Client Id: 77

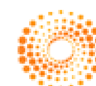
THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

IMH - Q1 2019 Impac Mortgage Holdings Inc Earnings Call

EVENT DATE/TIME: MAY 10, 2019 / 1:00PM GMT

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Brian P. Kuelbs *Impac Mortgage Holdings, Inc. - Executive VP & CFO*

George A. Mangiaracina *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Justin Moisio *Impac Mortgage Holdings, Inc. - SVP of Business Development & IR*

Rian Furey *Impac Mortgage Holdings, Inc. - President of Direct Lending & COO*

CONFERENCE CALL PARTICIPANTS

Trevor John Cranston *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Impac Mortgage First Quarter 2019 Holdings Conference Call. (Operator Instructions)

I'd now like to introduce Mr. Justin Moisio, SVP, Investor Relations. Sir, please begin.

Justin Moisio - *Impac Mortgage Holdings, Inc. - SVP of Business Development & IR*

Thank you, and good morning, everyone. Thank you for joining Impac Mortgage Holdings First Quarter 2019 Financial Results.

During this call, we will make projections or other forward-looking statements in regards to, but not limited to, GAAP and taxable earnings, cash flows, interest rate risk and market risk exposure, mortgage production and general market conditions. I'd like to refer you to the business risk factors in our most recently filed Form 10-K under the Securities and Exchange Act of 1934. These documents contain and identify important factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements. This presentation, including any outlook or guidance, is effective as of the date given and we expressly disclaim any duty to update the information herein.

I would like to get started by introducing George Mangiaracina, Chairman and CEO of Impac Mortgage Holdings.

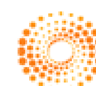
George A. Mangiaracina - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Thank you, Justin. Good morning, and welcome to Impac's 2019 First Quarter's Earnings Call. Joining me on the call this morning are our CFO, Brian Kuelbs; COO, Rian Furey; Legal Counsel, Nima Vahdat; our Head of Financial Reporting, Jon Gloeckner; and our Chief Accounting Officer, Paul Licon.

During our year-end earnings call conducted on March 15, we provided our detailed view regarding the state of the residential mortgage market and also a comprehensive update on the strategic direction and progress of the company. Given the compressed time frame and the cadence between the year-end and first quarter earnings call's, we'll provide us a brief update today on developments over the last 6 weeks before turning the call over to focus in greater detail on our financial results and origination activities.

First quarters are historically challenging for residential mortgage origination. The first quarter of 2019 was no exception with respect to the effects of seasonality on origination volume. However, during the first quarter of 2019, treasury and mortgage markets continued their directional rally that began in October of 2018. The Federal Reserve signaled a less focused tone messaging to be data dependent and patient in 2019, after the last 25 basis point increase in December, raised the target range for its benchmark funds rate to 2.5%. By the end of March, 10-year treasury rates have declined by over 75 basis points from October 5 and by 25 basis points from year-end levels.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Mortgages outperformed treasuries in the first quarter. Primary 30-year fixed-rate mortgage dropped 50 basis points from 4.5% to 4%, a monthly payment savings for a borrower of approximately $90 a month or $1100 a year based on our average conventional loan size of $310,000.

While we tend to express the lower rate environment simply in terms of basis points or monthly payment savings, the specific timing during the home-buying cycle and the media attention it attracts can have a multiplier effect, compounding volume and improving margins. The first quarter drop in rate is accelerated into the beginning of peak home buying season for traditionally spring to the start of the new school year, and media focus served to increase consumer awareness and drive organic leads to our retail call center, improving our overall cost of customer acquisition.

Sentiment has improved across the spectrum of participants, homebuyers, homeowners seeking refinance, homebuilders, originators and investors. Fannie Mae's mortgage lender sentiment survey, while still close to all-time survey lows across all loan types, reported a slight increase in profit outlook in the first quarter of 2019, the first increase in the last 10 quarters dating back to 2016.

