

Cherry Hill Mortgage Investment Corp  
Form 10-K  
March 15, 2017  
TABLE OF CONTENTS

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

**FORM 10-K**

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

**For the fiscal year ended December 31, 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: 001-36099**

**CHERRY HILL MORTGAGE INVESTMENT CORPORATION  
(Exact name of registrant as specified in its charter)**

**Maryland**

**46-1315605**

**(State or other jurisdiction of incorporation or  
organization)**

**(I.R.S. Employer Identification No.)**

**301 Harper Drive, Suite 110  
Moorestown, New Jersey**

**08057**

**(Address of principal executive offices)**

**(Zip Code)**

**(877) 870 – 7005**

**(Registrant’s telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**

**Name of Each Exchange on Which Registered**

**Common Stock, \$0.01 par value**

**New York Stock Exchange**

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Exchange Act. Yes  No

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
 (Do not check if a 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

The aggregate market value of the registrant's common stock, \$0.01 par value per share, at June 30, 2016, held by those persons deemed by the registrant to be non-affiliates (based upon the closing sale price of the common stock on the New York Stock Exchange on June 30, 2016) was approximately \$100.4 million. Shares of the registrant's common stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 10% or more of the registrant's outstanding common stock as of June 30, 2016, have been excluded from this number in that these persons may be deemed affiliates of the registrant. The determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

On March 14, 2017, the registrant had a total of 7,525,348 shares of common stock, \$0.01 par value, outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Definitive Proxy Statement on Schedule 14A relating to its 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission by no later than May 1, 2017, are incorporated by reference into Part III, Items 10 through 14, inclusive, of this Annual Report on Form 10-K as indicated herein.

TABLE OF CONTENTS

**TABLE OF CONTENTS**

	<b>Page</b>
<u>PART I</u>	<u>1</u>
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1A. Risk Factors</u>	<u>6</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>27</u>
<u>Item 2. Properties</u>	<u>27</u>
<u>Item 3. Legal Proceedings</u>	<u>27</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>27</u>
<u>PART II</u>	<u>28</u>
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>28</u>
<u>Item 6. Selected Financial Data</u>	<u>30</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>53</u>
<u>Item 8. Consolidated Financial Statements and Supplementary Data</u>	<u>58</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>99</u>
<u>Item 9A. Controls and Procedures</u>	<u>99</u>
<u>Item 9B. Other Information</u>	<u>100</u>
<u>PART III</u>	<u>101</u>
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>101</u>
<u>Item 11. Executive Compensation</u>	<u>101</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>101</u>
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	<u>101</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>101</u>
<u>PART IV</u>	<u>102</u>
<u>Item 15. Exhibits</u>	<u>102</u>

TABLE OF CONTENTS

**GLOSSARY**

This glossary defines some of the terms that we use elsewhere in this Annual Report and is not a complete list of all of the defined terms used herein. In this Annual Report on Form 10-K, unless specifically stated otherwise or the context otherwise indicates, references to we, us, our, the Company or CHMI refer to Cherry Hill Mortgage Investment Corporation, a Maryland corporation, together with its consolidated subsidiaries; references to the Manager or to CHMM refer to Cherry Hill Mortgage Management, LLC, a Delaware limited liability company; and references to the Operating Partnership refer to Cherry Hill Operating Partnership, LP, a Delaware limited partnership.

**Agency** means a U.S. Government agency, such as Ginnie Mae, or a GSE.

**Agency RMBS** means RMBS issued by an Agency or for which an Agency guarantees payments of principal and interest on the securities.

**ASC** means an Accounting Standards Codification.

**ARM** means an adjustable-rate residential mortgage loan.

**CFTC** means the U.S. Commodity Futures Trading Commission.

**CMO** means a collateralized mortgage obligation. CMOs are structured debt instruments representing interests in specified pool of mortgage loans into multiple classes, or tranches, of securities, with each tranche having different maturities or risk profiles.

**credit enhancement** means techniques to improve the credit ratings of securities, including overcollateralization, creating retained spread, creating subordinated tranches and insurance.

**Excess MSR** means an interest in an MSR, representing a portion of the interest payment collected from a pool of mortgage loans, net of a basic servicing fee paid to the mortgage servicer.

