

Western Asset Mortgage Capital Corp  
Form 10-Q  
November 07, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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 September 30, 2018

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: 001-35543  
Western Asset Mortgage Capital Corporation  
(Exact name of Registrant as specified in its charter)  
Delaware 27-0298092  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification Number)

Western Asset Mortgage Capital Corporation  
385 East Colorado Boulevard  
Pasadena, California 91101  
(Address of Registrant's principal executive offices)

(626) 844-9400  
(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Securities Exchange Act of 1934). Yes  No

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

As of November 6, 2018 there were 48,116,379 shares, par value \$0.01, of the registrant's common stock outstanding.

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## Part I

## ITEM I. Financial Statements

## Western Asset Mortgage Capital Corporation and Subsidiaries

## Consolidated Balance Sheets

(in thousands—except share and per share data)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	\$ 12,817	\$ 48,024
Restricted cash	100,138	—
Agency mortgage-backed securities, at fair value (\$2,325,859 and \$2,833,595 pledged as collateral, at fair value, respectively)	2,475,533	2,858,600
Non-Agency mortgage-backed securities, at fair value (\$351,032 and \$266,189 pledged as collateral, at fair value, respectively)	365,710	378,158
Other securities, at fair value (\$92,391 and \$89,823 pledged as collateral, at fair value, respectively)	92,528	122,065
Residential Whole-Loans, at fair value (\$684,463 and \$237,423 pledged as collateral, at fair value, respectively)	684,463	237,423
Residential Bridge Loans (\$234,747 and \$64,526 at fair value and \$249,471 and \$106,673 pledged as collateral, respectively)	249,471	106,673
Securitized commercial loans, at fair value	1,191,048	24,876
Commercial Loans, at fair value (\$123,677 and \$0 pledged as collateral, at fair value, respectively)	143,951	—
Investment related receivable (\$34,559 and \$0 pledged as collateral, respectively)	113,341	7,665
Interest receivable	21,869	13,603
Due from counterparties	81,513	86,930
Derivative assets, at fair value	2,700	728
Other assets	2,903	2,161
Total Assets <sup>(1)</sup>	\$ 5,537,985	\$ 3,886,906
Liabilities and Stockholders' Equity:		
Liabilities:		
Repurchase agreements, net	\$ 3,469,319	\$ 3,251,686
Convertible senior unsecured notes, net	109,731	108,743
Securitized debt, at fair value (includes \$313,143 and \$10,945 held by affiliates, respectively)	1,119,089	10,945
Interest payable (includes \$891 and \$70 on securitized debt held by affiliates, respectively)	10,027	8,322
Investment related payables	169,499	17,217
Due to counterparties	1,068	1,490
Derivative liability, at fair value	2,159	4,346
Accounts payable and accrued expenses	3,513	3,118
Payable to affiliate	2,489	2,041
Dividend payable	14,916	12,960
Other liabilities	100,530	—
Total Liabilities <sup>(2)</sup>	5,002,340	3,420,868

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Commitments and contingencies

Stockholders' Equity:

Common stock: \$0.01 par value, 500,000,000 shares authorized, 48,116,379 and 41,794,079 outstanding, respectively	481	419
Preferred stock, \$0.01 par value, 100,000,000 shares authorized and no shares outstanding	—	—
Treasury stock, at cost, 0 and 125,722 shares held, respectively	—	(1,232 )
Additional paid-in capital	833,840	768,763
Retained earnings (accumulated deficit)	(298,676 )	(301,912 )
Total Stockholders' Equity	535,645	466,038
Total Liabilities and Stockholders' Equity	\$ 5,537,985	\$ 3,886,906

See notes to unaudited consolidated financial statements.

Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Balance Sheets (Continued)

(in thousands—except share and per share data)

(Unaudited)

	September 30, 2018	December 31, 2017
(1) Assets of consolidated VIEs included in the total assets above:		
Restricted cash	\$ 100,138	\$ —
Residential Whole-Loans, at fair value (\$684,463 and \$237,423 pledged as collateral, at fair value, respectively)	684,463	237,423
Residential Bridge Loans (\$234,747 and \$64,526 at fair value and \$249,471 and \$106,673 pledged as collateral, respectively)	249,471	106,673
Securitized commercial loans, at fair value	1,191,048	24,876
Commercial Loans, at fair value (\$123,677 and \$0 pledged as collateral, at fair value, respectively)	123,677	—
Investment related receivable	33,430	7,665
Interest receivable	12,418	3,358
Other assets	203	—
Total assets of consolidated VIEs	\$ 2,394,848	\$ 379,995
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Securitized debt, at fair value (includes \$313,143 and \$10,945 held by affiliates, respectively)	\$ 1,119,089	\$ 10,945
Interest payable (includes \$891 and \$70 on securitized debt held by affiliates, respectively)	2,487	70
Accounts payable and accrued expenses	737	189
Other liabilities	100,531	—
Total liabilities of consolidated VIEs	\$ 1,222,844	\$ 11,204

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries  
Consolidated Statements of Operations  
(in thousands—except share and per share data)  
(Unaudited)

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Net Interest Income				
Interest income	\$ 54,461	\$ 30,928	\$ 151,342	\$ 89,413
Interest expense (includes \$4,465, \$251, \$9,672 and \$745 on securitized debt held by affiliates, respectively)	38,517	12,363	97,348	31,507
Net Interest Income	15,944	18,565	53,994	57,906
Other Income (Loss)				
Realized gain (loss) on sale of investments, net	(24,229 )	1,830	(29,262 )	20,600
Other than temporary impairment	(2,533 )	(7,225 )	(8,423 )	(19,901 )
Unrealized gain (loss), net	13,128	5,249	(87,526 )	35,126
Gain (loss) on derivative instruments, net	24,625	7,217	132,697	(16,035 )
Other, net	(2 )	216	(100 )	841
Other Income (Loss)	10,989	7,287	7,386	20,631
Expenses				
Management fee to affiliate	2,284	1,853	6,723	6,159
Other operating expenses	1,609	702	4,133	1,855
General and administrative expenses:				
Compensation expense	552	660	1,634	2,064
Professional fees	1,065	781	3,178	2,501
Other general and administrative expenses	335	244	1,093	993
Total general and administrative expenses	1,952	1,685	5,905	5,558
Total Expenses	5,845	4,240	16,761	13,572
Income before income taxes	21,088	21,612	44,619	64,965
Income tax provision (benefit)	206	(1,155 )	555	1,272
Net income	\$ 20,882	\$ 22,767	\$ 44,064	\$ 63,693
Net income per Common Share — Basic	\$ 0.50	\$ 0.54	\$ 1.05	\$ 1.52
Net income per Common Share — Diluted	\$ 0.50	\$ 0.54	\$ 1.05	\$ 1.52

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries  
 Consolidated Statements of Changes in Stockholders' Equity  
 (in thousands—except shares and share data)  
 (Unaudited)

	Common Stock Outstanding		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total
	Shares	Par				
Balance at December 31, 2016	41,919,801	\$419	\$ 765,042	\$ (334,979 )	\$—	\$430,482
Vesting of restricted stock	—	—	981	—	—	981
Equity component of convertible senior unsecured notes	—	—	2,656	—	—	2,656
Treasury stock	(125,722 )	—	—	—	(1,232 )	(1,232 )
Net income	—	—	—	85,097	—	85,097
Dividends declared on common stock	—	—	84	(52,030 )	—	(51,946 )
Balance at December 31, 2017	41,794,079	\$419	\$ 768,763	\$ (301,912 )	\$(1,232)	\$466,038
Proceeds from public offerings of common stock	6,196,578	62	64,818	—	—	64,880
Offering costs, public offerings of common stock	—	—	(239 )	—	—	(239 )
Vesting of restricted stock	—	—	195	—	—	195
Treasury stock	125,722	—	213	—	1,232	1,445
Net income	—	—	—	44,064	—	44,064
Dividends declared on common stock	—	—	90	(40,828 )	—	(40,738 )
Balance at September 30, 2018	48,116,379	\$481	\$ 833,840	\$ (298,676 )	\$—	\$535,645