The MBA Refinance Index in April reached its highest level since November of 2016. Earnings reports of several major homebuilders reflected optimism about the impact low rates will have on new and existing sales.

And recent data from the Board of Governors of the Federal Reserve System identified home equity levels at 16-year highs in both dollar and percentage terms. In the past, many homeowners were locked out of accessing this equity. Previous stages of the housing recovery created home equity and concentrated typically coastal geographies, West Coast market in particular.

Broader nationwide home price appreciation over the last several years has resulted in home equity increases in some of the hardest hit precrisis bubble markets. Las Vegas, for example, currently has the fastest home price growth of any market tracked by Case-Shiller Index with home prices up 20% since the end of 2016.

Conventionalism lead us to expect more active purchase and refinance activity given higher levels of home equity, low unemployment, continually -- a directionally lower mortgage rate environment for foreseeable future. Balancing this optimism, however, market conditions and headwinds that limit prospects mortgage originators have lingered. Excess capacity remains compressing margins in every sector and channel of the market. National Association of Realtors reported that during March, million-dollar-plus home sales were down 11% year-over-year, noting year's worth of luxury supply available for sale. The $10,000 cap on state and local tax deductions associated with Tax Reform Act of 2018 has created a great deal of uncertainty and downward pressure in the upper end of the housing market in high tax states.

According to the latest CoreLogic Case-Shiller national price index, on an annualized rate, home prices nationwide grew by 4% in February, the 11th consecutive month of slowing home price growth, which now at its lowest level of growth since October of 2012.

In California, our home market, which accounted for nearly 70% of our first quarter origination, for the third consecutive month, home sales in February were the lowest flat month in 11 years.

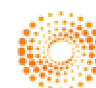
According to the California Association of Realtors, Los Angeles home sales fell 12% annually in March. San Francisco Bay Area sales down nearly 11%. In Southern California, home sales have fallen in 12% over the last 13 months, and home prices have softened across all Southern California counties. Home price gains averaged between 6% to 9% range last year compared to a decline of 1% to an increase of only 4% from March of 2019.

And Zillow reported that 16% of listings in Los Angeles and Orange County counties had price cuts in March 2019 versus only 12% in March 2018. The trend also noted the Inland Empire.

There remains to be seen if the recent reprieve that the mortgage industries enjoy will have extended duration, it will be short-lived at the next upturn in rates and also have some of the contradictory market data points we have identified above will drive future direction of our business.

Our GSE business is interest-rate sensitive, our NonQM business is less so as it tends to be more rate and price in elastic. Impac does not provide forward guidance on financial results, but we will note that our total April origination volume of $270 million across all channels approach levels we haven't consistently experienced since the second and third quarters of 2018.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



Client Id: 77

The gain on sale on loans sold related to this increased volume would be recognized in our second quarter results, while $4 million mark-to-market loss on our remaining MSR portfolio as a result of lower rates is reflected in our current first quarter results.

Specific to early second quarter results from our retail call center, we originated $190 million in the month of April versus $200 million in the months of February and March combined. The retail call center model remains refinance-centric with respect to GSE production and is proven most sensitive to fluctuations in interest rates and a leading indicator to form our views in near-term origination activity.

Over market cycles, the company has scaled and contracted the call center and calibrated to changing market conditions. While we have increasingly focused the enterprise on our core competency of creating alternative credit NonQM products, we've been cognizant of our dual mandate to maintain optionality within the call center to quickly capitalize on GSE origination activity during low rate environments. The ability to execute material increase in volume in April validated our investment in a centralized scalable call center that competes favorably on speed and streamline process and deliver reliable and timely loan closings for our borrowers.

With that, I'll now turn the call over to Brian Kuelbs, Paul Licon and Rian Furey to discuss operating results and origination activity.

