

Edgar Filing: Cherry Hill Mortgage Investment Corp - Form 10-Q

Cherry Hill Mortgage Investment Corp
Form 10-Q
August 09, 2016

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 June 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 001-36099

CHERRY HILL MORTGAGE INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Maryland 46-1315605
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

301 Harper Drive, Suite 110 08057
Moorestown, New Jersey
(Address of Principal Executive Offices) (Zip Code)

(877) 870 – 7005
(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

Edgar Filing: Cherry Hill Mortgage Investment Corp - Form 10-Q

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

As of August 9, 2016, there were 7,528,503 outstanding shares of common stock, \$0.01 par value per share, of Cherry Hill Mortgage Investment Corporation.

CHERRY HILL MORTGAGE INVESTMENT CORPORATION
TABLE OF CONTENTS

| | Page |
|--|------|
| <u>FORWARD-LOOKING INFORMATION</u> | 2 |
| PART I. <u>FINANCIAL INFORMATION</u> | 4 |
| Item 1. <u>Consolidated Financial Statements (Unaudited)</u> | 4 |
| <u>Consolidated Balance Sheets</u> | 4 |
| <u>Consolidated Statements of Income (Loss)</u> | 5 |
| <u>Consolidated Statements of Comprehensive Income (Loss)</u> | 6 |
| <u>Consolidated Statements of Changes in Stockholders' Equity</u> | 7 |
| <u>Consolidated Statements of Cash Flows</u> | 8 |
| <u>Notes to Consolidated Financial Statements</u> | 9 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 44 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 67 |
| Item 4. <u>Controls and Procedures</u> | 72 |
| PART II. <u>OTHER INFORMATION</u> | 73 |
| Item 1. <u>Legal Proceedings</u> | 73 |
| Item 1A. <u>Risk Factors</u> | 73 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 73 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 73 |
| Item 4. <u>Mine Safety Disclosures</u> | 73 |
| Item 5. <u>Other Information</u> | 73 |

Item 6.

Exhibits

73

Table of Contents

FORWARD-LOOKING INFORMATION

Cherry Hill Mortgage Investment Corporation (together with its consolidated subsidiaries, the “Company”, “we”, “our” or “us”) makes forward-looking statements in this Quarterly Report on Form 10-Q within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). For these statements, the Company claims the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company’s control. These forward-looking statements include information about possible or assumed future results of the Company’s business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “could,” “would,” “may,” “potential” or the negative or other comparable terminology, the Company intends to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- the Company’s investment objectives and business strategy;
- the Company’s ability to raise capital through the sale of its equity and debt securities;
- the Company’s ability to obtain future financing arrangements and refinance existing financing arrangements as they mature;
- the Company’s expected leverage;
- the Company’s expected investments;
- the Company’s ability to execute its prime mortgage loan strategy and its ability to finance this asset class;
- the Company’s ability to acquire Servicing Related Assets;
- estimates or statements relating to, and the Company’s ability to make, future distributions;
- the Company’s ability to compete in the marketplace;
- market, industry and economic trends;
- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Treasury and the Board of Governors of the Federal Reserve System, Fannie Mae, Freddie Mac, Ginnie Mae and the U.S. Securities and Exchange Commission (“SEC”);
- mortgage loan modification programs and future legislative actions;
- the Company’s ability to maintain its qualification as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”);
- the Company’s ability to maintain its exclusion from registration as an investment company under the Investment Company Act of 1940, as amended (the “Investment Company Act”);

Table of Contents

projected capital and operating expenditures;

availability of investment opportunities in mortgage-related, real estate-related and other securities;

availability of qualified personnel;

prepayment rates; and

projected default rates.

