

Cherry Hill Mortgage Investment Corp
Form 10-Q
May 11, 2015
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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, 2015

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 (State or Other Jurisdiction of Incorporation or Organization)	46-1315605 (I.R.S. Employer Identification No.)
301 Harper Drive, Suite 110 Moorestown, New Jersey (Address of Principal Executive Offices)	08057 (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 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 May 11, 2015, there were 7,509,543 outstanding shares of common stock, \$0.01 par value per share, of Cherry Hill Mortgage Investment Corporation.

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CHERRY HILL MORTGAGE INVESTMENT CORPORATION

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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 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 obtain future financing arrangements;

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 MSR's and create its own Excess MSR's from the MSR's it may eventually acquire;

the Company's ability to complete the acquisition of Aurora Financial Group Inc. (Aurora) and obtain the anticipated benefits of owning a licensed servicer;

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;

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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 exemption from qualification under the Investment Company Act of 1940, as amended (the Investment Company Act);

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, 2014;

the Company's ability to obtain required consents in connection with the Aurora acquisition;

general volatility of the capital markets;

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

availability, terms and deployment of capital;

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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 the REIT requirements; 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****March 31, 2015 (Unaudited) and December 31, 2014****(in thousands except share data)**

	March 31, 2015	December 31, 2014
Assets		
RMBS, available-for-sale	\$ 429,615	\$ 416,003
Investments in Excess MSR's at fair value	84,561	91,322
Cash and cash equivalents	13,672	12,447
Restricted cash	10,273	6,947
Derivative assets	81	342
Receivables from unsettled trades		309
Receivables and other assets	4,535	4,556
Total Assets	\$ 542,737	\$ 531,926
Liabilities and Stockholders Equity		
Liabilities		
Repurchase agreements	\$ 373,868	\$ 362,126
Derivative liabilities	7,085	4,088
Dividends payable	3,830	3,830
Due to affiliates	749	769
Accrued expenses and other liabilities	600	795
Total Liabilities	\$ 386,132	\$ 371,608
Stockholders Equity		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, none issued and outstanding as of March 31, 2015 and December 31, 2014	\$	\$
Common stock, \$0.01 par value, 500,000,000 shares authorized, 7,509,543 shares issued and outstanding as of March 31, 2015 and December 31, 2014	75	75
Additional paid-in capital	148,258	148,258
Retained earnings (deficit)	(1,443)	4,799
Accumulated other comprehensive income	9,125	6,641
Total CHMI Stockholders Equity	\$ 156,015	\$ 159,773
Non-controlling interests in operating partnership	590	545

Total Stockholders Equity	\$	156,605	\$	160,318
Total Liabilities and Stockholders Equity	\$	542,737	\$	531,926

See accompanying notes to consolidated financial statements.

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 March 31,	
	2015	2014
Income		
Interest income	\$ 6,472	\$ 6,011
Interest expense	1,235	947
Net interest income	5,237	5,064
Other income (loss)		
Realized gain (loss) on RMBS, net	307	(349)
Realized gain (loss) on derivatives, net	(1,242)	(72)
Unrealized gain (loss) on derivatives, net	(2,542)	(3,443)
Unrealized gain (loss) on investments in Excess MSRs	(2,762)	670
Total Income	(1,002)	1,870
Expenses		
General and administrative expense	721	453
Management fee to affiliate	690	679
Total Expenses	1,411	1,132
Income (Loss) Before Income Taxes	(2,413)	738
Provision for corporate business taxes	21	4
Net Income (Loss)	(2,434)	734
Net (income) loss allocated to noncontrolling interests	22	(4)
Net Income (Loss) Applicable to Common Stockholders	\$ (2,412)	\$ 730
Net income (Loss) Per Share of Common Stock		
Basic	\$ (0.32)	\$ 0.10
Diluted	\$ (0.32)	\$ 0.10
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	7,509,543	7,502,505
Diluted	7,509,543	7,506,680

See accompanying notes to consolidated financial statements.

Table of Contents**Cherry Hill Mortgage Investment Corporation and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)****(Unaudited)****(in thousands)**

	Three Months Ended March 31,	
	2015	2014
Net income (loss)	\$ (2,434)	\$ 734
Other comprehensive income (loss):		
Net unrealized gain (loss) on RMBS	2,791	3,006
Reclassification of net realized (gain) loss on RMBS in earnings	(307)	349
Other comprehensive income (loss)	2,484	3,355
Comprehensive income (loss)	\$ 50	\$ 4,089
Comprehensive income (loss) attributable to noncontrolling interests	0(A)	20
Comprehensive income (loss) attributable to common stockholders	\$ 50	\$ 4,069

(A) de minimis (\$458.00 rounds to \$0.00).

See accompanying notes to consolidated financial statements.

Table of Contents**Cherry Hill Mortgage Investment Corporation and Subsidiaries****Consolidated Statements of Changes in Stockholders' Equity****For the three month periods ended March 31, 2015 and 2014****(Unaudited)****(in thousands except share data)**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Non- Controlling Interest in Operating Partnership	Total Stockholders' Equity
Balance, December 31, 2013	7,500,000	\$ 75	\$ 148,078	\$ (5,033)	\$ 17,695	\$ 307	\$ 161,122
Issuance of common stock	9,543	(A)	67				67
Net Income					730	4	734
Other Comprehensive Income				3,355			3,355
LTIP-OP Unit awards						50	50
Distribution paid on LTIP-OP Units						(16)	(16)
Common dividends declared					(3,755)		(3,755)
Balance, March 31, 2014	7,509,543	\$ 75	\$ 148,145	\$ (1,678)	\$ 14,670	\$ 345	\$ 161,557
Balance, December 31, 2014	7,509,543	\$ 75	\$ 148,258	\$ 6,641	\$ 4,799	\$ 545	\$ 160,318
Issuance of common stock							
Net Loss					(2,412)	(22)	(2,434)
Other Comprehensive Income				2,484			2,484
LTIP-OP Unit awards						102	102
Distribution paid on LTIP-OP Units						(35)	(35)
Common dividends declared					(3,830)		(3,830)
Balance, March 31, 2015	7,509,543	\$ 75	\$ 148,258	\$ 9,125	\$ (1,443)	\$ 590	\$ 156,605

(A) de minimis (\$95.00 rounds to \$0.00).

See accompanying notes to consolidated financial statements.

Table of Contents**Cherry Hill Mortgage Investment Corporation and Subsidiaries****Consolidated Statements of Cash Flows****(Unaudited)****(in thousands)**

	Three Months Ended March 31,	
	2015	2014
Cash Flows From Operating Activities		
Net income (loss)	\$ (2,434)	\$ 734
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Change in fair value of investments in Excess MSR's	2,762	(670)
Accretion of premium and other amortization	677	355
Realized (gain) loss on RMBS, net	(307)	349
Unrealized (gain) loss on derivatives, net	2,542	3,443
Realized (gain) loss on derivatives, net	1,242	72
LTIP-OP Unit awards	102	50
Changes in:		
Receivables from unsettled trades	309	7,239
Other assets	21	168
Due to affiliate	(20)	69
Accrued expenses and other liabilities	(195)	1,249
Net cash provided by (used in) operating activities	\$ 4,699	\$ 13,058
Cash Flows From Investing Activities		
Purchase of RMBS	(72,544)	(34,927)
Acquisition of Excess MSR's		(1,513)
Proceeds from sale of RMBS		