Brian P. Kuelbs - *Impac Mortgage Holdings, Inc. - Executive VP & CFO*

Thank you, George. I'm going to provide a brief review of results for the fourth quarter. We reported a net loss of $12.6 million or $0.60 per diluted common share in Q1 of 2019. This compares to net income of $3.9 million or $0.18 per diluted common share in Q1 of 2018.

Core earnings for Q1 of 2019 was a loss of $5.8 million or $0.28 per diluted common share as compared to core earnings loss of $10 million or $0.47 per diluted common share for Q1 of 2018.

Core earnings adjusted GAAP operating income by excluding noncash items did fluctuate due to market rates, inputs or assumptions rather than fundamental operating income and reflects the company's current business operations. The company has begun to use core earnings as it believes that it more accurately reflects the company's current business operations.

I'll now turn to revenue and originations. Gain on sale declined to $12.2 million for the first quarter of 2019 compared to $21.5 million for the first quarter of 2018. This is primarily due to a decline in loan origination volume.

During the first quarter of 2019, total origination volume was $582 million. This was a decrease of 8% from $632 million in the fourth quarter of 2018 and a decrease of 56% as compared to the $1.3 billion originated in the first quarter of 2018.

During the first quarter of 2019, refinance volume decreased approximately 53% to $410 million as compared to $878 million in the first quarter of 2018. Purchase money transactions decreased 61% to $171 million in Q1 of 2019 as compared to $442 million in the first quarter of 2018.

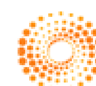
I'll now touch on our NonQM production results. During the first quarter 2019, the consumer direct retail channel accounted for 26% of NonQM originations, while wholesale and corresponding TPO channels selectively accounted for 74% of NonQM production.

The NonQM originations during the first quarter of 2019 had a weighted average FICO score of 728 with a weighted average loan to value of 69%. This is consistent with prior quarter's, which had a weighted average FICO score of 730 and a weighted average funded value of 69%.

I'll now address loan-servicing results. The servicing portfolio generated net income of $3 million in the first quarter ending March 31, 2019, a 69% decrease over the net servicing income of $9.5 million for the quarter ended March 31, 2018, as a result of the $10.5 billion mortgage servicing sale during 2018.

The mortgage servicing portfolio remained flat at $6.2 billion as of March 31, 2019, as compared to December 31, 2018, but decreased from $16.8 billion in March of 2018 primarily due to the sale of the $10.5 billion of the mortgage servicing portfolio in the fourth quarter of 2018. The sale was

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

due to a shift in strategy in the second half of 2018 to direct our efforts on repositioning the company's focus on our core NonQM lending business and strengthening our liquidity position.

As a result of the shift in strategy, the MSR asset decreased to $59.8 million as of March 31, 2019, as compared to $64.7 million in December 31, 2018, and down from $174 million at March 31, 2018.

I'll now address liquidity and expenses. As of March 31, 2019, total warehouse borrowing capacity was $900 million versus borrowings of $405 million. And available MSR financing capacity was $39 million, collectively providing appropriate liquidity for the company.

In the first quarter of 2019, total expenses, excluding contingent consideration and impairment charges was $22 million as compared with $36 million during the first quarter of 2018, a 38% decrease in total expenses. The company will continue to align capacity and expenses with loan origination volume during 2019.

Personnel expenses decreased 20% or $3.6 million to $14 million for Q1 -- from Q1 of 2018. The decrease is primarily related to staff reductions and reduced commissions due to lower origination volume. As a result, the staff reductions in the first quarter 2019 headcount decreased by 24% to 375 FTEs as compared to 496 for the same time period in 2018.

Business promotion decreased by $6.8 million from Q1 2018 to $2.9 million for the first quarter of 2019 compared to $9.7 million for the same time period in 2018.

General and administrative expenses decreased 37%, to $5.2 million for the 3 months ended March 31, 2019, as compared to $8.3 million for the same time period during 2018.

