

PENNYMAC FINANCIAL SERVICES, INC.

Form 10-Q

August 07, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 June 30, 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: 001-35916

PennyMac Financial Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware	80-0882793
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6101 Condor Drive, Moorpark, California 93021
(Address of principal executive offices) (Zip Code)

(818) 224-7442

(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

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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Class	Outstanding at August 5, 2015
Class A Common Stock, \$0.0001 par value	21,792,701
Class B Common Stock, \$0.0001 par value	52

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PENNYMAC FINANCIAL SERVICES, INC.

FORM 10-Q

June 30, 2015

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Report”) contains certain forward looking statements that are subject to various risks and uncertainties. Forward looking statements are generally identifiable by use of forward looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “approximately,” “believe,” “predict,” “continue,” “plan” or other similar words or expressions.

Forward looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward looking information. Examples of forward looking statements include the following:

- projections of our revenues, income, earnings per share, capital structure or other financial items;
- descriptions of our plans or objectives for future operations, products or services;
- forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and
- descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward looking statements. There are a number of factors, many of which are beyond our control that could cause actual results to differ significantly from management’s expectations. Some of these factors are discussed below.

You should not place undue reliance on any forward looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 13, 2015.

Factors that could cause actual results to differ materially from historical results or those anticipated include, but are not limited to:

- the continually changing federal, state and local laws and regulations applicable to the highly regulated industry in which we operate;
- lawsuits or governmental actions if we do not comply with the laws and regulations applicable to our businesses;
- the mortgage lending and servicing-related regulations promulgated by the Consumer Financial Protection Bureau (“CFPB”) and its enforcement of these regulations;
- our dependence on U.S. government sponsored entities and changes in their current roles or their guarantees or guidelines;
- changes to government mortgage modification programs;

- the licensing and operational requirements of states and other jurisdictions applicable to our businesses, to which our bank competitors are not subject;
- foreclosure delays and changes in foreclosure practices;
- certain banking regulations that may limit our business activities;
- our dependence on the multi-family and commercial real estate sectors for future originations and investments in commercial mortgage loans and other commercial real estate related loans;
- changes in macroeconomic and U.S. real estate market conditions;
- difficulties inherent in growing loan production volume;
- difficulties inherent in adjusting the size of our operations to reflect changes in business levels;
- purchase opportunities for mortgage servicing rights (“MSRs”) and our success in winning bids;
- changes in prevailing interest rates;

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- increases in loan delinquencies and defaults;
- our reliance on PennyMac Mortgage Investment Trust (“PMT”) as a significant source of financing for, and revenue related to, our mortgage banking business;
- any required additional capital and liquidity to support business growth that may not be available on acceptable terms, if at all;
- our obligation to indemnify third party purchasers or repurchase loans if loans that we originate, acquire, service or assist in the fulfillment of, fail to meet certain criteria or characteristics or under other circumstances;
- our obligation to indemnify PMT and certain investment funds if our services fail to meet certain criteria or characteristics or under other circumstances;
- decreases in the historical returns on the assets that we select and manage for our clients, and our resulting management and incentive fees;
- the extensive amount of regulation applicable to our investment management segment;
- conflicts of interest in allocating our services and investment opportunities among ourselves and certain advised entities;
- the effect of public opinion on our reputation;
- our recent growth;
- our ability to effectively identify, manage, monitor and mitigate financial risks;
- our initiation of new business activities or expansion of existing business activities;
 - our ability to detect misconduct and fraud; and
- our ability to mitigate cybersecurity risks and cyber incidents.

