

AMERICAN RESIDENTIAL INVESTMENT TRUST INC
Form 10-Q
November 13, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934.**

**For the quarterly period ended: September 30,
2001**

OR

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

Commission File Number: **1-13485**

AMERICAN RESIDENTIAL INVESTMENT TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

33-0741174

(I.R.S. Employer Identification No.)

445 Marine View Avenue, Suite 230 Del Mar, California

(Address of principal executive offices)

92014

(Zip Code)

(858) 350-5000

(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock (\$0.01)

7,959,900 as of October 17, 2001

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

American Residential Investment Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2001	December 31, 2000
ASSETS		
Cash and cash equivalents	\$ 24,488	\$ 14,688
Bond collateral, mortgage loans, net	524,374	847,265
Bond collateral, real estate owned	8,627	7,685
Retained interest in securitization	1,587	3,249
Interest rate cap agreements	-	1,115
Accrued interest receivable, net	3,294	6,315
Due from affiliate	448	355
Investment in American Residential Holdings, Inc.	1,714	1,480
Other assets	692	421
	\$ 565,224	\$ 882,573
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Short-term debt	\$ 938	\$ 5,083
Long-term debt, net	490,029	797,182
Accrued interest payable	125	309
Due to affiliate	1,686	1,347
Accrued expenses and other liabilities	628	143
Management fees payable	172	271
Accrued dividends	-	1,611
Total liabilities	493,578	805,946
Stockholders' Equity:		
Preferred stock, par value \$.01 per share; 1,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$.01 per share; 25,000,000 shares authorized; 7,959,900 shares issued and outstanding at September 30, 2001 and 8,055,500 shares issued and 8,020,900 shares outstanding at December 31, 2000.	80	81
Treasury Stock (34,600 shares at December 31, 2000)	-	(84)
Additional paid-in-capital	108,992	109,271
Accumulated deficit	(37,426)	(32,641)

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Total stockholders' equity		71,646		76,627
	\$	565,224	\$	882,573

See accompanying notes to consolidated financial statements.

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American Residential Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss), unaudited

(in thousands, except per share data)

	For the Three Months Ended September 30, 2001	For the Three Months Ended September 30, 2000	For the Nine Months Ended September 30, 2001	For the Nine Months Ended September 30, 2000
Interest income:				
Mortgage assets	\$ 12,590	\$ 19,780	\$ 44,648	\$ 67,103
Cash and investments	188	226	544	647
Interest rate cap and floor agreement expense	-	(131)	(9)	(473)
Total interest income	12,778	19,875	45,183	67,277
Interest expense	7,079	16,925	30,318	53,704
Net interest spread	5,699	2,950	14,865	13,573
Premium amortization	6,934	2,500	12,371	8,436
Net interest income (loss)	(1,235)	450	2,494	5,137
Provision for loan losses	2,176	2,396	4,596	3,892
Net interest income (loss after provision for loan losses)	(3,411)	(1,946)	(2,102)	1,245
Other operating income:				
Management fee income	41	69	138	267
Equity in income of American Residential Holdings, Inc.	76	8	233	313
Prepayment penalty income	635	929	2,309	2,800
Total other operating income	752	1,006	2,680	3,380
Net operating income (loss)	(2,659)	(940)	578	4,625
Other expenses:				
Impairment on retained interest in securitization	-	4,702	-	4,702
Loss on sale of real estate owned, net	111	340	264	1,107
Loss on loans sales	-	167	-	167
Management fees	553	919	1,992	3,017
General and administrative expenses	649	365	1,563	1,264
Write-off of acquisition due diligence costs	149	-	664	-
Total other expenses	1,462	6,493	4,483	10,257
Loss before cumulative effect of a change in accounting principle	(4,121)	(7,433)	(3,905)	(5,632)
Adoption of SFAS 133 Accounting Change:				
Reduce Cap Agreement cost to market	-	-	(1,106)	-
Net loss	(4,121)	(7,433)	(5,011)	(5,632)
Other comprehensive income (loss)				
Unrealized gains (losses retained interest interest in securitization)	3	-	217	(1,150)
Reclassification adjustment for loss included in net income	-	3,650	-	3,650
	3	3,650	217	2,500

