

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

//xx// Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarter ended June 30, 1994

// // Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Commission file number 1-9819

RESOURCE MORTGAGE CAPITAL, INC.  
(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of  
incorporation or organization)

52-1549373  
(I.R.S. Employer  
Identification No.)

10500 Little Patuxent Parkway, Columbia, Maryland  
(Address of principal executive offices)

21044  
(Zip Code)

(410) 715-2000  
(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 ninety days. //xx//  
Yes // //No

On July 31, 1994, the registrant had 20,055,888 shares of common stock  
of \$.01 value outstanding, which is the registrant's only class of  
common stock.

RESOURCE MORTGAGE CAPITAL, INC.  
FORM 10-Q

INDEX

PAGE

-----

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at June 30, 1994 and December 31, 1993	3
Consolidated Statements of Operations for the three months ended and the six months ended June 30, 1994 and 1993	4
Consolidated Statement of Shareholders' Equity for the six months ended June 30, 1994	5
Consolidated Statements of Cash Flows for the six months ended June 30, 1994 and 1993	6
Notes to Consolidated Financial Statements	7

Item 2. Management's Discussion and Analysis of

## PART II OTHER INFORMATION

Item 1. Legal Proceedings	15
Item 2. Changes in Securities	15
Item 3. Defaults Upon Senior Securities	15
Item 4. Submission of Matters to a Vote of Security Holders	15
Item 5. Other Information	15
Item 6. Exhibits and Reports on Form 8-K	15
SIGNATURES	16

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## RESOURCE MORTGAGE CAPITAL, INC.

## CONSOLIDATED BALANCE SHEETS

(amounts in thousands except share data)

	June 30, 1994	December 31, 1993
	-----	-----
ASSETS		
Mortgage investments:		
Collateral for CMOs	\$ 388,610	\$ 434,698
Adjustable-rate mortgage securities, net	2,381,504	2,021,196
Fixed-rate mortgage securities, net	203,925	214,128
Other mortgage securities	63,507	65,625
Mortgage warehouse participations	61,677	156,688
	-----	-----
	3,099,223	2,892,335
Mortgage loans in warehouse	286,342	777,769
Cash	8,855	1,549
Accrued interest receivable	15,058	13,466
Other assets	17,817	41,643
	-----	-----
	\$ 3,427,295	\$ 3,726,762
	=====	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

## LIABILITIES

Collateralized mortgage obligations	\$ 377,699	\$ 432,677
Repurchase agreements	2,622,359	2,754,166
Notes payable	61,909	87,451
Commercial paper	58,376	148,672
Accrued interest payable	11,340	14,695
Deferred income	13,829	13,214
Other liabilities	14,500	22,855
	-----	-----
	3,160,012	3,473,730
	-----	-----

## SHAREHOLDERS' EQUITY

Common stock: par value \$.01 per share, 50,000,000 shares authorized, 20,040,552 and 19,331,932 issued and outstanding, respectively	200	193
Additional paid-in capital	278,598	259,622
Net unrealized loss on available-for-sale mortgage investments	(10,060)	-
Retained earnings (deficit)	(1,455)	(6,783)
	-----	-----
	267,283	253,032
	-----	-----
	\$ 3,427,295	\$ 3,726,762
	=====	=====

See notes to consolidated financial statements.

RESOURCE MORTGAGE CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
(amounts in thousands except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
	----	----	----	----
Interest Income:				
Collateral for CMOs	\$ 8,270	\$ 10,436	\$ 16,809	\$ 22,139
Adjustable-rate mortgage securities	26,355	18,637	51,651	35,709
Fixed-rate mortgage securities	3,589	3,400	7,707	6,667
Other mortgage investments	3,502	1,831	5,930	3,571
Mortgage warehouse participations	1,343	946	2,772	2,418
Mortgage loans in warehouse	8,673	5,279	18,158	9,828
	-----	-----	-----	-----
	51,732	40,529	103,027	80,332
	-----	-----	-----	-----
Interest and CMO-related expense:				
Collateralized mortgage obligations:				
Interest	7,743	9,835	15,783	20,834
Other	352	543	760	1,095
Repurchase agreements	28,759	16,518	55,642	30,949
Notes payable	1,411	1,341	2,181	2,506
Commercial paper	779	580	1,582	1,507
Other	1,127	1,118	2,256	2,337
	40,171	29,935	78,204	59,228
Net margin on mortgage assets	11,561	10,594	24,823	21,104
Valuation adjustments on mortgage assets	-	(1,000)	-	(1,000)
Gain on sale of mortgage assets, net of associated costs	9,718	5,820	16,559	10,880
Other income	391	102	620	292
General & administrative expenses	(6,301)	(2,958)	(11,133)	(6,218)
	-----	-----	-----	-----
Net income	\$ 15,369	\$ 12,558	\$ 30,869	\$ 25,058
	=====	=====	=====	=====
Net income per share	\$ 0.78	\$ 0.76	\$ 1.58	\$ 1.52
	=====	=====	=====	=====
Weighted average number of common shares outstanding	19,750,225	16,536,103	19,599,758	16,526,882
	=====	=====	=====	=====

See notes to consolidated financial statements.

RESOURCE MORTGAGE CAPITAL, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (amounts in thousands except share data)			Net unrealized loss on available- for-sale mortgage investments			Retained earnings (deficit)	Total
Number of shares	Common stock	Additional paid-in capital					-----
-----	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 1993	19,331,932	\$ 193	\$ 259,622	\$ -	\$ (6,783)	\$ 253,032	
Issuance of common stock, net	708,620	7	18,976	-	-	18,983	
Net income - six months ended June 30, 1994	-	-	-	-	30,869	30,869	
Net change in unrealized loss on							

available- for-sale mortgage investments	-	-	-	(10,060)	-	(10,060)
Dividends declared - \$1.56 per share	-	-	-	-	(25,541)	(25,541)
	-----	-----	-----	-----	-----	-----
Balance at June 30, 1994	20,040,552	\$ 200	\$ 278,598	\$ (10,060)	\$ (1,455)	\$ 267,283
	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

#### RESOURCE MORTGAGE CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (amounts in thousands)	Six months Ended June 30,	
	1994	1993
	-----	-----
Operating activities:		
Net income	\$ 30,869	\$ 25,058
Adjustments to reconcile net income to net cash used for operating activities:		
Amortization and depreciation	3,241	3,675
Net decrease (increase) in mortgage loans held for sale	487,936	(197,734)
Net decrease in accrued interest, other payables and other assets	18,831	91
Net gain from sales of mortgage investments	(4,474)	(1,211)
Other	(149)	2,601
	-----	-----
Net cash provided by (used for) operating activities	536,214	(167,520)
	-----	-----
Investing activities:		
Collateral for CMOs:		
Principal payments on collateral	81,657	106,413
Net decrease in funds held by trustees	9,466	9,416
	-----	-----
	91,123	115,829
Purchase of CMOs, net	(1,651)	-
Purchase of other mortgage investments	(613,170)	(578,315)
Payments on other mortgage investments	261,231	52,834
Proceeds from sales of other mortgage investments	83,664	188,600
Capital expenditures	(1,134)	(227)
	-----	-----
Net cash used for investing activities	(179,937)	(221,279)
	-----	-----
Financing activities:		
Principal payments on CMOs	(89,741)	(114,400)
(Repayments of) proceeds from short-term borrowings, net	(247,645)	533,767
Proceeds from stock offerings, net	18,983	1,057
Dividends paid	(30,568)	(30,566)
	-----	-----
Net cash (used for) provided by financing activities	(348,971)	389,858
	-----	-----
Net increase in cash	7,306	1,059
Cash at beginning of period	1,549	1,135
	-----	-----
Cash at end of period	\$ 8,855	\$ 2,194
	=====	=====

See notes to consolidated financial statements.

