgment, these markets will return in situations

where buyers truly understand who they are lending to and what assets they are lending against. This type of transparency has always existed in the CapitalSource securitization program because we don't view these transactions as risk transfers. We view them is financings. And these transactions are interest or aligned with those of the securitization investor, our lender.

We retain very significant investment in the assets being financed and truly view the institutions that purchase our bonds as our lenders. This view of the world has been confirmed from the numerous real money buyers Tom and I have spoken to. They understand the value proposition of lending to CapitalSource secured by the senior secured loans we have originated and serviced and where we have significant skin in the game.

In sum, the senior team at CapitalSource and our Board of Directors are both very pleased with the current state of the business and truly excited for the year ahead. Importantly, the Board members who are our two largest shareholders have demonstrated their positive view of our future in recent months by making large open market purchases of our stock and reinvesting their quarterly dividends.

The best opportunities in 2008, in my judgment, will be making really safe senior loans at very attractive yields. This is just the stuff we like to do. It's the stuff we were built for and it's just the stuff that will drive enormous returns in the future as we continue to pursue strategies to best capitalize on those opportunities.

I will now turn the call over to Tom.

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

Thanks, John, and good morning, everyone. Our business did indeed perform well this quarter and really performed well for the full year, particularly against the backdrop of what has been a very dramatic and very challenging market environment for financial institutions in the second half of 2007. For CapitalSource, adjusted earnings were $108.3 million for the fourth quarter, up 11% from the third quarter and $448.2 million for the full year 2007, up 5.3% from 2006.

I hope you've had a chance to review our press release this morning. In addition to the usual financial information, we provided some additional insight on the quarter and the full year in the business overview section. Also with this release, we begin the separate reporting of our Healthcare Net Lease segment. As a result, we are now reporting our business in three reportable segments, Commercial Finance, which is our historic commercial finance business oriented towards directly originating primarily senior debt to middle market borrowers, Healthcare Net Lease, which directly invests in income-producing properties in the long-term healthcare industry. These two segments previously were combined as commercial lending and investment.

And finally, the Residential Mortgage Investment segment, which we use to optimize our REIT structure and which focuses on high-quality assets, Fannie or Freddie guaranteed securities, and two pools of receivables composed of prime or super prime quality whole loans.

A quick word on the residential segment. It continues to perform very well and meet all of the Company's objective for it. Our Fannie and Freddie guaranteed securities enjoyed ample liquidity throughout the quarter and we continue to have no -- zero -- funding issues there. We did not add any assets to the residential portfolio during the quarter so the portfolio balance is approximately $150 million lower. We also expect to see this portfolio shrink further in 2008.

We did see in the quarter some widening of spreads for even the most high-quality mortgage assets. As previously discussed, since we account for these agency securities as a trading portfolio, we mark-to-market the entire portfolio, both assets and hedges. As a result, we do see as we saw again this quarter some volatility in our GAAP net income based on changes in this mortgage basis. However, we believe these base changes including the reduction we saw in the fourth quarter will come back to us over time through market moves in the other direction or ultimately as the assets repay.

So as a long-term holder, we appropriately add back these losses to or in another period, subtract gains from adjusted earnings to provide a more fair presentation of the fundamental performance of the Company.

Returning to the core business, you will see in our release that the new Healthcare Net Lease segment looks a lot like other publicly traded healthcare property REITs in terms of assets, leverage, cost structure, returns, etc., and that makes sense because our business is essentially the same as the other healthcare properties.

Relative to our Commercial Finance business, the Healthcare Net Lease segment's income is primarily lease income as compared to interest in fee income in the Commercial Finance segment. Healthcare Net Lease has fixed-rate assets and fixed-rate debt. Healthcare Net Lease is also lower levered than our Commercial Finance segment, as are the other healthcare REITs and we are in line with those healthcare REITs.

Breaking the Healthcare Net Lease segment from the old commercial lending and investment segment impacts our metrics somewhat in the remaining Commercial Finance segment. We have therefore shown both third-quarter and fourth-quarter segment results for these two new segments and our former commercial lending and investment segment in the earnings release to help with that translation.

Also as I go through the rest of my remarks, I will try to be as clear as I can with comment as to when they pertain to the Commercial Finance segment or the Healthcare Lease segment.

During the quarter, we saw some modest growth in our Commercial Finance loan portfolio of approximately $240 million while our Healthcare Net Lease investments, our direct real estate investments that is, were roughly flat. As we had anticipated in the third quarter, the net growth of both segments this quarter was lower than what we would have expected before the meltdown in the capital markets. The net growth profiles of both segments are reflective of our prudence and discipline at CapitalSource. We will be talking about all of this more during our investor conference in a couple of weeks.

But the market dislocation has created a wider bid ask spread as some lenders like CapitalSource have recognized the new realities in the market and have adjusted pricing for it. But it has not fully set in yet with borrowers.

Credit, as John mentioned, continued to be strong and stable during the quarter. Charge-offs were $6 million in the quarter or 22 basis points of commercial assets, down substantially as expected from the third quarter. Further, the forward-looking metrics continue to be good. Loans on nonaccrual, our primary metric, improved slightly from the third quarter and remained at the low end of our historical ranges and continued the improving trend we have seen this year. However, to put this in better perspective, not only is the loan nonaccrual credit statistic better than at year-end 2006, but the dollar balance of loan to nonaccrual is lower than last year too.

