

REDWOOD TRUST INC  
Form 10-Q  
August 04, 2017

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UNITED STATES OF AMERICA  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
 OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended: June 30, 2017

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

One Belvedere Place, Suite 300 94941  
Mill Valley, California  
(Address of Principal Executive Offices) (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  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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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 77,116,538 shares outstanding as of August 1, 2017

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2017 FORM 10-Q REPORT  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

REDWOOD TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share Data) (Unaudited)	June 30, 2017	December 31, 2016
<b>ASSETS <sup>(1)</sup></b>		
Residential loans, held-for-sale, at fair value	\$837,371	\$ 835,399
Residential loans, held-for-investment, at fair value	3,067,920	3,052,652
Real estate securities, at fair value	1,218,503	1,018,439
Mortgage servicing rights, at fair value	63,770	118,526
Cash and cash equivalents	217,218	212,844
Total earning assets	5,404,782	5,237,860
Restricted cash	2,006	8,623
Accrued interest receivable	20,101	18,454
Derivative assets	12,264	36,595
Other assets	216,329	181,945
<b>Total Assets</b>	<b>\$5,655,482</b>	<b>\$ 5,483,477</b>
<b>LIABILITIES AND EQUITY <sup>(1)</sup></b>		
<b>Liabilities</b>		
Short-term debt <sup>(2)</sup>	\$1,294,807	\$ 791,539
Accrued interest payable	9,939	9,608
Derivative liabilities	69,175	66,329
Accrued expenses and other liabilities	73,185	72,428
Asset-backed securities issued, at fair value	692,606	773,462
Long-term debt, net	2,336,346	2,620,683
<b>Total liabilities</b>	<b>4,476,058</b>	<b>4,334,049</b>
<b>Equity</b>		
Common stock, par value \$0.01 per share, 180,000,000 shares authorized; 77,116,875 and 76,834,663 issued and outstanding	771	768
Additional paid-in capital	1,679,475	1,676,486
Accumulated other comprehensive income	69,676	71,853
Cumulative earnings	1,223,228	1,149,935
Cumulative distributions to stockholders	(1,793,726 )	(1,749,614 )
<b>Total equity</b>	<b>1,179,424</b>	<b>1,149,428</b>
<b>Total Liabilities and Equity</b>	<b>\$5,655,482</b>	<b>\$ 5,483,477</b>

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 (1) recourse to Redwood Trust, Inc. or its affiliates. At June 30, 2017 and December 31, 2016, assets of consolidated VIEs totaled \$713,404 and \$798,317, respectively. At June 30, 2017 and December 31, 2016, liabilities of consolidated VIEs totaled \$693,137 and \$773,980, respectively. See Note 4 for further discussion.

(2) During the second quarter of 2017, our convertible notes were reclassified from Long-term debt, net to Short-term debt as the maturity of the notes was less than one year as of April 2017.

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, except Share Data)	Three Months Ended		Six Months Ended	
(Unaudited)	June 30,		June 30,	
	2017	2016	2017	2016
Interest Income				
Residential loans	\$36,635	\$35,154	\$70,997	\$66,554
Commercial loans	263	12,921	345	22,381
Real estate securities	21,826	18,417	41,643	39,512
Other interest income	500	295	867	668
Total interest income	59,224	66,787	113,852	129,115
Interest Expense				
Short-term debt	(9,350 )	(5,337 )	(13,803 )	(12,034 )
Asset-backed securities issued	(3,705 )	(3,982 )	(7,235 )	(8,264 )
Long-term debt	(11,179 )	(13,125 )	(24,227 )	(26,096 )
Total interest expense	(24,234 )	(22,444 )	(45,265 )	(46,394 )
Net Interest Income	34,990	44,343	68,587	82,721
Reversal of provision for loan losses	—	6,532	—	6,243
Net Interest Income after Provision	34,990	50,875	68,587	88,964
Non-interest Income				
Mortgage banking activities, net	12,046	7,728	29,650	14,946
Mortgage servicing rights income, net	2,778	2,783	4,491	9,064
Investment fair value changes, net	8,115	(11,066 )	9,666	(30,604 )
Other income	986	1,559	2,170	2,514
Realized gains, net	1,372	9,884	7,075	19,422
Total non-interest income, net	25,297	10,888	53,052	15,342
Operating expenses	(18,641 )	(20,155 )	(36,867 )	(50,607 )
Net Income before Provision for Income Taxes	41,646	41,608	84,772	53,699
Provision for income taxes	(5,322 )	(327 )	(11,479 )	(355 )
Net Income	\$36,324	\$41,281	\$73,293	\$53,344
Basic earnings per common share	\$0.46	\$0.52	\$0.93	\$0.67
Diluted earnings per common share	\$0.43	\$0.48	\$0.85	\$0.67
Regular dividends declared per common share	\$0.28	\$0.28	\$0.56	\$0.56
Basic weighted average shares outstanding	76,819,703	76,664,829	76,779,178	76,901,255
Diluted weighted average shares outstanding	97,494,144	97,761,936	97,718,550	98,728,380

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)	Three Months		Six Months Ended	
(Unaudited)	Ended June 30,		June 30,	
	2017	2016	2017	2016
Net Income	\$36,324	\$41,281	\$73,293	\$53,344
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities <sup>(1)</sup>	1,811	6,260	4,741	(3,843 )
Reclassification of unrealized gain on available-for-sale securities to net income	(2,322 )	(7,711 )	(6,250 )	(18,664 )
Net unrealized loss on interest rate agreements	(2,429 )	(8,949 )	(696 )	(23,192 )
Reclassification of unrealized loss on interest rate agreements to net income	14	19	28	37
Total other comprehensive income (loss)	(2,926 )	(10,381 )	(2,177 )	(45,662 )
Total Comprehensive Income	\$33,398	\$30,900	\$71,116	\$7,682

Amounts are presented net of tax benefit (provision) of \$0.1 million and \$(0.1) million for the three and six months (1)ended June 30, 2017, respectively, and \$0.3 million and \$0.4 million for the three and six months ended June 30, 2016, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2017

(In Thousands, except Share Data) (Unaudited)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount					
December 31, 2016	76,834,663	\$ 768	\$ 1,676,486	\$ 71,853	\$ 1,149,935	\$(1,749,614)	\$ 1,149,428
Net income	—	—	—	—	73,293	—	73,293
Other comprehensive loss	—	—	—	(2,177)	—	—	(2,177)
Employee stock purchase and incentive plans	282,212						