Cherry Hill Mortgage Investment Corporation Announces Second Quarter 2024 Results

August 8, 2024

FARMINGDALE, N.J.--(BUSINESS WIRE)--Aug. 8, 2024-- Cherry Hill Mortgage Investment Corporation (NYSE: CHMI) ("Cherry Hill" or the "Company") today reported results for the second quarter 2024.

Second Quarter 2024 and Other Recent Highlights

- In July 2024, the Company's Board of Directors, based on the recommendation of a special committee comprised of independent and disinterested directors, authorized and approved internalizing management of the Company and directed the Company's officers to take all actions necessary to effect the internalization.
- GAAP net loss applicable to common stockholders of $1.9 million, or $0.06 per share.
- Earnings available for distribution ("EAD") attributable to common stockholders of $2.3 million, or $0.08 per diluted share.
- Common book value per share of $4.15 at June 30, 2024.
- GAAP net loss applicable to common stockholders, EAD attributable to common stockholders and common book value per share were each impacted by $0.06 per share of special committee-related expenses.
- Declared regular common dividend of $0.15 per share, annualized common dividend yield was 16.4% based on the closing sale price of the Company's common stock as reported by the NYSE on August 7, 2024.
- As of August 7, 2024, 395,897 shares of 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock had been repurchased, totaling $9.4 million. There is $40.6 million of availability left in the program.
- Aggregate portfolio leverage stood at 4.9x at June 30, 2024.
- As of June 30, 2024, the Company had unrestricted cash of $52.4 million.

"We continue to proactively manage our portfolio, navigating spread and volatility risks," said Jay Lown, President and CEO of Cherry Hill Mortgage Investment Corporation. "Notably, we sold approximately $1.2 billion of UPB of low-balance MSRs this quarter, which should enhance our portfolio's efficiency and reduce servicing costs. Looking ahead, we look forward to completing our internalization, which we anticipate will reduce our expenses and further align us with stockholders."

Operating Results

Cherry Hill reported GAAP net loss applicable to common stockholders for the second quarter of 2024 of $1.9 million, or $0.06 per basic and diluted weighted average common share outstanding. Reported GAAP net loss was determined based primarily on the following: $0.2 million of net interest income, $8.9 million of net servicing income, a net realized loss on RMBS of $1.9 million, a net realized gain on investments in MSRs of $0.7 million, a net realized gain of $9.4 million on derivatives, a net unrealized loss of $4.4 million on RMBS measured at fair value through earnings, a net unrealized loss of $3.0 million on derivatives, a net unrealized loss of $3.3 million on investments in Servicing Related Assets, and general and administrative expenses and management fees paid to Cherry Hill's external manager in the aggregate amount of $5.1 million (which includes special committee-related expenses of $1.7 million).

Earnings available for distribution attributable to common stockholders for the second quarter of 2024 were $2.3 million, or $0.08 per basic and diluted weighted average common share outstanding. For a reconciliation of GAAP net loss to non-GAAP earnings available for distribution, please refer to the reconciliation table accompanying this release.

	Three Months Ended	
	June 30, 2024	March 31, 2024
	(unaudited)	(unaudited)
Income		
Interest income	$ 13,677	$ 12,741
Interest expense	13,510	13,648
Net interest income (expense)	167	(907)
Servicing fee income	12,349	12,891
Servicing costs	3,455	2,634
Net servicing income	8,894	10,257
Other income (loss)		
Realized loss on RMBS, net	(1,859)	-
Realized gain on investments in MSRs, net	741	-
Realized gain on derivatives, net	9,430	6,252
Unrealized loss on RMBS, measured at fair value through earnings, net	(4,440)	(8,321)
Unrealized gain (loss) on derivatives, net	(3,042)	12,324
Unrealized loss on investments in Servicing Related Assets	(3,312)	(3,257)
Total Income	**6,579**	**16,348**

Expenses		
General and administrative expense	3,371	1,841
Management fee to affiliate	1,760	1,748
Total Expenses	**5,131**	**3,589**
Income Before Income Taxes	**1,448**	**12,759**
Provision for corporate business taxes	664	703
Net Income	**784**	**12,056**
Net income allocated to noncontrolling interests in Operating Partnership	(19)	(235)
Dividends on preferred stock	(2,555)	(2,307)
Gain (loss) on repurchase and retirement of preferred stock	(74)	152
Net Income (Loss) Applicable to Common Stockholders	**$ (1,864)**	**$ 9,666**
Net Income (Loss) Per Share of Common Stock		
Basic	**$ (0.06)**	**$ 0.32**
Diluted	**$ (0.06)**	**$ 0.32**
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	29,978,791	29,978,134
Diluted	30,029,960	30,019,969

Dollar amounts in thousands, except per share amounts.