As a predominantly floating-rate lender, interest income in the commercial finance segment was down in dollar terms this quarter primarily due to the decrease in LIBOR. However as we laid out in our press release, our average coupon rate of interest on our commercial loan portfolio expressed as a spread to LIBOR was up slightly in the quarter. And further on the topic of yield as fee income, as predicted, yield on our commercial finance portfolio was enhanced this past quarter by an increase in prepayment-related fee income.

Cost of funds is a bit of a story this quarter and here is an area where we can clearly see some effect of the capital market's disruption. On the surface, cost of funds in our commercial finance segment looks relatively unaffected, up just 3 basis points from the prior quarter. However as a spread to 30-day LIBOR, cost of funds increased 55 basis points from last quarter as average LIBOR was 52 basis points lower in the fourth quarter compared to the third.

There are two forces at work here. First is higher credits spreads on our incremental financings. As we identified in each of the press releases we issued for our securitizations completed in the second half, the spreads on these financings were much wider

than we had historically seen due to the dramatic widening of spreads generally in the market. This widening of credit spreads is the new reality, just like wider spreads we expect to see on our assets. I don't think this reality is going to abate any time soon.

We expect to see similarly wide or wider spreads on new securitizations that we may complete. Also as we renew credit facilities, I would expect them to reprice at higher levels as well. I expect this to continue -- this to contribute to wider borrowing spreads to LIBOR throughout 2008, with this being offset by wider spreads on new assets and repricing of some existing assets to wider spreads.

The second force at work here in cost of funds or borrowing spread to LIBOR is the volatility we have seen in the short-term funding markets. Here the effects of the market disruption on us can clearly be seen in a few different ways. First, we've spoken for years about our cost of funds as a borrowing spread to average 30-day LIBOR since much of our debt is LIBOR-based, usually resetting monthly on a specific day or on a few specific days during the month.

And what is not LIBOR-based directly is priced using a base rate, for example, the conduits weighted average CP rate that has historically held at very steady relationship to LIBOR. To put it mildly, LIBOR has been very volatile in the second half of 2007. So in a month where LIBOR can drop 75 basis points on a single day, it has mattered on which day your LIBOR priced debt resets.

Also, LIBOR has not been behaving normally as the Fed has assumed in easing posture. Typically LIBOR being a market rate would anticipate Fed moves and adjust downward in advance of an expected Fed rate cut. In recent months, it has not. The prime rate on the other hand has continued its historic linkage to the Fed funds rate and has adjusted downward as the Fed rate cuts were implemented.

Since we price a fair amount of our loans based on prime and have historically not hedged the prime LIBOR basis risk, this compression of the prime/LIBOR spread has also resulted in some unusual spread compression for us. To put this in perspective, except for very short periods as the market anticipated a Fed rate change, the prime/LIBOR spread has been relatively steady over the last 15 years at 280 to 290 basis points. Since the second half of last year, we have seen that spread gap out in both directions to as high as 300 basis points and to as low as 200 bases points in the quarter. Most of that has been below the average level, which hurts our margin somewhat.

Finally, given the impact of the liquidity crisis on the CP markets, our credit facilities have experienced higher pricing on their CP as a spread to LIBOR and have passed that cost on to us. Also with rates falling during the quarter and indeed into the first quarter of this year, it is hard for the CP facilities which have generally have a weighted average maturity of 45 days or so, to keep up with the rapid drop in LIBOR. So cost of funds tend to lag a little bit to fast and large changes in LIBOR.

I know that's a lot to absorb, but there have been some very unusual dynamics at work so I thought it would be helpful to explain them in some detail. In time I expect some of these dynamics will settle back to normal. Asset spreads will be permanently wider and liability spreads wider as well, but I expect the noise with respect to prime, LIBOR, and CP movements to stabilize and move back to normal levels.

This market impact is something we do not have much control over, as John indicated, and has had an impact on our results. However, it is something that can abate whereas we do not think the higher credit spread environment will.

Let me wrap up with a few points on leverage and I will also want to share a few words about accounting at least as it affects what I would call asymmetrical accounting that shows up in other income that we adjust for in adjusted earnings.

Leverage for the quarter was slightly lower in the fourth quarter on a consolidated basis when considering our old commercial lending and investment segment. There, as we discuss in our release, the period-ending leverage was 3.98 times at December 31, down from 4.03 at September 30. In terms of our new Commercial Finance segment, leverage was lower at 4.39 times, down from 4.48 at December 31. For the Healthcare Net Lease segment, which has lower leverage like other healthcare REITs, leverage at quarter end was 1.54 times, roughly flat to the third quarter.

Finally other income and a word about asymmetrical accounting. As we have explained in the press release too, a big number rolling through our other income this quarter is a $31.5 million unrealized loss on derivatives. This is an unrealized loss on derivatives on interest rate swaps that we use to minimize interest rates risk in our commercial business. We've always described our business as interest rate insensitive and the interest rate swaps we have used are designed to achieve this goal in locking the spreads on our assets when we make them.

The swaps we have entered our hedges, not speculative positions. But we have not applied hedge accounting to them. Without hedge accounting, we have some asymmetry in that we must mark our derivatives to market but we are not marking the other side of the transaction. We are not marking the underlying hedge to asset or liability.

We believe for example that there is substantial appreciation in our Healthcare Net Lease business where we have swapped our fixed-rate lease income to floating in order to lock in the spread. Losses on those swaps and a falling interest environment such as the fourth quarter of 2007 are reflected in our reported GAAP income. The corresponding appreciation in our net lease assets based on market comparables is not under GAAP accounting. So as a reminder, these losses are unrealized and do not reflect the economic benefit to shareholders of this risk management strategy. As a result, we correct for this asymmetry and adjust for these unrealized losses through adjusted earnings.

In closing, I want to reiterate John's point that we view this quarter and the year as very good performance. We entered 2008 with strong credit metrics, excellent liquidity position, and comfort that we will be able to continue to prosper through 2008 and beyond.

With that, I'll turn the call back to Dennis.

Dennis Oakes - *CapitalSource, Inc. - IR*

Thank you, Tom. Operator, we're going to be ready for the first question now. We do ask that questioners limit themselves to one question and one follow-up so we can get to as many callers as possible this morning.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Bob Napoli, Piper Jaffray.

Bob Napoli - *Piper Jaffray - Analyst*

John, Tom, I was hoping you guys could give a little update on your bank strategy to the extent that I think you said you'd take related questions so -- the industrial bank, where do you stands with the industrial bank? And if you do not close the TierOne Bank, what is your strategy beyond that?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Sure, Bob. As Dennis indicated, and as you kind of framed in your question, we won't address TierOne specifically, but we can talk about our view on deposit-based funding, which really hasn't changed. We view deposit-based funding as a very attractive source of funding for the business. We think our assets are very much bank like. I think the credit performance this quarter even underscores that further.

And that if you look at -- if you consider some of the volatility Tom discussed around our funding, which is in volatility related to the availability of funding, but there is volatility around the spreads, which is exactly what we talked about when we announced TierOne acquisition. In fact, we put a slide out that showed what has happened to deposit-based funding through periods of kind of unrest in the capital markets and what happened to capital markets funding in periods of unrest and historically you have seen capital markets funding widen and deposit funding not.

That is certainly happening today. So again, I think these events confirm our view that deposit-based funding is attractive and believe we have several avenues we can pursue to obtain deposit-based funding. It has to be something that makes sense for the company of course, looking at all the aspects of how we obtain it.

So I would say that our view as to its attractiveness is unchanged. One would argue that the current environment kind of supports this thesis that we've had for some time about the importance of deposit-based funding and we intend to continue to pursue it in a way that makes the best and most sense for the company.

Bob Napoli - *Piper Jaffray - Analyst*

Are you doing the industrial bank or --?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Yes. We still have our application pending with the industrial bank. We were sequencing these things kind of around TierOne. So, yes, it's still pending.

Bob Napoli - *Piper Jaffray - Analyst*

Just a follow-up question. The adjusted earnings for 2008, if you can give any kind of feel for it. I mean, you have -- with the $0.60 dividend, I know a lot of that dividend is paid in stock to large your shareholders and I think to some management members as opposed to cash.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Yes.

Bob Napoli - *Piper Jaffray - Analyst*

But would the adjusted earnings, would you expect the adjusted earnings to be able to cover the dividend?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Well, we're not guiding at least at this point, we're not guiding for adjusted earnings for '08, so I probably can't answer that question. The only thing we provided at this time is guidance around the dividend.

Bob Napoli - *Piper Jaffray - Analyst*

Okay, thank you.

Operator

Don Fandetti, Citigroup.

Don Fandetti - *Citigroup - Analyst*

John, I was intrigued by your commentary about the securitization markets. It seems like it is counterintuitive. Obviously spreads are widening. There's increased fears in the credit markets. What makes you so confident that you can get a CLO down course -- some type of CLO-type structure?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Well, I am not confident that we can get a CLO done at the levels and at the degree of attractiveness we're able to. So let me just be clear there. But I do have a degree of confidence that we can get one done. And I would say that is based on, as I said, Tom and I have spent a lot of time in the last few weeks meeting with investors both here and in Europe. And the number of investors, debt investors, who invested in the securitization markets used to be quite large. Now it's quite small and the difference is the only people really investing now are what I call real money buyers, banks, insurance companies, people like that. There are no kind of synthetic vehicles that are investing in the markets anymore because most of them aren't able to do that.

When we sit down with these real money buyers and have the kind of dialogue around what we do, and most of them know us. And what we are interested in getting from them in the securitization markets which is principally selling the senior bonds, not driving very high leverage in the structure and with CapitalSource maintaining a fair amount of equity, you definitely sense from these buyers that they view this as a very good opportunity because many of these buyers were forced to invest in more junior bonds because of spreads, because they were answering yield requirements. So they had invested in kind of single-A and maybe BBB bonds and now they can essentially make the same spreads investing in AAA bonds and AA bonds. So they view this as a good opportunity.

I think like a lot of people, they are waiting for some equilibrium in the market which we obviously don't have yet. But again, based on these kind of face-to-face meetings across a couple of weeks, which we had, I have a view that we will be able to get a securitization done that would be viewed as a very conservative securitization as it relates to the person who is investing in it, meaning the structure would be very tight. The leverage would be low and the spreads would be wide.