**Fannie Mae** means the Federal National Mortgage Association.

**FHA** means the Federal Housing Administration.

**FHFA** means the U.S. Federal Housing Finance Agency.

**FHA mortgage loan** means a mortgage loan that is insured by FHA.

**Freddie Mac** means the Federal Home Loan Mortgage Corporation.

**FRM** means a fixed-rate residential mortgage loan.

**Ginnie Mae** means the Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States of America within HUD.

**GSE** means a government-sponsored enterprise. When we refer to GSEs, we mean Fannie Mae or Freddie Mac.

**HUD** means the U.S. Department of Housing and Urban Development.

**hybrid ARM** means a residential mortgage loan that has an interest rate that is fixed for a specified period of time (typically three, five, seven or ten years) and thereafter adjusts to an increment over a specified interest rate index.

**inverse IO** means an inverse interest-only security, which is a type of stripped security. These debt securities receive no principal payments and have a coupon rate which has an inverse relationship to its reference index.

**IO** means an interest-only security, which is a type of stripped security. IO strips receive a specified portion of the interest on the underlying assets.

**MBS** means mortgage-backed securities.

**MSR** means a mortgage servicing right. An MSR provides a mortgage servicer with the right to service a mortgage loan or a pool of mortgages in exchange for a portion of the interest payments made on the mortgage or the underlying mortgages. An MSR is made up of two components: a basic servicing fee and an Excess MSR. The basic servicing fee is the amount of compensation for the performance of servicing duties.

TABLE OF CONTENTS

**mortgage loan** means a loan secured by real estate with a right to receive the payment of principal and interest on the loan (including the servicing fee).

**non-Agency RMBS** means RMBS that are not issued or guaranteed by an Agency, including investment grade (AAA through BBB rated) and non-investment grade (BB rated through unrated) classes.

**non-conforming loan** means a residential mortgage loan that does not conform to the Agency underwriting guidelines and does not meet the funding criteria of Fannie Mae and Freddie Mac.

**non-QM loan** means a mortgage loan that does not satisfy the requirements for a qualified mortgage.

**prime mortgage loan** means a mortgage loan that generally conforms to GSE underwriting guidelines or is a non-QM loan with a FICO score generally above 700.

**qualified mortgage** means a mortgage that complies with the ability to repay rule and related requirements in Regulation Z.

**REIT** means a real estate investment trust.

**residential mortgage pass-through certificate** is a MBS that represents an interest in a pool of mortgage loans secured by residential real property where payments of both interest and principal (including principal prepayments) on the underlying residential mortgage loans are made monthly to holders of the security, in effect passing through monthly payments made by the individual borrowers on the mortgage loans that underlie the security, net of fees paid to the issuer/guarantor and servicer.

**RMBS** means a residential MBS.

**Servicing Related Assets** means Excess MSR and MSRs.

**SIFMA** means the Securities Industry and Financial Markets Association.

**stripped security** is an RMBS structured with two or more classes that receives different distributions of principal or interest on a pool of RMBS. Stripped securities include IOs and inverse IOs.

**TBA** means a forward-settling Agency RMBS where the pool is to-be-announced. In a TBA, a buyer will agree to purchase, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date.

**TRS** means a taxable REIT subsidiary.

**UPB** means unpaid principal balance.

**U.S. Treasury** means the U.S. Department of Treasury.

**VA** means the Department of Veterans Affairs.

**VA mortgage loan** means a mortgage loan that is partially guaranteed by the VA in accordance with its regulations.



TABLE OF CONTENTS

**FORWARD-LOOKING INFORMATION**

We make forward-looking statements in this Annual Report on Form 10-K within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words believe, expect, anticipate, estimate, plan, continue, should, could, would, may, potential or the negative of these terms or other comparable terminology, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- the Company's investment objectives and business strategy;
- the Company's ability to raise capital through the sale of its equity and debt securities;
- the Company's ability to obtain future financing arrangements and refinance existing financing arrangements as they mature;
- the Company's expected leverage;
- the Company's expected investments;
- the Company's ability to acquire Servicing Related Assets;
- estimates or statements relating to, and the Company's ability to make, future distributions;
- the Company's ability to compete in the marketplace;
- market, industry and economic trends;
- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Treasury and the Board of Governors of the Federal Reserve System, Fannie Mae, Freddie Mac, Ginnie Mae and the U.S. Securities and Exchange Commission ( SEC );
- mortgage loan modification programs and future legislative actions;
- the Company's ability to maintain its qualification as a REIT under the Internal Revenue Code of 1986, as amended (the Code );
- the Company's ability to maintain its exclusion from registration as an investment company under the Investment Company Act of 1940, as amended (the Investment Company Act ); projected capital and operating expenditures;
- availability of investment opportunities in mortgage-related, real estate-related and other securities;
- availability of qualified personnel;
- prepayment rates; and
- projected default rates.