Net unrealized loss on the Company's RMBS portfolio classified as available-for-sale that are reported in accumulated other comprehensive loss was approximately $3.7 million.

	Three Months Ended	
	June 30, 2024	**March 31, 2024**
	(unaudited)	**(unaudited)**
Net Income	$ 784	$ 12,056
Other comprehensive loss:		
Unrealized loss on RMBS, available-for-sale, net	(3,734)	(6,596)
Net other comprehensive loss	(3,734)	(6,596)
Comprehensive income (loss)	**$ (2,950)**	**$ 5,460**
Comprehensive (income) loss attributable to noncontrolling interests in Operating Partnership	57	(106)
Dividends on preferred stock	(2,555)	(2,307)
Gain (loss) on repurchase and retirement of preferred stock	(74)	152
Comprehensive income (loss) attributable to common stockholders	**$ (5,522)**	**$ 3,199**

Dollar amounts in thousands.

Portfolio Highlights for the Quarter Ended June 30, 2024

The Company realized net servicing fee income of $8.9 million, net interest income of $0.2 million and other loss of $2.5 million, primarily related to realized and unrealized losses on RMBS, as well as unrealized losses on derivatives and investments in servicing related assets, partially offset by realized gains on derivatives and investments in MSRs. The unpaid principal balance for the MSR portfolio stood at $18.0 billion as of June 30, 2024 and the carrying value of the MSR portfolio ended the quarter at $234.3 million. Net interest spread for the RMBS portfolio stood at 3.23% and the debt-to-equity ratio on the aggregate portfolio ended the quarter at 4.9x.

The RMBS portfolio had a book value and carrying value of approximately $1.1 billion at quarter-end June 30, 2024. The portfolio had a weighted average coupon of 4.76% and weighted average maturity of 28 years.

In order to mitigate duration risk and interest rate risk associated with the Company's RMBS and MSRs, Cherry Hill used interest rate swaps, TBAs and Treasury futures. At quarter end June 30, 2024, the Company held interest rate swaps with a notional amount of $1.1 billion, TBAs with a notional amount of ($427.0) million, and Treasury futures with a notional amount of $232.4 million.

As of June 30, 2024, Cherry Hill's GAAP book value was $4.15 per diluted share, net of the second quarter dividend.

Dividends

On June 13, 2024, the Board of Directors declared a quarterly dividend of $0.15 per share of common stock for the second quarter of 2024. The dividend was paid in cash on July 31, 2024 to common stockholders of record as of the close of business on June 28, 2024. Additionally, the Board of Directors declared a dividend of $0.5125 per share on the Company's 8.20% Series A Cumulative Redeemable Preferred Stock and a dividend of $0.6995 per share on the Company's 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock for the second quarter 2024. The dividends were paid in cash on July 15, 2024 to Series A and B Preferred stockholders of record as of the close of business on June 28, 2024.

Earnings Available for Distribution

Earnings available for distribution ("EAD") is a non-GAAP financial measure that we define as GAAP net income (loss), excluding realized gain (loss) on RMBS, unrealized gain (loss) on RMBS measured at fair value through earnings, realized and unrealized gain (loss) on derivatives, realized gain (loss) on acquired assets, realized and unrealized gain (loss) on investments in MSRs (net of any estimated MSR amortization) and any tax expense (benefit) on realized and unrealized gain (loss) on MSRs. MSR amortization refers to the portion of the change in fair value of the MSR that is primarily due to the realization of cashflows, runoff resulting from prepayments and an adjustment for any gain or loss on the capital used to purchase the MSR. EAD also includes interest rate swap periodic interest income (expense) and drop income on TBA dollar roll transactions, which are included in "Realized gain (loss) on derivatives, net" on the consolidated statements of income (loss). EAD is adjusted to exclude outstanding LTIP-OP Units in our Operating Partnership and dividends paid on our preferred stock.

