

Western Asset Mortgage Capital Corp
Form 10-Q
May 06, 2016
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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 March 31, 2016

- 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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

27-0298092
(IRS Employer
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 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 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 May 4, 2016, there were 41,919,801 shares, par value \$0.01, of the registrant's common stock issued and outstanding.

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Table of Contents**Western Asset Mortgage Capital Corporation and Subsidiaries****Consolidated Balance Sheets (Unaudited)****(in thousands except share and per share data)**

	March 31, 2016	December 31, 2015
Assets:		
Cash and cash equivalents	\$ 22,440	\$ 24,711
Mortgage-backed securities and other securities, at fair value (\$2,587,846 and \$2,777,717 pledged as collateral, at fair value, respectively)	2,593,418	2,851,127
Residential Whole-Loans, at fair value (\$201,267 and \$218,538 pledged as collateral, at fair value, respectively)	201,267	218,538
Securitized commercial loan, at fair value	23,675	25,000
Receivable under reverse repurchase agreements	9,307	
Investment related receivable	21,509	572
Accrued interest receivable	24,494	22,621
Due from counterparties	280,471	249,563
Derivative assets, at fair value	100,161	21,915
Other assets	173	382
Total Assets (1)	\$ 3,276,915	\$ 3,414,429
Liabilities and Stockholders' Equity:		
Liabilities:		
Borrowings under repurchase agreements, net	\$ 2,403,129	\$ 2,585,667
Securitized debt, at fair value	10,417	11,000
Accrued interest payable	20,340	20,431
Investment related payables	18,044	66,146
Due to counterparties	21,608	9,950
Derivative liability, at fair value	322,387	180,177
Accounts payable and accrued expenses	1,971	2,078
Payable to related party	3,103	3,019
Dividend payable	18,864	24,313
Total Liabilities (2)	2,819,863	2,902,781
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 41,919,801 shares issued and outstanding, respectively	419	419
Preferred stock, \$0.01 par value, 100,000,000 shares authorized and no shares outstanding		
Additional paid-in capital	763,869	763,283
Retained earnings (accumulated deficit)	(307,236)	(252,054)
Total Stockholders' Equity	457,052	511,648
Total Liabilities and Stockholders' Equity	\$ 3,276,915	\$ 3,414,429

See notes to unaudited consolidated financial statements.

Table of Contents**Western Asset Mortgage Capital Corporation and Subsidiaries****Consolidated Balance Sheets (Continued) (Unaudited)****(in thousands except share and per share data)**

	March 31, 2016		December 31, 2015
(1) Assets of consolidated VIEs included in the total assets above:			
Residential Whole-Loans, at fair value (\$201,267 and \$218,538 pledged as collateral, at fair value, respectively)	\$	201,267	\$ 218,538
Securitized commercial loan, at fair value		23,675	25,000
Investment related receivable		3,200	
Accrued interest receivable		1,737	1,836
Total assets of consolidated VIEs	\$	229,879	\$ 245,374
(2) Liabilities of consolidated VIEs included in the total liabilities above:			
Securitized debt, at fair value	\$	10,417	\$ 11,000
Accrued interest payable		85	85
Accounts payable and accrued expenses		2	2
Total liabilities of consolidated VIEs	\$	10,504	\$ 11,087

See notes to unaudited consolidated financial statements.

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

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Net Interest Income:		
Interest income	\$ 29,618	\$ 40,806
Interest expense	7,979	6,402
Net Interest Income	21,639	34,404
Other Income (Loss):		
Realized gain (loss) on sale of investments, net	(6,055)	7,468
Other than temporary impairment	(10,797)	(4,651)
Unrealized gain (loss), net	10,769	28,410
Gain (loss) on derivative instruments, net	(45,170)	(48,302)
Other, net	(332)	2,384
Other Income (Loss), net	(51,585)	(14,691)
Operating Expenses:		
General and administrative (includes \$572 and \$679 non-cash stock based compensation, respectively)	3,605	2,874
Management fee related party	2,753	2,693
Total Operating Expenses	6,358	5,567
Net income (loss) available to Common Stock and participating securities	\$ (36,304)	\$ 14,146
Net income (loss) per Common Share Basic	\$ (0.88)	\$ 0.34
Net income (loss) per Common Share Diluted	\$ (0.88)	\$ 0.34
Dividends Declared per Share of Common Stock	\$ 0.45	\$ 0.67

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 (Unaudited)

(in thousands except shares and share data)

	Common Stock		Additional Paid-		Retained	
	Shares	Par	In Capital	(Accumulated)	Deficit	Total
Balance at December 31, 2015	41,919,801	\$ 419	\$ 763,283	\$ (252,054)	\$	511,648
Vesting of restricted stock			572			572
Net income					(36,304)	(36,304)
Dividends declared on common stock			14		(18,878)	(18,864)
Balance at March 31, 2016	41,919,801	\$ 419	\$ 763,869	\$ (307,236)	\$	457,052

See notes to unaudited consolidated financial statements.

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

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Cash flows from operating activities:		
Net income (loss)	\$ (36,304)	\$ 14,146
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Premium amortization and (discount accretion) on investments, net	895	2,582
Interest income earned added to principal of securities	(94)	
Amortization of deferred financing costs	134	
Restricted stock amortization expense	572	679
Premium amortization for MAC interest rate swaps	(164)	(371)
(Interest received) Interest payments and basis recovered on MAC interest rate swaps	(159)	246
Premium on purchase of Residential Whole-Loans		(230)
Unrealized gain, net	(10,769)	(28,410)
Mark-to-market adjustments on derivative instruments	64,555	56,037
Other than temporary impairment	10,797	4,651
Realized (gain) loss on sale of securities, net	6,055	(7,468)
Realized (gain) loss on sale of Interest-Only Strips accounted for as derivatives, net	(300)	2
Realized gain on sale of TBAs, net	(7,739)	(7,448)
Realized (gain) loss on sale of swaptions, net	712	(713)
Realized gain on futures	(14,316)	
Realized (gain) loss on forward contracts	28	(646)
Realized gain on options	(4,756)	
Realized gain on foreign currency swaps	(3,942)	
Realized gain on total return swaps	(8)	
(Gain) loss on foreign currency transactions, net	575	(2,396)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(1,873)	(4,533)
Decrease in other assets	209	155
Decrease in accrued interest payable	(91)	(1,247)
Increase (decrease) in accounts payable and accrued expenses	(107)	841
Increase in payable to related party	84	178
Net cash provided by operating activities	3,994	26,055
Cash flows from investing activities:		
Purchase of securities	(1,059,720)	(334,429)
Proceeds from sale of securities	1,166,621	536,869
Principal payments and basis recovered on securities	75,531	100,436
Purchase of Residential Whole-Loans		(10,230)
Principal payments on Residential Whole-Loans	14,021	20
Purchase of Commercial Whole-Loans		(8,750)
Payment of premium for option derivatives	(17,951)	
Premium received from option derivatives	22,707	
Net settlements of TBAs	7,624	9,629
Proceeds from termination of futures	14,316	

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Proceeds from sale of interest rate swaptions	2,075	17,768
Premium for MAC interest rate swaps	465	
(Interest received) Interest payments and basis recovered on MAC interest rate swaps	159	(32)
Due from counterparties	(9,719)	
Payment on termination of foreign currency swaps	3,942	
Payments on total return swaps	8	
Payments made on reverse repurchase agreements		