

Edgar Filing: PennyMac Mortgage Investment Trust - Form 10-Q

PennyMac Mortgage Investment Trust
Form 10-Q
May 07, 2018

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 March 31, 2018

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)

Edgar Filing: PennyMac Mortgage Investment Trust - Form 10-Q

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, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 4, 2018
Common Shares of Beneficial Interest, \$0.01 par value	60,882,954

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

March 31, 2018

TABLE OF CONTENTS

	Page
<u>Special Note Regarding Forward-Looking Statements</u>	1
<u>PART I. FINANCIAL INFORMATION</u>	4
Item 1. <u>Financial Statements (Unaudited):</u>	4
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Operations</u>	6
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	7
<u>Consolidated Statements of Cash Flows</u>	8
<u>Notes to Consolidated Financial Statements</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	56
<u>Our Company</u>	56
<u>Results of Operations</u>	60
<u>Net Investment Income</u>	60
<u>Expenses</u>	72
<u>Balance Sheet Analysis</u>	75
<u>Asset Acquisitions</u>	76
<u>Investment Portfolio Composition</u>	77
<u>Cash Flows</u>	83
<u>Liquidity and Capital Resources</u>	84
<u>Off-Balance Sheet Arrangements and Aggregate Contractual Obligations</u>	86
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	88
Item 4. <u>Controls and Procedures</u>	90
<u>PART II. OTHER INFORMATION</u>	91
Item 1. <u>Legal Proceedings</u>	91
Item 1A. <u>Risk Factors</u>	91
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	91
Item 3. <u>Defaults Upon Senior Securities</u>	91
Item 4. <u>Mine Safety Disclosures</u>	91
Item 5. <u>Other Information</u>	91
Item 6. <u>Exhibits</u>	92

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, 2017, filed with the Securities and Exchange Commission (“SEC”) on March 1, 2018.

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;
- the occurrence of natural disasters or other events or circumstances that could impact our operations;
- 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;

1

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;

the performance of mortgage loans underlying mortgage-backed securities (“MBS”) in which we retain credit risk;

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

increased prepayments of the mortgages and other loans underlying our 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;
- our failure to deal appropriately with issues that may give rise to reputational risk; 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)

	March 31, 2018	December 31, 2017
	(in thousands, except share information)	
ASSETS		
Cash	\$ 102,167	\$ 77,647
Short-term investments	71,044	18,398
Mortgage-backed securities at fair value pledged to creditors	1,436,456	989,461
Mortgage loans acquired for sale at fair value (includes \$1,097,266 and \$1,249,277 pledged to creditors, respectively)	1,115,534	1,269,515
Mortgage loans at fair value (includes \$770,911 and \$1,081,893 pledged to creditors, respectively)	779,489	1,089,473
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value pledged to secure assets sold to PennyMac Financial Services, Inc. under agreements to repurchase	236,002	236,534
Derivative assets (includes \$24,423 and \$26,058 pledged to creditors, respectively)	122,518	113,881
Real estate acquired in settlement of loans (includes \$105,484 and \$124,532 pledged to creditors, respectively)	141,506	162,865
Real estate held for investment (includes \$31,899 and \$31,128 pledged to creditors, respectively)	45,790	44,224
Mortgage servicing rights (includes \$957,013 and \$91,459 at fair value; \$941,686 and \$831,892 pledged to creditors)	957,013	844,781
Servicing advances	63,352	77,158
Deposits securing credit risk transfer agreements (includes \$392,453 and \$400,778 pledged to creditors, respectively)	622,330	588,867
Due from PennyMac Financial Services, Inc.	313	4,154
Other	96,972	87,975
Total assets	\$5,790,486	\$ 5,604,933
LIABILITIES		
Assets sold under agreements to repurchase	\$3,408,283	\$ 3,180,886
Mortgage loan participation purchase and sale agreements	—	44,488
Asset-backed financing of a variable interest entity at fair value	296,982	307,419
Exchangeable senior notes	247,471	247,186
Assets sold to PennyMac Financial Services, Inc. under agreements to repurchase	142,938	144,128
Interest-only security payable at fair value	7,796	7,070

