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Ellington Residential Mortgage REIT
Form 10-Q
August 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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 001-35896
Ellington Residential Mortgage REIT
(Exact Name of Registrant as Specified in Its Charter)

Maryland 46-0687599
(State or Other Jurisdiction of Incorporation) (IRS Employer Identification No.)
53 Forest Avenue
Old Greenwich, CT 06870
(Address of principal executive offices, zip code)
(203) 698-1200
(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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 29, 2016
Common Shares of Beneficial Interest, \$0.01 par value per share	9,117,183

ELLINGTON RESIDENTIAL MORTGAGE REIT
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (unaudited)

ELLINGTON RESIDENTIAL MORTGAGE REIT

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2016	December 31, 2015
(In thousands except for share amounts)		
ASSETS		
Cash and cash equivalents	\$36,200	\$40,166
Mortgage-backed securities, at fair value	1,229,015	1,242,266
Due from brokers	34,380	33,297
Financial derivatives—assets, at fair value	1,920	2,183
Reverse repurchase agreements	68,862	78,632
Receivable for securities sold	98,328	155,526
Interest receivable	4,427	4,325
Other assets	454	289
Total Assets	\$1,473,586	\$1,556,684
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Repurchase agreements	\$1,205,987	\$1,222,719
Payable for securities purchased	33,457	98,949
Due to brokers	5,877	439
Financial derivatives—liabilities, at fair value	13,379	4,725
U.S. Treasury securities sold short, at fair value	68,528	78,447
Dividend payable	3,647	4,111
Accrued expenses	615	533
Management fee payable	528	545
Interest payable	1,310	1,361
Total Liabilities	1,333,328	1,411,829
SHAREHOLDERS' EQUITY		
Preferred shares, par value \$0.01 per share, 100,000,000 shares authorized; (0 shares issued and outstanding, respectively)	—	—
Common shares, par value \$0.01 per share, 500,000,000 shares authorized; (9,117,183 and 9,135,103 shares issued and outstanding, respectively)	92	92
Additional paid-in-capital	180,911	181,027
Accumulated deficit	(40,745)	(36,264)
Total Shareholders' Equity	140,258	144,855
Total Liabilities and Shareholders' Equity	\$1,473,586	\$1,556,684

ELLINGTON RESIDENTIAL MORTGAGE REIT
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Month Period Ended June 30, 2016	Three Month Period Ended June 30, 2015	Six Month Period Ended June 30, 2016	Six Month Period Ended June 30, 2015
(In thousands except for per share amounts)				
INTEREST INCOME (EXPENSE)				
Interest income	\$7,538	\$9,841	\$17,188	\$20,121
Interest expense	(2,260)	(1,520)	(4,310)	(2,778)
Total net interest income	5,278	8,321	12,878	17,343
EXPENSES				
Management fees	528	592	1,056	1,202
Professional fees	161	135	378	278
Compensation expense ⁽¹⁾	169	173	321	366
Other operating expenses ⁽¹⁾	414	365	867	835
Total expenses	1,272	1,265	2,622	2,681
OTHER INCOME (LOSS)				
Net realized gains (losses) on securities	2,100	1,442	5,111	8,164
Net realized gains (losses) on financial derivatives	(13,607)	(3,842)	(17,603)	(12,585)
Change in net unrealized gains (losses) on securities	5,879	(17,722)	14,512	(12,536)
Change in net unrealized gains (losses) on financial derivatives	5,129	13,256	(9,007)	6,162
Total other income (loss)	(499)	(6,866)	(6,987)	(10,795)
NET INCOME	\$3,507	\$190	\$3,269	\$3,867
NET INCOME PER COMMON SHARE:				
Basic and Diluted	\$0.38	\$0.02	\$0.36	\$0.42
CASH DIVIDENDS PER COMMON SHARE:				
Dividends declared	\$0.40	\$0.55	\$0.85	\$1.10

(1) Conformed to current period presentation.

See Notes to Consolidated Financial Statements

ELLINGTON RESIDENTIAL MORTGAGE REIT
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Common Shares	Common Shares, par value	Preferred Shares	Preferred Shares, par value	Additional Paid-in-Capital	Accumulated (Deficit) Earnings	Total
(In thousands except for share amounts)							
BALANCE, December 31, 2014	9,149,274	\$ 91	—	\$ —	\$ 181,282	\$ (18,008)	\$ 163,365
Share based compensation					60		60
Dividends declared						(10,064)	(10,064)
Net income						3,867	3,867
BALANCE, June 30, 2015	9,149,274	91	—	—	181,342	(24,205)	157,228
BALANCE, December 31, 2015	9,135,103	92	—	—	181,027	(36,264)	144,855
Share based compensation					80		80
Repurchase of common shares	(17,920)	—	—	—	(196)		(196)
Dividends declared						(7,750)	(7,750)
Net income						3,269	3,269
BALANCE, June 30, 2016	9,117,183	\$ 92	—	\$ —	\$ 180,911	\$ (40,745)	\$ 140,258

See Notes to Consolidated Financial Statements

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ELLINGTON RESIDENTIAL MORTGAGE REIT
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six Month Period Ended June 30, 2016	Six Month Period Ended June 30, 2015
(In thousands)		
Cash flows provided by (used in) operating activities:		
Net income	\$ 3,269	\$ 3,867
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Net realized (gains) losses on securities	(5,111)	(8,164)
Change in net unrealized (gains) losses on securities	(14,512)	12,536
Net realized (gains) losses on financial derivatives	17,603	12,585
Change in net unrealized (gains) losses on financial derivatives	9,007	(6,162)
Amortization of premiums and accretion of discounts (net)	7,478	5,110
Share based compensation	80	60
(Increase) decrease in assets:		
Due from brokers	(1,083)	(7,614)
Interest receivable	(102)	271
Other assets	(165)	(219)
Increase (decrease) in liabilities:		
Due to brokers	5,438	920
Accrued expenses	82	(181)
Interest payable	(51)	524
Management fees payable	(17)	41
Net cash provided by (used in) operating activities	21,916	13,574
Cash flows provided by (used in) investing activities:		
Purchases of securities	(1,300,435)	(951,817)
Proceeds from sale of securities	1,256,755	956,197
Principal repayments of mortgage-backed securities	64,144	68,538
Proceeds from investments sold short	282,383	468,417
Repurchase of investments sold short	(295,665)	(430,046)
Proceeds from disposition of financial derivatives	3,553	8,819
Purchase of financial derivatives	(21,245)	(21,404)
Payments made on reverse repurchase agreements	(9,329,586)	(6,175,441)
Proceeds from reverse repurchase agreements	9,339,356	6,130,569
Net cash provided by (used in) investing activities	(740)	53,832
Cash flows provided by (used in) financing activities:		
Repurchase of common shares	(196)	—
Dividends paid	(8,214)	(10,064)
Borrowings under repurchase agreements	1,178,834	1,485,330
Repayments of repurchase agreements	(1,195,566)	(1,543,931)
Cash provided by (used in) financing activities	(25,142)	(68,665)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,966)	(1,259)