But I think many of these institutions actually view investing in these securitizations -- and again when I talk about the institutions, I'm talking about kind of these real cash buyers, many of which are banks. I think they view it as essentially lending to us and not lending in a warehouse relationship, but essentially lending on a discrete pool of assets. I think they view the amount of equity we have in the deal as effectively almost being a recourse transaction to CapitalSource because they know we want to defend the structure, which we have historically.

So my short answer would be my confidence is based on doing a lot of work around this and talking to investors. The confidence is not so high to sit here and say that we will do deals as attractive as we did in the past. I think the deals will be very different going forward. But having said that, I think the assets we will be financing will be very different as well. So I think the net result will be the same. We will have better assets and the people who invest in our securitizations will have better assets.

Don Fandetti - *Citigroup - Analyst*

We'll leave it at that, thank you.

Operator

Moshe Orenbuch, Credit Suisse.

Dennis Oakes - *CapitalSource, Inc. - IR*

Are you there, Moshe? Operator, maybe we should move on and let him come back.

Operator

John Hecht, JMP Securities.

John Hecht - *JMP Securities - Analyst*

I am wondering if you could -- you experienced modest growth in the commercial loan portfolio during the quarter. I know a little bit of contraction in the net leasing business. I wonder if you could tell us what types of products you're seeing demand in? What you are seeing in terms of the competitive behavior given the credit markets now? And what we should expect in the near term for continued potential growth in that net leasing business?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Sure, the net lease contraction I think was just the depreciation, wasn't it Tom?

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

Yes, we had a sale of one small property during the quarter and the rest of it is just the normal depreciation, which is about $9 million a quarter.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

And what we said about that business is it tends to be pretty lumpy, John. The transactions tend to be a little larger. Oftentimes it's a pool transaction and so you don't see the kind of smooth growth in that business that you do in some of our other businesses.

In terms of where we're seeing opportunities, we push spreads pretty aggressively across all of our businesses and I would say we've largely been ahead of most of our competitors in the market. In fact there were certain competitors that in the fall viewed this as somewhat of a can't temporary glitch and increased spreads modestly and tried to do a lot of business. They did in fact and that turned out to be a bad decision. We didn't do that. We pushed spreads pretty aggressively pretty darned early in August and September.

And that obviously resulted in slower growth but we think the market is catching up to where we are. The market in general is very slow right now, because CapitalSource participates in what I describe as a transactional marketplace, meaning most of the stuff we're financing is deals of some sort or another and there's a lot of buyer and seller disconnect, as indicated in his comments right now.

I think buyers are focusing on asset values coming down because there's no question that asset values, at least in my judgment, will be coming in across all the sectors we participate in, whether it be leveraged buyouts or commercial real estate. I think we will look back at '06 and '07 as really historic levels of valuations and leveraged buyouts for example. I think there is going to be very significant depreciation in the value of a lot of these companies.

So we have been very cautious about the whole thing. Where we are seeing a lot of opportunities right now I would say interesting, our healthcare business, particularly our healthcare accounts receivable business, which has -- is a terrific business, but one we haven't been able to grow that much in the past several years has its deepest pipeline ever, dramatically deeper than it has been in the past. So we're seeing good opportunities there. And our healthcare real estate business is still looking at stuff.

Commercial real estate is largely pretty slow. There's not a lot happening in that marketplace. But in the corporate finance business, we're prudently pursuing opportunities and we're doing some deals. But again, there's a pretty big disconnect I think between buyers and sellers right now. So in general, deal volume is down. Where it is up is probably in the healthcare business.

John Hecht - *JMP Securities - Analyst*

Okay, and as a follow-up to that kind of commentary, trying to determine where margins might go in the near term. On one level it sounds like incremental spreads on new deals are higher, albeit at a slower pace of transaction sensitivity. But given the liability structure, it seems like the prime LIBOR spreads have stabilized a little bit since the year end an LIBOR volatility has stabilized a little bit as well. Should we get some of the benefits of the declining treasury curves and LIBOR rates to come to fruition in the near term here? Is there still a little bit of volatility in the liability structure?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

I'll let Tom answer that.

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

Sure, John. I would say that of that increase in our borrowing spread to LIBOR last quarter, a fair amount of it, probably about half of it, was due to this market noise; prime LIBOR, the reset issues around LIBOR, etc. You know, CP conduit rates relative to LIBOR. You're absolutely right, those things are stabilizing. We expect them to -- the prime LIBOR spread today is right back in a normal level. So we do expect that to abate, the noise element of that to abate and then we would be left with looking at higher credit spreads of course on incremental financings, but higher credit spreads on new assets.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Yes, without question, I think I indicated last quarter that we are seeing at least 200 basis points widening in new assets, and that is clearly continuing if not widening.

John Hecht - *JMP Securities - Analyst*

So given, at some point I guess it isn't -- just trying to judge from the model, we should see widening spreads in new business start benefiting your margins. But my guess is we're a couple years off from that, given the pace of new business.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

That's right. And if I could, I may just use your question, John, to kind of just lift up a little bit in frame, where I think you are going with, which is how does all of this change our business model? Really if you think about -- if we go back to say, August, when this stuff was just starting to hit, and go through today and you think about what effect, as I described it, this kind of utter collapse of the capital markets has had on our business and how it changes our business, let me try to address that.