TABLE OF CONTENTS

The Company's beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to it or are within its control. If any such change occurs, the Company's business, financial condition, liquidity and results of operations may vary materially from those expressed in, or implied by, the Company's forward-looking statements. These risks, along with, among others, the following factors, could cause actual results to vary from the Company's forward-looking statements:

- the factors referenced in this Annual Report on Form 10-K, including those set forth under Item 1. Business and Item 1A. Risk Factors ;
- general volatility of the capital markets;
- changes in the Company's investment objectives and business strategy;
- availability, terms and deployment of capital;
- availability of suitable investment opportunities;
- the Company's dependence on its external manager, Cherry Hill Mortgage Management, LLC ( the Manager ), and the Company's ability to find a suitable replacement if the Company or the Manager were to terminate the management agreement the Company has entered into with the Manager;
- changes in the Company's assets, interest rates or the general economy;
- increased rates of default and/or decreased recovery rates on the Company's investments;
- changes in interest rates, interest rate spreads, the yield curve, prepayment rates or recapture rates;
- limitations on the Company's business due to compliance with requirements for maintaining its qualification as a REIT under the Code and its exclusion from registration as an investment company under the Investment Company Act; and
- the degree and nature of the Company's competition, including competition for its targeted assets.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements apply only as of the date of this Annual Report on Form 10-K. The Company is not obligated, and does not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A. Risk Factors of this Annual Report on Form 10-K.

## TABLE OF CONTENTS

### **PART I**

#### **Item 1. Business**

Cherry Hill Mortgage Investment Corporation is a publicly traded residential real estate finance company focused on acquiring, investing in and managing residential mortgage assets in the United States. We were incorporated in Maryland on October 31, 2012, and we commenced operations on October 9, 2013 following the completion of our initial public offering ( IPO ) and a concurrent private placement. Our common stock is listed and traded on the New York Stock Exchange under the symbol CHMI. We are externally managed by Cherry Hill Mortgage Management, LLC, an SEC-registered investment adviser established by Stanley Middleman. Our Manager is a party to a services agreement with Freedom Mortgage Corporation ( Freedom Mortgage ), which is owned and controlled by Mr. Middleman.

We operate so as to continue to qualify to be taxed as a REIT under the Code. To qualify as a REIT, we must distribute annually to our stockholders an amount at least equal to 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We currently expect to distribute substantially all of our REIT taxable income to our stockholders. We will be subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. CHMI Solutions, Inc. ( Solutions ), our TRS, and its wholly owned subsidiary, Aurora Financial Group, Inc. ( Aurora ), are subject to regular corporate U.S. federal, state and local income taxes on their taxable income.

Our principal objective is to generate attractive current yields and risk-adjusted total returns for our stockholders over the long term, primarily through dividend distributions and secondarily through capital appreciation. We intend to attain this objective, subject to market conditions and availability and terms of financing, by selectively constructing and actively managing a targeted portfolio of Servicing Related Assets, RMBS, prime mortgage loans and other cashflowing residential mortgage assets.

We operate our business through the following segments: (i) investments in Servicing Related Assets; and (ii) RMBS. For information regarding the segments in which we operate, see Item 8. Consolidated Financial Statements and Supplementary Data—Note 3—Segment Reporting.

#### **Our Targeted Asset Classes**

Our primary targeted asset classes currently include:

- Servicing Related Assets consisting of MSRAs and Excess MSRAs; and
- RMBS, including Agency RMBS, residential mortgage pass-through certificates, CMOs (IOs and inverse IOs) and TBAs.

#### **Our Strategy**

Our strategy, which may change due to the availability and terms of capital and as market conditions warrant, involves: