

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

November 05, 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 September 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 October 30, 2015 was 237,672,948.



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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 Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 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 September 30, 2015	As of December 31, 2014
Assets:		
Cash and cash equivalents	\$ 372,768	\$ 255,187
Restricted cash	43,620	48,704
Loans held-for-investment, net	5,814,886	5,779,238
Loans held-for-sale (\$423,630 and \$391,620 held at fair value)	450,828	391,620
Loans transferred as secured borrowings	142,456	129,427
Investment securities (\$421,456 and \$556,253 held at fair value)	786,461	998,248
Properties, net	530,438	39,854
Intangible assets (\$123,892 and \$132,303 held at fair value)	191,080	144,152
Investment in unconsolidated entities	199,171	193,983
Goodwill	140,437	140,437
Derivative assets	36,307	26,628
Accrued interest receivable	36,042	40,102
Other assets	137,296	95,652
Variable interest entity ("VIE") assets, at fair value	82,937,617	107,816,065
Total Assets	\$ 91,819,407	\$ 116,099,297
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 137,786	\$ 144,516
Related-party payable	22,804	40,751
Dividends payable	115,191	108,189
Derivative liabilities	14,901	5,476
Secured financing agreements, net	3,682,274	3,137,789
Convertible senior notes, net	1,320,207	1,418,022
Secured borrowings on transferred loans	143,926	129,441

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VIE liabilities, at fair value	82,181,138	107,232,201
Total Liabilities	87,618,227	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, 240,665,588 issued and 237,658,615 outstanding as of September 30, 2015 and 224,752,053 issued and 223,538,303 outstanding as of December 31, 2014	2,407	2,248
Additional paid-in capital	4,184,538	3,835,725
Treasury stock (3,006,973 shares and 1,213,750 shares)	(61,525)	(23,635)
Accumulated other comprehensive income	39,510	55,896
Retained earnings (accumulated deficit)	5,843	(9,378)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,170,773	3,860,856
Non-controlling interests in consolidated subsidiaries	30,407	22,056
Total Equity	4,201,180	3,882,912
Total Liabilities and Equity	\$ 91,819,407	\$ 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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Interest income from loans	\$ 120,598	\$ 110,669	\$ 357,319	\$ 321,034
Interest income from investment securities	24,674	28,640	76,228	85,714
Servicing fees	32,528	34,641	90,939	101,533
Rental income	10,045	3,385	17,731	6,520
Other revenues	4,300	4,033	7,437	9,296
Total revenues	192,145	181,368	549,654	524,097
Costs and expenses:				
Management fees	28,082	24,943	82,871	77,849
Interest expense	50,688	39,739	151,021	115,265
General and administrative	38,693	47,640	115,361	136,835
Acquisition and investment pursuit costs	3,682	759	9,735	1,924
Costs of rental operations	2,352	1,783	5,261	3,889
Depreciation and amortization	7,234	3,017	17,147	12,807
Loan loss allowance, net	(2,667)	1,575	311	1,933
Other expense	3	918	378	6,527
Total costs and expenses	128,067	120,374	382,085	357,029
Income before other income, income taxes and non-controlling interests	64,078	60,994	167,569	167,068
Other income:				
Change in net assets related to consolidated VIEs	49,665	87,778	153,399	190,810
Change in fair value of servicing rights	(4,217)	(7,897)	(8,411)	(18,671)
Change in fair value of investment securities, net	2,617	1,860	3,564	15,180
Change in fair value of mortgage loans held-for-sale, net	19,082	15,517	51,044	48,018
Earnings from unconsolidated entities	5,706	3,805	20,747	13,432
Gain on sale of investments and other assets, net	3,348	1,332	20,755	12,965
Gain on derivative financial instruments, net	2,230	29,275	7,323	11,619
Foreign currency loss, net	(17,782)	(21,466)	(27,235)	(16,212)
Total other-than-temporary impairment ("OTTI")	—	(264)	—	(2,256)
Noncredit portion of OTTI recognized in other comprehensive income	—	264	—	1,246
Net impairment losses recognized in earnings	—	—	—	(1,010)