Broadly speaking, financial services companies have been affected in really three ways based on what's happened. Many have been affected on the asset quality side, dramatic effects in credit and asset quality. That hasn't happened to CapitalSource, as you see that our asset quality has actually improved through this cycle. To me, that is really the heart of these businesses, right, so that hasn't affected us.

Other companies have lost access to funding, right? That hasn't happened to CapitalSource. The third thing that's happened is some companies have had spread compression. That has happened to CapitalSource, and it has really happened -- and I'm thinking about it from the perspective of ROE -- for two reasons. Number one, we have basically had to delever the business based on what's going on in the capital markets, and that was somewhat of a cautious, prudent orientation that we took.

We were expecting to run this business with much higher leverage than we have now. We raised a fair amount of subordinate capital in the form of equity and convertible debt in the last six or seven months. If you remember, we did a deal, a convertible deal in August, which was very controversial at the time, July, and then we've raised a fair amount of capital through our dividend reinvestment program and direct stock purchase program.

We really delevered the business really dramatically from where we thought the business would be at right now. That obviously hurts ROE. Again, I think that's -- I view that as a temporary issue because it is somewhat financial engineering. If you lever your business more, your ROE goes up. If you lever it less, it goes down.

Then as Tom described in great detail, he has had to live with a lot of very unusual volatility on the funding side. Some of which is somewhat permanent where we did some financings that are more expensive, but others, some of just movement of rates. And again, I think all that stuff will fix itself over time. It's unfortunate. We wish it didn't happen, but relative to the two other things that could have happened, which is massive asset quality deterioration, which hasn't occurred, and it has occurred to many other institutions, and lack of funding, which hasn't occurred and in fact, our funding has increased.

So I think we have come through this thing very, very well, which is one of the reasons we're fairly optimistic about the business, about the dividend, etc. But in terms of when the model readjusts, what essentially happened is we have had a somewhat of a faster increase in our cost of funds than we've been able to make up on the asset side, which is I think where you were going.

Now I expect that to continue to catch up over the next several quarters, meaning we are originating assets at much higher spreads. We have a fair amount of runoff in the portfolio, which we still have. And that is being replaced with assets at much higher spreads. And then I think we will start chipping away at some of this volatility on the funding side.

So what will start emerging is a business at least in my judgment that will probably have lower leverage than we anticipated, but can get back to the same ROE and it will get there with higher funding costs but much higher asset spreads.

John Hecht - *JMP Securities - Analyst*

Thanks very much for the color.

Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Let's see if we can make this work this time. Can you hear me?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Yes, we can hear you great.

Moshe Orenbuch - *Credit Suisse - Analyst*

I guess two thoughts. One is could you just maybe be a little more specific about the effects in the fourth quarter of that prime LIBOR and kind of the undoing of that at least so far in the first quarter?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Sure. Tom?

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

As I said just a minute ago, Moshe, was that -- it's hard to separate out all of these things discretely, so if you put all of this noise in one bucket, it's probably 25 basis points or so of the increase in the cost of funds. The prime LIBOR compression, that shows up in margin because you see the cost of funds going up but -- or not going down as fast as yields would be going down. So to give you some stats on that, what was very steady prime LIBOR, if you looked at it in the first half, the average prime LIBOR spread in the first half was 293 basis points and the standard deviation was zero, meaning it was 293 basis points every single day of the first half.

If you look at it in the third quarter, on average it was 275 basis points. If you look at it in the fourth quarter, it was 260 basis points. Sort of year-to-date in 2008, it's about 291, so it is sort of back in the normal rates. So hopefully that quantifies it for you.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great, and then I guess with respect to your thoughts on kind of the adjusted earnings level versus the dividend, someone asked a question or kind of inferred that since part of the dividend is paid in stock, I guess is there a period of time where you we are you are willing to under earn? How should we think about that?

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

Let me address that. We think, as I said, that the reasons that the adjusted earnings for example this quarter were below the dividend is because of the financial leverage in the business and really cost of funds. Again, we think those two things get to margin and we think to some extent they will correct themselves over time by higher yield on the assets that we're originating now, improvement in the relative costs of funds based on some of this dynamic Tom was talking about going away, and actually not improving leverage. We think leverage will probably not go up based on what is going on in the markets.

So we think that will stabilize back to a level that is what you are referring to. In terms of how we think about covering the dividend, if you do the math on how much the company earned, how much it pays out in dividends, and then how much gets reinvested through dividend reimbursement program, it's clearly very positive if you do the math on that equation. Which I think allows us to comfortably work through this short-term adjustment that we are going through that again doesn't get to the fundamental value of the business.

I would be answering this question very differently if the reason that we have the disconnect you are referring to a over credit, right? Because that really goes to the heart of the business and the heart of the performance of the company. So I would be

answering the question very, very differently. But because it is due to stuff that we think is temporary/short-term/self-correcting, based on the actions we're taking. And again, we will have more insight into that as things unfold across the next year of course. And when you consider the cash flow dynamic that I just described between what the company earns and what it pays out in dividends and how much we invest, we feel very comfortable with our decision.

Moshe Orenbuch - *Credit Suisse - Analyst*

Thank you.

Operator

Sameer Gokhale, KBW.

Sameer Gokhale - *Keefe, Bruyette & Woods - Analyst*

I guess most of my questions have been answered at this point. But one of the things I just wanted to go back to a little bit was the issue of -- the topic of the wider bid ask spreads that you talked about a few minutes ago. I was wondering if you could quantify that for us. It does seem like some competitors in a certain sense may have underpriced you guys and taken away some business. But what is the current bid ask if you were to characterize that on recent deals that you may have lost to competitors?

And given that you expect pricing to improve going forward, doesn't that imply to a certain extent that you are taking the opposite bet from some of the borrowers who may be hesitating to borrow now but if spreads are just going widen out for them going forward and it is going to cost them even more, are they essentially taking the opposite bet there? So I just wanted to get just some more color on that in addition to what you've already talked about.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Sure, a couple of things have happened. One is we've actually lost a lot of competitors, which is a point that we were talking about last quarter and we haven't really made on this call yet. That many of our principal competitors are effectively out of business or reoriented their business in a different way. So I think to some extent I view us negotiating transactions now as a little less of the dialogue between the borrower telling us what other people will do and trying to negotiate us to a point based on that and a little more the borrower trying to rationalize for themselves that what we're talking about is the right pricing.

So we have really seen -- I almost can't describe it as fully as its happened, just kind of an utter drop-off in competition. For example, Merrill Lynch Capital, one of our large competitors, which is one of the groups that kind of loaded up a little bit in the late summer, early fall because they thought this was temporary has now been sold to GE, and is effectively out of business.

So the dialogue is much more -- because a lot of our borrowers are also using our money to make an investment, right, of their equity capital? Because across most of our businesses we're principally financing investors. And what they are dealing with on the other side is trying to figure out what the right price on these assets should be based on the increased financing costs and based on just the fact that in all asset classes people are demanding higher returns, which should translate into equity values going down in middle market companies and should translate into cap rates widening in commercial real estate, etc.

So a lot of it is this process that we are going -- we are dealing with our borrower trying to figure what the right spreads are. We are then trying to rationalize why we think spreads should be where they are. For example, if we're looking at making a senior loan in our LBO business, we're really as of today thinking kind of almost 550 to 600 over LIBOR with 2.5 to 3 points each. That is a market that people thought was a 350 over market with 2 points each. So it is that kind of thing.

Some borrowers if they think they're getting good deals will bite the bullet and accept the financing. Others will accept the financing and try to drive good deals. We've seen actually a lot of middle market private equity funds kind of recut and retrade on deals that they had under contract based on the kind of financing they are able to debt.

So it's a lot of that. Just like there's a lack of equilibrium in the securitization market, there's kind of lack of equilibrium in some of these smaller end markets that we finance where buyers and sellers are going through the dance that historically happens when markets disconnect like this. The sellers think prices haven't changed for them. Buyers think prices have changed. The lenders are demanding higher returns.

So it's much less that we're losing things to other people at this point and it's more just borrowers getting a grip on what the financing costs are. Even to the extent they have a grip, being able to make good investments with that kind of financing, that's how I would describe the situation.

Sameer Gokhale - *Keefe, Bruyette & Woods - Analyst*

Okay, that's great color.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

It's really very attractive. I mean, the kind things we're seeing are almost shocking in terms of how attractive they are.

Sameer Gokhale - *Keefe, Bruyette & Woods - Analyst*

Okay, thank you.

Operator

Carl Drake, SunTrust Robinson Humphrey.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

John, I was wondering if you could provide a little more color behind the forward credit pipeline with respect to the corporate finance business, commercial real estate, underlying borrower cash flow performance, asset values, and the like?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

The pipeline on those different businesses?

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

Yes, particularly in light of -- I don't there's too much read into the jump in the loan loss reserve. I think it was about 23 basis points, but maybe you could kind of touch on how those might perform in a downturn and how the underlying cash flow performance values are in those particular segments?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Yes, I mean as I've talked about on these -- so you [know] really about the credit pipeline and again, the credit performance has been good and the credit pipeline also looks good. I mean we're mindful of what is going on in the world obviously. And we are thinking a lot about our portfolio which is related to that. As I said on the call, the healthcare, security finance, rediscount, provides nice anchors for our business which distinguishes us I think from other businesses. 40% to 45% of our business is however commercial real estate and corporate finance.

Commercial real estate, I think the team has been very disciplined. They didn't chase the condo lending business, which is turning into kind of an utter disaster and I think they have got a portfolio that is about 16%, 17% of the portfolio, of our total portfolio, and it is touching all the different food groups of commercial real estate. Right now that portfolio is in good shape and we have done a lot of work on that portfolio in the last quarter really making sure we understand the business plans of the borrowers.

Most of these situations have some form of financial sponsor or investor in the deal. And a lot of our exposure was actually to New York City, which is still performing pretty well. A lot of our big deals in New York City are kind of paying off as we speak or a few of them actually just got major recapitalization transactions in.

So I would say in general we feel about as good about our commercial real estate portfolio as you could possibly feel, recognizing that we have a view that asset prices are coming in. And so the leverage in that portfolio that we have will go up not because of any change in the dynamics of the portfolio necessarily, but just because we think the underlying asset values are coming down. I would not want to be a real estate mezzanine lender, I wouldn't want to be -- have heavy exposure to condo finance. I think those are dangerous places to be.

We are principally senior secured, don't have nearly as much condo exposure as others. So I feel good about that portfolio, which doesn't mean we won't have a few blips if things continue to get rough. We certainly will, but again, with it being 17% of our portfolio and having the profile I just described, I think it's manageable.

