

PENNYMAC FINANCIAL SERVICES, INC.

Form 10-Q

June 21, 2013

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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 March 31, 2013

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: 001-35916

PennyMac Financial Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0882793
(IRS Employer
Identification No.)

6101 Condor Drive, Moorpark, California
(Address of principal executive offices)

93021
(Zip Code)

(818) 224-7442

(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 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

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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 June 17, 2013
Class A Common Stock, \$0.0001 par value	12,777,777
Class B Common Stock, \$0.0001 par value	60

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PENNYMAC FINANCIAL SERVICES, INC.

FORM 10-Q

March 31, 2013

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EXPLANATORY NOTE

The financial statements and other disclosures contained in this report include those of PennyMac Financial Services, Inc. (PFSI), which is the registrant, and those of Private National Mortgage Acceptance Company, LLC (PennyMac), in which PFSI acquired an ownership interest in a reorganization transaction that was completed after March 31, 2013 in connection with the initial public offering of PFSI (which was completed on May 14, 2013). Accordingly, because PFSI had no substantial assets or activities (except for activities relating to its initial public offering) as of March 31, 2013 and because the reorganization transactions had not been completed as of such date, PFSI believes it is informative to provide the financial statements and various other disclosures of PennyMac as of March 31, 2013 and for the quarters ended March 31, 2013 and 2012. For more information regarding the transactions described above, see Note 22, *Subsequent Events*, to the financial statements of PennyMac contained in this report.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PENNYMAC FINANCIAL SERVICES, INC.****BALANCE SHEETS (UNAUDITED)**

	March 31, 2013	December 31, 2012
(in thousands except share data)		
ASSETS		
Cash	\$ 50	\$
Total assets	\$ 50	\$
LIABILITIES		
Payable to Private National Mortgage Acceptance Company, LLC	\$ 50	\$
Total liabilities	50	
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Class A Common Stock, par value \$0.0001 per share, 9,000 shares authorized, none issued and outstanding	\$	\$
Class B Common Stock, par value \$0.0001 per share, 1,000 shares authorized, none issued and outstanding		
Total stockholders equity		
Total liabilities and stockholders equity	\$ 50	\$

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PENNYMAC FINANCIAL SERVICES, INC.

NOTES TO BALANCE SHEET (UNAUDITED)

Note 1 Organization

PennyMac Financial Services, Inc. (the Company) was formed as a Delaware corporation on December 31, 2012. Pursuant to a reorganization, the Company became a holding corporation and its sole asset is an equity interest in Private National Mortgage Acceptance Company, LLC (PennyMac). The Company is the managing member of PennyMac and operates and controls all of the businesses and affairs of PennyMac subject to the consent rights of other members under certain circumstances and, through PennyMac and its subsidiaries, continues to conduct the business now conducted by these subsidiaries.

Note 2 Summary of Significant Accounting Policies

Basis of Accounting The balance sheet has been prepared in accordance with accounting principles generally accepted in the United States of America. Separate statements of income, changes in stockholders' equity and cash flows have not been presented in the financial statements because this entity has had no activities.

Underwriting Commissions and Offering Costs Underwriting commissions and offering costs to be incurred by the Company in connection with its common share offerings will be reflected as a reduction of additional paid-in capital. Underwriting commissions and offering costs are not recorded in the Company's consolidated balance sheet because such costs are not the Company's liability until the Company completes a successful initial public offering.

Organizational Costs Organizational costs are not recorded in the Company's consolidated balance sheet because such costs are not the Company's liability until the Company completes a successful initial public offering. Thereafter, costs incurred to organize the Company will be expensed as incurred.

Note 3 Liabilities

In March 2013, the Company borrowed \$50,000 from PennyMac to fund its operating cash account.

Note 4 Stockholders' Equity

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Under the Company's certificate of incorporation as in effect as of March 31, 2013 and December 31, 2012, the Company is authorized to issue 9,000 shares of Class A Common Stock, par value \$0.0001 per share (Class A Common Stock), and 1,000 shares of Class B Common Stock, par value \$0.0001 per share (Class B Common Stock), and all shares of Class A common stock and Class B Common Stock are identical.

