

Edgar Filing: Western Asset Mortgage Capital Corp - Form 10-Q

Western Asset Mortgage Capital Corp
Form 10-Q
November 07, 2018
Table of Contents

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, 2018

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)
Delaware 27-0298092
(State or other jurisdiction of (IRS Employer
incorporation or organization) 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, a 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 (check one).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

Edgar Filing: Western Asset Mortgage Capital Corp - Form 10-Q

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 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 6, 2018 there were 48,116,379 shares, par value \$0.01, of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I — FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements</u>	<u>2</u>
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>49</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>92</u>
<u>ITEM 4. Controls and Procedures</u>	<u>98</u>
<u>Part II — OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	<u>99</u>
<u>ITEM 1A. Risk Factors</u>	<u>99</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>99</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>99</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>99</u>
<u>ITEM 5. Other Information</u>	<u>99</u>
<u>ITEM 6. Exhibits</u>	<u>100</u>
<u>Signatures</u>	<u>102</u>

Table of Contents

Part I

ITEM I. Financial Statements

Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Balance Sheets

(in thousands—except share and per share data)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	\$ 12,817	\$ 48,024
Restricted cash	100,138	—
Agency mortgage-backed securities, at fair value (\$2,325,859 and \$2,833,595 pledged as collateral, at fair value, respectively)	2,475,533	2,858,600
Non-Agency mortgage-backed securities, at fair value (\$351,032 and \$266,189 pledged as collateral, at fair value, respectively)	365,710	378,158
Other securities, at fair value (\$92,391 and \$89,823 pledged as collateral, at fair value, respectively)	92,528	122,065
Residential Whole-Loans, at fair value (\$684,463 and \$237,423 pledged as collateral, at fair value, respectively)	684,463	237,423
Residential Bridge Loans (\$234,747 and \$64,526 at fair value and \$249,471 and \$106,673 pledged as collateral, respectively)	249,471	106,673
Securitized commercial loans, at fair value	1,191,048	24,876
Commercial Loans, at fair value (\$123,677 and \$0 pledged as collateral, at fair value, respectively)	143,951	—
Investment related receivable (\$34,559 and \$0 pledged as collateral, respectively)	113,341	7,665
Interest receivable	21,869	13,603
Due from counterparties	81,513	86,930
Derivative assets, at fair value	2,700	728
Other assets	2,903	2,161
Total Assets ⁽¹⁾	\$ 5,537,985	\$ 3,886,906
Liabilities and Stockholders' Equity:		
Liabilities:		
Repurchase agreements, net	\$ 3,469,319	\$ 3,251,686
Convertible senior unsecured notes, net	109,731	108,743
Securitized debt, at fair value (includes \$313,143 and \$10,945 held by affiliates, respectively)	1,119,089	10,945
Interest payable (includes \$891 and \$70 on securitized debt held by affiliates, respectively)	10,027	8,322
Investment related payables	169,499	17,217
Due to counterparties	1,068	1,490
Derivative liability, at fair value	2,159	4,346
Accounts payable and accrued expenses	3,513	3,118
Payable to affiliate	2,489	2,041
Dividend payable	14,916	12,960
Other liabilities	100,530	—
Total Liabilities ⁽²⁾	5,002,340	3,420,868

Edgar Filing: Western Asset Mortgage Capital Corp - Form 10-Q

Commitments and contingencies

Stockholders' Equity:

Common stock: \$0.01 par value, 500,000,000 shares authorized, 48,116,379 and 41,794,079 outstanding, respectively	481	419
Preferred stock, \$0.01 par value, 100,000,000 shares authorized and no shares outstanding	—	—
Treasury stock, at cost, 0 and 125,722 shares held, respectively	—	(1,232)
Additional paid-in capital	833,840	768,763
Retained earnings (accumulated deficit)	(298,676)	(301,912)
Total Stockholders' Equity	535,645	466,038
Total Liabilities and Stockholders' Equity	\$ 5,537,985	\$ 3,886,906

See notes to unaudited consolidated financial statements.

Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Balance Sheets (Continued)

(in thousands—except share and per share data)

(Unaudited)

	September 30, 2018	December 31, 2017
(1) Assets of consolidated VIEs included in the total assets above:		
Restricted cash	\$ 100,138	\$ —
Residential Whole-Loans, at fair value (\$684,463 and \$237,423 pledged as collateral, at fair value, respectively)	684,463	237,423
Residential Bridge Loans (\$234,747 and \$64,526 at fair value and \$249,471 and \$106,673 pledged as collateral, respectively)	249,471	106,673
Securitized commercial loans, at fair value	1,191,048	24,876
Commercial Loans, at fair value (\$123,677 and \$0 pledged as collateral, at fair value, respectively)	123,677	—
Investment related receivable	33,430	7,665
Interest receivable	12,418	3,358
Other assets	203	—
Total assets of consolidated VIEs	\$ 2,394,848	\$ 379,995
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Securitized debt, at fair value (includes \$313,143 and \$10,945 held by affiliates, respectively)	\$ 1,119,089	\$ 10,945
Interest payable (includes \$891 and \$70 on securitized debt held by affiliates, respectively)	2,487	70
Accounts payable and accrued expenses	737	189
Other liabilities	100,531	—
Total liabilities of consolidated VIEs	\$	