Then you get into the corporate finance business. The corporate finance business touches a lot of industries and really the only two places right now where we're seeing any softness is in our retail portfolio and our media portfolio. Our media and retail portfolios are each about 3% or 4% of the Company's hold portfolio. They are part of our corporate finance business. They are roughly 30%, 40% of our corporate finance business, those two. And the softness isn't across the board. In our retail portfolio, we break the companies down into kind of two categories, specialty brands and front-end retailers.

Where we are really seeing the softness is in the front-end retailers, not so much the specialty brands right now. And in the media portfolio, the media portfolio kind of breaks down into two different buckets, add based and non-add based, you know, some B2B companies would be non-add based if you will. We are really seeing a lot of softness in the add based media properties.

By and large that's the only place we're really seeing a lot of softness and Bryan Corsini, our Chief Credit Officer, is here with me now and he is nodding in approval with the statement I just made, which is good. But we are obviously very mindful. I think the thing you have to remember, Carl, is that we are a senior lender. Right? I wouldn't want to be -- I think if you have mezzanine or equity exposure right now you should -- I think it will be dramatically different what the performance will be because we're going to see a lot of pressure on asset values and equity write-downs and the mezzanine could go into the equity.

But if you are a senior lender like we are, and we've also managed hold sizes pretty well, so to the extent we have problems, we don't have massive several hundred million dollar exposures in these things. Most of the hold sizes are $15 million, $20 million, $25 million. Knock wood, we feel pretty good about that. We are in a bit of the hunker down mode. We are really focused on the portfolio and we're kind of waiting for things to pop up. We haven't seen that much.

So again, all of this informs our view that the credit pipeline is in good shape. I say that with some knowledge of things because we do engage in very active portfolio management here.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

With respect to the increase in the loan loss reserve, John, is there anything to read into that? That seemed to --?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

If you have looked historically, our loan loss reserves has moved around. I don't think the levels we're at now are even at historical highs.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

So it was just unusually low because of the charge-offs and some specific reserves last quarter?

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

Yes, and I think I addressed that. The dynamics you will see when we charge things off, reserves go down, because part of our reserves or a specific part of them are general and when you charge off something that has a specific reserve, you generally release that specific reserve and you don't always catch up in that same quarter.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

So there was nothing mix related in the quarter that --?

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

No, no.

Carl Drake - *SunTrust Robinson Humphrey - Analyst*

Okay. That's very helpful, thank you.

Operator

Henry Coffey, Ferris, Baker Watts.

Henry Coffey - *Ferris, Baker Watts - Analyst*

The absence of my phone ringing during this call tells me that about 300 of our retail people are very happy with you keeping the dividend. But what is -- so if they hear me say any of this, they will probably shoot me. What is the thought process between -- behind keeping it at $0.60? It seems that you are seeing potential for a correction on the earnings side obviously sometime during the course of 2008. Can you -- how deep does your DRIP program allow people to go? Maybe you could talk about that a little bit.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Sure, when you say a correction, what are you referring to, just--?

Henry Coffey - *Ferris, Baker Watts - Analyst*

Well an improvement in spreads, just kind of what Tom has been talking about all along.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

As I said, when you look at the effect that this capital market disruption has had on our business, and I said this earlier, you know the heart of all these businesses is credit and asset quality, right? What's happened in capital market hasn't affected us there. Following right behind that is liquidity and oftentimes those are linked. When your asset quality goes down, surprisingly your liquidity goes away. And our liquidity is very good and in many ways has improved, and Tom has spoken to that. He can speak with it in more detail. Right?

And so that didn't happen to us. Right? Then the third thing is we've had margin compressions because we delevered the business and we've had some unusual activity on the right side of the balance sheet. So most of our activity has been related I would say to margin, which is not a surprise. It would be hard to imagine coming through what just happened completely unscathed. Again on a relative basis, we did not have asset quality issues and we haven't had funding issues, which are the big things.

So we think we want to see -- we are optimistic about how the margin can improve over time based on originating assets and higher spreads and doing some work on the cost of funds. So we do view what has really happened as it relates to margin as temporary in that the business can self correct, meaning our liabilities have widened faster than our asset spreads have widened. But we will catch up on the asset side is the point I am really trying to make here, because we're not necessarily going to see a lot more widening on the liability side.

I think we will see continued widening on the asset side as the portfolio turns and we take advantage of this market opportunity. So that's probably the best way I can answer it, by saying as we look at the facts now, we are optimistic that this margin will improve and so we don't really feel the need to make any action.

Henry Coffey - *Ferris, Baker Watts - Analyst*

On this portfolio churn, turn issue, that is obviously a big one because it hits all your revenue items right now. But what is the expected turnover of the portfolio over the next six to 18 months? And a related question, how quickly can the margin correct?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Tom?

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

On the turnover, again it has been very hard for us to forecast turnover because our portfolio doesn't behave in any kind of way relative to interest rates or those kinds of things. We don't get refi-ed out typically when someone [saves] on their coupon. So it is really driven more by things going on at the borrower level.

Last quarter we talked about how prepayment fee income was down and sort of the media temptation was to go to, well, it must be the market conditions because pre pay volume was down. We said, well we can't actually point to anything in that regard. And sure enough this quarter prepayment fee income is up as we expected it would be and prepayment volume was up relative to last quarter. So we can't really point to anything in the market.