Note 5 Subsequent Events

Management has evaluated all events and transactions through the date the Company issued these financial statements. During this period:

- In connection with the initial public offering (IPO) by the Company of its Class A Common Stock, par value \$0.0001 per share, covered by the final prospectus, dated May 8, 2013 and included as part of the Registration Statement on Form S-1, as amended (File No. 333-186495) (the Registration Statement), the Company and PennyMac consummated a recapitalization (Recapitalization). Under the terms of the Recapitalization, the Company, PennyMac and the existing unitholders of PennyMac entered into that certain Fourth Amended and Restated Limited Liability Company Agreement of PennyMac, dated May 8, 2013 (the LLC Agreement), pursuant to which, among other things, the Company became the sole managing member of PennyMac and the capital structure of PennyMac was modified by converting all existing classes of units into new Class A units, with the allocation of Class A units among PennyMac's existing owners determined pursuant to the distribution provisions of its former limited liability company agreement based upon the liquidation value of PennyMac, assuming it was liquidated at the time of the IPO of Class A Common Stock with a value implied by the IPO of the shares of Class A Common Stock sold in the IPO.

Also in connection with the Recapitalization, on May 8, 2013, the Company entered into: (i) an exchange agreement with PennyMac and the then-existing unitholders of PennyMac; (ii) a tax receivable agreement with PennyMac and the then-existing unitholders of PennyMac; (iii) a registration rights agreement with the then-existing unitholders of PennyMac and (iv) separate stockholder agreements with each of BlackRock Mortgage Ventures, LLC and HC Partners LLP, formerly known as Highfields Capital Investments LLC.

- On May 8, 2013, the Company's Amended and Restated Certificate of Incorporation and the Company's Amended and Restated Bylaws became effective. The Company is authorized to issue 210.0 million shares consisting of 10.0 million shares of Preferred Stock, par value \$0.0001 per share, 200.0 million shares of Class A Common Stock, and 1,000 shares of Class B Common Stock.

- On May 14, 2013, the Company completed its IPO by issuing approximately 12.8 million shares of Class A Common Stock for cash consideration of \$16.875 per share (net of underwriting discounts) to a syndicate of underwriters led by Citigroup Global Markets, Inc., BofA Merrill Lynch, Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co., as joint book-running managers for the offering. Barclays Capital Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, and Wells Fargo Securities, LLC acted as co-managers. The Company's net proceeds from the offering were approximately \$215.6 million, after deducting underwriting discounts and commissions. As contemplated in the Registration Statement, the Company used the net proceeds from the offering to purchase approximately 12.8 million newly issued Class A units of PennyMac at a price per Class A unit of \$16.875.

- On June 13, 2013, the Sub-Committee of the Compensation Committee of PFSI authorized the grant of (a) nonstatutory stock options (each a Stock Option) to purchase a total of 259,565 shares of PFSI's Class A Common Stock (the Optioned Shares), and (b) 324,460 performance-based restricted stock units (RSUs), pursuant to PFSI's 2013 Equity Incentive Plan, to its executive officers, including those equity awards granted to the named executive officers and principal financial officer of PFSI as previously disclosed in a Current Report on Form 8-K filed with the SEC on June 17, 2013. Also on June 13, 2013 and as disclosed in the aforementioned Current Report on Form 8-K, the Compensation Committee authorized the grant of (a) Stock Options to purchase a total of 164,112 Optioned Shares, (b) 177,007 performance-based RSUs, and (c) 69,127 time-based RSUs to other eligible participants pursuant to the Company's 2013 Equity Incentive Plan.

