

REDWOOD TRUST INC
Form 10-Q
November 08, 2016

UNITED STATES OF AMERICA
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: September 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 1-13759

REDWOOD TRUST, INC.
(Exact Name of Registrant as Specified in Its Charter)
Maryland 68-0329422
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

One Belvedere Place, Suite 300 94941
Mill Valley, California
(Address of Principal Executive Offices) (Zip Code)

(415) 389-7373
(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 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 Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$0.01 par value per share 76,656,828 shares outstanding as of October 31, 2016

REDWOOD TRUST, INC.
2016 FORM 10-Q REPORT
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share Data)

(Unaudited)

ASSETS ⁽¹⁾

	September 30, 2016	December 31, 2015
Residential loans, held-for-sale, at fair value	\$ 1,188,514	\$ 1,115,738
Residential loans, held-for-investment, at fair value	3,122,650	2,813,065
Commercial loans, held-for-sale (includes \$0 and \$39,141 at fair value)	30,400	39,141
Commercial loans, held-for-investment (includes \$0 and \$67,657 at fair value)	—	363,506
Real estate securities, at fair value	936,910	1,233,256
Mortgage servicing rights, at fair value	106,009	191,976
Cash and cash equivalents	221,372	220,229
Total earning assets	5,605,855	5,976,911
Restricted cash	2,044	5,567
Accrued interest receivable	20,054	23,290
Derivative assets	36,880	16,393
Other assets	207,786	197,886
Total Assets	\$ 5,872,619	\$ 6,220,047

LIABILITIES AND EQUITY ⁽¹⁾

Liabilities

Short-term debt	\$ 1,117,405	\$ 1,855,003
Accrued interest payable	15,518	8,936
Derivative liabilities	100,117	62,794
Accrued expenses and other liabilities	69,708	69,897
Asset-backed securities issued (includes \$819,868 and \$996,820 at fair value), net ⁽²⁾	819,868	1,049,415
Long-term debt (includes \$0 and \$63,152 at fair value), net ⁽²⁾	2,619,873	2,027,737
Total liabilities	4,742,489	5,073,782

Equity

Common stock, par value \$0.01 per share, 180,000,000 shares authorized; 76,682,333 and 78,162,765 issued and outstanding	767	782
Additional paid-in capital	1,677,623	1,695,956
Accumulated other comprehensive income	54,715	91,993
Cumulative earnings	1,124,580	1,018,683
Cumulative distributions to stockholders	(1,727,555)	(1,661,149)
Total equity	1,130,130	1,146,265
Total Liabilities and Equity	\$ 5,872,619	\$ 6,220,047

Our consolidated balance sheets include assets of consolidated variable interest entities (“VIEs”) that can only be used to settle obligations of these VIEs and liabilities of consolidated VIEs for which creditors do not have (1) recourse to Redwood Trust, Inc. or its affiliates. At September 30, 2016 and December 31, 2015, assets of consolidated VIEs totaled \$847,399 and \$1,195,574, respectively. At September 30, 2016 and December 31, 2015, liabilities of consolidated VIEs totaled \$820,391 and \$1,050,861, respectively. See Note 4 for further discussion. At September 30, 2016 and December 31, 2015, Asset-backed securities issued, net included \$0 and \$542, (2) respectively, of deferred debt issuance costs, and long-term debt, net included \$7,891 and \$10,438, respectively, of deferred debt issuance costs.

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

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, except Share Data) (Unaudited)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Interest Income				
Residential loans	\$ 35,595	\$ 29,472	\$ 102,149	\$ 80,289
Commercial loans	6,453	11,191	28,834	34,784
Real estate securities	18,600	22,749	58,112	75,363
Other interest income	258	72	926	167
Total interest income	60,906	63,484	190,021	190,603
Interest Expense				
Short-term debt	(5,405)	(7,627)	(17,439)	(21,378)
Asset-backed securities issued	(3,193)	(5,190)	(11,457)	(17,037)
Long-term debt	(12,999)	(11,058)	(39,095)	(32,429)
Total interest expense	(21,597)	(23,875)	(67,991)	(70,844)
Net Interest Income	39,309	39,609	122,030	119,759
Reversal of provision for loan losses	859	60	7,102	115
Net Interest Income after Provision	40,168	39,669	129,132	119,874
Non-interest Income (loss)				
Mortgage banking activities, net	9,766	1,333	24,712	10,706
Mortgage servicing rights income (loss), net	3,770	3,549	12,834	(6,545)
Investment fair value changes, net	11,918	(14,169)	(18,686)	(17,105)
Other income	1,643	327	4,157	2,435
Realized gains, net	6,615	5,548	26,037	16,170
Total non-interest income (loss), net	33,712	(3,412)	49,054	5,661
Operating expenses	(20,355)	(24,497)	(70,962)	(74,778)
Net Income before Provision for Income Taxes	53,525	11,760	107,224	50,757
(Provision for) benefit from income taxes	(972)	7,404	(1,327)	10,272
Net Income	\$ 52,553	\$ 19,164	\$ 105,897	\$ 61,029
Basic earnings per common share	\$ 0.67	\$ 0.22	\$ 1.34	\$ 0.71
Diluted earnings per common share	\$ 0.58	\$ 0.22	\$ 1.23	\$ 0.69
Regular dividends declared per common share	\$ 0.28	\$ 0.28	\$ 0.84	\$ 0.84
Basic weighted average shares outstanding	76,680,183	83,787,533	76,827,026	83,696,461
Diluted weighted average shares outstanding	97,831,617	85,074,704	97,991,678	85,338,996

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

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2016	2015	2016	2015
Net Income	\$52,553	\$19,164	\$105,897	\$61,029
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	9,038	(5,673)	5,195	(5,701)
Reclassification of unrealized gain on available-for-sale securities to net income	(1,319)	(3,270)	(19,983)	(10,320)
Net unrealized gain (loss) on interest rate agreements	647	(12,049)	(22,545)	(5,023)
Reclassification of unrealized loss on interest rate agreements to net income	18	19	55	77
Total other comprehensive income (loss)	8,384	(20,973)	(37,278)	(20,967)
Total Comprehensive Income	\$60,937	\$(1,809)	\$68,619	\$40,062

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

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2016

(In Thousands, except Share Data) (Unaudited)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount					
December 31, 2015	78,162,765	\$ 782	\$ 1,695,956	\$ 91,993	\$ 1,018,683	\$(1,661,149)	\$ 1,146,265
Net income	—	—	—	—	105,897	—	105,897
Other comprehensive loss	—	—	—	(37,278)	—	—	(37,278)
Employee stock purchase and incentive plans	437,441						