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Loss on extinguishment of debt	—	—	(5,921)	—
Other income, net	64	28	119	738
Total other income	60,713	110,232	215,384	256,869
Income from continuing operations before income taxes	124,791	171,226	382,953	423,937
Income tax provision	(7,675)	(3,836)	(27,418)	(13,733)
Income from continuing operations	117,116	167,390	355,535	410,204
Loss from discontinued operations, net of tax (Note 3)	—	—	—	(1,551)
Net income	117,116	167,390	355,535	408,653
Net income attributable to non-controlling interests	(381)	(2,346)	(1,289)	(5,140)
Net income attributable to Starwood Property Trust, Inc.	\$ 116,735	\$ 165,044	\$ 354,246	\$ 403,513

Earnings per share data attributable to Starwood Property Trust, Inc.:

Basic:				
Income from continuing operations	\$ 0.49	\$ 0.73	\$ 1.51	\$ 1.89
Loss from discontinued operations	—	—	—	(0.01)
Net income	\$ 0.49	\$ 0.73	\$ 1.51	\$ 1.88
Diluted:				
Income from continuing operations	\$ 0.49	\$ 0.73	\$ 1.51	\$ 1.88
Loss from discontinued operations	—	—	—	(0.01)
Net income	\$ 0.49	\$ 0.73	\$ 1.51	\$ 1.87
Dividends declared per common share	\$ 0.48	\$ 0.48	\$ 1.44	\$ 1.44

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 117,116	\$ 167,390	\$ 355,535	\$ 408,653
Other comprehensive (loss) income (net change by component):				
Cash flow hedges	(208)	530	(348)	559
Available-for-sale securities	(9,095)	3,954	(18,915)	(2,166)
Foreign currency remeasurement	2,912	(9,765)	2,877	(4,161)
Other comprehensive loss	(6,391)	(5,281)	(16,386)	(5,768)
Comprehensive income	110,725	162,109	339,149	402,885
Less: Comprehensive income attributable to non-controlling interests	(381)	(2,346)	(1,289)	(5,140)
Comprehensive income attributable to Starwood Property Trust, Inc.	\$ 110,344	\$ 159,763	\$ 337,860	\$ 397,745

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

Common stock Shares	Par Value	Additional Paid-in Capital	Treasury Stock Shares	Amount	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Starwood Property Trust, Inc. Stockholders' Equity	Non- Controlling Interests
224,752,053	\$ 2,248	\$ 3,835,725	1,213,750	\$ (23,635)	\$ (9,378)	\$ 55,896	\$ 3,860,856	\$ 22,056
13,800,000	138	326,004	—	—	—	—	326,142	—
9,400	—	219	—	—	—	—	219	—
—	—	(945)	—	—	—	—	(945)	—
—	—	—	1,793,223	(37,890)	—	—	(37,890)	—
—	—	(17,727)	—	—	—	—	(17,727)	—
1,484,879	15	26,440	—	—	—	—	26,455	—
619,256	6	14,822	—	—	—	—	14,828	—
—	—	—	—	—	354,246	—	354,246	1,289
—	—	—	—	—	(339,025)	—	(339,025)	—
—	—	—	—	—	—	(16,386)	(16,386)	—

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—	—	—	—	—	—	—	—	4,188
—	—	—	—	—	—	—	—	4,133
—	—	—	—	—	—	—	—	(1,259)
240,665,588	\$ 2,407	\$ 4,184,538	3,006,973	\$ (61,525)	\$ 5,843	\$ 39,510	\$ 4,170,773	\$ 30,407
196,139,045	\$ 1,961	\$ 4,300,479	625,850	\$ (10,642)	\$ (84,719)	\$ 75,449	\$ 4,282,528	\$ 44,605
25,300,000	253	564,442	—	—	—	—	564,695	—
759,000	8	18,338	—	—	—	—	18,346	—
2,430	—	58	—	—	—	—	58	—
—	—	(1,623)	—	—	—	—	(1,623)	—
—	—	—	587,900	(12,993)	—	—	(12,993)	—
1,025,144	10	21,491	—	—	—	—	21,501	—
376,932	4	8,986	—	—	—	—	8,990	—
—	—	—	—	—	403,513	—	403,513	5,140
—	—	—	—	—	(311,492)	—	(311,492)	—
—	—	(1,118,743)	—	—	—	—	(1,118,743)	(1,594)
—	—	—	—	—	—	(5,768)	(5,768)	—
—	—	—	—	—	—	—	—	382
—	—	—	—	—	—	—	—	(33,582)