Table of Contents**PRIVATE NATIONAL MORTGAGE ACCEPTANCE COMPANY, LLC****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	March 31, 2013	December 31, 2012
	(in thousands except unit data)	
ASSETS		
Cash	\$ 56,135	\$ 12,323
Short-term investments, at fair value	72,664	53,164
Mortgage loans held for sale at fair value	203,661	448,384
Servicing advances	96,587	93,152
Receivable from Investment Funds	3,169	3,672
Receivable from PennyMac Mortgage Investment Trust	14,748	16,691
Derivative assets	27,481	27,290
Carried Interest due from Investment Funds	52,460	47,723
Investment in PennyMac Mortgage Investment Trust at fair value	1,942	1,897
Mortgage servicing rights at fair value	18,622	19,798
Mortgage servicing rights at lower of amortized cost or fair value	128,370	89,177
Furniture, fixtures, equipment and building improvements, net	6,253	5,065
Capitalized software, net	866	795
Other	10,019	13,032
Total assets	\$ 692,977	\$ 832,163
LIABILITIES		
Mortgage loans sold under agreements to repurchase	\$ 180,049	\$ 393,534
Note payable	63,437	53,013
Payable to Investment Funds	37,766	36,795
Payable to PennyMac Mortgage Investment Trust	53,909	46,779
Accounts payable and accrued expenses	42,966	36,279
Derivative liabilities	2,359	509
Liability for losses under representations and warranties	4,748	3,504
Total liabilities	385,234	570,413
Commitments and contingencies		
MEMBERS EQUITY		
Preferred units, 96,682 units authorized and subscribed, 96,682 units issued and outstanding as of March 31, 2013 and December 31, 2012	\$ 97,148	\$ 97,148
Common units, 20,556 units authorized; 15,890 and 13,552 units issued and outstanding as of March 31, 2013 and December 31, 2012, respectively		
Class C units, 3,738 units authorized; 440 and 367 units issued and outstanding as of March 31, 2013 and December 31, 2012, respectively		
Members' equity attributable to common and Class C units from equity compensation plan	22,446	22,270
Subscriptions receivable	(729)	(4,842)
Retained earnings	188,878	147,174
Total members' equity	307,743	261,750
Total liabilities and members' equity	\$ 692,977	\$ 832,163

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

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PRIVATE NATIONAL MORTGAGE ACCEPTANCE COMPANY, LLC

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Quarter ended March 31,	
	2013	2012
	(in thousands except unit data)	
Revenue		
Net gains on mortgage loans held for sale at fair value	\$ 39,957	\$ 13,937
Loan origination fees	5,668	235
Fulfillment fees from PennyMac Mortgage Investment Trust	28,244	6,124
Net servicing income:		
Loan servicing fees		
From non-affiliates	9,057	2,845
From PennyMac Mortgage Investment Trust	7,722	4,206
From Investment Funds	2,147	3,623
Mortgage servicing rebate to Investment Funds	(139)	(246)
Ancillary and other fees	2,265	1,390
	21,052	11,818
Amortization, impairment and change in estimated fair value of mortgage servicing rights	(5,010)	(242)
Net servicing income	16,042	11,576
Management fees:		
From PennyMac Mortgage Investment Trust	6,492	1,804
From Investment Funds	1,914	2,389
	8,406	4,193
Carried Interest from Investment Funds	4,737	1,789
Interest	1,742	431
Change in fair value of investment in and dividends received from PennyMac Mortgage Investment Trust	88	195
Other	814	470
Total net revenue	105,698	38,950
Expenses		
Compensation	35,681	18,739
Interest	3,330	1,062
Loan origination	2,507	171
Professional services	2,288	1,244
Technology	1,586	982
Servicing	1,531	978
Occupancy	491	383
Other	2,991	160
Total expenses	50,405	23,719
Net income	\$ 55,293	\$ 15,231
Net income attributable to preferred units	\$ 46,014	\$ 13,308
Net income attributable to non-vested Class C unit awards outstanding	\$ 1,332	\$
Net income attributable to Class C units	\$ 190	\$
Net income attributable to non-vested common unit awards outstanding	\$ 534	\$ 1,157
Net income attributable to common units	\$ 7,223	\$ 766
Earnings per unit		
Preferred units	\$ 475.92	\$ 137.64
Class C units	\$ 432.71	\$
Common units		

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Basic	\$	456.19	\$	112.73
Diluted	\$	429.83	\$	54.37
Weighted average units outstanding				
Preferred units		96,682		96,682
Class C units		439		
Common units				
Basic		15,833		6,792
Diluted		16,804		14,082

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

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PRIVATE NATIONAL MORTGAGE ACCEPTANCE COMPANY, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS EQUITY

Preferred units Units	Common units	Class C common units	Subscriptions	Retained
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