The Company's beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to it or are within its control. If any such change occurs, the Company's business, financial condition, liquidity and results of operations may vary materially from those expressed in, or implied by, the Company's forward-looking statements. These risks, along with, among others, the following factors, could cause actual results to vary from the Company's forward-looking statements:

the factors discussed under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q and "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015;

general volatility of the capital markets;

changes in the Company's investment objectives and business strategy;

availability, terms and deployment of capital;

availability of suitable investment opportunities;

the Company's dependence on its external manager, Cherry Hill Mortgage Management, LLC ("the Manager"), and the Company's ability to find a suitable replacement if the Company or the Manager were to terminate the management agreement the Company has entered into with the Manager;

changes in the Company's assets, interest rates or the general economy;

increased rates of default and/or decreased recovery rates on the Company's investments;

changes in interest rates, interest rate spreads, the yield curve, prepayment rates or recapture rates;

limitations on the Company's business due to compliance with requirements for maintaining its qualification as a REIT under the Code and its exclusion from registration as an investment company under the Investment Company Act; and

the degree and nature of the Company's competition, including competition for its targeted assets.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements apply only as of the date of this Quarterly Report on Form 10-Q. The Company is not obligated, and does not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Cherry Hill Mortgage Investment Corporation and Subsidiaries

Consolidated Balance Sheets

June 30, 2016 (Unaudited) and December 31, 2015

(in thousands — except share data)

| | June 30, 2016 | December 31, 2015 |
|--|------------------|----------------------|
| Assets | | |
| RMBS, available-for-sale | \$ 522,151 | \$ 508,242 |
| Investments in Servicing Related Assets at fair value | 97,342 | 97,803 |
| Cash and cash equivalents | 9,820 | 10,603 |
| Restricted cash | 15,851 | 9,942 |
| Derivative assets | 313 | 422 |
| Receivables and other assets | 9,924 | 9,328 |
| Total Assets | \$ 655,401 | \$ 636,340 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Repurchase agreements | \$ 456,075 | \$ 385,560 |
| Federal Home Loan Bank advances | - | 62,250 |
| Derivative liabilities | 10,666 | 4,595 |
| Notes payable | 22,853 | 24,313 |
| Dividends payable | 3,689 | 3,684 |
| Due to affiliates | 1,132 | 998 |
| Payables for unsettled trades | 4,421 | - |
| Accrued expenses and other liabilities | 6,393 | 2,603 |
| Total Liabilities | \$ 505,229 | \$ 484,003 |
| Stockholders' Equity | | |
| Preferred stock, \$0.01 par value, 100,000,000 shares authorized, none issued and outstanding as of June 30, 2016 and December 31, 2015 | \$ - | \$ - |
| Common stock, \$0.01 par value, 500,000,000 shares authorized, and 7,528,503 shares issued and outstanding as of June 30, 2016, and 500,000,000 shares authorized, and 7,519,038 shares issued and outstanding as of December 31, 2015 | 75 | 75 |
| Additional paid-in capital | 148,407 | 148,332 |
| Retained earnings (deficit) | (11,016) | 3,133) |
| Accumulated other comprehensive income (loss) | 11,630 | (197) |
| Total CHMI Stockholders' Equity | \$ 149,096 | \$ 151,343 |
| Non-controlling interests in operating partnership | 1,076 | 994 |
| Total Stockholders' Equity | \$ 150,172 | \$ 152,337 |
| Total Liabilities and Stockholders' Equity | \$ 655,401 | \$ 636,340 |

See accompanying notes to consolidated financial statements.

Edgar Filing: Cherry Hill Mortgage Investment Corp - Form 10-Q

Table of Contents

Cherry Hill Mortgage Investment Corporation and Subsidiaries

Consolidated Statements of Income (Loss)

(Unaudited)

(in thousands — except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Income | | | | |
| Interest income | \$ 7,135 | \$ 8,088 | \$ 12,323 | \$ 13,915 |
| Interest expense | 1,885 | 1,346 | 3,542 | 2,581 |
| Net interest income | 5,250 | 6,742 | 8,781 | 11,334 |
| Servicing fee income | 1,574 | 156 | 3,069 | 156 |
| Servicing costs | 501 | 94 | 903 | 94 |
| Net servicing income (loss) | 1,073 | 62 | 2,166 | 62 |
| Other income (loss) | | | | |
| Realized gain (loss) on RMBS, net | 235 | (115) | 555 | 192 |
| Realized gain (loss) on derivatives, net | (299) | (52) | (1,760) | (1,294) |
| Realized gain (loss) on acquired assets, net | - | 174 | - | |