EAD is provided for purposes of potential comparability to other issuers that invest in residential mortgage-related assets. The Company believes providing investors with EAD, in addition to related GAAP financial measures, may provide investors some insight into the Company's ongoing operational performance. However, the concept of EAD does have significant limitations, including the exclusion of realized and unrealized gains (losses), and given the apparent lack of a consistent methodology among issuers for defining EAD, it may not be comparable to similarly titled measures of other issuers, which define EAD differently from us and each other. As a result, EAD should not be considered a substitute for the Company's GAAP net income (loss) or as a measure of the Company's liquidity. While EAD is one indicia of the Company's earnings capacity, it is not the only factor considered in setting a dividend and is not the same as REIT taxable income which is calculated in accordance with the rules of the IRS.

The following table provides a reconciliation of net income to EAD for the three months ended June 30, 2024 and March 31, 2024:

	Three Months Ended	
	June 30, 2024	**March 31, 2024**
	(unaudited)	**(unaudited)**
Net Income	$ 784	$ 12,056
Realized loss on RMBS, net	1,859	-
Realized loss (gain) on derivatives, net [1]	(508)	3,109
Realized gain on investments in MSRs, net	(741)	-
Unrealized loss on RMBS, measured at fair value through earnings, net	4,440	8,321
Unrealized loss (gain) on derivatives, net	3,042	(12,324)
Unrealized gain on investments in MSRs, net of estimated MSR amortization	(5,247)	(5,937)
Tax expense on realized and unrealized gain on MSRs	1,325	1,199
Total EAD:	$ 4,954	$ 6,424
EAD attributable to noncontrolling interests in Operating Partnership	(100)	(125)
Dividends on preferred stock	(2,555)	(2,307)
EAD Attributable to Common Stockholders	**$ 2,299**	**$ 3,992**
EAD Attributable to Common Stockholders, per Diluted Share	**$ 0.08**	**$ 0.13**
GAAP Net Income (Loss) Per Share of Common Stock, per Diluted Share	**$ (0.06)**	**$ 0.32**

Dollar amounts in thousands, except per share amounts.

1. Excludes drop income on TBA dollar rolls of $638,000 and $682,000 and interest rate swap periodic interest income of $8.3 million and $8.7 million for the three-month periods ended June 30, 2024 and March 31, 2024, respectively.

Additional Information

Additional information regarding Cherry Hill's financial condition and results of operations can be found in its Annual Report on Form 10-Q for the quarter ended June 30, 2024 filed with the Securities and Exchange Commission on August 8, 2024. In addition, an investor presentation with supplemental information regarding Cherry Hill, its business and its financial condition as of June 30, 2024 and its results of operations for the second quarter 2024 has been posted to the Investor Relations section of Cherry Hill's website, www.chmireit.com. Cherry Hill will discuss the investor presentation on the conference call referenced below.

Webcast and Conference Call

The Company's management will host a conference call today at 5:00 pm Eastern Time. A copy of this earnings release and the investor presentation referenced above will be posted to the Investor Relations section of Cherry Hill's website, www.chmireit.com. All interested parties are welcome to participate on the live call.

A live webcast of the conference call will be available in the investor relations section of the Company's website at www.chmireit.com. To listen to the live broadcast, go to the site at least 15 minutes prior to the scheduled start time in order to register, download and install any necessary audio software. An online archive of the webcast will be available on the Company's website for one year following the call.

Participants may register for the conference call here. Once registered, dial-in information for the call will be made available.

About Cherry Hill Mortgage Investment Corporation

Cherry Hill Mortgage Investment Corporation is a real estate finance company that acquires, invests in and manages residential mortgage assets in

the United States. For additional information, visit www.chmireit.com.

Forward-Looking Statements

This press release contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws, including, among others, statements relating to the Company's long-term growth opportunities and strategies, the Company's ability to complete the internalization and achieve cost savings resulting from being an internally managed company, the Company's ability to expand its market opportunities and create its own Excess MSRs and its ability to generate sustainable and attractive risk-adjusted returns for stockholders. These forward-looking statements are based upon the Company's present expectations, but these statements are not guaranteed to occur. For a description of factors that may cause the Company's actual results or performance to differ from its forward-looking statements, please review the information under the heading "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, and other documents filed by the Company with the Securities and Exchange Commission.

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