

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

May 09, 2016

[Table of Contents](#)

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 March 31, 2016

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) 422-7700

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 May 4, 2016 was 237,661,803.



Table of Contents

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, 2015 and this Quarterly Report on Form 10-Q, 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;
- 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.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	4
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Operations</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income</u>	6
<u>Condensed Consolidated Statements of Equity</u>	7
<u>Condensed Consolidated Statements of Cash Flows</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	10
<u>Note 1 Business and Organization</u>	10
<u>Note 2 Summary of Significant Accounting Policies</u>	11
<u>Note 3 Acquisitions</u>	17
<u>Note 4 Loans</u>	19
<u>Note 5 Investment Securities</u>	23
<u>Note 6 Properties</u>	27
<u>Note 7 Investment in Unconsolidated Entities</u>	28
<u>Note 8 Goodwill and Intangible Assets</u>	28
<u>Note 9 Secured Financing Agreements</u>	30
<u>Note 10 Convertible Senior Notes</u>	32
<u>Note 11 Loan Securitization/Sale Activities</u>	34
<u>Note 12 Derivatives and Hedging Activity</u>	34
<u>Note 13 Offsetting Assets and Liabilities</u>	37
<u>Note 14 Variable Interest Entities</u>	37
<u>Note 15 Related-Party Transactions</u>	38
<u>Note 16 Stockholders' Equity</u>	40
<u>Note 17 Earnings per Share</u>	41
<u>Note 18 Accumulated Other Comprehensive Income</u>	42
<u>Note 19 Fair Value</u>	42
<u>Note 20 Income Taxes</u>	46
<u>Note 21 Commitments and Contingencies</u>	47
<u>Note 22 Segment Data</u>	47
<u>Note 23 Subsequent Events</u>	52
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	72
<u>Item 4.</u>	
<u>Controls and Procedures</u>	74
<u>Part II</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	75
<u>Item 1A.</u>	
<u>Risk Factors</u>	75
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	75
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	75
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	75
<u>Item 5.</u>	
<u>Other Information</u>	75

3

Table of Contents

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 March 31, 2016	As of December 31, 2015
Assets:		
Cash and cash equivalents	\$ 335,219	\$ 368,815
Restricted cash	48,375	23,069
Loans held-for-investment, net	6,187,654	5,973,079
Loans held-for-sale, at fair value	154,225	203,865
Loans transferred as secured borrowings	88,512	86,573
Investment securities (\$321,533 and \$403,703 held at fair value)	649,364	724,947
Properties, net	1,154,975	919,225
Intangible assets (\$95,492 and \$119,698 held at fair value)	180,476	201,570
Investment in unconsolidated entities	196,637	199,201
Goodwill	140,437	140,437
Derivative assets	36,938	45,091
Accrued interest receivable	35,972	34,314
Other assets	111,860	102,479
Variable interest entity ("VIE") assets, at fair value	85,115,662	76,675,689
Total Assets	\$ 94,436,306	\$ 85,698,354
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 139,286	