RESOURCE MORTGAGE CAPITAL, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1994

(amounts in thousands except share data)

#### NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

- - - - -

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The consolidated financial statements include the accounts of Resource Mortgage Capital, Inc., its wholly owned subsidiaries, and certain other entities. As used herein, the "Company" refers to Resource Mortgage Capital, Inc. ("RMC") and each of the entities that is consolidated with RMC for financial reporting purposes. A portion of the Company's mortgage operations are operated by a taxable corporation that is consolidated with RMC for financial reporting purposes, but is not consolidated for income tax purposes. All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. The Consolidated Balance Sheet at June 30, 1994, the Consolidated Statements of Operations for the three months and the six months ended June 30, 1994 and 1993, the Consolidated Statement of Stockholders' Equity for the six months ended June 30, 1994, the Consolidated Statements of Cash Flows for the six months ended June 30, 1994 and 1993 and related notes are unaudited. Operating results for the six months ended June 30, 1994 are not necessarily indicative of the results that may be expected for the year ending December 31, 1994. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 1993.

#### NOTE 2--MORTGAGE LOANS IN WAREHOUSE AND SECURITIZATION ACTIVITY

The Company purchases and originates fixed-rate and adjustable-rate loans secured by first mortgages or first deeds of trust on single-family attached or detached residential properties and originates fixed-rate loans secured by first mortgages or deeds of trust on multi-family residential properties. The Company funded mortgage loans with an aggregate principal balance of \$1,839,864 during the six months ended June 30, 1994. During this period, the Company sold or securitized mortgage loans with an aggregate principal balance of \$2,351,345.

In the six months ended June 30, 1994, the Company recognized net gains of \$12,085 on securitizations and sales of mortgage loans. Additionally, during the six months ended June 30, 1994, the Company deferred gains of \$2,491 related to securitization and sales of adjustable-rate mortgage loans that are convertible to a fixed rate. The deferred gain will be recognized as income over the five year optional conversion period. The recognized gain and deferred gain are net of taxes totaling \$1,408 for the six months ended June 30, 1994.

#### NOTE 3--AVAILABLE-FOR-SALE MORTGAGE INVESTMENTS

On January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. This statement requires that investments in debt and equity securities be classified as either held-to-maturity securities, trading securities, or available-for-sale securities. Held-to-maturity securities are defined as securities that the Company has the positive intent and ability to hold to maturity and are measured at amortized cost. Trading securities are defined as securities that are bought and held principally for the purpose of selling in the near term and are measured at fair value, with unrealized gains and losses included in earnings. Securities not classified as either held-to-maturity securities or trading securities are deemed to be available-for-sale securities and are measured at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity.

The Company has classified all of its mortgage investments as available-for-sale securities.

NOTE 4--SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS INFORMATION

	Six months ended June 30, 1994 -----	1993 -----
Cash paid for interest	\$ 40,376 =====	\$ 56,587 =====
Supplemental disclosure of non-cash activities:		
Purchase of collateral for CMOs	\$ (37,253)	\$ -
Assumption of CMOs	35,602	-
	-----	-----
Purchase of CMOs, net	\$ (1,651) =====	\$ - =====

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Resource Mortgage Capital, Inc. (the "Company") operates mortgage conduits and invests in a portfolio of residential mortgage securities. The Company's primary strategy is to use its mortgage conduit operations, which involve the purchase and securitization of residential mortgage loans, to create investments for its portfolio. The Company's principal sources of income are net interest income on its investment portfolio, gains on the securitization and sale of mortgage loans and the interest spread realized while the mortgage loans are being accumulated for securitization.

In recent periods, the Company's net income improved primarily from an increase in the net margin on its mortgage assets and an increase in the gain on sale of mortgage assets. The increase in net margin resulted primarily from the addition to the Company's portfolio of investments created by the Company's mortgage conduit operations. However, during the first six months of 1994, this increase was partially offset by a decrease in the net interest spread earned on the adjustable-rate mortgage securities in the rising interest rate environment. Lower overall mortgage loan originations in the market are anticipated for 1994 as compared to 1993 as a result of this recent increase in mortgage loan interest rates and the resulting decrease in mortgage loan refinancings. This lower anticipated volume is expected to reduce the gain on sale of mortgage assets during the second six months of 1994 relative to the first six months of 1994.

