

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

August 04, 2015

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UNITED STATES

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, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

27-0247747
(I.R.S. Employer
Identification No.)

591 West Putnam Avenue
Greenwich, Connecticut
(Address of Principal Executive Offices)

06830
(Zip Code)

Registrant's telephone number, including area code:

(203) 422-8100

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) 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

Smaller reporting company

(Do not check if a 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

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of July 30, 2015 was 238,580,962.



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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including without limitation, statements concerning our operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are developed by combining currently available information with our beliefs and assumptions and are generally identified by the words “believe,” “expect,” “anticipate” and other similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates.

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2014, this Quarterly Report on Form 10-Q and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, including those set forth under the captions “Risk Factors” and “Business”;
- defaults by borrowers in paying debt service on outstanding indebtedness;
- impairment in the value of real estate property securing our loans or in which we invest;
- availability of mortgage origination and acquisition opportunities acceptable to us;
- our ability to fully integrate LNR Property LLC, a Delaware limited liability company (“LNR”), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;
- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;
- national and local economic and business conditions;
- general and local commercial and residential real estate property conditions;

- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending and securities investing activities;
- changes in interest rates; and
- the availability of and costs associated with sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact occur. Except to the extent required by applicable law or regulation, we undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

	As of June 30, 2015	As of December 31, 2014
Assets:		
Cash and cash equivalents	\$ 446,478	\$ 255,187
Restricted cash	26,791	48,704
Loans held-for-investment, net	5,915,396	5,779,238
Loans held-for-sale (\$279,352 and \$391,620 held at fair value)	367,408	391,620
Loans transferred as secured borrowings	135,940	129,427
Investment securities (\$522,704 and \$556,253 held at fair value)	877,238	998,248
Properties, net	397,016	39,854
Intangible assets (\$128,109 and \$132,303 held at fair value)	175,607	144,152
Investment in unconsolidated entities	204,255	193,983
Goodwill	140,437	140,437
Derivative assets	25,026	26,628
Accrued interest receivable	38,354	40,102
Other assets	116,198	95,652
Variable interest entity ("VIE") assets, at fair value	92,719,092	107,816,065
Total Assets	\$ 101,585,236	\$ 116,099,297
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 141,087	\$ 144,516
Related-party payable	24,559	40,751
Dividends payable	115,575	108,189
Derivative liabilities	6,290	5,476
Secured financing agreements, net	3,579,503	3,137,789
Convertible senior notes, net	1,315,245	1,418,022
Secured borrowings on transferred loans	137,302	129,441

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VIE liabilities, at fair value	92,046,550	107,232,201
Total Liabilities	97,366,111	112,216,385
Commitments and contingencies (Note 21)		
Equity:		
Starwood Property Trust, Inc. Stockholders' Equity:		
Preferred stock, \$0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 per share, 500,000,000 shares authorized, 240,194,174 issued and 238,580,424 outstanding as of June 30, 2015 and 224,752,053 issued and 223,538,303 outstanding as of December 31, 2014	2,402	2,248
Additional paid-in capital	4,173,869	3,835,725
Treasury stock (1,613,750 shares and 1,213,750 shares)	(32,464)	(23,635)
Accumulated other comprehensive income	45,901	55,896
Retained earnings (accumulated deficit)	4,123	(9,378)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,193,831	3,860,856
Non-controlling interests in consolidated subsidiaries	25,294	22,056
Total Equity	4,219,125	3,882,912
Total Liabilities and Equity	\$ 101,585,236	\$ 116,099,297

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited, amounts in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Interest income from loans	\$ 118,292	\$ 105,455	\$ 236,721	\$ 210,365
Interest income from investment securities	23,810	27,620	51,554	57,074
Servicing fees	30,154	32,681	58,411	66,892
Rental income	5,014	2,552	7,686	3,135
Other revenues	1,390	2,442	3,137	5,263
Total revenues	178,660	170,750	357,509	342,729
Costs and expenses:				
Management fees	26,821	25,085	54,789	52,906
Interest expense	49,799	37,695	100,333	75,526
General and administrative	41,404	43,094	76,668	89,195
Acquisition and investment pursuit costs	4,867	771	6,053	1,165
Costs of rental operations	1,211	1,674	2,909	2,106
Depreciation and amortization				