Edgar Filing: PennyMac Mortgage Investment Trust - Form 10-Q

Derivative liabilities	3,636	1,306
Accounts payable and accrued liabilities	63,196	64,751
Due to PennyMac Financial Services, Inc.	27,356	27,119
Income taxes payable	42,321	27,317
Liability for losses under representations and warranties	8,249	8,678
Total liabilities	4,248,228	4,060,348

Commitments and contingencies — Note 18

SHAREHOLDERS' EQUITY

Preferred shares of beneficial interest, \$0.01 par value per share, authorized 100,000,000 shares,

issued and outstanding 12,400,000 shares, liquidation preference \$310,000,000	299,707	299,707
Common shares of beneficial interest—authorized, 500,000,000 common shares of \$0.01 par value; issued and outstanding, 60,882,954 and 61,334,087 common shares, respectively	609	613
Additional paid-in capital	1,281,115	1,290,931
Accumulated deficit	(39,173)	(46,666)
Total shareholders' equity	1,542,258	1,544,585
Total liabilities and shareholders' equity	\$5,790,486	\$ 5,604,933

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):

	March 31, 2018	December 31, 2017
	(in thousands)	
ASSETS		
Mortgage loans at fair value	\$311,102	\$ 321,040
Derivative assets	103,995	98,640
Deposits securing credit risk transfer agreements	622,330	588,867
Other—interest receivable	893	904
	\$1,038,320	\$ 1,009,451
LIABILITIES		
Asset-backed financing at fair value	\$296,982	\$ 307,419
Interest-only security payable at fair value	7,796	7,070
Accounts payable and accrued liabilities—interest payable	893	904
	\$305,671	\$ 315,393

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 March 31, 2018 2017 (in thousands, except per share amounts)	
Net investment income		
Net gain on mortgage loans acquired for sale:		
From nonaffiliates	\$4,986	\$16,624
From PennyMac Financial Services, Inc.	2,641	2,401
	7,627	19,025
Mortgage loan origination fees	7,037	8,290
Net gain (loss) on investments:		
From nonaffiliates	(7,733)	18,091
From PennyMac Financial Services, Inc.	7,751	(1,370)
	18	16,721
Net mortgage loan servicing fees:		
From nonaffiliates	55,560	11,460
From PennyMac Financial Services, Inc.	595	292
	56,155	11,752
Interest income:		
From nonaffiliates	37,046	43,453
From PennyMac Financial Services, Inc.	3,934	4,647
	40,980	48,100
Interest expense:		
To nonaffiliates	32,840	35,374
To PennyMac Financial Services, Inc.	1,976	1,805
	34,816	37,179
Net interest income	6,164	10,921
Results of real estate acquired in settlement of loans	(3,226)	(4,246)
Other	1,898	2,011
Net investment income	75,673	64,474
Expenses		
Earned by PennyMac Financial Services, Inc.:		
Mortgage loan fulfillment fees	11,944	16,570
Mortgage loan servicing fees	11,019	10,486
Management fees	5,696	5,008
Mortgage loan collection and liquidation	2,229	354
Real estate held for investment	1,438	1,088
Professional services	1,319	1,453
Compensation	1,268	1,892
Mortgage loan origination	272	1,512
Other	2,650	3,503
Total expenses	37,835	41,866
Income before provision for (benefit from) income taxes	37,838	22,608

Edgar Filing: PennyMac Mortgage Investment Trust - Form 10-Q

Provision for (benefit from) income taxes	9,652	(6,129)
Net income	28,186	28,737
Dividends on preferred shares	6,234	571
Net income attributable to common shareholders	\$21,952	\$28,166
Earnings per common share		
Basic	\$0.36	\$0.42
Diluted	\$0.35	\$0.40
Weighted-average common shares outstanding		
Basic	60,761	66,719
Diluted	69,875	75,186
Dividends declared per common share	\$0.47	\$0.47

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)

Preferred	Common
shares	shares
Number	