Results of Operations

	Three Months Ended		Six Months Ended	
(amounts in thousands except per share information)	June 30, ----- 1994 1993 -----		June 30, ----- 1994 1993 -----	
Net margin on mortgage assets	\$ 11,561	\$ 10,594	\$ 24,823	\$ 21,104
Net gain on sale of mortgage assets	9,718	5,820	16,559	10,880
General and administrative expenses	6,301	2,958	11,133	6,218
Net income	15,369	12,558	30,869	25,058
Net income per share	0.78	0.76	1.58	1.52
Principal balance of mortgage loans funded	886,970	847,958	1,839,864	1,711,544

Three Months and Six Months Ended June 30, 1994 Compared to Three Months and Six Months Ended June 30, 1993

The increase in the Company's earnings during the first six months of 1994 as compared to the same period in 1993 is primarily the result of the increase in net margin on mortgage assets and the increase in the net gain on sale of mortgage assets. The increase in the Company's earnings for the three months ended June 30, 1994 as compared to the same period in 1993 can be attributed primarily to the same factors discussed in the comparison of the six months ended June 30, 1994 to the same period in 1993.

Three Months Ended June 30,				Six Months Ended June 30,			
(amounts in thousands)							
1994	1993			1994	1993		
Balance	Effective Rate	Balance	Effective Rate	Balance	Effective Rate	Balance	Effective Rate
Interest-earning assets : (1)							
Collateral for CMOs (2)							
\$ 368,409	8.98%	\$ 454,968	9.18%	376,294	8.93%	\$ 480,030	9.22%
Adjustable-rate mortgage securities							
2,127,153	4.96	1,488,930	5.01	2,126,858	4.86	1,401,552	5.10
Fixed-rate mortgage securities							
204,580	7.02	181,091	7.51	208,008	7.41	174,257	7.65
Other mortgage securities							
77,647	18.04	36,561	20.03	76,244	15.55	36,329	19.66
Mortgage warehouse participations							
84,678	6.35	76,543	4.94	94,067	5.90	97,474	4.96
Total portfolio-related assets							
2,862,467	6.02	2,238,093	6.30	2,881,471	5.89	2,189,642	6.44
Mortgage loans in warehouse							
552,140	6.28	325,202	6.49	601,458	6.04	294,411	6.68
Total interest-earning assets							
\$3,414,607	6.06%	\$ 2,563,295	6.32%	3,482,929	5.92%	\$2,484,053	6.47%

Interest-bearing liabilities:							
Portfolio-related liabilities:							
CMOs							
\$ 374,967	8.26%	\$ 460,996	8.53%	384,754	8.20%	\$ 487,639	8.54%
Repurchase agreements:							
Adjustable-							
rate							
mortgage							
securities							
2,022,473	4.20	1,394,562	3.53	2,039,058	3.91	1,604,978	3.60
Fixed-							
rate							
mortgage							
securities							
194,127	5.20	170,645	4.87	198,471	5.12	161,060	4.59
Other							
mortgage							
securities							
2,990	4.28	5,497	3.71	7,102	3.83	6,074	3.75
Commercial							
paper							
77,307	4.04	72,057	3.23	87,020	3.64	92,515	3.26
-----	-----	-----	-----	-----	-----	-----	-----
Total							
portfolio-							
related							
liabilities							
2,671,864	4.84	2,103,847	4.72	2,716,405	4.60	2,052,266	4.84
Warehouse-							
related							
liabilities:							
Repurchase							
agreements							
395,432	5.03	178,197	4.70	452,096	4.68	157,277	4.66
Notes							
payable							
84,605	6.64	95,722	5.60	67,852	6.41	87,835	5.71
-----	-----	-----	-----	-----	-----	-----	-----
Total							
warehouse-							
related							
liabilities							
480,037	5.32	273,919	5.01	519,948	4.91	245,111	5.03
-----	-----	-----	-----	-----	-----	-----	-----
Total							
interest-							
bearing							
liabilities							
\$3,151,901	4.91%	\$2,377,766	4.76%	\$3,236,353	4.65%	\$ 2,297,377	4.86%
=====	=====	=====	=====	=====	=====	=====	=====
Net							
interest							
spread							
	1.15%		1.56%		1.27%		1.61%
	=====		=====		=====		=====
Net							
yield							
on							
average							
interest							
earning							
assets							
	1.53%		1.91%		1.60%		1.98%
	=====		=====		=====		=====

- -----

(1) Average balances exclude adjustments made in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities to record available-for-sale securities at fair value.