Other factors that could also cause results to differ from our expectations may not be described in this Report or any other document. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2015	December 31, 2014
	(in thousands, except share data)	
ASSETS		
Cash	\$ 74,728	\$ 76,256
Short-term investments at fair value	23,577	21,687
Mortgage loans held for sale at fair value (includes \$1,369,324 and \$976,772 pledged to secure mortgage loans sold under agreements to repurchase; and \$202,076 and \$148,133 pledged to secure mortgage loan participation and sale agreement)	1,594,262	1,147,884
Derivative assets	43,568	38,457
Servicing advances, net (includes \$21,589 and \$18,686 valuation allowance)	244,806	228,630
Carried Interest due from Investment Funds	68,713	67,298
Investment in PennyMac Mortgage Investment Trust at fair value	1,307	1,582
Mortgage servicing rights (includes \$581,269 and \$325,383 at fair value; \$536,172 and \$392,254 pledged to secure note payable; and \$359,102 and \$191,166 subject to excess servicing spread financing)	1,135,510	730,828
Furniture, fixtures, equipment and building improvements, net	11,773	11,339
Capitalized software, net	1,250	567
Note receivable from PennyMac Mortgage Investment Trust—secured	52,526	—
Receivable from PennyMac Mortgage Investment Trust	16,245	23,871
Receivable from Investment Funds	2,148	2,291
Deferred tax asset	34,165	46,038
Loans eligible for repurchase	77,529	72,539
Other	48,498	37,419
Total assets	\$ 3,430,605	\$ 2,506,686
LIABILITIES		
Mortgage loans sold under agreements to repurchase	\$ 1,263,248	\$ 822,182
Mortgage loan participation and sale agreement	195,959	143,638
Note payable	246,456	146,855
Excess servicing spread financing at fair value payable to PennyMac Mortgage Investment Trust	359,102	191,166
Derivative liabilities	13,584	6,513
Accounts payable and accrued expenses	84,357	62,715
Mortgage servicing liabilities at fair value	11,791	6,306
Payable to Investment Funds	31,255	35,908

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Payable to PennyMac Mortgage Investment Trust	139,699	123,315
Payable to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement	71,895	75,024
Liability for loans eligible for repurchase	77,529	72,539
Liability for losses under representations and warranties	16,257	13,259
Total liabilities	2,511,132	1,699,420
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Class A common stock—authorized 200,000,000 shares of \$0.0001 par value; issued and outstanding, 21,790,666 and 21,577,686 shares, respectively	2	2
Class B common stock—authorized 1,000 shares of \$0.0001 par value; issued and outstanding, 52 and 54 shares, respectively	—	—
Additional paid-in capital	167,536	162,720
Retained earnings	73,019	51,242
Total stockholders' equity attributable to PennyMac Financial Services, Inc. common stockholders	240,557	213,964
Noncontrolling interest in Private National Mortgage Acceptance Company, LLC	678,916	593,302
Total stockholders' equity	919,473	807,266
Total liabilities and stockholders' equity	\$ 3,430,605	\$ 2,506,686

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

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Quarter ended June 30,		Six months ended	
	2015	2014	June 30, 2015	2014
	(in thousands, except earnings per share)			
Revenues				
Net gains on mortgage loans held for sale at fair value:				
From non-affiliates	\$ 85,411	\$ 42,230	\$ 162,078	\$ 78,666
Recapture payable to PennyMac Mortgage Investment Trust	(1,456)	(2,526)	(2,745)	(4,424)
	83,955	39,704	159,333	74,242
Loan origination fees	24,421	10,345	41,103	17,225
Fulfillment fees from PennyMac Mortgage Investment Trust	15,333	12,433	28,199	21,335
Net loan servicing fees:				
Loan servicing fees				
From non-affiliates	66,867	43,314	116,968	79,414
From PennyMac Mortgage Investment Trust	12,136	14,180	22,806	28,771
From Investment Funds	153	4,161	1,121	5,638
Ancillary and other fees	11,850	4,838	23,035	9,989
	91,006	66,493	163,930	123,812
Amortization, impairment and change in fair value of mortgage servicing rights	(15,324)	(19,586)	(69,008)	(37,933)
Change in fair value of excess servicing spread payable to PennyMac Mortgage Investment Trust	(7,133)	10,062	403	14,854
	(22,457)	(9,524)	(68,605)	(23,079)
Net loan servicing fees	68,549	56,969	95,325	100,733
Management fees:				
From PennyMac Mortgage Investment Trust	5,779	8,912	12,782	16,986
From Investment Funds	1,184	2,086	2,670	4,121
	6,963	10,998	15,452	21,107
Carried Interest from Investment Funds	182	1,834	1,415	3,991
Net interest expense:				
Interest income:				
To non-affiliates	12,651	6,252	21,584	10,362
To PennyMac Mortgage Investment Trust	533	—	533	—
	13,184	6,252	22,117	10,362
Interest expense:				
To non-affiliates	10,531	5,593	18,608	9,117
To PennyMac Mortgage Investment Trust	5,818	3,139	9,570	6,001
	16,349	8,732	28,178	15,118
Net interest expense	(3,165)	(2,480)	(6,061)	(4,756)
	(244)	(103)	(137)	12