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Unrealized holding gains (losses
arising during the period)

Comprehensive (loss)	(4,118)	(3,783)	(4,794)	(3,132)
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(Loss) per share before cumulative effect of accounting change	\$	(0.52)	\$	(0.92)	\$	(0.49)	\$	(0.70)
Net income (loss per share of common stock-basic and diluted)	\$	(0.52)	\$	(0.92)	\$	(0.63)	\$	(0.70)
Dividends per share of common stock for the related period	\$	-	\$	0.20	\$	-	\$	0.60

See accompanying notes to consolidated financial statements.

American Residential Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows, unaudited

(in thousands)

	For the Nine Months Ended September 30, 2001	For the Nine Months Ended September 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$ (5,011)	\$ (5,632)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage assets premiums	12,371	8,436
Cumulative effect of change in accounting principle	1,106	-
Amortization of interest rate cap agreements	9	778
Amortization of CMO capitalized costs	894	783
Amortization of CMO premium	(78)	(117)
Provision for loan losses	4,596	3,892
Equity in income of American Residential Holdings, Inc.	(233)	(313)
Decrease in deposits to retained interest in securitization	1,877	596
Decrease on retained interest in securitization	4	4,702
Loss on sale of real estate owned	132	1,107
Loss on loan sales	-	167
Decrease in accrued interest receivable	5,437	4,390
(Increase) decrease in other assets	(271)	196
Increase in due from affiliate	(93)	(13)
Decrease in accrued interest payable	(184)	(320)
Increase (decrease) in accrued expenses and management fees payable	386	(226)
Increase in due to affiliate	339	382
Net cash provided by operating activities	21,281	18,808
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for interest rate cap agreements	-	(554)
Purchase of mortgage loans held-for-investment	-	(622)
Sale of mortgage loans held-for-investment	-	66,525
Eurodollar hedge return	-	1,962
Principal payments on bond collateral	292,863	273,821
Proceeds from sale of real estate owned	9,572	6,518
Net cash provided by investing activities	302,435	347,650
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of CMO bonds	-	56,210
Decrease in net borrowings from short-term debt	(4,145)	(113,666)
Dividends paid	(1,606)	(5,639)
Payments on long-term debt	(307,969)	(296,252)
Increase in capitalized costs	-	(216)
Purchase of Treasury Stock	(196)	-
Net cash used in financing activities	(313,916)	(359,563)

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Net increase in cash and cash equivalents		9,800		6,895
Cash and cash equivalents at beginning of period		14,688		8,550
Cash and cash equivalents at end of period	\$	24,488	\$	15,445
Supplemental information - interest paid				
	\$	29,319	\$	46,656
Non-cash transactions:				
Transfers from mortgage loans held-for-investment to bond collateral	\$	-	\$	58,279
Transfers from bond collateral to real estate owned	\$	12,684	\$	10,722

See accompanying notes to consolidated financial statements.

AMERICAN RESIDENTIAL INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies and Practices

Basis of Financial Statement Presentation

The interim financial statements included herein have been prepared by American Residential Investment Trust, Inc., (AmRIT or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such SEC rules and regulations. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's latest Annual Report. In the opinion of management, all adjustments, including normal recurring adjustments necessary to present fairly the consolidated financial position of the Company with respect to the interim financial statements and the results of the operations for the interim period ended September 30, 2001, have been included. Certain reclassifications may have been made to prior interim period amounts to conform to the current presentation. The results of operations for interim periods are not necessarily indicative of results for the full year.

New Accounting Standard

SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. On January 1, 2001, we adopted SFAS 133, and at that time, determined that our interest rate cap agreements did not meet the hedging requirements of SFAS 133. Previously, we had designated these interest rate cap agreements as hedges to assure that we maintained a positive gap between the cost of borrowing and the yield on our mortgage portfolio. With the implementation of SFAS 133, we recorded transition amounts associated with establishing the fair values of the derivative instruments on the balance sheet as an increase of \$1,106,000 to net loss. Under old accounting rules, the Company would have expensed the cost of the interest rate caps over their effective period.