This concludes the financial results. I'll now turn the call over to Rian Furey to discuss our mortgage operations.

Rian Furey - *Impac Mortgage Holdings, Inc. - President of Direct Lending & COO*

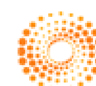
Thanks, Brian. Good morning, everyone. In the first quarter, consumer direct channel continued to experience downward pressure on originations, particularly in agency refinance. Our view is that market originators continue to hold excess capacity and accepted direct margins in order to keep the optionality of rapid growth in the event of an eventual increase in the industry volumes. As George spoke to earlier, the downward movement rate at the end of March provided new wave of refinances and an opportunity for margins to recover slightly. With the resulting increase in agency production, we realized efficiencies of an easier to underwrite product for a highly qualified consumer leading us to lower (inaudible) applications to closing.

Demand for our NonQM offering in the consumer direct channel has been consistent through the rate move, but we did see a spike up in volume in agency refinance as lower rate provide borrower benefit.

In the consumer direct space, customer acquisition also becomes more efficient when low rates are covered by the media. And as would be expected, we saw an increase in inbound traffic to our website and call center independent of our traditional marketing. With the lower rates, we diversified our marketing messaging to include again rate benefit, the call to action in our TV, radio and online channel. These supplements are existing NonQM's specific messages and creative.

In our third-party origination channel, our efforts are most -- almost exclusively focused on NonQM production, including in the first quarter. Despite the rate rally at the end of the quarter, margins and third-party originations have now recovered enough for us to meaningfully participate in agency production in that channel. We've talked before about our discipline in NonQM, choosing not to expand our volume by deteriorating the credit quality of our production.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

In the first quarter, we focused on geographic expansion, with 75% of our new hire account executives focused outside of our traditional California footprint. Along with this move, we revaluated our pricing on loan amounts consistent with these expanded job geographies and made improvements to our loan level price adjustments in those locations.

We also completed launch of our premier product set offering very competitive pricing to borrowers who meet tight credit standards within our NonQM product. Our most popular programs serve self-employed borrowers and single-family real estate investors, both using alternatives to the traditional income documentation. Those borrowers with pristine credit and proof of financial reserve can take advantage of this new premier offering.

From a technology perspective, we continue to focus on our NonQM product set as we work to automate loan conditioning and ultimately provide streamlined credit decisioning to our partners.

With that, I'll hand the call back to George.

George A. Mangiaracina - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Thanks, guys. In our closing remarks, we'll briefly discuss 2 topics: core earnings and NonQM.

Core earnings. We'd like to differentiate our first quarter GAAP results with an alternative measure that the senior management team utilizes to gauge company's performance, core earnings. Core earnings attempts to isolate results from recurring business activities by adjusting for certain nonrecurring items such as changes in the fair value of long-term debt and trust assets, impairments to intangible assets, including goodwill, changes in contingent consideration, gain or loss on mortgage servicing rights and other nonrecurring legacy matters. We introduced this concept with some variation several quarters ago under the term recurring adjusted operating income. We provided a table within our latest earnings release to enable variation analysis between prior reporting periods and will do so on a go-forward basis.

The company's core earnings for the first quarter of 2019 was a loss of $5.8 million as compared to a GAAP loss of $12.5 million. And for the first quarter of 2018, core earnings were a loss of $9.8 million as compared to a first quarter 2018 GAAP gain of $3.9 million. In our view, these results measured by core earnings more accurately reflect the company's performance and the effectiveness of the initiatives we executed over the last year to reposition the company for the future.

With respect to NonQM origination, from the company's inception in the early 1990s, Impac has been an innovator of alternative credit products.

Since 2014, the company has spearheaded the reemergence of this sector by actively promoting market acceptance of next-generation products and structures. We've originated over $3 billion of alternative NonQM loans over the last 4-plus years.