(2) Average balances exclude funds held by trustees of \$10,645 and \$16,710 for the three months ended June 30, 1994 and June 30, 1993, respectively and \$11,639 and \$18,776 for the six months ended June 30, 1994 and June 30, 1993, respectively.

The decrease in net interest spread is primarily the result of the decrease in the spread on adjustable-rate mortgage securities. As a result of the rapidly increasing interest rate environment during the first six months of 1994, the interest rate on certain repurchase borrowings increased at a faster rate than the interest rate earned on the adjustable-rate mortgage securities which collateralize these borrowings. Additionally, the decrease in the spread on adjustable-rate mortgage securities resulted from the increase in securities retained in



the portfolio during late 1993 and early 1994 with low initial pass-through rates (i.e., a "teaser rate"). The spread on adjustable-rate mortgage securities may increase as the mortgage loans underlying these securities reset to a higher level. These resets occur generally every six months. Conversely, the spread on these securities could decrease further should the rates on the related repurchase borrowings continue to increase faster than the interest rates reset on these securities.

#### Portfolio Activity

The Company's investment strategy is to create a diversified portfolio of mortgage securities that in the aggregate generate stable income in a variety of interest rate and prepayment rate environments and preserve the capital base of the Company. The Company has pursued its strategy of concentrating on its mortgage conduit activities in order to create investments with attractive yields and to benefit from potential gains on securitization. In many instances the Company's investment strategy involves not only the creation or acquisition of the asset, but also the related borrowing to pay for a portion of that asset.

Three Months and Six Months Ended June 30, 1994 Compared to Three Months and Six Months Ended June 30, 1993

The size of the Company's portfolio of mortgage investments at June 30, 1994 has increased as compared to June 30, 1993, through the addition of investments created through the Company's conduit operations and the purchase of mortgage investments. During the six months ended June 30, 1994, the Company added approximately \$525.1 million principal amount of adjustable-rate mortgage securities, \$0.9 million principal amount of fixed-rate mortgage securities and \$11.7 million of other mortgage securities to its portfolio through its conduit operations. Also during the six months ended June 30, 1994, the Company purchased approximately \$34.8 million principal amount of adjustable-rate mortgage securities, \$20.2 million principal amount of fixed-rate mortgage securities, \$23.1 million of other mortgage securities and \$37.3 million of collateral for CMOs, net of \$35.6 million of associated borrowings, for its portfolio. A portion of these securities were financed through repurchase agreements with investment banking firms. Additionally, during the six months ended June 30, 1994, the Company sold \$55.5 million principal amount of adjustable-rate securities and \$18.1 million of other mortgage securities from its portfolio. During the six months ended June 30, 1993, the Company sold \$184.3 million principal amount of fixed-rate mortgage securities from its portfolio. The Company realized net gains of \$4.5 million and \$1.2 million on the sale of mortgage securities for the six months ended June 30, 1994 and 1993, respectively.

The net margin on the Company's portfolio of mortgage investments increased to \$19.4 million for the six months ended June 30, 1994 from \$17.4 million for the six months ended June 30, 1993. This increase resulted from the overall growth of mortgage assets partially offset by a decrease in the net interest spread on the portfolio.

The Company funds mortgage warehouse lines of credit to various mortgage companies, either through the purchase of a participation in such lines of credit, or a direct loan (collectively "lines of credit"). The Company's obligations under such lines of credit may be funded by sales of commercial paper or repurchase agreements. As of June 30, 1994, the Company had \$185.0 million of such lines of credit and had advanced \$61.7 million pursuant to such lines of credit.

