

Ellington Financial LLC
Form 10-Q
August 09, 2018
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 June 30, 2018

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 001-34569

Ellington Financial LLC

(Exact Name of Registrant as Specified in Its Charter)

Delaware

26-0489289

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

53 Forest Avenue, Old Greenwich, Connecticut 06870

(Address of Principal Executive Office) (Zip Code)

(203) 698-1200

(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 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

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.

Class

Outstanding at August 3, 2018

Common Shares Representing Limited Liability Company Interests, no par value 30,151,721

Table of Contents

ELLINGTON FINANCIAL LLC

INDEX

Part I. Financial Information

Item 1. Consolidated Financial Statements (unaudited)	<u>3</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>81</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>111</u>
Item 4. Controls and Procedures	<u>114</u>

Part II. Other Information

Item 1. Legal Proceedings	<u>114</u>
Item 1A. Risk Factors	<u>114</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>115</u>
Item 6. Exhibits	<u>115</u>

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY

(UNAUDITED)

	June 30, 2018	December 31, 2017
(In thousands except share amounts)		
	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	\$22,071	\$ 47,233
Restricted cash	425	425
Investments, financial derivatives, and repurchase agreements:		
Investments, at fair value (Cost – \$2,631,409 and \$2,071,754)	2,625,471	2,071,707
Financial derivatives—assets, at fair value (Net cost – \$24,510 and \$31,474)	30,669	28,165
Repurchase agreements, at fair value (Cost – \$214,346 and \$155,109)	214,411	155,949
Total investments, financial derivatives, and repurchase agreements	2,870,551	2,255,821
Due from brokers	84,196	140,404
Receivable for securities sold and financial derivatives	637,965	476,000
Interest and principal receivable	32,469	29,688
Other assets	24,399	43,770
Total Assets	\$3,672,076	\$ 2,993,341
LIABILITIES		
Investments and financial derivatives:		
Investments sold short, at fair value (Proceeds – \$880,825 and \$640,202)	\$882,146	\$ 642,240
Financial derivatives—liabilities, at fair value (Net proceeds – \$18,294 and \$27,463)	25,675	36,273
Total investments and financial derivatives	907,821	678,513
Reverse repurchase agreements	1,421,506	1,209,315
Due to brokers	3,250	1,721
Payable for securities purchased and financial derivatives	431,024	202,703
Other secured borrowings (Proceeds – \$95,630 and \$57,909)	95,630	57,909
Other secured borrowings, at fair value (Proceeds – \$102,298 and \$125,105)	101,100	125,105
Senior notes, net	84,902	84,771
Accounts payable and accrued expenses	4,105	3,885
Base management fee payable to affiliate	2,021	2,113
Incentive fee payable	291	—
Interest and dividends payable	6,791	5,904
Other liabilities	360	441
Total Liabilities	3,058,801	2,372,380
EQUITY	613,275	620,961
TOTAL LIABILITIES AND EQUITY	\$3,672,076	\$ 2,993,341
Commitments and contingencies (Note 17)		
ANALYSIS OF EQUITY:		
Common shares, no par value, 100,000,000 shares authorized; (30,149,880 and 31,335,938 shares issued and outstanding)	\$589,000	\$ 589,722
Additional paid-in capital – Long term incentive plan units	10,567	10,377
Total Shareholders' Equity	599,567	600,099
Non-controlling interests	13,708	20,862
Total Equity	\$613,275	\$ 620,961

PER SHARE INFORMATION:

Common shares	\$19.89	\$ 19.15
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See Notes to Consolidated Financial Statements

3

Table of Contents

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018
(UNAUDITED)