Note 2. Income (Loss) Per Share

The following table illustrates the computation of basic and diluted income (loss) per share (in thousands, except share and per share data):

For the Three Months Ended September 30, 2001	For the Three Months Ended September 30, 2000	For the Nine Months Ended September 30, 2001	For the Nine Months Ended September 30, 2001
(in thousands, except share data)			

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Numerator:								
Numerator for basic income per share before cumulative effect of accounting change	\$	(4,121)	\$	(7,433)	\$	(3,905)	\$	(5,632)
Numerator for basic income per share net loss		(4,121)		(7,433)		(5,011)		(5,632)
Denominator:								
Denominator for basic income per share - weighted average number of common shares outstanding during the period		7,959,900		8,055,500		7,963,274		8,055,500
Incremental common shares attributable to exercise of outstanding options		-		-		-		-
Denominator for diluted income per share		7,959,900		8,055,500		7,963,274		8,055,500
Loss per share before cumulative effect of accounting change								
of accounting change	\$	(0.52)	\$	(0.92)	\$	(0.49)	\$	(0.70)
Basic loss per share	\$	(0.52)	\$	(0.92)	\$	(0.63)	\$	(0.70)
Diluted loss per share	\$	(0.52)	\$	(0.92)	\$	(0.63)	\$	(0.70)

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For the nine months ended September 30, 2001 and 2000 there were 1,202,100 and 1,036,100 options, respectively, that were antidilutive and, therefore, not included in the calculations above.

Note 3. Bond Collateral, Mortgage Loans, net

AmRIT has pledged mortgage loans as collateral in order to secure long-term-debt. Bond collateral consists primarily of adjustable-rate, conventional, 30-year mortgage loans secured by first liens on one to four-family residential properties. All bond collateral is pledged to secure repayment of the related long-term-debt obligation. All principal and interest (less servicing and related fees) on the bond collateral is remitted to a trustee and is available for payment on the long-term-debt obligation. The obligations under the long-term-debt are payable solely from the bond collateral and are otherwise non-recourse to AmRIT. The components of the bond collateral at September 30, 2001 and December 31, 2000 are summarized as follows (dollars in thousands):

	CMO/REMIC 2000-2 Securitization	CMO/REMIC 1999-A Securitization	CMO 1999-2 Securitization	CMO 1999-1 Securitization	CMO/FASIT 1998-1 Securitization	TOTAL Bond Collateral
At September 30, 2001						
Mortgage loans	\$ 39,348	\$ 131,519	\$ 200,353	\$ 80,863	\$ 56,343	\$ 508,426
Unamortized premium	1,343	5,220	8,826	3,120	1,873	20,382
Allowance for loan losses	(228)	(1,361)	(1,035)	(1,068)	(742)	(4,434)
	\$ 40,463	\$ 135,378	\$ 208,144	\$ 82,915	\$ 57,474	\$ 524,374
Weighted average net coupon	9.08%	10.72%	9.44%	9.54%	11.30%	9.89%
Unamortized premiums as a percent of Mortgage Loans	3.41%	3.97%	4.41%	3.86%	3.32%	4.01%
At December 31, 2000						
Mortgage loans	\$ 51,414	\$ 246,198	\$ 313,392	\$ 116,760	\$ 91,250	\$ 819,014
Unamortized premium	1,885	8,877	12,470	5,323	4,213	32,768
Allowance for loan losses	(196)	(621)	(1,399)	(1,413)	(888)	(4,517)
	\$ 53,103	\$ 254,454	\$ 324,463	\$ 120,670	\$ 94,575	\$ 847,265
Weighted average net coupon	9.09%	9.48%	8.98%	10.08%	12.08%	9.63%
Unamortized premiums as a percent of Mortgage Loans						