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PennyMac Mortgage Investment Trust
Form 10-Q
November 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2016

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 number: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of

incorporation or organization)

3043 Townsgate Road, Westlake Village, California
(Address of principal executive offices)

27-0186273
(IRS Employer

Identification No.)

91361
(Zip Code)

(818) 224-7442

(Registrant's telephone number, including area code)

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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 of the Exchange Act): Yes No

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Class	Outstanding at November 3, 2016
Common Shares of Beneficial Interest, \$0.01 par value	66,697,286

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

September 30, 2016

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Report”) contains certain forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “approximately,” “believe,” “predict,” “continue,” “plan” or other similar words or expressions.

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Examples of forward-looking statements include the following:

- projections of our revenues, income, earnings per share, capital structure or other financial items;
- descriptions of our plans or objectives for future operations, products or services;
- forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and
- descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. There are a number of factors, many of which are beyond our control that could cause actual results to differ significantly from management’s expectations. Some of these factors are discussed below.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (“SEC”) on February 29, 2016.

Factors that could cause actual results to differ materially from historical results or those anticipated include, but are not limited to:

- changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;
- volatility in our industry, the debt or equity markets, the general economy or the real estate finance and real estate markets specifically, whether the result of market events or otherwise;
- events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;
- changes in general business, economic, market, employment and political conditions, or in consumer confidence and spending habits from those expected;
 - declines in real estate or significant changes in U.S. housing prices or activity in the U.S. housing market;
- the availability of, and level of competition for, attractive risk-adjusted investment opportunities in mortgage loans and mortgage-related assets that satisfy our investment objectives;
- the inherent difficulty in winning bids to acquire mortgage loans, and our success in doing so;
- the concentration of credit risks to which we are exposed;
- the degree and nature of our competition;
- our dependence on our manager and servicer, potential conflicts of interest with such entities and their affiliates, and the performance of such entities;
- changes in personnel and lack of availability of qualified personnel at our manager, servicer or their affiliates;
- the availability, terms and deployment of short-term and long-term capital;
- the adequacy of our cash reserves and working capital;

our ability to maintain the desired relationship between our financing and the interest rates and maturities of our assets;

the timing and amount of cash flows, if any, from our investments;

unanticipated increases or volatility in financing and other costs, including a rise in interest rates;

the performance, financial condition and liquidity of borrowers;

the ability of our servicer, which also provides us with fulfillment services, to approve and monitor correspondent sellers and underwrite loans to investor standards;

incomplete or inaccurate information or documentation provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties;

our indemnification and repurchase obligations in connection with mortgage loans we purchase and later sell or securitize;

the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest;

increased rates of delinquency, default and/or decreased recovery rates on our investments;

our ability to foreclose on our investments in a timely manner or at all;

increased prepayments of the mortgages and other loans underlying our mortgage-backed securities (“MBS”) or relating to our mortgage servicing rights (“MSRs”), excess servicing spread (“ESS”) and other investments;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

the effect of the accuracy of or changes in the estimates we make about uncertainties, contingencies and asset and liability valuations when measuring and reporting upon our financial condition and results of operations;

our failure to maintain appropriate internal controls over financial reporting;

technologies for loans and our ability to mitigate security risks and cyber intrusions;

our ability to obtain and/or maintain licenses and other approvals in those jurisdictions where required to conduct our business;

- our ability to detect misconduct and fraud;

our ability to comply with various federal, state and local laws and regulations that govern our business;

developments in the secondary markets for our mortgage loan products;

legislative and regulatory changes that impact the mortgage loan industry or housing market;

- changes in regulations or the occurrence of other events that impact the business, operations or prospects of government agencies such as the Government National Mortgage Association (“Ginnie Mae”), the Federal Housing Administration (the “FHA”) or the Veterans Administration (the “VA”), the U.S. Department of Agriculture (“USDA”), or government-sponsored entities such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an “Agency” and, collectively, as the “Agencies”), or such changes that increase the cost of doing business with such entities;

the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and its implementing regulations and regulatory agencies, and any other legislative and regulatory changes that impact the business, operations or governance of mortgage lenders and/or publicly-traded companies;

the Consumer Financial Protection Bureau (“CFPB”) and its issued and future rules and the enforcement thereof;

changes in government support of homeownership;

changes in government or government-sponsored home affordability programs;

limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 (the “Investment Company Act”) and the ability of certain of our subsidiaries to qualify as REITs or as taxable REIT subsidiaries (“TRSs”) for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs, or the exclusions from registration as an investment company);

- our ability to make distributions to our shareholders in the future;
- the effect of public opinion on our reputation;
- the occurrence of natural disasters or other events or circumstances that could impact our operations; and
- our organizational structure and certain requirements in our charter documents.