#### Mortgage Operations

The Company acts primarily as an intermediary between the originators of mortgage loans and the permanent investors in the mortgage loans or the mortgage-related securities backed by such mortgage loans. The Company also originates single-family and multi-family mortgage loans. Through its mortgage operations, the Company purchases mortgage loans from approved sellers, primarily mortgage companies, savings and loan associations and commercial banks and originates mortgage loans directly. When a sufficient volume of mortgage loans is accumulated, the Company sells or securitizes these mortgage loans through the issuance of CMOs or pass-through securities. During the accumulation period, the Company finances its purchases of mortgage loans through warehouse lines of credit or through repurchase agreements.

The following table summarizes mortgage operations activity for the three months and six months ended June 30, 1994 and 1993.

	Three Months Ended June 30,		Six Months Ended June 30,	
(amounts in thousands)	1994	1993	1994	1993
	----	----	----	----

Principal amount of

loans funded	\$ 886,970	\$ 847,958	\$ 1,839,865	\$ 1,711,544
Principal amount				
securitized or sold	1,195,913	743,787	2,351,345	1,511,892
Investments added to				
portfolio from				
mortgage operations				
conduit, net of				
associated				
borrowings	23,965	12,451	43,443	28,268

Three Months and Six Months Ended June 30, 1994 Compared to Three Months and Six Months Ended June 30, 1993

-----  
The increase in the funding volume of mortgage loans for the three months and the six months ended June 30, 1994 as compared to the three months and the six months ended June 30, 1993 reflects the success of new loan programs introduced by the Company during 1993. The gain on securitizations and sales of mortgage loans increased to \$12.1 million for the six months ended June 30, 1994 from \$10.9 million for the six months ended June 30, 1993. This increase was primarily the result of the increased volume of mortgage loans securitized or sold during the period.

During the first six months of 1994, the Company began originating certain single-family mortgage loans through a network of mortgage brokers. The Company also plans to develop a mortgage servicing capability during 1994 for these mortgage loans. The Company will have complete control over the entire mortgage process on these loans, from underwriting and origination to accumulation and securitization. As the Company developed these mortgage loan origination capabilities in recent periods, general and administrative expenses have increased. The Company plans to securitize these new loan products through the issuance of CMOs, and, therefore, no gain on sale will be recognized on these securitization. Instead, profits from these securitizations will be recognized over time as part of net margin income. This strategy, which is consistent with the Company's goal of increasing its net margin income, will likely have a negative impact on earnings during the balance of the year.

#### Other Matters

The Company has limited exposure to losses due to fraud resulting from the origination of a mortgage loan. The Company has established a loss allowance for such losses. An estimate for such losses is made at the time loans are sold or securitized, and the loss allowance is adjusted accordingly. This estimate is based on management's judgement and the allowance is evaluated periodically. At June 30, 1994 the allowance totaled \$4.7 million and was included in other liabilities.

During the third quarter of 1994 the Company will be moving its corporate offices to central Virginia. The Company's operations are currently located in this area and the move will consolidate the corporate and operations departments.

The Company and its qualified REIT subsidiaries (collectively "Resource REIT") have elected to be treated as a real estate investment trust for federal income tax purposes, and therefore is required to distribute annually substantially all of its taxable income. Resource REIT estimates that its taxable income for the six months ended June 30, 1994 was approximately \$31.0 million. Taxable income differs from the financial statement net income which is determined in accordance with generally accepted accounting principles.

#### Liquidity and Capital Resources

The Company uses its cash flow from operations, issuance of CMOs or pass-through securities, other borrowings and capital resources to meet its working capital needs. Based on prior experience, the Company believes that the cash flow from its portfolio and borrowing arrangements provide sufficient liquidity for the conduct of its operations.

The Company's borrowings may bear fixed or variable interest rates, may require additional collateral in the event that the value of the existing collateral declines, and may be due on demand or upon the occurrence of certain events. If borrowing costs are higher than the yields on the mortgage assets purchased with such funds, the Company's ability to acquire mortgage assets may be substantially reduced and it may experience losses.