223,602,551 \$ 2,236 \$ 3,793,428 1,213,750 \$ (23,635) \$ 7,302 \$ 69,681 \$ 3,849,012 \$ 14,951

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 355,535	\$ 408,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	11,055	8,501
Amortization of convertible debt discount and deferred fees	15,631	9,376
Accretion of net discount on investment securities	(20,312)	(17,174)
Accretion of net deferred loan fees and discounts	(26,615)	(16,756)
Amortization of net premium (discount) from secured borrowings on transferred loans	4	(862)
Share-based compensation	26,455	21,501
Share-based component of incentive fees	14,828	8,990
Change in fair value of fair value option investment securities	(3,564)	(15,180)
Change in fair value of consolidated VIEs	17,438	(71,105)
Change in fair value of servicing rights	8,411	18,671
Change in fair value of loans held-for-sale	(51,044)	(48,018)
Change in fair value of derivatives	(12,765)	(14,595)
Foreign currency loss, net	27,372	15,767
Gain on sale of investments and other assets	(20,755)	(13,907)
Other-than-temporary impairment	—	1,010
Loan loss allowance, net	311	1,933
Depreciation and amortization	15,873	13,178
Earnings from unconsolidated entities	(20,747)	(13,432)
Distributions of earnings from unconsolidated entities	18,665	9,354
Loss on extinguishment of debt	5,921	—
Originations of loans held-for-sale, net of principal collections	(1,424,837)	(1,159,058)
Proceeds from sale of loans held-for-sale	1,443,871	1,165,583
Changes in operating assets and liabilities:		
Related-party payable, net	(17,947)	7,073
Accrued and capitalized interest receivable, less purchased interest	(48,310)	(29,770)
Other assets	(29,576)	(6,192)
Accounts payable, accrued expenses and other liabilities	(25,211)	(46,997)

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Net cash provided by operating activities	259,687	236,544
Cash Flows from Investing Activities:		
Origination and purchase of loans held-for-investment	(1,670,124)	(2,123,947)
Proceeds from principal collections on loans	1,057,700	966,350
Proceeds from loans sold	599,504	341,472
Purchase of investment securities	(163,018)	(67,230)
Proceeds from sales of investment securities	6,301	100,166
Proceeds from principal collections on investment securities	348,090	40,999
Real estate business combinations, net of cash acquired	(239,933)	—
Proceeds from sale of properties	33,056	1,784
Purchase of other assets	(309)	(18,731)
Investment in unconsolidated entities	(32,063)	(21,973)
Distribution of capital from unconsolidated entities	29,003	38,946
Payments for purchase or termination of derivatives	(18,271)	(16,081)
Proceeds from termination of derivatives	30,194	5,611
Return of investment basis in purchased derivative asset	260	1,222
Decrease in restricted cash, net	9,404	8,890
Spin-off of Starwood Waypoint Residential Trust	—	(111,960)
Acquisition and improvement of single family homes	—	(61,901)
Proceeds from sale of non-performing loans	—	1,153
Net cash used in investing activities	(10,206)	(915,230)

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30,	
	2015	2014
Cash Flows from Financing Activities:		
Borrowings under financing agreements	\$ 3,423,328	\$ 2,917,281
Principal repayments on and repurchases of borrowings	(3,289,937)	(2,459,837)
Payment of deferred financing costs	(13,876)	(11,536)
Proceeds from common stock issuances	326,361	583,099
Payment of equity offering costs	(945)	(1,623)
Payment of dividends	(332,023)	(293,607)
Distributions to non-controlling interests	(1,259)	(33,582)
Purchase of treasury stock	(29,792)	—
Issuance of debt of consolidated VIEs		