

Western Asset Mortgage Capital Corp  
Form 10-Q  
November 09, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2015

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from      to

Commission File Number: 001-35543

**Western Asset Mortgage Capital Corporation**

(Exact name of Registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**27-0298092**  
(IRS Employer  
Identification Number)

**Western Asset Mortgage Capital Corporation**

**385 East Colorado Boulevard**

**Pasadena, California 91101**

(Address of Registrant's principal executive offices)

**(626) 844-9400**

(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Securities Exchange Act of 1934).  
Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

As of November 3, 2015, there were 41,919,801 shares, par value \$0.01, of the registrant's common stock issued and outstanding.



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|   | <b>September 30, 2015</b> | <b>December 31, 2014</b> |
|---|---------------------------|--------------------------|
| <b>Assets:</b>  |                           |                          |
| Cash and cash equivalents   | \$ 39,703                 | \$ 47,222                |
| Mortgage-backed securities and other securities, at fair value (\$3,343,683 and \$4,362,532 pledged as collateral, at fair value, respectively) | 3,352,509                 | 4,385,723                |
| Residential Whole-Loans, at fair value (amounts related to VIE of \$150,486 and \$7,220, respectively)  | 150,486                   | 7,220                    |
| Linked transactions, net, at fair value   |                           | 20,627                   |
| Receivable under reverse repurchase agreements  | 758,467                   |                          |
| Investment related receivable   | 10,734                    | 162,837                  |
| Accrued interest receivable (amounts related to VIE of \$1,159 and \$40, respectively)  | 21,415                    | 27,309                   |
| Due from counterparties   | 236,525                   | 184,757                  |
| Derivative assets, at fair value  | 56,985                    | 73,256                   |
| Other assets  | 773                       | 326                      |
| <b>Total Assets</b>   | <b>\$ 4,627,597</b>       | <b>\$ 4,909,277</b>      |
| <b>Liabilities and Stockholders' Equity:</b>  |                           |                          |
| <b>Liabilities:</b>   |                           |                          |
| Borrowings under repurchase agreements  | \$ 3,010,268              | \$ 3,875,721             |
| Accrued interest payable  | 21,719                    | 17,573                   |
| Investment related payables   | 10,742                    | 166,608                  |
| Due to counterparties   | 771,784                   | 12,180                   |
| Derivative liability, at fair value   | 227,158                   | 180,280                  |
| Accounts payable and accrued expenses (including obligations of VIE of \$5 and \$153, respectively)   | 2,262                     | 1,794                    |
| Payable to related party  | 2,797                     | 2,705                    |
| Dividend payable  | 25,152                    | 29,204                   |
| <b>Total Liabilities</b>  | <b>4,071,882</b>          | <b>4,286,065</b>         |
| <b>Commitments and contingencies</b>  |                           |                          |
| <b>Stockholders' Equity:</b>  |                           |                          |
| Common stock, \$0.01 par value, 500,000,000 shares authorized, 41,919,801 and 41,719,801 shares issued and outstanding, respectively            | 419                       | 417                      |
| Preferred stock, \$0.01 par value, 100,000,000 shares authorized and no shares outstanding  |                           |                          |
| Additional paid-in capital  | 762,935                   | 760,925                  |
| Retained earnings (accumulated deficit)   | (207,639)                 | (138,130)                |
| <b>Total Stockholders' Equity</b>   | <b>555,715</b>            | <b>623,212</b>           |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 4,627,597</b>       | <b>\$ 4,909,277</b>      |

See notes to unaudited consolidated financial statements.



Table of Contents**Western Asset Mortgage Capital Corporation and Subsidiaries****Consolidated Statements of Operations (Unaudited)**

(in thousands except share and per share data)

|   | For the three<br>months ended<br>September 30,<br>2015 | For the three<br>months ended<br>September 30,<br>2014 | For the nine<br>months ended<br>September 30,<br>2015 | For the nine<br>months ended<br>September 30,<br>2014 |
|---|--|--|---|---|
| <b>Net Interest Income:</b>   |  |  |   |   |
| Interest income   | \$ 35,821  | \$ 40,718  | \$ 117,656  | \$ 108,752  |
| Interest expense  | 6,981  | 6,468  | 19,960  | 15,829  |
| Net Interest Income   | 28,840   | 34,250   | 97,696  | 92,923  |
| <b>Other Income (Loss):</b>   |  |  |   |   |
| Interest income on cash balances and other income (loss), net   | (29)   | 942  | 1,744   | 954   |
| Realized gain (loss) on sale of Mortgage-backed securities, other securities and Whole-Loans, net                       | (2,482)  | 4,912  | 9,267   | (2,650)   |
| Other loss on Mortgage-backed securities and other securities   | (5,917)  | (2,857)  | (14,884)  | (7,565)   |
| Unrealized gain (loss) on Mortgage-backed securities, other securities and Whole-Loans, net                             | 24,723   | (4,453)  | 10,284  | 140,755   |
| Gain on linked transactions, net  |  | (1,241)  |   | 1,666   |
| Loss on derivative instruments, net   | (41,363)   | (401)  | (76,511)  | (126,984)   |
| Other Income (Loss), net  | (25,068)   | (3,098)  | (70,100)  | 6,176   |
| <b>Operating Expenses:</b>  |  |  |   |   |
| General and administrative (includes \$509, \$587, \$1,969 and \$1,654 non-cash stock based compensation, respectively) | 2,863  | 2,253  | 8,862   | 6,703   |
| Management fee related party  | 2,761  | 2,763  | 8,133   | 7,127   |
| Total Operating Expenses  | 5,624  | 5,016  | 16,995  | 13,830  |
| Net income (loss) available to Common Stock and participating securities  | \$ (1,852)   | \$ 26,136  | \$ 10,601   | \$ 85,269   |
| Net income (loss) per Common Share Basic  | \$ (0.05)  | \$ 0.63  | \$ 0.24   | \$ 2.35   |
| Net income (loss) per Common Share Diluted  | \$ (0.05)  | \$ 0.63  | \$ 0.24   | \$ 2.35   |
| Dividends Declared per Share of Common Stock  | \$ 0.60  | \$ 0.70  | \$ 1.91   | \$ 2.04   |

See notes to unaudited consolidated financial statements.

