

---

---

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

FORM 10-Q

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from to

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

33-0675505  
(I.R.S. Employer  
Identification No.)

19500 Jamboree Road, Irvine, California 92612  
(Address of principal executive offices)

(949) 475-3600  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	IMH	NYSE American
Preferred Stock Purchase Rights	IMH	NYSE American

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes  No

There were 21,181,357 shares of common stock outstanding as of May 7, 2019.

---

---

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES  
FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

	<u>Page</u>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS</u></b>	
<a href="#">Consolidated Balance Sheets as of March 31, 2019 (unaudited) and December 31, 2018</a>	3
<a href="#">Consolidated Statements of Operations and Comprehensive (Loss) Earnings for the Three Months Ended March 31, 2019 and 2018 (unaudited)</a>	4
<a href="#">Consolidated Statement of Changes in Stockholders' Equity for the Three Months Ended March 31, 2019 and 2018 (unaudited)</a>	5
<a href="#">Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018 (unaudited)</a>	6
<a href="#">Notes to Unaudited Consolidated Financial Statements</a>	7
<b><u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	29
<a href="#">Forward-Looking Statements</a>	29
<a href="#">The Mortgage Industry and Discussion of Relevant Fiscal Periods</a>	29
<a href="#">Selected Financial Results</a>	30
<a href="#">Status of Operations</a>	30
<a href="#">Liquidity and Capital Resources</a>	34
<a href="#">Critical Accounting Policies</a>	36
<a href="#">Financial Condition and Results of Operations</a>	36
<b><u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	50
<b><u>ITEM 4. CONTROLS AND PROCEDURES</u></b>	50
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>ITEM 1. LEGAL PROCEEDINGS</u></b>	51
<b><u>ITEM 1A. RISK FACTORS</u></b>	51
<b><u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	51
<b><u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u></b>	51
<b><u>ITEM 4. MINE SAFETY DISCLOSURES</u></b>	51
<b><u>ITEM 5. OTHER INFORMATION</u></b>	51
<b><u>ITEM 6. EXHIBITS</u></b>	51
<b><u>SIGNATURES</u></b>	52
<b><u>CERTIFICATIONS</u></b>	

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**  
**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
	<b>(Unaudited)</b>	
Cash and cash equivalents	\$ 22,995	\$ 23,200
Restricted cash	6,865	6,989
Mortgage loans held-for-sale	460,773	353,601
Mortgage servicing rights	59,823	64,728
Securitized mortgage trust assets	3,067,911	3,165,590
Other assets	55,364	33,835
Total assets	<u>\$ 3,673,731</u>	<u>\$ 3,647,943</u>
<b>LIABILITIES</b>		
Warehouse borrowings	\$ 404,763	\$ 284,137
Convertible notes, net	24,987	24,985
Long-term debt	44,561	44,856
Securitized mortgage trust liabilities	3,051,736	3,148,215
Other liabilities	49,734	35,575
Total liabilities	<u>3,575,781</u>	<u>3,537,768</u>
Commitments and contingencies (See Note 11)		
<b>STOCKHOLDERS' EQUITY</b>		
Series A-1 junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued or outstanding	—	—
Series B 9.375% redeemable preferred stock, \$0.01 par value; liquidation value \$31,460; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of March 31, 2019 and December 31, 2018 (See Note 12)	7	7
Series C 9.125% redeemable preferred stock, \$0.01 par value; liquidation value \$35,127; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of March 31, 2019 and December 31, 2018 (See Note 12)	14	14
Common stock, \$0.01 par value; 200,000,000 shares authorized; 21,181,357 and 21,117,006 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	212	211
Additional paid-in capital	1,235,377	1,235,108
Accumulated other comprehensive earnings, net of tax of \$11.0 million	23,994	23,877
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(339,134)	(326,522)
Net accumulated deficit	<u>(1,161,654)</u>	<u>(1,149,042)</u>
Total stockholders' equity	<u>97,950</u>	<u>110,175</u>
Total liabilities and stockholders' equity	<u>\$ 3,673,731</u>	<u>\$ 3,647,943</u>