During the first quarter of 2019, the addressable market and investor acceptance for NonQM continued to expand, validating the company's commitment to this vision and creating demonstrable results across our origination franchise. Nearly $6 billion of expanded credit mortgage-backed securities were issued in the first quarter of 2019, the highest level of issuance since 2007. The company access this liquidity through securitizations and whole loan sales. In March, we announced the issuance of the third securitization to be issued by Starwood Property Trust, STAR 2019-IMC3 backed exclusively by Impac's NonQM loans.

Consistent with Starwood's prior deals backed by our collateral, Starwood 2019-IMC3 close of AAA ratings from S&P [and quo] were oversubscribed as various levels of the capital structure. Impac's NonQM collateral performance are originator rankings, and our adjusted factors with the rating agencies continue to drive efficient permanent capital structures for our investors. The company has invested in subordinate tranches of all 3 of Starwood securities, evidencing our confidence in the long-term performance of the loans we originate and the shift of our invested capital from noncore MSR to core NonQM assets.

Liquidity in the securitized product's primary market has also been the catalyst for increased demand for our NonQM loans in the whole loan secondary market. We continue to expand our group of home loan investors to include direct distribution to Wall Street as a supplement to our

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

stable hedge fund and alternative capital partners. This is the next step in the evolution and maturity of NonQM market and reflective of acceptance within capital markets of the quality and consistency of our originations.

The company would like to highlight its commitment to maintaining the integrity of the credit profile of our NonQM borrower and overall credit quality of our NonQM origination. The average FICO score of NonQM origination in the first quarter of 2019 was 727 versus 720 in 2018, and weighted average loan-to-value ratio remained in the high 60s year-over-year.

The company's core mission is to be recognized as a market leader in the origination, securitization and management of alternative credit products, responsibly managing consumer need with investor demand.

I'm strengthening the totality of the accomplishments in the NonQM sector enumerated earlier in this call. We produced $1.3 billion NonQM in 2018, a 45% increase year-over-year from 2017. In the first quarter of 2019, we sustained this growth trend by originating cost of $350 million of NonQM, a 40% increase in volume over Q1 2018, while concurrently directing resources to capture increasing activity in GSE production from the lower rate environment.

As discussed during our year-end earnings call, while aspirational, we believe our goal of an annualized run rate of NonQM of $1.75 billion to $2 billion by the fourth quarter of 2019 to be achievable. NonQM remains foundational to our business model, now accounts for 6 of every 10 loans we originate as compared to just 2 of every 10 loans in the first quarter of 2018.

NonQM has a core competency and differentiator for the company. We will continue to build upon the momentum we've created over the last several years by directing financial capital and resources to further our competitive advantage in the higher-margin alternative product segment of the market.

Thank you for your time and focus. That concludes our prepared remarks. We'll now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Trevor Cranston from JMP Securities.

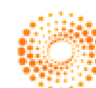
Trevor John Cranston - *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

First question. You guys talked quite a bit about the impact of rates dropping in your prepared remarks. A couple of questions around that. First, you talked about the increase in volume you saw in April. I was wondering if you could add some color to that and talk about how much of that volume was conventional government versus NonQM? And if the lower rate environment is resulting in more focus, particularly, within the retail channel on the refi products? And if that would necessarily result in sort of lower near-term NonQM production?

George A. Mangiaracina - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Thanks, Trevor. This is George. So I guess I'll answer that a couple of ways. I'll focus first on our 3 channels. The call center is the primary, if not the exclusive, driver now of our GSE production. And specific to the call center, in the near term, we see significant activity with respect to refinance opportunity. To add a little more granularity to our numbers, we put up $190 million in volume in April out of the call center. That was up from $80 million in February and $115 million in March. And out of the $190 million, $145 million in April was GSE. And within that GSE proportion, 90% of April's volume was refinanced. Based on -- I'll talk a little bit about broader market and in the money. With respect to the collateral, that's currently outstanding. Based on a 25 basis point incentive to refi, we judge over half of the outstanding 30-year fixed GSE MBS to be in the money for refinance. And that's reflective of lower closing costs that market has driven from maybe $3000 a loan down to $1000 a loan, that's significant in