The Company borrows funds on a short-term basis to support the accumulation of mortgage loans prior to the sale of such mortgage loans or the issuance of mortgage securities. These short-term borrowings

consist of the Company's warehouse lines of credit and repurchase agreements and are paid down as the Company securitizes or sells mortgage loans. The Company had a \$150 million credit facility, which also allows the Company to borrow up to \$30 million on an unsecured basis for working capital purposes. This credit facility expires in February 1995. The Company also has various committed repurchase agreements of \$425 million. These facilities mature in June and September 1995. The Company has arranged separate financing for the origination of multi-family mortgage loans for up to \$75 million. The Company expects that these credit facilities will be renewed if necessary, at their respective expiration dates, although there can be no assurance of such renewal. At June 30, 1994 the Company had borrowed \$226.6 million under these credit facilities. The lines of credit contain certain financial covenants which the Company met as of June 30, 1994. However, changes in asset levels or results of operations could result in the violation of one or more covenants in the future.

The Company finances adjustable-rate mortgage securities and certain other mortgage assets through repurchase agreements. Repurchase agreements allow the Company to sell mortgage assets for cash together with a simultaneous agreement to repurchase the same mortgage assets on a specified date for an increased price, which is equal to the original sales price plus an interest component. At June 30, 1994, the Company had outstanding obligations of \$2.5 billion under such repurchase agreements, of which \$2.3 billion, \$194.2 million and \$1.6 million were secured by adjustable-rate mortgage securities, fixed-rate mortgage securities and other mortgage securities, respectively. Increases in either short-term interest rates or long-term interest rates could negatively impact the valuation of these mortgage assets and may limit the Company's borrowing ability or cause various lenders to initiate margin calls. Additionally, certain of the Company's adjustable-rate mortgage securities are AA or AAA rated classes that are subordinate to related AAA rated classes from the same series of securities. Such AA or AAA rated classes have less liquidity than securities that are not subordinated, and the value of such classes is more dependent on the credit rating of the related insurer or the credit performance of the underlying mortgage loans. As a result of either changes in interest rates, a downgrade of a insurer, or the deterioration of the credit quality of the underlying mortgage collateral, the Company may be required to sell certain mortgage assets in order to maintain liquidity. If required, these sales could be made at prices lower than the carrying value of the assets, which could result in losses. The Company issues asset-backed commercial paper to support its funding of mortgage warehouse lines of credit.

A substantial portion of the assets of the Company are pledged to secure indebtedness incurred by the Company. Accordingly, those assets would not be available for distribution to any general creditors or the stockholders of the Company in the event of the Company's liquidation, except to the extent that the value of such assets exceeds the amount of the indebtedness they secure.

The REIT provisions of the Internal Revenue Code require Resource REIT to distribute to shareholders substantially all of its taxable income, thereby restricting its ability to retain earnings. The Company may issue additional common stock or other securities in the future in order to fund growth in its operations, growth in its portfolio of mortgage investments, or for other purposes.

During the six months ended June 30, 1994 the Company issued 708,620 additional shares of common stock through its Dividend Reinvestment Plan. Total net proceeds of \$19.0 million were used for general corporate purposes.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In March 1993, the Company was notified by the Securities and Exchange Commission (the "Commission") that a formal order of investigation had been issued to review trading activity in the Company's stock during April and May of 1992. In this regard, the Company and certain of its officers and directors have produced documents and testified before the staff of the Commission. The Company and the subpoenaed officers and directors are complying with the requests of the Commission. Based on information available to the Company, and upon advice of counsel, management does not believe that the investigation will result in any action that will have a material adverse impact on the Company.

### Item 2. Changes in Securities

Not applicable

Item 3. Defaults Upon Senior Securities  
Not applicable

Item 4. Submission of Matters to a Vote of Security Holders  
Not applicable

Item 5. Other Information  
None

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits  
None
- (b) Reports on Form 8-K  
None

#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RESOURCE MORTGAGE CAPITAL, INC.

By: Thomas H. Potts  
-----  
Thomas H. Potts, President  
(authorized officer of registrant)

Lynn K. Geurin  
-----  
Lynn K. Geurin, Executive Vice  
President and Chief Financial  
Officer  
(principal accounting officer)

Dated: August 15, 1994