Other factors that could also cause results to differ from our expectations may not be described in this Report or any other document. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2016	December 31, 2015
	(in thousands, except share amounts)	
ASSETS		
Cash	\$ 139,068	\$ 58,108
Short-term investments	33,353	41,865
Mortgage-backed securities at fair value pledged to creditors	708,862	322,473
Mortgage loans acquired for sale at fair value (includes \$2,018,292 and \$1,268,455 pledged to creditors, respectively)	2,043,453	1,283,795
Mortgage loans at fair value (includes \$1,947,425 and \$2,201,513 pledged to creditors, respectively)	1,957,117	2,555,788
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value		
pledged to secure note payable to PennyMac Financial Services, Inc.	280,367	412,425
Derivative assets (includes \$8,268 pledged to creditors at September 30, 2016)	44,774	10,085
Real estate acquired in settlement of loans (includes \$221,153 and \$283,343 pledged to creditors, respectively)	288,348	341,846
Real estate held for investment	25,708	8,796
Mortgage servicing rights pledged to creditors (includes \$55,843 and \$66,584 carried at fair value, respectively)	524,529	459,741
Servicing advances	78,624	88,010
Deposits securing credit risk transfer agreements (includes \$416,163 pledged to creditors at September 30, 2016)	427,677	147,000
Due from PennyMac Financial Services, Inc.	5,776	8,806
Other	61,245	88,186
Total assets	\$ 6,618,901	\$ 5,826,924
LIABILITIES		
Assets sold under agreements to repurchase	\$ 4,041,085	\$ 3,128,780
Mortgage loan participation and sale agreements	88,458	—
Federal Home Loan Bank advances	—	183,000
Notes payable	196,132	236,015
Asset-backed financing of a variable interest entity at fair value	384,407	247,690
Exchangeable senior notes	245,824	245,054
Note payable to PennyMac Financial Services, Inc.	150,000	150,000
Interest-only security payable at fair value	1,699	—

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Derivative liabilities	1,620	3,157
Accounts payable and accrued liabilities	88,704	64,474
Due to PennyMac Financial Services, Inc.	14,747	18,965
Income taxes payable	36,380	33,505
Liability for losses under representations and warranties	14,927	20,171
Total liabilities	5,263,983	4,330,811
SHAREHOLDERS' EQUITY		
Common shares of beneficial interest—authorized, 500,000,000 common shares of \$0.01		
par value; issued and outstanding, 67,036,149 and 73,767,435 common shares	671	738
Additional paid-in capital	1,380,502	1,469,722
(Accumulated deficit) retained earnings	(26,255)	25,653
Total shareholders' equity	1,354,918	1,496,113
Total liabilities and shareholders' equity	\$6,618,901	\$ 5,826,924

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Assets and liabilities of consolidated variable interest entities (“VIEs”) included in total assets and liabilities (the assets of each VIE can only be used to settle liabilities of that VIE):

	September 30, 2016	December 31, 2015
	(in thousands)	
ASSETS		
Mortgage loans at fair value	\$397,740	\$ 455,394
Derivative assets	16,662	593
Deposits securing credit risk transfer agreements	427,677	147,000
Other—interest receivable	1,097	1,447
	\$843,176	\$ 604,434
LIABILITIES		
Asset-backed financing at fair value	\$384,407	\$ 247,690
Interest-only security payable at fair value	1,699	—
Accounts payable and accrued liabilities—interest payable	1,097	724
	\$387,203	\$ 248,414

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Quarter ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Net investment income				
Interest income:				
From nonaffiliates	\$53,307	\$53,412	\$146,711	\$129,860
From PennyMac Financial Services, Inc.	4,827	8,026	17,555	17,596
	58,134	61,438	164,266	147,456
Interest expense:				
To nonaffiliates	38,356	36,471	103,129	91,423
To PennyMac Financial Services, Inc.	1,974	1,289	5,798	1,822
	40,330	37,760	108,927	93,245
Net interest income	17,804	23,678	55,339	54,211
Net gain on mortgage loans acquired for sale	43,858	13,884	83,133	35,219
Mortgage loan origination fees	12,684	9,135	28,104	21,701
Net gain (loss) on investments:				
From nonaffiliates	17,103	32,802	31,169	56,521
From PennyMac Financial Services, Inc.	(2,824)	(7,844)	(36,275)	(5,502)
	14,279	24,958	(5,106)	51,019
Net mortgage loan servicing fees	15,761	20,791	47,006	41,810
Results of real estate acquired in settlement of loans	(3,285)	(4,221)	(11,886)	(11,859)
Other	2,225	2,549	6,570	6,095
Net investment income	103,326	90,774	203,160	198,196
Expenses				
Earned by PennyMac Financial Services, Inc.:				
Mortgage loan fulfillment fees	27,255	17,553	59,301	45,752
Mortgage loan servicing fees	11,039	11,736	38,919	34,542
Management fees	5,025	5,742	15,576	18,524
Mortgage loan collection and liquidation	6,205	1,853	12,709	6,480
Professional services	1,134	1,759	5,438	5,249
Compensation	1,508	1,550	5,021	5,748
Other	6,146	5,474	18,297	15,526
Total expenses	58,312	45,667	155,261	131,821
Income before provision for (benefit from) income taxes	45,014	45,107	47,899	66,375
Provision for (benefit from) income taxes	9,606	6,295	3,262	(8,016)
Net income	\$35,408	\$38,812	\$44,637	\$74,391
Earnings per share				
Basic	\$0.52	\$0.51	\$0.63	\$0.98
Diluted	\$0.49	\$0.49	\$0.63	\$0.95
Weighted-average shares outstanding				
Basic	67,554	74,681	69,289	74,675
Diluted	76,329	83,411	69,289	83,486
Dividends declared per share	\$0.47	\$0.47	\$1.41	\$1.69

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Common shares			(Accumulated	
	Number	Par	Additional	deficit)	
	of	value	paid-in	retained	
	shares		capital	earnings	Total
	(in thousands, except per share amounts)				
Balance at December 31, 2014	74,510	\$745	\$1,479,699	\$ 97,728	\$1,578,172
Net income	—	—	—	74,391	74,391
Share-based compensation	302	3	4,977	—	4,980
Common share dividends, \$1.69 per share	—	—	—	—	—