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

basis points to the borrower. In the money percent, with respect to our remaining 30-year MSR, fixed rate portfolio is less than that, probably closer to 35% or 40%, so we have significant concentration in that portfolio. 2016 vintage with the weighted average note rate of 3 3/4%. So you're going to need to get it down to the 3.5% 30-year fixed rate to put that at risk, and we're currently at (inaudible) in the quarter. But the opportunity is after refinance in the market for sure. And with respect to our call center, I mean, our call center is known for closing loans in an expeditious time frame, on par with the best in the industry as measured by lock-to-close timing, which is 15 days. So in the early stages of a refinance wave, we -- our call center, in particular, would benefit from expanded gain on sale margins, but those margins typically revert back to the mean once competition adds capacity. And I'll talk a moment about capacity. Within the call center, I think we have a capacity to originate an additional 50% of clean GSE conventional product. In April, we put up, as we said, $145 million. I think we can produce upwards of $215 million to $225 million in conventional of that platform with existing headcount, maybe minimal additions in some over time. I mean we'd have to really squeeze the efficiencies out, but I think it's there. I'll give you a little bit of a sense of a run we have on that platform.

Trevor John Cranston - *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

Great. That's very helpful color. So I guess the second part of the question was listening to your comments, it sounds like you guys are optimistic that there's going to be sort of a sustained refi opportunity. I was curious though if you -- like if you guys think that it's going to last more than a couple of months or like when we look at the refi index, obviously, there was a pretty nice spike right towards the end of March when rates bottomed out, but it's come down a decent amount since then. So just curious how you guys are thinking about how sustained the pickup in refi activity could be as long as rates are sort of stable at this level?

George A. Mangiaracina - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Well, I think we said on a macro level, half of the current 30-year we feel is in the money. So I think there's opportunity to mind that, right? But I think we look out -- I mean, the way you run this business with respect to the rate sensitivity piece of it different than our core business around NonQM, which we think is rate and price in elastic. We look out pipeline business. We manage the rates enroute 60 to 90 days. And so we think April pipeline looks strong for May. We hope to carry it into June into the home buying season. After that, depends on a lot of things that are out of our factor -- out of our hands and control.

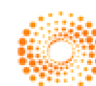
Trevor John Cranston - *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

Got it. Okay. And then given that it's a faster refi environment, does that impact how you guys are thinking about selling versus retaining your remaining MSR portfolio? And also whether or not you choose to sell or retain MSR on the new loans you guys are originating today?

George A. Mangiaracina - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Trevor, our philosophy has been to treat the MSRs as a financial asset. We've discussed that in previous calls. So for us, it's the economic first market value of the MSR that's going to be determined by hold or sell decisioning. That said, the MSR portfolio needs to be rightsized with the capital base and liquidity position of the company and also needs to compete on a risk-adjusted return basis against alternative investments we can make. In 2018, we accomplished many of those objectives by selling $10 billion of the MSRs in deleveraging the balance sheet, I think, rightsizing the MSR to our capital base and then redeploying that capital away from MSRs, which is difficult to manage into our core NonQM business, which -- where we have we believe franchise value creation around that capital investment and also higher return on risk-adjusted capital. So we're going to continue to reassess and sell MSRs selectively in the future as we deem appropriate. On current reduction, I think you all see us over the last several months we've been selling our service on released basis. So I think you'll continue to see us sell current coupon at -- on a released basis and not add material to that portfolio.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Trevor John Cranston - *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

Great. Okay. And then shifting to the NonQM side, you talked a lot about the development of that market, particularly on the secondary market side. Can you just give us an update on what you guys are seeing in the market in terms of -- if that's drawing a lot of new competition from other originators out there? If that's driven any sort of material change and I think the loan rates you guys are able to get or gain on sale margin specifically for that product?