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries  
Consolidated Statements of Cash Flows (in thousands)  
(Unaudited)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Cash flows from operating activities:		
Net income	\$ 44,064	\$ 63,693
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Premium amortization and (discount accretion), net	2,884	(2,658 )
Interest income earned added to principal of securities	—	(46 )
Amortization of deferred financing costs	576	—
Amortization of discount on convertible senior notes	412	—
Restricted stock amortization	195	795
Interest payments and basis recovered on MAC interest rate swaps	1,064	358
Premium on purchase of Residential Whole-Loans	(8,863 )	(354 )
Premium on purchase of Residential Bridge Loans	(3,191 )	(425 )
Premium on purchase of securitized commercial loans	(3,019 )	—
Unrealized (gain) loss, net	87,526	(35,126 )
Unrealized (gain) loss on derivative instruments, net	1,460	(156,098 )
Other than temporary impairment	8,423	19,901
Realized (gain) loss on sale of securities, net	29,262	(20,600 )
(Gain) loss on derivatives, net	(12,905 )	156,655
Loss on foreign currency transactions, net	—	1
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(8,266 )	5,787
(Increase) decrease in other assets	(599 )	(3,736 )
Increase (decrease) in interest payable	1,705	(11,182 )
Increase (decrease) in accounts payable and accrued expenses	221	(667 )
Increase (decrease) in payable to affiliate	448	(664 )
Net cash provided by operating activities	141,397	15,634
Cash flows from investing activities:		
Purchase of securities	(846,680 )	(2,473,379)
Proceeds from sale of securities	1,111,547	1,189,824
Principal repayments and basis recovered on securities	109,938	187,157
Purchase of Residential Whole-Loans	(493,365 )	(35,323 )
Principal repayments on Residential Whole-Loans	42,867	32,287
Purchase of Commercial Loans	(164,570 )	—
Principal repayments on commercial loans	20,638	—
Purchase of securitized commercial loans	(1,350,000)	—
Principal repayments on securitized commercial loans	196,007	59
Purchase of Residential Bridge Loans	(356,584 )	(73,565 )
Principal repayments on Residential Bridge Loans	197,099	16,251
Payment of premium for option derivatives	(829 )	(14,995 )
Premium received from option derivatives	298	13,721



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Premium received from credit default swaps	(174	)	—	
Net settlements of TBAs	136		3,135	
Proceeds from (Payments on) termination of futures, net	8,823	(9,230	)	
Interest payments and basis recovered on MAC interest rate swaps	(1,064	)	(358	)
Due from counterparties	—		8,449	
Payments on total return swaps, net	—		(552	)
Premium for interest rate swaptions, net	—		(115	)
Net cash used in investing activities	(1,525,913)	(1,156,634)		

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Consolidated Statements of Cash Flows (Continued) (in thousands)  
(Unaudited)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Cash flows from financing activities:		
Proceeds from issuance of common stock	64,880	—
Payment of offering costs	(65 )	—
Repurchase of common stock	(1,733 )	—
Proceeds from sale of treasury stock	3,177	—
Proceeds from repurchase agreement borrowings	15,469,118	13,054,995
Repayments of repurchase agreement borrowings	(15,251,485 )	(11,874,382 )
Proceeds from securitized debt	1,285,219	—
Repayments of securitized debt	(186,015 )	(26 )
Proceeds from forward contracts	—	6,875
Repayments of forward contracts	—	(6,850 )
Due from counterparties, net	5,417	(11,709 )
Due to counterparties, net	(422 )	1,580
Increase in other liabilities	100,138	—
Dividends paid on common stock	(38,782 )	(38,985 )
Net cash provided by financing activities	1,449,447	1,131,498
Effect of exchange rate changes on cash and cash equivalents	—	(1 )
Net increase (decrease) in cash, cash equivalents and restricted cash	64,931	(9,503 )
Cash, cash equivalents and restricted cash, beginning of period	48,024	46,172
Cash, cash equivalents and restricted cash, end of period	\$ 112,955	\$ 36,669
Supplemental disclosure of operating cash flow information:		
Interest paid	\$ 96,030	\$ 30,010
Income taxes paid	\$ 1,635	\$ 4,966
Supplemental disclosure of non-cash financing/investing activities:		