

REDWOOD TRUST INC
Form 10-Q
August 08, 2014
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UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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: June 30, 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

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(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 x 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 x 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 x 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 x

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

83,119,423 shares outstanding as of August 4, 2014

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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)	June 30, 2014	December 31, 2013
ASSETS		
Residential loans, held-for-sale, at fair value	\$ 1,107,877	\$ 404,267
Residential loans, held-for-investment	1,616,504	1,762,167
Commercial loans, held-for-sale, at fair value	50,848	89,111
Commercial loans, held-for-investment (includes \$71,270 and \$0 at fair value)	417,918	343,344
Real estate securities, at fair value	1,845,067	1,682,861
Mortgage servicing rights, at fair value	71,225	64,824
Cash and cash equivalents	157,079	173,201
Total earning assets	5,266,518	4,519,775
Restricted cash	393	398
Accrued interest receivable	15,109	13,475
Derivative assets	7,514	7,787
Deferred securities issuance costs	11,252	13,453
Other assets	77,764	53,640
Total Assets ⁽¹⁾	\$ 5,378,550	\$ 4,608,528
LIABILITIES AND EQUITY		
Liabilities		
Short-term debt	\$ 1,718,430	\$ 862,763
Accrued interest payable	7,154	6,366
Derivative liabilities	39,837	18,167
Accrued expenses and other liabilities	42,223	48,704
Deferred tax liability	7,316	7,316
Asset-backed securities issued	1,768,078	1,942,962
Long-term debt (includes \$66,692 and \$0 at fair value)	546,608	476,467

Total liabilities ⁽¹⁾	4,129,646	3,362,745
Equity		
Common stock, par value \$0.01 per share, 180,000,000 shares authorized; 83,080,118 and 82,504,801 issued and outstanding	831	825
Additional paid-in capital	1,764,386	1,760,899
Accumulated other comprehensive income	167,557	148,766
Cumulative earnings	834,648	806,298
Cumulative distributions to stockholders	(1,518,518)	(1,471,005)
Total equity	1,248,904	1,245,783
Total Liabilities and Equity	\$ 5,378,550	\$ 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 June 30, 2014 and December 31, 2013, assets of consolidated VIEs totaled \$2,125,423 and \$2,299,576, respectively, and liabilities of consolidated VIEs totaled \$1,769,851 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest Income				
Residential loans	\$ 13,601	\$ 18,845	\$ 26,259	\$ 36,469
Commercial loans	11,217	9,623	21,601	19,794
Real estate securities	33,170	29,114	65,601	54,831
Cash and cash equivalents	5	137	8	149
Total interest income	57,993	57,719	113,469	111,243
Interest Expense				
Short-term debt	(5,142)	(4,686)	(8,969)	(8,494)
Asset-backed securities issued	(8,183)	(10,250)	(16,624)	(21,210)
Long-term debt	(7,826)	(6,480)	(14,618)	(10,014)
Total interest expense	(21,151)	(21,416)	(40,211)	(39,718)
Net Interest Income	36,842	36,303	73,258	71,525
Reversal of provision (provision) for loan losses	315	3,272	(967)	1,233
Net Interest Income After Provision	37,157	39,575	72,291	72,758
Noninterest Income				
Mortgage banking activities, net	6,310	48,723	6,079	94,260
Mortgage servicing rights income (loss), net	(1,777)	10,547	(1,171)	11,568
Other market valuation adjustments, net ⁽¹⁾	(4,121)	(6,258)	(10,260)	(6,561)
Realized gains, net	1,063	556	2,155	12,823
Total noninterest income (loss), net	1,475	53,568	(3,197)	112,090
Operating expenses	(22,282)	(24,430)	(42,254)	(44,616)
Net income before provision for income taxes	16,350	68,713	26,840	140,232
(Provision for) benefit from income taxes	(333)	(3,140)	1,510	(14,049)
Net Income	\$ 16,017	\$ 65,573	\$ 28,350	\$ 126,183
Basic earnings per common share	\$ 0.19	\$ 0.78	\$ 0.33	\$ 1.50
Diluted earnings per common share	\$ 0.18	\$ 0.71	\$ 0.32	\$ 1.40

Regular dividends declared per common share	\$	0.28	\$	0.28	\$	0.56	\$	0.56
Basic weighted average shares outstanding		82,740,012		82,123,823		82,575,636		81,729,014
Diluted weighted average shares outstanding		85,032,998		96,171,713		84,994,321		91,647,400

(1) For the three months ended June 30, 2014, other-than-temporary impairments were \$2,915, of which \$264 were recognized through the Income Statement, and \$2,651 were recognized in Accumulated Other Comprehensive Income. For the three months ended June 30, 2013, other-than-temporary impairments were \$1,642, of which none was recognized in Accumulated Other Comprehensive Income.

For the six months ended June 30, 2014, other-than-temporary impairments were \$4,585, of which \$377 were recognized through the Income Statement, and \$4,208 were recognized in Accumulated Other Comprehensive Income. For the six months ended June 30, 2013, other-than-temporary impairments were \$1,666, of which 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) (Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income	\$ 16,017	\$ 65,573	\$ 28,350	\$ 126,183
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	12,721	(38,012)	33,229	(28,982)
Reclassification of unrealized (gain) loss on available-for-sale securities to net income	(454)	(242)	(341)	(12,249)
Net unrealized (loss) gain on interest rate agreements	(5,401)	13,585	(14,196)	21,025
Reclassification of unrealized loss on interest rate agreements to net income	39	69	99	157
Total other comprehensive income (loss)	6,905	(24,600)	18,791	(20,049)
Total Comprehensive Income	\$ 22,922	\$ 40,973	\$ 47,141	\$ 106,134

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 Six Months Ended June 30, 2014

Assets, Except Share Data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount					
June 30, 2013	82,504,801	\$ 825	\$ 1,760,899	\$ 148,766	\$ 806,298	\$ (1,471,005)	\$ 1,245,753
Net income	-	-	-	-	28,350	-	28,350
Other comprehensive income	-	-	-	18,791	-	-	18,791
Changes in common stock:							
Reinvestment & stock plans	179,187	2	3,473	-	-	-	182,662
Stock purchase and plans	396,130	4	(6,667)	-	-	-	389,467
Equity award compensation	-	-	6,681	-	-	-	6,681
Dividends declared	-	-	-	-	-	(47,513)	(47,513)
June 30, 2014	83,080,118	\$ 831	\$ 1,764,386	\$ 167,557	\$ 834,648	\$ (1,518,518)	\$ 1,248,964

For the Six Months Ended June 30, 2013

Assets, Except Share Data)	Common Stock		Additional	Accumulated Other	Cumulative
	Shares	Amount			