Current Principal/Number of Shares (In thousands)	Description	Rate	Maturity	Fair Value
				Expressed in U.S. Dollars
Cash				
Equivalents—Money				
Market Funds				
(1.11%) (a) (b)				
North America				
Funds				
\$6,833	Various	1.80% - 1.81%		\$ 6,833
Total Cash				
Equivalents—Money				
Market Funds (Cost				
\$6,833)				
Long Investments (428.11%) (a) (b) (ad)				
Mortgage-Backed Securities (256.80%)				
Agency Securities (206.36%) (c)				
Fixed Rate Agency Securities (192.85%)				
Principal and Interest - Fixed Rate Agency Securities (139.11%)				
North America				
Mortgage-related—Residential				
\$129,679	Federal National Mortgage Association Pools (30 Year)	4.00%	9/39 - 3/48	\$133,114
111,971	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.00%	11/41 - 7/48	114,913
85,957	Federal National Mortgage Association Pools (30 Year)	3.50%	9/42 - 2/48	85,942
73,728	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.50%	9/43 - 5/48	77,234
70,076	Federal National Mortgage Association Pools (30 Year)	4.50%	10/41 - 6/48	73,524
52,004	Government National Mortgage Association Pools (30 Year)	4.00%	7/45 - 5/48	53,331
47,147	Federal National Mortgage Association Pools (15 Year)	3.50%	3/28 - 3/32	47,772
40,956	Government National Mortgage Association Pools (30 Year)	3.50%	12/42 - 2/48	41,041
34,242	Federal National Mortgage Association Pools (30 Year)	5.00%	10/35 - 5/48	36,520
32,197	Government National Mortgage Association Pools (30 Year)	5.00%	2/48 - 6/48	34,018
27,559	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.50%	1/42 - 3/48	27,560
21,710	Government National Mortgage Association Pools (30 Year)	4.50%	9/46 - 4/48	22,714
14,735	Government National Mortgage Association Pools (30 Year)	5.50%	4/48 - 6/48	15,739
11,624	Federal National Mortgage Association Pools (15 Year)	3.00%	4/30 - 9/32	11,570
8,869	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.50%	9/28 - 12/32	8,983
8,198	Federal Home Loan Mortgage Corporation Pools (Other)	3.50%	2/30 - 9/46	8,205
6,541	Federal National Mortgage Association Pools (15 Year)	4.00%	6/26 - 5/31	6,729
5,070	Federal National Mortgage Association Pools (30 Year)	5.50%	10/39 - 6/48	5,460
5,086	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.00%	7/44 - 4/48	5,395
5,062	Federal National Mortgage Association Pools (Other)	5.00%	9/43 - 1/44	5,365
4,926	Federal National Mortgage Association Pools (Other)	4.00%	6/37 - 12/47	5,013
3,542	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.00%	7/43 - 1/47	3,448

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2,666	Government National Mortgage Association Pools (30 Year)	3.75%	7/47	2,688
2,538	Federal Home Loan Mortgage Corporation Pools (Other)	4.50%	5/44	2,648
2,703	Federal National Mortgage Association Pools (30 Year)	3.00%	1/42 - 6/45	2,639
2,465	Federal National Mortgage Association Pools (15 Year)	4.50%	4/26	2,564
2,479	Federal National Mortgage Association Pools (Other)	4.50%	5/41	2,561
2,436	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.00%	4/30	2,424
1,774	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.50%	8/33 - 5/48	1,915
1,594	Federal National Mortgage Association Pools (20 Year)	4.00%	12/33	1,648
1,236	Government National Mortgage Association Pools (30 Year)	6.00%	5/48	1,337

See Notes to Consolidated Financial Statements

4

Table of Contents

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Value (In thousands) (continued)	Principal/Notional Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
\$1,234	Federal Home Loan Mortgage Corporation Pools (15 Year)	4.00%	2/29	\$ 1,267
1,147	Federal National Mortgage Association Pools (30 Year)	6.00%	9/39 - 2/40	1,257
1,099	Federal Home Loan Mortgage Corporation Pools (Other)	3.00%	6/28 - 3/30	1,091
1,000	Federal Home Loan Mortgage Corporation Pools (20 Year)	4.50%	12/33	1,053
856	Federal Home Loan Mortgage Corporation Pools (30 Year)	6.00%	5/40	937
885	Federal National Mortgage Association Pools (Other)	3.00%	10/46	853
722	Government National Mortgage Association Pools (30 Year)	3.00%	11/42	707
626	Government National Mortgage Association Pools (Other)	3.50%	10/30 - 2/32	616
650	Government National Mortgage Association Pools (30 Year)	2.49%	10/43	610
461	Federal National Mortgage Association Pools (Other)	3.50%	4/26	467
145	Government National Mortgage Association Pools (Other)	3.00%	6/30	141
110	Federal National Mortgage Association Pools (30 Year)	3.28%	6/42	107
				853,120
Interest Only - Fixed Rate Agency Securities (2.05%)				
North America				
Mortgage-related—Residential				
19,686	Government National Mortgage Association	4.00%	2/45 - 6/45	3,498
12,358	Federal National Mortgage Association	4.50%	12/20 - 6/44	1,512
5,270	Government National Mortgage Association	6.00%	6/38 - 8/39	1,093
7,183	Government National Mortgage Association	4.50%	6/39 - 7/44	966
3,745	Federal National Mortgage Association	5.50%	10/39	831
4,078	Government National Mortgage Association	5.50%	11/43	719
3,896	Federal National Mortgage Association	4.00%	5/39 - 11/43	613
3,984	Federal Home Loan Mortgage Corporation	3.50%	12/32	591
6,137	Federal Home Loan Mortgage Corporation	5.00%	11/38	528
3,254	Federal National Mortgage Association	5.00%	1/38 - 5/40	509
4,441	Federal Home Loan Mortgage Corporation	5.50%	1/39 - 9/39	439
1,801	Federal National Mortgage Association	6.00%	1/40	318
1,527	Federal Home Loan Mortgage Corporation	4.50%	7/43	283
3,909	Government National Mortgage Association	5.00%	5/37 - 5/41	261
2,488	Federal National Mortgage Association	3.00%	9/41	237
930	Government National Mortgage Association	4.75%	7/40	183
				12,581
TBA - Fixed Rate Agency Securities (51.69%)				
North America				
Mortgage-related—Residential				
93,642	Government National Mortgage Association (30 Year)	5.00%	8/18	98,156
91,953	Federal National Mortgage Association (30 Year)	4.00%	7/18	93,756
39,213	Government National Mortgage Association (30 Year)	5.00%	7/18	41,161
21,540	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	7/18	21,425

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18,609	Government National Mortgage Association (30 Year)	4.50% 7/18	19,343
17,600	Federal National Mortgage Association (30 Year)	4.50% 8/18	18,297

See Notes to Consolidated Financial Statements

5

Table of Contents

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Value (In thousands) (continued)	Principal/Notional Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
\$8,675	Government National Mortgage Association (30 Year)	5.50%	7/18	\$ 9,165
8,240	Government National Mortgage Association (30 Year)	4.00%	7/18	8,445
4,825	Government National Mortgage Association (30 Year)	3.00%	7/18	4,724
1,660	Federal Home Loan Mortgage Corporation (15 Year)	3.00%	7/18	1,648
890	Government National Mortgage Association (30 Year)	3.50%	7/18	893
				317,013
	Total Fixed Rate Agency Securities (Cost \$1,203,700)			1,182,714
	Floating Rate Agency Securities (13.51%)			
	Principal and Interest - Floating Rate Agency Securities (10.20%)			
	North America			
	Mortgage-related—Residential			
53,399	Government National Mortgage Association Pools	4.41% - 4.68%	7/61 - 12/67	56,371
4,132	Federal National Mortgage Association Pools	2.70% - 4.69%	9/35 - 5/45	4,283
1,835	Federal Home Loan Mortgage Corporation Pools	3.49% - 4.33%	6/37 - 5/44	1,872
				62,526
	Interest Only - Floating Rate Agency Securities (3.31%)			
	North America			
	Mortgage-related—Residential			
283,640	Other Government National Mortgage Association	0.36% - 4.71%	3/37 - 10/66	13,246
56,713	Other Federal National Mortgage Association	1.12% - 5.50%	6/33 - 12/41	4,782
22,991	Other Federal Home Loan Mortgage Corporation	3.93% - 4.58%	3/36 - 1/44	2,109
7,818	Resecuritization of Government National Mortgage Association (d)	2.60%	8/60	181
				20,318
	Total Floating Rate Agency Securities (Cost \$85,730)			82,844
	Total Agency Securities (Cost \$1,289,430)			1,265,558
	Private Label Securities (50.44%)			
	Principal and Interest - Private Label Securities (49.17%)			
	North America (27.06%)			
	Mortgage-related—Residential			
208,679	Various	0.00% - 27.05%	5/19 - 3/47	152,506
	Mortgage-related—Commercial			
42,805	Various	2.80% - 4.25%	8/46 - 5/61	13,469
	Total North America (Cost \$155,765)			165,975
	Europe (22.11%)			
	Mortgage-related—Residential			
145,103	Various	0.00% - 5.50%	6/25 - 12/50	119,269
	Mortgage-related—Commercial			
26,027	Various	0.37% - 4.04%	10/20 - 8/45	16,309

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Total Europe (Cost \$133,727)	135,578
Total Principal and Interest - Private Label Securities (Cost \$289,492)	301,553

See Notes to Consolidated Financial Statements

6

Table of Contents

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Value (In thousands)	Principal/Notional Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
	Interest Only - Private Label Securities (1.27%)			
	North America			
	Mortgage-related—Residential			
\$33,472	Various	0.00% - 2.00%	12/30 - 9/47	\$ 4,328
	Mortgage-related—Commercial			
43,707	Various	1.25% - 2.00%	3/49 - 5/61	3,458
	Total Interest Only - Private Label Securities (Cost \$5,694)			7,786
	Other Private Label Securities (0.00%)			
	North America			
	Mortgage-related—Residential			
70,577	Various	—%	6/37	—
	Mortgage-related—Commercial			
—	Various	—%	7/45 - 5/61	—
	Total Other Private Label Securities (Cost \$191)			—
	Total Private Label Securities (Cost \$295,377)			309,339
	Total Mortgage-Backed Securities (Cost \$1,584,807)			1,574,897
	Collateralized Loan Obligations (34.29%)			
	North America (32.00%) (e)			
335,854	Various	0.00% - 10.04%	7/18 - 11/57	196,254
	Total North America (Cost \$201,637)			196,254
	Europe (2.29%)			
14,663	Various	4.47% - 7.95%	4/24 - 1/27	14,067
	Total Europe (Cost \$14,194)			14,067

Total Collateralized Loan Obligations (Cost \$215,831)					210,321
Consumer Loans and Asset-backed Securities backed by Consumer Loans (32.49%) (f)					
North America (31.07%)					
Consumer (g) (h)					
207,154	Various	5.31% - 76.50%	7/18 - 6/23		190,531
Total North America (Cost \$194,898)					190,531
Europe (1.42%)					
Consumer					
3,608	Various	—%	8/24 - 12/30		8,723
Total Europe (Cost \$899)					8,723
Total Consumer Loans and Asset-backed Securities backed by Consumer Loans (Cost \$195,797)					199,254

See Notes to Consolidated Financial Statements

7

Table of Contents

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Number of Properties (In thousands)	Rate	Maturity	Fair Value Expressed in U.S. Dollars
Corporate Debt (13.23%)			
North America (11.28%)			
Basic Materials			
\$3,770 Various	3.55% - 7.63%	10/21 - 3/26	\$ 3,775
Communications			
14,216 Various	4.13% - 12.29%	4/20 - 3/27	14,618
Consumer			
26,786 Various	2.60% - 10.86%	1/19 - 12/34	26,750
Energy			
3,975 Various	4.63% - 7.88%	9/21 - 8/25	3,985
Financial			
355 Various	5.00%	8/22	359
Industrial			
13,715 Various	3.25% - 5.88%	6/20 - 1/28	13,440
Technology			
6,770 Various	3.63% - 4.38%	9/20 - 5/22	6,275
Total North America (Cost \$65,053)			69,202
Europe (1.95%)			
Consumer			
20,636 Various	—%	9/18	52
Financial			
12,344 Various	0.00% - 16.00%	10/20 - 11/22	11,884
Total Europe (Cost \$13,081)			11,936
Total Corporate Debt (Cost \$78,134)			81,138
Secured Notes (1.82%) (n)			
North America			
Mortgage-related—Residential			
17,945 Various	5.00%	11/57	11,126
Total Secured Notes (Cost \$11,361)			11,126
Mortgage Loans (64.97%) (f)			
North America			
Mortgage-related—Commercial			
(j)			
105,453 Various	3.73% - 13.50%	8/18 - 10/37	104,951
Mortgage-related—Residential			
(k) (m)			
293,774 Various	2.00% - 15.00%	7/18 - 6/58	293,472

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Total Mortgage Loans (Cost \$396,155)	398,423
Real Estate Owned (5.60%) (f) (l)	
North America	
Real estate-related	
5 Single-Family Houses	894
18 Commercial Properties	33,445
Total Real Estate Owned (Cost \$33,593)	34,339

See Notes to Consolidated Financial Statements

8

Table of Contents

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Number of Shares (In thousands)		Rate	Maturity	Fair Value
				Expressed in U.S. Dollars
Corporate Equity Investments (7.42%)				
North America (7.42%)				
Asset-Backed Securities				
n/a	Non-Controlling Equity Interest in Limited Liability Company (i) Communications			\$ 5,284
7	Non-Exchange Traded Corporate Equity Consumer			174
n/a	Non-Controlling Equity Interest in Limited Liability Company (i)			6,053
23	Exchange Traded Equity			54
1,540	Non-Exchange Traded Corporate Equity Diversified			5
144	Non-Exchange Traded Corporate Equity Financial			1,275
61	Exchange Traded Equity Mortgage-related—Commercial (n)			683
n/a	Non-Controlling Equity Interest in Limited Liability Company Mortgage-related—Residential (n)			1,150
23	Non-Exchange Traded Preferred Equity Investment in Mortgage Originators			28,009
9,818	Non-Exchange Traded Common Equity Investment in Mortgage Originators			2,814
Total North America (Cost \$45,260)				45,501
Europe (0.00%)				
Consumer				
125	Non-Exchange Traded Corporate Equity Financial			—
—	Non-Exchange Traded Corporate Equity			4
Total Europe (Cost \$4)				4
Total Corporate Equity Investments (Cost \$45,264)				45,505
U.S. Treasury Securities (11.49%)				
North America				
Government				
\$68,175	U.S. Treasury Note	2.63%	6/23	67,842
1,995	U.S. Treasury Note	2.25%	11/27	1,895
448	U.S. Treasury Note	2.63%	3/25	443
292	U.S. Treasury Note	2.00%	1/21	288
Total U.S. Treasury Securities (Cost \$70,467)				70,468
Total Long Investments (Cost \$2,631,409)				\$ 2,625,471

See Notes to Consolidated Financial Statements

9

Table of Contents

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

~~CD~~ ~~Principal~~