George A. Mangiaracina - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Well, we have been seeing additional competition, pools of capital that certainly want to invest in the asset and now as markets evolve, might be interested in having a stake in the franchise value that gets created around the originator, creating that asset. So it's shifted to a focus of the passive investment in NonQM versus a more active approach in investment. So -- but we aren't really -- we haven't seen a compression in loan rates. In most of the margin, fluctuation experienced in our NonQM business has been the result of primary and secondary capital markets' execution levels. In the fourth quarter, some of the credit contagion around other asset classes leading and maybe the calender was a little heavy in terms of issuance and so our capital market's exit backed up a little bit in the fourth quarter, but it has been noted in the call in the first quarter of this year. And $6 billion issued in and the market seems reassessed again and the calender is cleared. So margin fluctuations have been the result of those factors, not necessarily the result of speed level competition for the consumer on rate. We have seen an expansion of credit guidelines, which we have been reluctant to participate in. We haven't needed to. We've been able to grow volume organically, and I'd say, our philosophy here is we're willing to grow volume in an accelerated pace by competing on price, be willing to recruit and hire account executives or entire teams in jobs of these where we want to capture market share. We've already done some of that, but what we haven't done is, we haven't expanded our credit guidelines and we're committed in maintaining the quality and credit profile that a capital markets participants, I think, come to expect from us. So even with respect to much deeper credit quality in NonQM, which you've seen in the market now with some participants, we haven't been willing to participate at the low part of that spectrum. Never say never if we were to do so in the future. If there was a value proposition there, then we'd approach it with caution. We've made sense that from our core NonQM product in order to protect the Impac brand with our investors. I'd say, the 2 cohorts, everyone points to that I referenced earlier and I think Brian did as well as FICO and LTV, and we held those constant and we've been able to grow the business by over 40%, 45% for the past year or so.

I don't know, Brian, if you have anything to add on some of the nuances around credit guidelines or credit products that you've seen that we haven't anticipated in yet? But...

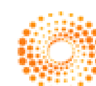
Brian P. Kuelbs - *Impac Mortgage Holdings, Inc. - Executive VP & CFO*

Yes. I mean we stayed very focused on coming up with our own view on borrower's income based on documentation that they provide. And I would say, to the extent that we see adjustments to that in the marketplace, they're starting to trend more towards stated income and lower amount of documentation on the borrower. We've had traditionally a 12-month bank statement as our kind of flagship program. And we're starting to see 1 month and 2 months bank statement program out there that really is a different credit profile. So...

George A. Mangiaracina - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

And, Trevor, I'd add -- just one final touch on NonQM. The rate environment does have an impact on NonQM activity and I'm going to speak about this in 2 different ways. With respect to the call center, we control marketing spend and we control loan office of focus. So in the call center, in a declining rate environment, we haven't seen a decline in NonQM volume in April, a lot of pipeline from May as well as we're kind of running that NonQM out of the call center at $25 million to $35 million a month and that's consistent over the last year. Dropping rates had no effect on that. But in the TPO channel, third party, where the broker is the marketing agent and the broker might direct their efforts towards conventional repeat business than to NonQM. We've experienced a little bit of a fall off in April and in May, not material but something that we're certainly paying attention to. I think macro view would be in a sustained refi cycle, the focus of the broker community would be on conventional or kind of run-of-the-mill production as opposed to NonQM, which is a different consumer, different qualification or different underwriting process. So that's a wrap on NonQM.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Operator

I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to management for any closing remarks.

Justin Moisio - *Impac Mortgage Holdings, Inc. - SVP of Business Development & IR*

That's it from us today. We look forward to speaking back to the market in about 3 months. Thank you for your time.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.

DISCLAIMER

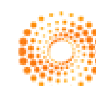
Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS