

PennyMac Mortgage Investment Trust
Form 10-Q
August 11, 2014
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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 June 30, 2014

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)

<p>Maryland (State or other jurisdiction of incorporation or organization)</p> <p>6101 Condor Drive, Moorpark, California (Address of principal executive offices)</p> <p style="text-align: center;">(818) 224-7442</p> <p style="text-align: center;">(Registrant's telephone number, including area code)</p>	<p>27-0186273 (IRS Employer Identification No.)</p> <p>93021 (Zip Code)</p>
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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 August 7, 2014
Common Shares of Beneficial Interest, \$0.01 par value	74,139,570

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PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

June 30, 2014

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	June 30, 2014	December 31, 2013
	(in thousands, except share data)	
ASSETS		
Cash	\$ 37,902	\$ 27,411
Short-term investments	104,453	92,398
Mortgage-backed securities at fair value pledged to secure assets sold under agreements to repurchase	218,725	197,401
Mortgage loans acquired for sale at fair value (includes \$905,044 and \$454,210 pledged to secure assets sold under agreements to repurchase)	909,085	458,137
Mortgage loans at fair value (includes \$2,407,512 and \$1,963,266 pledged to secure assets sold under agreements to repurchase)	2,697,821	2,600,317
Mortgage loans under forward purchase agreements at fair value pledged to secure borrowings under forward purchase agreements		218,128
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value	190,244	138,723
Derivative assets	14,594	7,976
Real estate acquired in settlement of loans (includes \$107,684 and \$89,404 pledged to secure assets sold under agreements to repurchase)	240,471	138,942
Real estate acquired in settlement of loans under forward purchase agreements pledged to secure forward purchase agreements		9,138
Mortgage servicing rights (includes \$46,802 and \$26,452 carried at fair value)	315,484	290,572
Servicing advances	63,993	59,573
Due from PennyMac Financial Services, Inc.	4,137	6,009
Other assets	72,836	66,192
Total assets	\$ 4,869,745	\$ 4,310,917
LIABILITIES		
Assets sold under agreements to repurchase	\$ 2,701,755	\$ 2,039,605
Borrowings under forward purchase agreements		226,580
Asset-backed secured financing of the variable interest entity at fair value	170,201	165,415
Exchangeable senior notes	250,000	250,000
Derivative liabilities	6,347	1,961
Accounts payable and accrued liabilities	69,552	71,561
Due to PennyMac Financial Services, Inc.	19,636	18,636

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Income taxes payable	63,218	59,935
Liability for losses under representations and warranties	11,876	10,110
Total liabilities	3,292,585	2,843,803
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common shares of beneficial interest authorized, 500,000,000 common shares of \$0.01 par value; issued and outstanding, 74,139,070 and 70,458,082 common shares, respectively	741	705
Additional paid-in capital	1,468,791	1,384,468
Retained earnings	107,628	81,941
Total shareholders equity	1,577,160	1,467,114
Total liabilities and shareholders equity	\$ 4,869,745	\$ 4,310,917

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

Table of Contents**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

Assets and liabilities of consolidated variable interest entity (VIE) included in total assets and liabilities (the assets of the VIE can only be used to settle liabilities of the VIE):

	June 30, 2014	December 31, 2013
	(in thousands)	
ASSETS		
Mortgage loans at fair value	\$ 541,320	\$ 523,652
Other assets - interest receivable	1,702	1,584
	\$ 543,022	\$ 525,236
LIABILITIES		
Asset-backed secured financing at fair value	\$ 170,201	\$ 165,415
Accounts payable and accrued expenses - interest payable	492	497
	\$ 170,693	\$ 165,912

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

Table of Contents**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	Quarter ended		Six months ended June 30,	
	June 30,	2013	2014	2013
	2014	2013	2014	2013
	(in thousands, except per share data)			
Net investment income				
Net gain on mortgage loans acquired for sale	\$ 10,222	\$ 44,438	\$ 20,193	\$ 73,717
Loan origination fees	4,485	4,752	6,841	10,225
Net interest income:				
Interest income	48,518	26,797	87,864	43,672
Interest expense	21,865	14,144	41,640	25,380
	26,653	12,653	46,224	18,292
Net gain on investments	73,134	46,834	115,719	110,814
Net loan servicing fees	8,758	7,892	16,179	13,903
Results of real estate acquired in settlement of loans	(5,348)	(1,929)	(11,974)	(5,182)
Other	2,652	913	3,969	1,600
Net investment income	120,556	115,553	197,151	223,369
Expenses				
Expenses payable to PennyMac Financial Services, Inc.:				
Loan servicing fees	14,180	8,787	28,771	16,513
Loan fulfillment fees	12,433	22,054	21,335	50,298
Management fees	8,912	8,455	16,986	14,947
Professional services	2,690	1,339	4,421	3,723
Compensation	1,883	1,438	4,825	3,527
Other	7,154	5,571	11,221	10,517
Total expenses	47,252	47,644	87,559	99,525
Income before provision for income taxes	73,304	67,909	109,592	123,844
(Benefit from) provision for income taxes	(1,907)	13,412	(3,492)	16,051
Net income	\$ 75,211	\$ 54,497	\$ 113,084	\$ 107,793
Earnings per share				
Basic	\$ 1.01	\$ 0.92	\$ 1.54	\$ 1.81
Diluted	\$ 0.93	\$ 0.86	\$ 1.44	\$ 1.75
Weighted-average shares outstanding				
Basic	74,065	59,035	72,803	58,981
Diluted	82,750	65,104	81,535	62,217

Dividends declared per share	\$	0.59	\$	0.57	\$	1.18	\$	1.14
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The accompanying notes are an integral part of these consolidated financial statements.

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

	Number of shares	Par value	Additional paid-in capital (in thousands)	Retained earnings	Total
Balance at December 31, 2012	58,904	\$ 589	\$ 1,129,858	\$ 70,889	\$ 1,201,336
Net income				107,793	107,793
Share-based compensation	173	2	2,468		2,470
Dividends, \$1.14 per share				(67,249)	(67,249)
Underwriting and offering costs			(169)		(169)
Balance at June 30, 2013	59,077	\$ 591	\$ 1,132,157	\$ 111,433	\$ 1,244,181
Balance at December 31, 2013	70,458	\$ 705	\$ 1,384,468	\$ 81,941	\$ 1,467,114
Net income				113,084	113,084
Share-based compensation	234	2	2,956		2,958
Dividends, \$1.18 per share				(87,397)	(87,397)
Proceeds from offerings of common shares	3,447	34	82,419		82,453
Underwriting and offering costs			(1,052)		(1,052)
Balance at June 30, 2014	74,139	\$ 741	\$ 1,468,791	\$ 107,628	\$ 1,577,160

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

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	Six months ended June 30,	
	2014	2013
	(in thousands)	
Cash flows from operating activities		
Net income	\$ 113,084	\$ 107,793
Adjustments to reconcile net income to net cash used by operating activities:		
Net gain on mortgage loans acquired for sale at fair value	(20,193)	(73,717)
Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed secured financing	(537)	
Capitalization of interest on mortgage loans at fair value	(30,353)	(11,814)
Accrual of interest on excess servicing spread	(6,001)	
Amortization of credit facility commitment fees and debt issuance costs	4,879	4,036
(Reversal) accrual of costs related to forward purchase agreements	(168)	251