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Change in fair value of investment in and dividends received from PennyMac Mortgage Investment Trust				
Other	357	735	2,036	2,038
Total net revenue	196,351	130,435	336,665	235,927
Expenses				
Compensation	70,422	46,971	128,566	89,857
Servicing	28,603	11,694	38,338	14,784
Technology	6,490	3,741	11,428	6,564
Loan origination	4,148	1,998	8,499	3,415
Professional services	4,074	2,661	6,907	4,860
Other	7,815	5,323	14,890	9,339
Total expenses	121,552	72,388	208,628	128,819
Income before provision for income taxes	74,799	58,047	128,037	107,108
Provision for income taxes	8,619	6,630	14,733	12,153
Net income	66,180	51,417	113,304	94,955
Less: Net income attributable to noncontrolling interest	53,431	41,799	91,527	77,365
Net income attributable to PennyMac Financial Services, Inc. common stockholders	\$ 12,749	\$ 9,618	\$ 21,777	\$ 17,590
Earnings per share				
Basic	\$ 0.59	\$ 0.45	\$ 1.01	\$ 0.84
Diluted	\$ 0.59	\$ 0.45	\$ 1.01	\$ 0.83
Weighted average common shares outstanding				
Basic	21,700	21,142	21,647	21,005
Diluted	76,105	75,915	76,063	75,895

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

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

PennyMac Financial Services, Inc. Stockholders						
	Number of shares		Common stock		Additional	Retained
	Class A	Class B	Class A	Class B	paid-in	earnings
	(in thousands)				capital	
2013	20,813	—	\$ 2	\$ —	\$ 153,000	\$ 14,400
	—	—	—	—	—	17,590
	32	—	—	—	1,596	—
	—	—	—	—	—	—
in	4	—	—	—	74	—
s						
of						
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.C to						
ces,	479	—	—	—	4,598	—
Class						
l						
ac	—	—	—	—	(291)	—
	21,328	—	\$ 2	\$ —	\$ 158,977	\$ 31,990
2014	21,578	—	\$ 2	\$ —	\$ 162,720	\$ 51,242
	—	—	—	—	—	21,777
	72	—	—	—	2,452	—
	—	—	—	—	—	—
in	8	—	—	—	149	—
s						
of						
e						
.C to						
ces,	133	—	—	—	2,432	—
Class	—	—	—	—	(217)	—
l						

21,791 — \$ 2 \$ — \$ 167,536 \$ 73,019 \$

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

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended June 30,	
	2015	2014
	(in thousands)	
Cash flow from operating activities		
Net income	\$ 113,304	\$ 94,955
Adjustments to reconcile net income to net cash used in operating activities:		
Net gains on mortgage loans held for sale at fair value	(159,333)	(74,242)
Accrual of servicing rebate to Investment Funds	1,114	563
Amortization, impairment and change in fair value of mortgage servicing rights and excess servicing spread	68,605	23,079
Carried Interest from Investment Funds	(1,415)	(3,991)
Accrual of interest on excess servicing spread financing	9,570	6,001
Amortization of debt issuance costs and commitment fees relating to financing facilities	3,631	2,646
Change in fair value of investment in common shares of PennyMac Mortgage Investment Trust	275	76
Stock and unit-based compensation expense	8,598	5,482
Provision for servicing advance losses	16,013	—
Depreciation and amortization	911	612
Purchase of mortgage loans held for sale from PennyMac Mortgage Investment Trust	(13,523,345)	(7,085,859)
Originations of mortgage loans held for sale	(2,052,648)	(728,040)
Purchase of mortgage loans from Ginnie Mae securities for modification and subsequent sale	(531,842)	(679,882)
Capitalization of interest on mortgage loans held for sale at fair value	(4,745)	—
Sale and principal payments of mortgage loans held for sale	15,619,191	8,022,045
Sale of mortgage loans held for sale to PennyMac Mortgage Investment Trust	10,828	—
Repurchase of mortgage loans by PennyMac Mortgage Investment Trust	8,777	—
Repurchase of mortgage loans subject to representations and warranties	(11,567)	(1,784)
Increase in servicing advances	(32,189)	(30,254)
Increase in receivable from Investment Funds	(971)	(2,302)
Decrease in receivable from PennyMac Mortgage Investment Trust	9,175	343
Decrease in deferred tax asset	12,826	10,721
Decrease in payable to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement	(4,299)	—