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**Western Asset Mortgage Capital Corporation and Subsidiaries**

**Consolidated Statements of Changes in Stockholders' Equity (Unaudited)**

(in thousands except shares and share data)

|                               | Common Stock |        | Additional Paid- | Retained                             |            |
|-------------------------------|--------------|--------|------------------|--------------------------------------|------------|
|                               | Shares       | Par    | In Capital       | Earnings<br>(Accumulated)<br>Deficit | Total      |
| Balance at December 31, 2014  | 41,719,801   | \$ 417 | \$ 760,925       | \$ (138,130)                         | \$ 623,212 |
| Grants of restricted stock    | 200,000      | 2      | (2)              |                                      |            |
| Vesting of restricted stock   |              |        | 1,969            |                                      | 1,969      |
| Net income                    |              |        |                  | 10,601                               | 10,601     |
| Dividends on common stock     |              |        | 43               | (80,110)                             | (80,067)   |
| Balance at September 30, 2015 | 41,919,801   | \$ 419 | \$ 762,935       | \$ (207,639)                         | \$ 555,715 |

See notes to unaudited consolidated financial statements.



Table of Contents**Western Asset Mortgage Capital Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)****(in thousands)**

|  | <b>For the nine months<br/>ended September 30,<br/>2015</b> | <b>For the nine months<br/>ended September 30,<br/>2014, as Revised (See<br/>Note 2)</b> |
|--|---|--|
| <b>Cash flows from operating activities:</b>   |   |  |
| Net income   | \$ 10,601   | \$ 85,269  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b>                           |   |  |
| Premium amortization and (discount accretion) on Mortgage-backed securities, other securities and Whole-Loans, net | 5,645   | 8,049  |
| Interest income earned added to principal of Mortgage-backed securities and other securities                       | (141)   |  |
| Amortization of deferred financing costs   | 295   |  |
| Restricted stock amortization expense  | 1,969   | 1,654  |
| Premium amortization for MAC interest rate swaps   | (1,075)   | (928)  |
| Interest payments and basis recovered on MAC interest rate swaps   | 1,443   | (545)  |
| Premium on purchase of Residential Whole-Loans   | (2,390)   |  |
| Unrealized loss on Mortgage-backed securities, other securities and Whole-Loans, net                               | (10,284)  | (140,755)  |
| Mark-to-market adjustments on linked transactions  |   | 1,339  |
| Mark-to-market adjustments on derivative instruments   | 82,952  | 126,112  |
| Other loss on Mortgage-backed securities and other securities  | 14,884  | 7,565  |
| Realized (gain) loss on sale of Mortgage-backed securities, other securities and Whole-Loans, net                  | (9,267)   | 2,650  |
| Realized (gain) loss on sale of Interest-Only Strips accounted for as derivatives, net                             | (624)   | 755  |
| Realized loss on termination of MAC interest rate swaps containing an other-than-insignificant financing element   | 8,658   |  |
| Realized (gain) loss on sale of TBAs, net  | 1,728   | (25,169)   |
| Realized loss on sale of swaptions, net  | 3,873   | 5,908  |
| Realized loss on forward contracts   | 980   | 1,182  |
| Realized loss on futures   | 627   | 16,495   |
| Realized gain on option derivatives  | (684)   |  |
| Realized gain on linked transaction, net   |   | (1,397)  |
| Gain on foreign currency transactions, net   | (1,664)   | (1,119)  |
| <b>Changes in operating assets and liabilities:</b>  |   |  |
| Decrease (increase) in accrued interest receivable   | 5,894   | (23,365)   |
| Increase in other assets   | (279)   | (279)  |
| Increase in accrued interest payable   | 4,146   | 12,036   |
| Increase in accounts payable and accrued expenses  | 468   | 1,008  |
| Increase in payable to related party   | 92  | 1,214  |
| Net cash provided by operating activities  | 117,847   | 77,679   |
| <b>Cash flows from investing activities:</b>   |   |  |
| Purchase of Mortgage-backed securities and other securities  | (570,441)   | (3,804,044)  |
| Purchase of securities underlying linked transactions  |   | (38,224)   |
| Proceeds from sale of Mortgage-backed securities and other securities  | 2,087,678   | 2,240,338  |
| Proceeds from sale of securities underlying linked transactions  |   | 6,214  |
| Principal payments and basis recovered on Mortgage-backed securities and other securities                          | 315,106   | 233,796  |

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|   |           |       |
|---|-----------|-------|
| Principal payments and basis recovered on securities underlying linked transactions |           | 4,408 |
| Purchase of Residential Whole-Loans   | (147,336) |       |
| Principal payments on Residential Whole-Loans                                       | 9,077     |       |
| Purchase of Commercial Whole-Loans  |           |       |