

Hilltop Holdings Inc.
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

Commission File Number: 1-31987

Hilltop Holdings Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

200 Crescent Court, Suite 1330
Dallas, TX
(Address of principal executive offices)

84-1477939
(I.R.S. Employer Identification No.)

75201
(Zip Code)

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(214) 855-2177

(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 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
(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 Act). Yes No

The number of shares of the registrant's common stock outstanding at November 5, 2014 was 90,181,888.

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FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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(in thousands, except share and per share data)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	\$ 635,933	\$ 713,099
Federal funds sold and securities purchased under agreements to resell Securities:	11,655	32,924
Trading, at fair value	66,102	58,846
Available for sale, at fair value (amortized cost of \$1,152,117 and \$1,256,862, respectively)	1,146,101	1,203,143
Held to maturity, at amortized cost (fair value of \$119,901)	120,139	
	1,332,342	1,261,989
Loans held for sale	1,272,813	1,089,039
Non-covered loans, net of unearned income	3,768,843	3,514,646
Allowance for non-covered loan losses	(39,027)	(33,241)
Non-covered loans, net	3,729,816	3,481,405
Covered loans, net of allowance of \$3,761 and \$1,061, respectively	747,514	1,005,308
Broker-dealer and clearing organization receivables	223,679	119,317
Insurance premiums receivable	27,155	25,597
Deferred policy acquisition costs	21,754	20,991
Premises and equipment, net	205,734	200,706
FDIC indemnification asset	149,788	188,291
Covered other real estate owned	126,798	142,833
Mortgage servicing rights	41,907	20,149
Other assets	339,197	279,745
Goodwill	251,808	251,808
Other intangible assets, net	62,509	70,921
Total assets	\$ 9,180,402	\$ 8,904,122
Liabilities and Stockholders Equity		
Deposits:		
Noninterest-bearing	\$ 1,988,066	\$ 1,773,749
Interest-bearing	4,248,216	4,949,169
Total deposits	6,236,282	6,722,918
Broker-dealer and clearing organization payables	243,835	129,678
Reserve for losses and loss adjustment expenses	32,460	27,468
Unearned insurance premiums	93,500	88,422
Short-term borrowings	845,984	342,087
Notes payable	55,684	56,327
Junior subordinated debentures	67,012	67,012
Other liabilities	181,901	158,288
Total liabilities	7,756,658	7,592,200
Commitments and contingencies (see Notes 11 and 12)		
Stockholders equity:		
Hilltop stockholders equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized;		
Series B, liquidation value per share of \$1,000; 114,068 shares issued and outstanding	114,068	114,068

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Common stock, \$0.01 par value, 125,000,000 and 100,000,000 shares authorized; 90,179,596 and 90,175,688 shares issued and outstanding, respectively	902	902
Additional paid-in capital	1,390,830	1,388,641
Accumulated other comprehensive loss	(3,727)	(34,863)
Accumulated deficit	(79,098)	(157,607)
Total Hilltop stockholders' equity	1,422,975	1,311,141
Noncontrolling interest	769	781
Total stockholders' equity	1,423,744	1,311,922
Total liabilities and stockholders' equity	\$ 9,180,402	\$ 8,904,122

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest income:				
Loans, including fees	\$ 80,719	\$ 68,585	\$ 252,667	\$ 198,684
Securities:				
Taxable	7,688	7,202	22,894	19,594
Tax-exempt	1,150	1,052	3,579	3,588
Federal funds sold and securities purchased under agreements to resell	10	35	43	91
Interest-bearing deposits with banks	303	282	1,215	857
Other	3,347	2,546	9,055	7,660
Total interest income	93,217	79,702	289,453	230,474
Interest expense:				
Deposits	4,117	3,685	10,972	10,541
Short-term borrowings	665	384	1,599	1,488
Notes payable	633	2,294	1,913	6,924
Junior subordinated debentures	594	591	1,765	1,811
Other	1,448	832	3,577	2,108
Total interest expense	7,457	7,786	19,826	22,872
Net interest income	85,760	71,916	269,627	207,602
Provision for loan losses	4,033	10,658	12,808	34,952
Net interest income after provision for loan losses	81,727	61,258	256,819	172,650
Noninterest income:				
Net realized gains on securities		1,142		1,142
Net gains from sale of loans and other mortgage production income	108,621	105,337	293,786	375,464
Mortgage loan origination fees	17,593	22,091	46,920	63,679
Net insurance premiums earned	41,821	39,982	122,917	116,045
Investment and securities advisory fees and commissions	24,055	22,310	67,654	70,283
Bargain purchase gain		12,585		12,585
Other	20,045	11,648	54,239	28,408
Total noninterest income	212,135	215,095	585,516	667,606
Noninterest expense:				
Employees compensation and benefits	126,406	119,176	357,280	368,081
Loss and loss adjustment expenses	22,629	24,631	76,241	93,976
Policy acquisition and other underwriting expenses	11,571	11,739	34,910	34,169
Occupancy and equipment, net	25,345	20,974	77,445	60,540
Other	68,793	40,072	172,709	135,217

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Total noninterest expense	254,744	216,592	718,585	691,983
Income before income taxes	39,118	59,761	123,750	148,273
Income tax expense	14,010	20,115	44,658	52,594
Net income	25,108	39,646	79,092	95,679
Less: Net income attributable to noncontrolling interest	296	339	583	1,207
Income attributable to Hilltop	24,812	39,307	78,509	94,472
Dividends on preferred stock	1,426	1,133	4,278	2,985
Income applicable to Hilltop common stockholders	\$ 23,386	\$ 38,174	\$ 74,231	\$ 91,487
Earnings per common share:				
Basic	\$ 0.26	\$ 0.45	\$ 0.82	\$ 1.09
Diluted	\$ 0.26	\$ 0.43	\$ 0.82	\$ 1.05
Weighted average share information:				
Basic	89,711	83,493	89,709	83,490
Diluted	90,558	90,460	90,570	90,251

See accompanying notes.

Table of Contents**HILLTOP HOLDINGS INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 25,108	\$ 39,646	\$ 79,092	\$ 95,679
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale, net of tax of \$(656), \$1,135, \$16,565 and \$(13,641), respectively	(1,226)	2,109	31,136	(25,332)
Comprehensive income	23,882	41,755	110,228	70,347
Less: comprehensive income attributable to noncontrolling interest	296	339	583	1,207
Comprehensive income applicable to Hilltop	\$ 23,586	\$ 41,416	\$ 109,645	\$ 69,140

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated	Accumulated	Total	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Paid-in	Other	Deficit	Hilltop	Interest	Stockholders
					Capital	Income (Loss)		Equity		Equity
Balance, December 31, 2012	114	\$ 114,068	83,487	\$ 835	\$ 1,304,448	\$ 8,094	\$ (282,949)	\$ 1,144,496	\$ 2,054	\$ 1,146,550
Net income							94,472	94,472	1,207	95,679
Other comprehensive loss						(25,332)		(25,332)		(25,332)
Stock-based compensation expense					1,071			1,071		1,071
Common stock issued to board members			7		96			96		96
Issuance of restricted common stock			465	5	(5)					
Dividends on preferred stock					(2,985)			(2,985)		(2,985)
Cash distributions to noncontrolling interest									(2,383)	(2,383)
Balance, September 30, 2013	114	\$ 114,068	83,959	\$ 840	\$ 1,302,625	\$ (17,238)	\$ (188,477)	\$ 1,211,818	\$ 878	\$ 1,212,696
Balance, December 31, 2013	114	\$ 114,068	90,176	\$ 902	\$ 1,388,641	\$ (34,863)	\$ (157,607)	\$ 1,311,141	\$ 781	\$ 1,311,922
Net income							78,509	78,509	583	79,092
Other comprehensive income						31,136		31,136		31,136
Stock-based compensation expense					3,316			3,316		3,316
Common stock issued to board members			7		162			162		162
Forfeiture of restricted common stock awards			(3)		(12)			(12)		(12)
Dividends on preferred stock					(4,278)			(4,278)		(4,278)
Issuance of common stock					3,001			3,001		3,001
Cash distributions to noncontrolling interest									(595)	(595)
Balance, September 30, 2014	114	\$ 114,068	90,180	\$ 902	\$ 1,390,830	\$ (3,727)	\$ (79,098)	\$ 1,422,975	\$ 769	\$ 1,423,744

See accompanying notes.

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HILLTOP HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Operating Activities		
Net income	\$ 79,092	\$ 95,679
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	12,808	34,952
Depreciation, amortization and accretion, net	(63,367)	(24,788)
Net realized gains on securities		(1,142)
Bargain purchase gain		(12,585)
Deferred income taxes	6,418	(11,423)
Other, net	16,669	3,914
Net change in trading securities	(7,256)	46,859
Net change in broker-dealer and clearing organization receivables	(164,497)	2,796
Net change in other assets	(40,193)	22,851
Net change in broker-dealer and clearing organization payables	261,206	(37,386)
Net change in loss and loss adjustment expense reserve	4,992	(2,745)
Net change in unearned insurance premiums	5,078	9,466
Net change in other liabilities	20,233	(18,510)
Net gains from sale of loans	(293,786)	(375,464)
Loans originated for sale	(7,954,706)	(9,427,627)
Proceeds from loans sold	8,067,301	10,157,410
Net cash provided by (used in) operating activities	(50,008)	462,257
Investing Activities		
Proceeds from maturities and principal reductions of securities held to maturity	2,821	
Proceeds from sales, maturities and principal reductions of securities available for sale	152,537	211,732
Purchases of securities held to maturity	(123,021)	
Purchases of securities available for sale	(48,730)	(255,142)
Net change in loans	106,335	(48,859)
Purchases of premises and equipment and other assets	(32,581)	(20,264)
Proceeds from sales of premises and equipment and other real estate owned	55,097	7,641
Net cash paid (received) for Federal Home Loan Bank and Federal Reserve Bank stock	(28,383)	89
Net cash from FNB Transaction		362,695
Net cash provided by investing activities	84,075	257,892
Financing Activities		
Net change in deposits	(633,685)	(1,476)
Net change in short-term borrowings	503,897	(422,953)
Proceeds from notes payable	2,000	1,000
Payments on notes payable	(2,643)	(2,428)
Dividends paid on preferred stock	(4,194)	(1,852)
Net cash distributed to noncontrolling interest	(595)	(2,383)
Other, net	2,718	(243)
Net cash used in financing activities	(132,502)	(430,335)

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Net change in cash and cash equivalents	(98,435)	289,814
Cash and cash equivalents, beginning of period	746,023	726,460