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Increase in other assets	(14,282)	(27,005)
Increase in accounts payable and accrued expenses	20,941	24,040
Decrease in payable to Investment Funds	(4,653)	(2,008)
Increase in payable to PennyMac Mortgage Investment Trust	16,120	13,360
Net cash used in operating activities	(421,410)	(431,444)
Cash flow from investing activities		
(Increase) decrease in short-term investments	(1,890)	96,191
Advance on note receivable from PennyMac Mortgage Investment Trust—secured	(71,072)	—
Repayment of note receivable from PennyMac Mortgage Investment Trust—secured	18,546	—
Purchase of mortgage servicing rights	(270,133)	(97,644)
Sale of mortgage servicing rights	—	10,881
Settlement of derivative financial instruments used for hedging	(8,293)	7,023
Purchase of furniture, fixtures, equipment and building improvements	(2,277)	(3,054)
Acquisition of capitalized software	(860)	(52)
Decrease (increase) in margin deposits and restricted cash	19,932	(7,733)
Net cash (used in) provided by investing activities	(316,047)	5,612
Cash flow from financing activities		
Sale of loans under agreements to repurchase	14,379,136	7,453,139
Repurchase of loans sold under agreements to repurchase	(13,937,711)	(7,099,464)
Issuance of mortgage loan participation certificates	7,937,026	—
Repayment of mortgage loan participation certificates	(7,884,705)	—
Borrowing on note payable	129,012	63,160
Repayment of note payable	(29,411)	—
Issuance of excess servicing spread financing	187,287	73,393
Repayment of excess servicing spread financing	(31,083)	(16,494)
Repayment of leases payable	(5)	—
Payment of debt issuance costs	(3,990)	—
Distribution to Private National Mortgage Acceptance Company, LLC partners	(9,627)	(7,731)
Net cash provided by financing activities	735,929	466,003
Net (decrease) increase in cash	(1,528)	40,171
Cash at beginning of period	76,256	30,639
Cash at end of period	\$ 74,728	\$ 70,810

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

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PENNYMAC FINANCIAL SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1—Organization and Basis of Presentation

PennyMac Financial Services, Inc. (“PFSI” or the “Company”) was formed as a Delaware corporation on December 31, 2012. Pursuant to a reorganization, the Company became a holding corporation and its primary asset is an equity interest in Private National Mortgage Acceptance Company, LLC (“PennyMac”). The Company is the managing member of PennyMac and operates and controls all of the businesses and affairs of PennyMac subject to the consent rights of other members under certain circumstances, and consolidates the financial results of PennyMac and its subsidiaries.

PennyMac is a Delaware limited liability company which, through its subsidiaries, engages in mortgage banking and investment management activities. PennyMac’s mortgage banking activities consist of residential mortgage loan production (including correspondent production and consumer direct lending) and mortgage loan servicing. PennyMac’s investment management activities and a portion of its loan servicing activities are conducted on behalf of investment vehicles that invest in residential mortgage loans and related assets. PennyMac’s primary wholly owned subsidiaries are:

- PNMAC Capital Management, LLC (“PCM”)—a Delaware limited liability company registered with the Securities and Exchange Commission (“SEC”) as an investment adviser under the Investment Advisers Act of 1940, as amended. PCM enters into investment management agreements with entities that invest in residential mortgage loans and related assets. Presently, PCM has management agreements with PennyMac Mortgage Investment Trust (“PMT”), a publicly held real estate investment trust, PNMAC Mortgage Opportunity Fund, LLC and PNMAC Mortgage Opportunity Fund, L.P., both registered under the Investment Company Act of 1940, as amended, an affiliate of these funds, and PNMAC Mortgage Opportunity Fund Investors, LLC (collectively, “Investment Funds”). Together, the Investment Funds and PMT are referred to as the “Advised Entities.”
- PennyMac Loan Services, LLC (“PLS”)—a Delaware limited liability company that services portfolios of residential mortgage loans on behalf of non-affiliates or the Advised Entities, originates new prime credit quality residential mortgage loans, and engages in other mortgage banking activities for its own account and the account of PMT. PLS is approved as a seller/servicer of mortgage loans by the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and as an issuer of securities guaranteed by the Government National Mortgage Association (“Ginnie Mae”). PLS is a licensed Federal Housing Administration Nonsupervised Title II Lender with the U.S. Department of Housing and Urban Development and a lender/servicer with the Veterans Administration and U.S. Department of Agriculture. We refer to each of Fannie Mae, Freddie Mac and Ginnie Mae as an “Agency” and collectively the “Agencies.”
- PNMAC Opportunity Fund Associates, LLC (“PMOFA”)—a Delaware limited liability company and the general partner of PNMAC Mortgage Opportunity Fund, L.P. PMOFA is entitled to incentive fees representing allocations of profits (“Carried Interest”) from PNMAC Mortgage Opportunity Fund, L.P..

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States (“GAAP”) as codified in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification for interim financial information and with the SEC’s instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by GAAP for complete financial statements. The interim consolidated information should be read together with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, income, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2015. Intercompany accounts and transactions have been eliminated.

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Preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results will likely differ from those estimates.

Reclassification of previously presented balances

In April of 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability.

ASU 2015-03 specifies that its adoption be made on a retrospective basis. Accordingly, the Company has reclassified its debt issuance costs from Other assets as previously presented to Mortgage loans sold under agreements to repurchase to conform its December 31, 2014 balance sheet to the current presentation. The adoption of ASU 2015-03 did not result in changes to the Company’s previously presented consolidated statements of income or consolidated statements of cash flows.

Following is a summary of the balance sheet reclassifications:

	December 31, 2014		Reclassification
	As reported (in thousands)	As previously reported	
Assets:			
Other	\$ 37,419	\$ 37,858	\$ (439)
Total assets	\$ 2,506,686	\$ 2,507,125	\$ (439)
Liabilities:			
Mortgage loans sold under agreements to repurchase	\$ 822,182	\$ 822,621	\$ (439)
Total liabilities	\$ 1,699,420	\$ 1,699,859	\$ (439)
Total liabilities and stockholders' equity	\$ 2,506,686	\$ 2,507,125	\$ (439)

Note 2—Concentration of Risk

A substantial portion of the Company's activities relate to the Advised Entities. Fees charged to these entities (generally comprised of fulfillment fees, loan servicing fees, management fees and Carried Interest) totaled 10% and 37% of total net revenues for the quarters ended June 30, 2015 and 2014, respectively, and 17% and 36% for the six months ended June 30, 2015 and 2014, respectively.

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Note 3—Transactions with Affiliates

Transactions with PMT

Correspondent Production

Following is a summary of mortgage lending and sourcing activity between the Company and PMT:

	Quarter ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Fulfillment fee revenue	\$ 15,333	\$ 12,433	\$ 28,199	\$ 21,335
Unpaid principal balance of loans fulfilled for PennyMac Mortgage Investment Trust	\$ 3,579,078	\$ 2,991,764	\$ 6,469,210	\$ 4,911,342
Sourcing fees paid	\$ 2,427	\$ 1,125	\$ 3,848	\$ 2,017
Unpaid principal balance of loans purchased from PennyMac Mortgage Investment Trust	\$ 8,082,764	\$ 3,748,874	\$ 12,818,138	\$ 6,722,951
Proceeds from sale of mortgage loans held for sale to PennyMac Mortgage Investment Trust	\$ 2,423	\$ 1,985	\$ 10,828	\$ 1,985
Tax service fee receivable from PennyMac Mortgage Investment Trust	\$ 1,113	\$ 684	\$ 2,002	\$ 1,050
Mortgage servicing rights recapture recognized	\$ —	\$ 1	\$ —	\$ 9

Mortgage Loan Servicing

Following is a summary of mortgage loan servicing fees earned from PMT:

	Quarter ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in thousands)			

Loan servicing fees relating to PennyMac Mortgage Investment

Trust:

Mortgage loans acquired for sale at fair value:

Base and supplemental	\$ 42	\$ 29	\$ 68	\$ 46
Activity-based	59	51	90	77
	101	80	158	123
Mortgage loans at fair value:				
Base and supplemental	4,183	4,975	8,215	9,941
Activity-based	3,093	5,746	5,987	12,132
	7,276	10,721	14,202	22,073
Mortgage servicing rights:				
Base and supplemental	4,654	3,323	8,310	6,471
Activity-based	105	56	136	104
	4,759	3,379	8,446	6,575
	\$ 12,136	\$ 14,180	\$ 22,806	\$ 28,771

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Management Fees

Following is a summary of the management fees earned from PMT:

	Quarter ended		Six months ended	
	June 30, 2015	2014	June 30, 2015	2014
	(in thousands)			
Management fees:				
Base	\$ 5,709	\$ 5,838	\$ 11,439	\$ 11,359
Performance incentive	70	3,074	1,343	5,627
	\$ 5,779	\$ 8,912	\$ 12,782	\$ 16,986

In the event of termination of the management agreement by PMT, the Company may be entitled to a termination fee in certain circumstances. The termination fee is equal to three times the sum of (a) the average annual base management fee, and (b) the average annual performance incentive fee earned by the Company, in each case during the 24-month period before termination.

Investing and Financing Activities

Following is a summary of investing and financing activity between the Company and PMT:

	Quarter ended		Six months ended	
	June 30, 2015	2014	June 30, 2015	2014
	(in thousands)			
Issuance of excess servicing spread	\$ 140,875	\$ 52,867	\$ 187,287	\$ 73,393
Repayment of excess servicing spread	\$ 18,352	\$ 9,081	\$ 31,083	\$ 16,494
Change in fair value of excess servicing spread (gain) loss	\$ (7,133)	\$ 10,062	\$ 403	\$ 14,854
Interest expense from excess servicing spread	\$ 5,818	\$ 3,139	\$ 9,570	\$ 6,001
Excess servicing spread recapture recognized	\$ 1,456	\$ 2,525	\$ 2,745	\$ 4,415
Advance on note receivable from PennyMac Mortgage Investment Trust	\$ 71,072	\$ —	\$ 71,072	\$ —
	\$ 18,546	\$ —	\$ 18,546	\$ —

Repayment of note receivable from PennyMac Mortgage Investment Trust				
Interest income on note receivable from PennyMac Mortgage Investment Trust	\$ 535	\$ —	\$ 535	\$ —

On April 30, 2015, the Company entered into an amendment to its Third Amended and Restated Loan and Security Agreement, dated as of March 27, 2015, pursuant to which it may finance certain of its mortgage servicing rights (“MSRs”) and servicing advance receivables with Credit Suisse First Boston Mortgage Capital LLC (“CSFB”) (the “Loan and Security Agreement”).

Under the terms of the amendment, the maximum loan amount under the Loan and Security Agreement was increased from \$257 million to \$407 million. The \$150 million increase was implemented for the purpose of facilitating the financing of excess servicing spread (“ESS”) by PMT. The aggregate loan amount outstanding under the Loan and Security Agreement and relating to advances outstanding with PMT is guaranteed in full by PMT.

In connection with the amendment to the Loan and Security Agreement, the Company and PMT entered into an underlying loan and security agreement, dated as of April 30, 2015, pursuant to which PMT may borrow up to \$150 million from the Company for the purpose of financing ESS.

The principal amount of the borrowings under the Loan and Security Agreement is based upon a percentage of the market value of the ESS pledged by PMT, subject to the maximum loan amount described above. Pursuant to the underlying loan and security agreement, PMT granted to the Company a security interest in all of its right, title and interest in, to and under the ESS pledged to secure loans.

The Company and PMT have agreed that PMT is required to repay the Company the principal amount of such borrowings plus accrued interest to the date of such repayment, and the Company is required to repay CSFB the corresponding amount under the Loan and Security Agreement. PMT is also required to pay the Company a fee for the

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structuring of the Loan and Security Agreement in an amount equal to the portion of the corresponding fee paid by the Company to CSFB under the Loan and Security Agreement and allocable to the increase in the maximum loan amount resulting from the ESS financing.

The note matures on October 30, 2015 and interest accrues at a rate based on the lender's cost of funds. As of June 30, 2015, \$52.5 million of principal and interest was outstanding and included in Note receivable from PennyMac Mortgage Investment Trust secured on the accompanying consolidated balance sheets.

Other Transactions

In connection with the initial public offering ("IPO") of PMT's common shares on August 4, 2009, the Company entered into an agreement with PMT pursuant to which PMT agreed to reimburse PennyMac for the \$2.9 million payment that it made to the underwriters in such offering (the "Conditional Reimbursement") if PMT satisfied certain performance measures over a specified period of time. Effective February 1, 2013, the parties amended the terms of the reimbursement agreement to provide for the reimbursement to the Company of the Conditional Reimbursement if PMT is required to pay the Company performance incentive fees under the management agreement at a rate of \$10 in reimbursement for every \$100 of performance incentive fees earned. The reimbursement of the Conditional Reimbursement is subject to a maximum reimbursement in any particular 12 month period of \$1.0 million and the maximum amount that may be reimbursed under the agreement is \$2.9 million. The Company received payments from PMT totaling \$73,000 and \$230,000 for the quarter and six months ended June 30, 2015, respectively, and \$0 and \$36,000 during the quarter and six months ended June 30, 2014, respectively.

In the event the termination fee is payable to the Company under the management agreement and the Company has not received the full amount of the reimbursements and payments under the reimbursement agreement, such amount will be paid in full. The term of the reimbursement agreement expires on February 1, 2019.

PMT reimburses the Company for other expenses, including common overhead expenses incurred on its behalf by the Company, in accordance with the terms of its management agreement. Such amounts are summarized below:

	Quarter ended June 30,		Six months ended	
	2015	2014	June 30,	2014
	(in thousands)		2015	2014
Reimbursement of:				
Common overhead incurred by the Company (1)	\$ 2,702	\$ 2,691	\$ 5,431	\$ 5,269
Expenses incurred on PMT's behalf	83	104	462	549

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	\$ 2,785	\$ 2,795	\$ 5,893	\$ 5,818
Payments and settlements during the period (2)	\$ 24,114	\$ 22,968	\$ 46,866	\$ 41,354

- (1) For the quarter ended June 30, 2015, in accordance with the terms of its management agreement with PMT, the Company provided PMT a discretionary waiver of \$700,000 of overhead expenses otherwise allocable to PMT.
- (2) Payments and settlements include payments for loan servicing fees, management fees, investment activities, financing activities and correspondent production activities itemized in the preceding tables and netting settlements made pursuant to master netting agreements between the Company and PMT.

Amounts due from PMT are summarized below:

	June 30, 2015	December 31, 2014
	(in thousands)	
Management fees	\$ 5,779	\$ 8,426
Allocated expenses	5,893	7,087
Servicing fees	3,666	3,385
Conditional Reimbursement	907	1,137
Unsettled excess servicing spread issuance	—	3,836
	\$ 16,245	\$ 23,871

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The Company holds an investment in PMT in the form of 75,000 common shares of beneficial interest as of June 30, 2015 and December 31, 2014. The common shares of beneficial interest had fair values of \$1.3 million and \$1.6 million as of June 30, 2015 and December 31, 2014, respectively.

Of the \$139.7 million payable to PMT as of June 30, 2015, \$130.4 million represents deposits made by PMT to fund servicing advances made by the Company, \$8.7 million represents other expenses and unsettled ESS financing activity, and \$640,000 represents MSR recapture payable to PMT.

Of the \$123.3 million payable to PMT as of December 31, 2014, \$116.7 million represents deposits made by PMT to fund servicing advances made by the Company, \$6.2 million represents other expenses and unsettled ESS financing activity, and \$460,000 represents MSR recapture payable to PMT.

Investment Funds

Amounts due from the Investment Funds are summarized below:

	June 30, 2015	December 31, 2014
	(in thousands)	
Carried Interest due from Investment Funds:		
PNMAC Mortgage Opportunity Fund, LLC	\$ 41,240	\$ 40,771
PNMAC Mortgage Opportunity Fund Investors, LLC	27,473	26,527
	\$ 68,713	\$ 67,298
Receivable from Investment Funds:		
Management fees	\$ 1,180	\$ 1,596
Loan servicing rebate	526	189
Loan servicing fees	308	476
Expense reimbursements	134	30
	\$ 2,148	\$ 2,291

Amounts due to the Investment Funds totaling \$31.3 million and \$35.9 million represent amounts advanced by the Investment Funds to fund servicing advances made by the Company as of June 30, 2015 and December 31, 2014, respectively.

Exchanged Private National Mortgage Acceptance Company, LLC Unitholders

The Company entered into a tax receivable agreement with PennyMac's existing unitholders on the date of the IPO that will provide for the payment by PFSI to PennyMac's exchanged unitholders an amount equal to 85% of the amount of the benefits, if any, that PFSI is deemed to realize as a result of (i) increases in tax basis of PennyMac's assets resulting from such unitholders' exchanges and (ii) certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. Based on the PennyMac unitholder exchanges to date, the Company has recorded a \$71.9 million Payable to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement as of June 30, 2015. The Company made payments under the tax receivable agreement totaling \$0 and \$4.3 million during the quarter and six months ended June 30, 2015.

Note 4—Earnings Per Share of Common Stock

Basic earnings per share of common stock is determined using net income attributable to the Company's common stockholders divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share of common stock is determined by dividing net income attributable to the Company's common stockholders by the weighted average number of shares of common stock outstanding, assuming all potentially dilutive shares of common stock were issued.

The Company applies the treasury stock method to determine the dilutive weighted average shares of common stock represented by the unvested stock-based compensation awards and the exchangeable PennyMac Class A units. The diluted earnings per share calculation assumes the exchange of these PennyMac Class A units for shares of common stock. Accordingly, earnings attributable to the Company's common stockholders is also adjusted to include the earnings

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allocated to the PennyMac Class A units after taking into account the income taxes applicable to the shares of common stock assumed to be exchanged.

The following table summarizes the basic and diluted earnings per share calculations:

	Quarter ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2015	2014	2015	2014
	(in thousands, except per share data)			
Basic earnings per share of common stock:				
Net income attributable to PennyMac Financial Services, Inc. common stockholders	\$ 12,749	\$ 9,618	\$ 21,777	\$ 17,590
Weighted average shares of common stock outstanding	21,700	21,142	21,647	21,005
Basic earnings per share of common stock	\$ 0.59	\$ 0.45	\$ 1.01	\$ 0.84
Diluted earnings per share of common stock:				
Net income	\$ 12,749	\$ 9,618	\$ 21,777	\$ 17,590
Effect of net income attributable to noncontrolling interest, net of income taxes	31,925	24,743	54,688	45,754
Diluted net income attributable to common stockholders	\$ 44,674	\$ 34,361	\$ 76,465	\$ 63,344
Weighted average shares of common stock outstanding	21,700	21,142	21,647	21,005
Dilutive shares:				
PennyMac Class A units exchangeable to common stock	53,620	53,509	53,592	53,609
Non-vested PennyMac Class A units issuable under unit-based stock compensation plan and exchangeable to common stock	650	1,216	714	1,247
Shares issuable under stock-based compensation plans	135	48	110	34
Diluted weighted average shares of common stock outstanding	76,105	75,915	76,063	75,895
Diluted earnings per share of common stock	\$ 0.59	\$ 0.45	\$ 1.01	\$ 0.83

Note 5—Loan Sales and Servicing Activities

The Company originates or purchases and sells mortgage loans in the secondary mortgage market without recourse for credit losses. However, the Company maintains continuing involvement with the mortgage loans in the form of servicing arrangements and the liability under representations and warranties it makes to purchasers and insurers of the mortgage loans.

The following table summarizes cash flows between the Company and transferees as a result of the sale of mortgage loans in transactions where the Company maintains continuing involvement with the mortgage loans in the form of loan servicing arrangements and a liability for representations and warranties it makes to purchasers and insurers of the mortgage loans as well as unpaid principal balance information at period end.

	Quarter ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Cash flows:				
Sales proceeds	\$ 9,853,346	\$ 4,729,647	\$ 15,619,191	\$ 8,022,045
Servicing fees received	\$ 35,317	\$ 25,282	\$ 69,312	\$ 47,466
Net servicing advance recoveries	\$ (5,248)	\$ (3,730)	\$ (8,955)	\$ (4,338)
Period end information:				
Unpaid principal balance of mortgage loans outstanding at end of period	\$ 44,794,166	\$ 29,546,095		
Delinquencies:				
30-89 days	\$ 1,030,350	\$ 543,347		
90 days or more or in foreclosure or bankruptcy	\$ 293,284	\$ 120,560		

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The unpaid principal balance (“UPB”) of the Company’s mortgage servicing portfolio is summarized as follows:

	June 30, 2015		
	Servicing rights owned (in thousands)	Contract servicing and subservicing	Total loans serviced
Investor:			
Non-affiliated entities	\$ 91,497,836	\$ —	\$ 91,497,836
Affiliated entities	—	43,145,707	43,145,707
Mortgage loans held for sale	1,526,779	—	1,526,779
	\$ 93,024,615	\$ 43,145,707	\$ 136,170,322
Amount subserviced for the Company (1)	\$ —	\$ 21,388	\$ 21,388
Delinquent mortgage loans:			
30 days	\$ 2,027,394	\$ 315,422	\$ 2,342,816
60 days	625,385	147,600	772,985
90 days or more			
Not in foreclosure	923,790	986,192	1,909,982
In foreclosure	479,039	1,405,262	1,884,301
Foreclosed	23,321	547,110	570,431
	\$ 4,078,929	\$ 3,401,586	\$ 7,480,515
Custodial funds managed by the Company (2)	\$ 2,724,892	\$ 586,848	\$ 3,311,740

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- (1) Certain of the mortgage loans serviced by the Company are subserviced on the Company’s behalf by other mortgage loan servicers. Mortgage loans are subserviced for the Company on a transitional basis for loans where the Company has obtained the rights to service the loans but servicing of the loans has not yet been transferred to the Company’s servicing system.
- (2) Borrower and investor custodial cash accounts relate to mortgage loans serviced under the servicing agreements and are not recorded on the Company’s consolidated balance sheets. The Company earns interest on custodial funds it manages on behalf of the mortgage loans investors, which is recorded as part of the interest income in the Company’s consolidated statements of income.

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	December 31, 2014		
Investor:	Servicing rights owned (in thousands)	Contract servicing and subservicing	Total loans serviced
		&n	