I think it would be a fair thing to assume that runoff would be less in the quarter, but it is hard for me to give you a number that I would feel comfortable with. I mean, historically the runoff on a net basis -- 20-something%. We could take half of that, but it is really -- it is hard for us to forecast that with any kind of scientific precision.

Henry Coffey - *Ferris, Baker Watts - Analyst*

Thank you.

Operator

James Shanahan, Wachovia Securities.

James Shanahan - *Wachovia Securities - Analyst*

Nine months have passed here from the date of the announcement of the TierOne acquisition through mid-February. And this application has been in process with the OTS presumably for a significant portion of that time. That seems like a very long time to be outstanding without resolution either way. I am really curious generally, is nine months a long time or what is typical for the OTS approval process? And to the extent you could comment specifically on the reasons why the OTS has been slow to approve the application, that would be great. Otherwise generally speaking, what would be a typical reason for such a lengthy delay?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

Well, a lot of factors go into the approval process. I will -- there's two that I will comment on because again, we're not going to comment specifically on TierOne, as you know, because we mentioned that earlier. The first is we want to be approved for a specific business plan. You know, our approach from the beginning and we describe this to people is we're not interested in being a passive investor in TierOne, so getting approved to be a passive investor is one level of approval. Getting approved to integrate and we think utilize the institution, etc., is a different level of approval.

But the second point I will make is probably the more important point and is that the OTS has been busy, would probably be the best way I could describe it and I would suspect -- I do not have data to support this, but the OTS approval process is slower when they are busy and is faster when they are not busy. I think you know they've been busy with several larger, higher profile situations. And it is just our view that that has caused a process that is normally -- I think we thought the process was normally kind of a six-month process, based on whatever data you could compile. Not much shorter than that, by the way.

We thought it was a six-month process. So I don't think we're in any -- when you consider the fact that the OTS has in fact been busy, I don't think we are necessarily in any kind of odd outer limits of how long this was taking.

James Shanahan - *Wachovia Securities - Analyst*

Thank you very much.

Operator

Scott Valentin, FBR Capital Markets.

Scott Valentin - *Friedman, Billlings, Ramsey - Analyst*

Good morning. Thanks for taking my question. I had two questions. First I guess, Tom, you kind of addressed maybe a little bit the turnover issue of the portfolio. I was thinking of it more in terms of prepayment and penalty income. You guys were right, it did increase this quarter. Was curious if this is kind of more of a rate that we should expect to see going forward or if we should expect it to come down a little bit given the slowdown in turnover. And two, I was curious about your warehouse lines and where they stand and how much usage there is?

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

Sure, first in the prepayment related fee income, we usually talk about it in terms of basis points for the quarter, it was 49 basis points. That compares to what we've always talked about as sort of a 50 basis point guidance level. We did have a strong performance in that regard in the first half. So for the full year, I think we're around 60 basis points. But 50 has been our guidepost for really forever and I will say this is the quarter that we've actually gotten the closest to it.

We've been off on both directions and again, that just goes back to the lack of ability to scientifically predict any of this stuff because it's just very specific to what's happening in the individual loans.

With respect to the credit facilities, as we indicated in the press release, we have $3.4 billion of undrawn committed funding at 12/31, so that's a very robust number. It continues to be a very robust number for the company. To put that number in some historical perspective for you, the business grew about $2 billion last year and this is relative to the $3.4 billion and that compares to historical net growth of typically $1.7 billion or $1.8 billion a year.

Given all of John's comments about -- on the one hand, the attractive opportunities that exist but also the fact that we're going to be very selective, it's certainly plausible that we would grow less than that this year, which makes that liquidity, that undrawn liquidity number, even more impressive. So we -- it is something we have always focused on and has been an area of big success for CapitalSource. All of our work on the right side of the balance sheet and I think it is a very impressive number.

Scott Valentin - *Friedman, Billlings, Ramsey - Analyst*

Thank you.

Operator

Mike Taiano, Sandler O'Neill.

Mike Taiano - *Sandler O'Neill - Analyst*

Most of my questions have been answered. I just had a question on the Healthcare Net Lease segment. Is there a plan to spin that off at some point possibly this year? Would you wait for the [TierOne] acquisition to get resolved before doing that or does that -- does one not have anything to do with the other?

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

I would say they are related. I think particularly when you have an application pending with the regulator, you don't want to make dramatic changes to your business, even one that on their face would produce a lot of shareholder value. So I think there is some relationship there.

Tom Fink - *CapitalSource, Inc. - SVP and CFO*

And I think clearly breaking it out as a separate segment although it is tied to our management of the segment as well, it does help you and others I think form a view as to the value of that business which again is very comparable to the other healthcare REITs and performs at a very comparable level. So I think it is pretty easy to connect the dots there.

Mike Taiano - *Sandler O'Neill - Analyst*

Okay, thanks a lot.

John Delaney - *CapitalSource, Inc. - Chairman and CEO*

I think that's it. Thanks for calling in, everyone. Obviously Tom, Dennis, and myself are available to answer any questions you may have throughout the day.

Dennis Oakes - *CapitalSource, Inc. - IR*

Just one quick reminder that the webcast is posted later today and also that we have our investor conference coming up on March 3, which will also be webcast. Thanks very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.
