

REDWOOD TRUST INC
Form 10-Q
May 06, 2014
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UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Quarterly Period Ended: March 31, 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 1-13759

REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

68-0329422

(State or Other Jurisdiction of
Incorporation or Organization)

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

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

94941
(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

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.

Common Stock, \$0.01 par value per share

82,971,771 shares outstanding as of May 2, 2014

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2014 FORM 10-Q REPORT
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****REDWOOD TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In Thousands, Except Share Data)**

(Unaudited)	March 31, 2014		December 31, 2013	
ASSETS				
Residential loans, held-for-sale	\$	774,936	\$	404,267
Residential loans, held-for-investment		1,689,994		1,762,167
Commercial loans, held-for-sale		77,155		89,111
Commercial loans, held-for-investment (includes \$69,436 and \$0 at fair value)		414,120		343,344
Real estate securities, at fair value		1,743,008		1,682,861
Mortgage servicing rights, at fair value		64,971		64,824
Cash and cash equivalents		149,966		173,201
Total earning assets		4,914,150		4,519,775
Restricted cash		432		398
Accrued interest receivable		14,410		13,475
Derivative assets		4,438		7,787
Deferred securities issuance costs		12,351		13,453
Other assets		61,330		53,640
Total Assets ⁽¹⁾	\$	5,007,111	\$	4,608,528

LIABILITIES AND EQUITY

Liabilities				
Short-term debt	\$	1,288,761	\$	862,763
Accrued interest payable		9,832		6,366
Derivative liabilities		27,197		18,167
Accrued expenses and other liabilities		55,542		48,704
Deferred tax liability		7,316		7,316
Asset-backed securities issued		1,854,344		1,942,962
Long-term debt (includes \$34,774 and \$0 at fair value)		513,232		476,467
Total liabilities ⁽¹⁾		3,756,224		3,362,745

Equity

Common stock, par value \$0.01 per share, 180,000,000 and 165,000,000 shares authorized; 82,619,654 and 82,504,801 issued and outstanding	826	825
Additional paid-in capital	1,765,532	1,760,899
Accumulated other comprehensive income	160,652	148,766
Cumulative earnings	818,631	806,298
Cumulative distributions to stockholders	(1,494,754)	(1,471,005)
Total equity	1,250,887	1,245,783
Total Liabilities and Equity	\$ 5,007,111	\$ 4,608,528

(1) 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 recourse to the primary beneficiary (Redwood Trust, Inc.). At March 31, 2014 and December 31, 2013, assets of consolidated VIEs totaled \$2,211,222 and \$2,299,576, respectively, and liabilities of consolidated VIEs totaled \$1,856,219 and \$1,944,911, respectively. See *Note 4* for further discussion.

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

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REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Share Data) (Unaudited)	Three Months Ended March 31,	
	2014	2013
Interest Income		
Residential loans	\$ 12,658	\$ 17,624
Commercial loans	10,394	10,171
Real estate securities	32,431	25,717
Cash and cash equivalents	3	12
Total interest income	55,486	53,524
Interest Expense		
Short-term debt	(3,827)	(3,808)
Asset-backed securities issued	(8,441)	(10,959)
Long-term debt	(6,792)	(3,493)
Total interest expense	(19,060)	(18,260)
Net Interest Income	36,426	35,264
Provision for loan losses	(1,284)	(2,039)
Net Interest Income After Provision	35,142	33,225
Noninterest Income		
Mortgage banking activities, net	(687)	45,000
Mortgage servicing rights income, net	606	1,021
Other market valuation adjustments, net ⁽¹⁾	(6,138)	(303)
Realized gains, net	1,092	12,267
Total noninterest income (loss), net	(5,127)	57,985
Operating expenses	(19,525)	(19,691)
Net income before provision for income taxes	10,490	71,519
Benefit from (provision for) income taxes	1,843	(10,909)
Net Income	\$ 12,333	\$ 60,610
Basic earnings per common share	\$ 0.14	\$ 0.72
Diluted earnings per common share	\$ 0.14	\$ 0.69
Regular dividends declared per common share	\$ 0.28	\$ 0.28
Basic weighted average shares outstanding	82,410,562	81,556,880
Diluted weighted average shares outstanding	84,940,540	87,344,669

(1) For the three months ended March 31, 2014, other-than-temporary impairments were \$1,671, of which \$113 were recognized through the Income Statement, and \$1,558 were recognized in Accumulated Other Comprehensive Income.

For the three months ended March 31, 2013, other-than-temporary impairments were \$24, of which \$24 were recognized through the Income Statement, and none was recognized in Accumulated Other Comprehensive Income.

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

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

(In Thousands)	Three Months Ended March 31,	
(Unaudited)	2014	2013
Net Income	\$ 12,333	\$ 60,610
Other comprehensive income:		
Net unrealized gain on available-for-sale securities	19,323	9,030
Reclassification of unrealized loss (gain) to net income	1,298	(12,007)
Net unrealized (loss) gain on interest rate agreements	(8,795)	7,440
Reclassification of unrealized loss on interest rate agreements to net income	60	88
Total other comprehensive income	11,886	4,551
Total Comprehensive Income	\$ 24,219	\$ 65,161

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

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REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Three Months Ended March 31, 2014

(in thousands, Except Share Data)	Common Stock		Additional	Accumulated	Cumulative	Distributions to Stockholders	Total
	Shares	Amount	Paid-In Capital	Other Comprehensive Income			
As of March 31, 2013	82,504,801	\$ 825	\$ 1,760,899	\$ 148,766	\$ 806,298	\$ (1,471,005)	\$ 1,284,953
Net income	-	-	-	-	12,333	-	-
Other comprehensive income	-	-	-	11,886	-	-	-
Change of common stock:							
Dividend reinvestment & stock purchase plans	77,660	1	1,544	-	-	-	-
Free stock purchase and tender offers	37,193	-	(783)	-	-	-	-
Restricted stock equity award compensation	-	-	3,872	-	-	-	-
Share repurchases and dividends declared	-	-	-	-	-	(23,749)	(23,749)
As of March 31, 2014	82,619,654	\$ 826	\$ 1,765,532	\$ 160,652	\$ 818,631	\$ (1,494,754)	\$ 1,290,061

For the Three Months Ended March 31, 2013

(in thousands, Except Share Data)	Common Stock		Additional	Accumulated	Cumulative	Distributions to Stockholders	Total
	Shares	Amount	Paid-In Capital	Other Comprehensive Income			
As of March 31, 2012	81,716,416	\$ 817	\$ 1,744,554	\$ 138,332	\$ 633,052	\$ (1,376,591)	\$ 1,140,358
Net income	-	-	-	-	60,610	-	-
Other comprehensive income	-	-	-	4,551	-	-	-
Change of common stock:							
Dividend reinvestment & stock purchase plans	-	-	-	-	-	-	-
Free stock purchase and tender offers	(10,393)	-	(178)	-	-	-	-
Restricted stock equity award compensation	-	-	6,202	-	-	-	-
Share repurchases and dividends declared	-	-	-	-	-	(23,564)	(23,564)
As of March 31, 2013	81,706,023	\$ 817	\$ 1,750,578	\$ 142,883	\$ 693,662	\$ (1,400,155)	\$ 1,143,968

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

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**REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands)

Three Months Ended March 31,

(Unaudited)

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