See accompanying notes to unaudited consolidated financial statements

**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) EARNINGS**  
(in thousands, except per share data)  
(Unaudited)

	For the Three Months Ended	
	March 31,	
	2019	2018
<b>Revenues:</b>		
Gain on sale of loans, net	\$ 12,214	\$ 21,482
Servicing fees, net	2,969	9,463
(Loss) gain on mortgage servicing rights, net	(5,623)	7,705
Real estate services fees, net	806	1,385
Other	—	90
Total revenues	<u>10,366</u>	<u>40,125</u>
<b>Expenses:</b>		
Personnel expense	14,121	17,742
Business promotion	2,923	9,731
General, administrative and other	<u>5,226</u>	<u>8,275</u>
Total expenses	<u>22,270</u>	<u>35,748</u>
<b>Operating (loss) income</b>	(11,904)	4,377
<b>Other (expense) income:</b>		
Interest income	45,254	50,150
Interest expense	(43,458)	(49,130)
Change in fair value of long-term debt	265	1,224
Change in fair value of net trust assets, including trust REO gains	<u>(2,683)</u>	<u>(2,138)</u>
Total other (expense) income, net	<u>(622)</u>	<u>106</u>
(Loss) earnings before income taxes	(12,526)	4,483
Income tax expense	86	610
Net (loss) earnings	<u>\$ (12,612)</u>	<u>\$ 3,873</u>
<b>Other comprehensive (loss) earnings:</b>		
Change in fair value of mortgage-backed securities	21	—
Change in fair value of instrument specific credit risk of long-term debt	<u>\$ 96</u>	<u>\$ (1,440)</u>
Total comprehensive (loss) earnings	<u>\$ (12,495)</u>	<u>\$ 2,433</u>
Net (loss) earnings per common share:		
Basic	\$ (0.60)	\$ 0.18
Diluted	(0.60)	0.18

See accompanying notes to unaudited consolidated financial statements

**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
(in thousands, except share amounts)  
(Unaudited)

	Preferred Shares		Common Shares		Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Accumulated Other Comprehensive Earnings (Loss)	Total Stockholders' Equity
	Outstanding	Preferred Stock	Outstanding	Common Stock					
Balance, December 31, 2018	2,070,678	\$ 21	21,117,006	\$ 211	\$ 1,235,108	\$ (822,520)	\$(326,522)	\$ 23,877	\$ 110,175
Proceeds and tax benefit from exercise of stock options	—	—	64,351	1	162	—	—	—	163
Stock based compensation	—	—	—	—	107	—	—	—	107
Other comprehensive earnings	—	—	—	—	—	—	—	117	117
Net loss	—	—	—	—	—	—	(12,612)	—	(12,612)
Balance, March 31, 2019	<u>2,070,678</u>	<u>\$ 21</u>	<u>21,181,357</u>	<u>\$ 212</u>	<u>\$ 1,235,377</u>	<u>\$ (822,520)</u>	<u>\$(339,134)</u>	<u>\$ 23,994</u>	<u>\$ 97,950</u>

	Preferred Shares		Common Shares		Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Accumulated Other Comprehensive Earnings (Loss)	Total Stockholders' Equity
	Outstanding	Preferred Stock	Outstanding	Common Stock					
Balance, December 31, 2017	2,070,678	\$ 21	20,949,679	\$ 209	\$ 1,233,704	\$ (822,520)	\$(146,267)	\$ —	\$ 265,147
Reclassification related to adoption of ASU 2016-01	—	—	—	—	—	—	(27,018)	27,018	—
Adjustment related to adoption of ASU 2016-16	—	—	—	—	—	—	(7,827)	—	(7,827)
Proceeds and tax benefit from exercise of stock options	—	—	3,000	1	15	—	—	—	16
Stock based compensation	—	—	—	—	430	—	—	—	430
Other comprehensive loss	—	—	—	—	—	—	—	(1,440)	(1,440)
Net earnings	—	—	—	—	—	—	3,873	—	3,873
Balance, March 31, 2018	<u>2,070,678</u>	<u>\$ 21</u>	<u>20,952,679</u>	<u>\$ 210</u>	<u>\$ 1,234,149</u>	<u>\$ (822,520)</u>	<u>\$(177,239)</u>	<u>\$ 25,578</u>	<u>\$ 260,199</u>

See accompanying notes to unaudited consolidated financial statements

**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

	For the Three Months Ended	
	March 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) earnings	\$ (12,612)	\$ 3,873
Gain on sale of mortgage servicing rights	(865)	2
Change in fair value of mortgage servicing rights	6,488	(9,180)
Gain on sale of mortgage loans	(10,984)	(28,851)
Change in fair value of mortgage loans held-for-sale	(3,469)	4,891
Change in fair value of derivatives lending, net	609	1,815
Provision for repurchases	1,630	378
Origination of mortgage loans held-for-sale	(581,509)	(1,320,128)
Sale and principal reduction on mortgage loans held-for-sale	487,207	1,246,881
Gains from trust REO	(3,473)	(2,193)
Change in fair value of net trust assets, excluding trust REO	6,156	4,331
Change in fair value of long-term debt	(265)	(1,224)
Accretion of interest income and expense	7,412	14,531
Amortization of intangible and other assets	143	1,193
Amortization of debt issuance costs and discount on note payable	8	21
Stock-based compensation	107	430
Net change in other assets	3,241	(3,835)
Net change in other liabilities	(7,553)	(949)
Net cash used in operating activities	<u>(107,729)</u>	<u>(88,014)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in securitized mortgage collateral	123,865	116,205
Finance receivable advances to customers	—	(165,668)
Repayments of finance receivables	—	180,456
Purchase of premises and equipment	(134)	(109)
Purchase of mortgage-backed securities	(5,347)	—
Proceeds from the sale of REO	5,587	5,418
Net cash provided by investing activities	<u>123,971</u>	<u>136,302</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of MSR financing	—	(25,133)
Borrowings under MSR financing	—	35,000
Repayment of warehouse borrowings	(405,840)	(1,204,301)
Borrowings under warehouse agreements	526,466	1,279,280
Payment of acquisition related contingent consideration	—	(554)
Repayment of securitized mortgage borrowings	(137,272)	(136,444)
Principal payments on capital lease	(49)	(59)
Tax payments on stock based compensation awards	(39)	(3)
Proceeds from exercise of stock options	163	16
Net cash used in financing activities	<u>(16,571)</u>	<u>(52,198)</u>
Net change in cash, cash equivalents and restricted cash	(329)	(3,910)
Cash, cash equivalents and restricted cash at beginning of period	30,189	39,099
Cash, cash equivalents and restricted cash at end of period	<u>\$ 29,860</u>	<u>\$ 35,189</u>
<b>NON-CASH TRANSACTIONS:</b>		
Transfer of securitized mortgage collateral to real estate owned	\$ 5,825	\$ 4,835
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	1,583	10,482
Initial recognition of operating lease right of use assets (net of \$3.8 million of deferred rent)	19,694	—
Initial recognition of operating lease liabilities	23,447	—

See accompanying notes to unaudited consolidated financial statements

**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except share and per share data or as otherwise indicated)**

**Note 1.—Summary of Business and Financial Statement Presentation**

***Business Summary***

Impac Mortgage Holdings, Inc. (the Company or IMH) is a Maryland corporation with the following direct and indirect wholly-owned subsidiaries: Integrated Real Estate Service Corporation (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets) and Impac Funding Corporation (IFC).

The Company's operations include the mortgage lending operations and real estate services conducted by IRES and IMC and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets) conducted by IMH. IMC's mortgage lending operations include the activities of its division, CashCall Mortgage (CCM).

***Financial Statement Presentation***

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. These interim period condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the United States Securities and Exchange Commission (SEC).

All significant intercompany balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current period presentation.

Management has made a number of material estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Additionally, other items affected by such estimates and assumptions include the valuation of trust assets and trust liabilities, contingencies, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt, mortgage-backed securities, mortgage servicing rights, mortgage loans held-for-sale and derivative instruments, including interest rate lock commitments (IRLC). Actual results could differ from those estimates and assumptions.

***Accounting Pronouncements Adopted in 2019***

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, "Leases (Topic 842)", and subsequent amendments to the initial guidance: Accounting Standards Update (ASU) 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842). Topic 842 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The Company adopted ASU 2016-02 on January 1, 2019 and applied the practical expedients included therein, as well as utilized the transition method included in ASU 2018-11. By applying ASU 2016-02 at the adoption date, as opposed to at the beginning of the earliest period presented, the presentation of financial information for periods prior to January 1, 2019 will remain unchanged in accordance with Leases (Topic 840). On January 1, 2019, the Company recognized right of use (ROU) assets of \$19.7 million (net of the reversal of \$3.8 million deferred rent liability) and lease liabilities of \$23.4 million in

the consolidated balance sheet. There was no impact to retained earnings upon adoption of Topic 842. For additional information related to the impact of the new guidance, see Note 4.—Leases.

In August 2017, the FASB issued ASU 2017-12, “*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*.” This ASU improves certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. ASU 2017-12 is effective for all annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted and requires a prospective adoption with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption for existing hedging relationships. The Company adopted this guidance on January 1, 2019, and the adoption of this ASU had no impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.” This ASU allows a reclassification from accumulated other comprehensive earnings (AOCE) to retained earnings for the stranded tax effects caused by the revaluation of deferred taxes resulting from the newly enacted corporate tax rate in the Tax Cuts and Jobs Act (the Tax Act) which was signed into law in the fourth quarter of 2017. The ASU is effective in years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted this guidance on January 1, 2019, and the adoption of this ASU had no impact on the Company’s consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, “*Compensation- Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*”, which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. This ASU specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. ASU 2018-07 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted this guidance on January 1, 2019, and the adoption of this ASU had no impact on the Company’s consolidated financial statements.

#### ***Recent Accounting Pronouncements Not Yet Effective***

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments-Credit Losses (Topic 326)*.” This update requires companies to measure all expected credit losses for financial assets not recorded at fair value at the reporting date and includes in its scope: loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures and other financial assets that have contractual rights to receive cash flows. The standard also amends the accounting for credit losses on available-for-sale debt securities, purchased financial assets with credit deterioration and trade and other receivables. In November 2018, the FASB issued ASU 2018-19, “*Codification Improvements to Topic 326, Financial Instruments, Credit Losses*”, which made technical corrections and improvements to the previous ASU issued. The standards will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company does not expect the adoption of these ASUs to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “*Fair Value Measurement (Topic 820)*.” The ASU eliminates disclosures such as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The ASU adds new disclosure requirements for Level 3 measurements. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “*Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40)*.” This ASU addresses customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for

[Table of Contents](#)

capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The amendments in this ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

**Note 2.—Mortgage Loans Held-for-Sale**

A summary of the unpaid principal balance (UPB) of mortgage loans held-for-sale by type is presented below:

	March 31, 2019	December 31, 2018
Government (1)	\$ 24,182	\$ 39,522
Conventional (2)	86,953	53,148
Non-qualified mortgages (NonQM).	341,729	256,491
Fair value adjustment (3)	7,909	4,440
<b>Total mortgage loans held-for-sale</b>	<b>\$ 460,773</b>	<b>\$ 353,601</b>

- (1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).
- (2) Includes loans eligible for sale to Federal National Mortgage Association (Fannie Mae or FNMA) and Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC).
- (3) Changes in fair value are included in gain on sale of loans, net in the accompanying consolidated statements of operations and comprehensive (loss) earnings.

Gain on mortgage loans held-for-sale (LHFS), included in gain on sale of loans, net in the consolidated statements of operations and comprehensive (loss) earnings, is comprised of the following for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,	
	2019	2018
Gain on sale of mortgage loans	\$ 13,608	\$ 29,338
Premium from servicing retained loan sales	1,583	10,482
Unrealized losses from derivative financial instruments	(609)	(2,100)
Realized (losses) gains from derivative financial instruments	(1,054)	12,045
Mark to market gain (loss) on LHFS	3,469	(4,891)
Direct origination expenses, net	(3,153)	(23,014)
Provision for repurchases	(1,630)	(378)
<b>Total gain on sale of loans, net</b>	<b>\$ 12,214</b>	<b>\$ 21,482</b>

**Note 3.—Mortgage Servicing Rights**

The Company retains mortgage servicing rights (MSRs) from its sales and securitization of certain mortgage loans or as a result of purchase transactions. MSRs are reported at fair value based on the income derived from the net projected cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the UPB of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or if delinquent, when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees, such as late charges, collateral reconveyance charges and nonsufficient fund fees, and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance payments.

[Table of Contents](#)

The following table summarizes the activity of MSRs for the three months ended March 31, 2019 and year ended December 31, 2018:

	March 31, 2019	December 31, 2018
Balance at beginning of period	\$ 64,728	\$ 154,405
Additions from servicing retained loan sales	1,583	24,879
Reductions from bulk sales	—	(118,313)
Changes in fair value (1)	(6,488)	3,757
Fair value of MSRs at end of period	<u>\$ 59,823</u>	<u>\$ 64,728</u>

(1) Changes in fair value are included within (loss) gain on mortgage servicing rights, net in the accompanying consolidated statements of operations and comprehensive (loss) earnings.

At March 31, 2019 and December 31, 2018, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	March 31, 2019	December 31, 2018
Government insured	\$ 93,873	\$ 51,157
Conventional	6,139,530	6,165,129
NonQM	1,838	1,848
Total loans serviced (1)	<u>\$ 6,235,241</u>	<u>\$ 6,218,134</u>

(1) No collateral was pledged as part of the MSR Financing at March 31, 2019 or December 31, 2018.

The table below illustrates hypothetical changes in fair values of MSRs caused by assumed immediate changes to key assumptions that are used to determine fair value. See Note 7.—Fair Value of Financial Instruments for a description of the key assumptions used to determine the fair value of MSRs.

<b>Mortgage Servicing Rights Sensitivity Analysis</b>	March 31, 2019	December 31, 2018
Fair value of MSRs	\$ 59,823	\$ 64,728
Prepayment Speed:		
Decrease in fair value from 10% adverse change	(1,925)	(1,419)
Decrease in fair value from 20% adverse change	(3,865)	(2,918)
Decrease in fair value from 30% adverse change	(5,805)	(4,475)
Discount Rate:		
Decrease in fair value from 10% adverse change	(2,082)	(2,345)
Decrease in fair value from 20% adverse change	(4,027)	(4,532)
Decrease in fair value from 30% adverse change	(5,849)	(6,575)

Sensitivities are hypothetical changes in fair value and cannot be extrapolated because the relationship of changes in assumptions to changes in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption, whereas a change in one factor may result in changes to another. Accordingly, no assurance can be given that actual results would be consistent with the results of these estimates. As a result, actual future changes in MSR values may differ significantly from those displayed above.

[Table of Contents](#)

(Loss) gain on mortgage servicing rights, net is comprised of the following for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended	
	March 31,	
	2019	2018
Change in fair value of mortgage servicing rights	\$ (6,488)	\$ 9,180
Gain (loss) on sale of mortgage servicing rights	865	(2)
Realized and unrealized losses from hedging instruments	—	(1,473)
(Loss) gain on mortgage servicing rights, net	\$ (5,623)	\$ 7,705

Servicing fees, net is comprised of the following for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended	
	March 31,	
	2019	2018
Contractual servicing fees	\$ 4,189	\$ 11,538
Late and ancillary fees	55	151
Subservicing and other costs	(1,275)	(2,226)
Servicing fees, net	\$ 2,969	\$ 9,463

**Note 4.—Leases**

On January 1, 2019, the Company adopted Topic 842 using the modified retrospective transition approach and elected the practical expedients transition option to recognize the adjustment in the period of adoption rather than in the earliest period presented. On January 1, 2019, the Company recognized right of use (ROU) assets of \$19.7 million (net of the reversal of \$3.8 million deferred rent liability) and lease liabilities of \$23.4 million and are included in other assets and liabilities, respectively, in the accompanying consolidated balance sheets.

The Company has three operating leases for office space and certain office equipment under long-term leases expiring at various dates through 2024. The Company determines if a contract is a lease at the inception of the arrangement and reviews all options to extend, terminate, or purchase its right of use assets at the inception of the lease and accounts for these options when they are reasonably certain of being exercised. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. When the Company cannot readily determine the rate implicit in the lease, the Company determines its incremental borrowing rate by using the rate of interest that it would have to pay to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. As a practical expedient permitted under Topic 842, the Company has elected to account for the lease and non-lease components as a single lease component for all leases of which it is the lessee. Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheets and lease expense for these leases is recognized on a straight-line basis over the lease term. For operating leases existing prior to January 1, 2019, the rate used for the remaining lease term was determined as of the date of adoption. The Company had financing leases for office equipment which were not material at March 31, 2019 and are included in other assets and liabilities in the accompanying consolidated balance sheets.

During the three months ended March 31, 2019, cash paid for operating leases was \$1.1 million while total operating lease expense for the three months ended March 31, 2019 was \$986 thousand, which includes short-term leases and sublease income, both of which are immaterial.

[Table of Contents](#)

The following table presents the operating lease balances within the consolidated balance sheets, weighted average remaining lease term, and weighted average discount rates related to the Company's operating leases as of March 31, 2019:

<b>Lease Assets and Liabilities</b>	<b>Classification</b>	<b>March 31, 2019</b>
<b>Assets</b>		
Operating lease ROU assets	Other assets	\$ 18,861
<b>Liabilities</b>		
Operating lease liabilities	Other liabilities	\$ 22,537
Weighted average remaining lease term		5.48 years
Weighted average discount rate		4.8 %

The following table presents the maturity of the Company's operating lease liabilities as of March 31, 2019:

Remainder of 2019	\$ 3,314
Year 2020	4,541
Year 2021	4,593
Year 2022	4,721
Year 2023	4,867
Year 2024	3,729
Total lease commitments	<u>25,765</u>
Less: imputed interest	(3,228)
Total operating lease liability	<u>\$ 22,537</u>

As of March 31, 2019, the Company had no additional operating or finance leases that had not yet commenced.

**Note 5.—Debt**

*Warehouse Borrowings*

The Company, through its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are uncommitted facilities used to fund, and are secured by, residential mortgage loans from the time of funding until the time of settlement when sold to the investor. In accordance with the terms of the Master Repurchase Agreements, the Company's subsidiaries are required to maintain cash balances with the lender as additional collateral for the borrowings, which are included in restricted cash in the accompanying consolidated balance sheets. At March 31, 2019, the Company was not in compliance with a financial covenant and received the necessary waiver.

[Table of Contents](#)

The following table presents certain information on warehouse borrowings and related accrued interest for the periods indicated:

	Maximum Borrowing Capacity	Balance Outstanding At		Maturity Date
		March 31, 2019	December 31, 2018	
<b>Short-term borrowings:</b>				
Repurchase agreement 1	\$ 150,000	\$ 31,753	\$ 84,897	June 14, 2019
Repurchase agreement 2	50,000	45,522	47,108	May 28, 2019
Repurchase agreement 3	225,000	167,408	35,920	January 17, 2020
Repurchase agreement 4	200,000	129,333	80,141	July 12, 2019
Repurchase agreement 5 (1)	175,000	20,003	23,370	March 31, 2020
Repurchase agreement 6	100,000	10,744	12,701	June 27, 2019
Total warehouse borrowings	<u>\$ 900,000</u>	<u>\$ 404,763</u>	<u>\$ 284,137</u>	

(1) In April 2019, the maturity of the line was extended to March 31, 2020.

#### *MSR Financings*

In February 2018, IMC (Borrower) amended the Line of Credit Promissory Note (FHLMC and GNMA Financing) originally entered into in August 2017, increasing the maximum borrowing capacity of the revolving line of credit to \$50.0 million and extending the term to January 31, 2019. In May 2018, the agreement was amended increasing the maximum borrowing capacity of the revolving line of credit to \$60.0 million, increasing the borrowing capacity up to 60% of the fair market value of the pledged mortgage servicing rights and reducing the interest rate per annum to one-month LIBOR plus 3.0%. As part of the May 2018 amendment, the obligations under the Line of Credit are secured by FHLMC and GNMA pledged mortgage servicing rights (subject to an acknowledgement agreement) and is guaranteed by IRES. At March 31, 2019, there were no outstanding borrowings under the FHLMC and GNMA Financing agreement. In April 2019, the maturity of the line was extended until January 31, 2020.

In February 2017, IMC (Borrower) entered into a Loan and Security Agreement (Agreement) with a lender providing for a revolving loan commitment of \$40.0 million for a period of two years (FNMA Financing). The Borrower is able to borrow up to 55% of the fair market value of FNMA pledged servicing rights. Upon the two year anniversary of the Agreement, any amounts outstanding will automatically be converted into a term loan due and payable in full on the one year anniversary of the conversion date. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0% and the balance of the obligation may be prepaid at any time. The Borrower initially drew down \$35.1 million and used a portion of the proceeds to pay off the Term Financing (approximately \$30.1 million) originally entered into in June 2015 as discussed below. The Borrower also paid the lender an origination fee of \$100 thousand, which was deferred and amortized over the life of the FNMA Financing. At March 31, 2019, there were no outstanding borrowings under the FNMA Financing agreement. In February 2019, the line converted into a term loan with no balance.

#### *Convertible Notes*

In May 2015, the Company issued \$25.0 million Convertible Promissory Notes (2015 Convertible Notes). The 2015 Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. Transaction costs of approximately \$50 thousand are being deferred and amortized over the life of the 2015 Convertible Notes.

Noteholders may convert all or a portion of the outstanding principal amount of the 2015 Convertible Notes into shares of the Company's common stock (Conversion Shares) at a rate of \$21.50 per share, subject to adjustment for stock splits and dividends (Conversion Price). The Company has the right to convert the entire outstanding principal of the 2015 Convertible Notes into Conversion Shares at the Conversion Price if the market price per share of the common stock, as measured by the average volume-weighted closing stock price per share of the common stock on the NYSE AMERICAN (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of common stock are listed), reaches the level of \$30.10 for any twenty (20) trading days in any period of thirty (30) consecutive trading days after the Closing Date. Upon conversion of the 2015 Convertible Notes by the Company, the entire amount of accrued and unpaid interest (and all other amounts owing) under the 2015 Convertible Notes are immediately due and

[Table of Contents](#)

payable. To the extent the Company pays any cash dividends on its shares of common stock prior to conversion of the 2015 Convertible Notes, upon conversion of the 2015 Convertible Notes, the Noteholders will also receive such dividends on an as-converted basis of the 2015 Convertible Notes less the amount of interest paid by the Company prior to such dividend.

*Long-term Debt*

**Junior Subordinated Notes**

The Company carries its Junior Subordinated Notes at estimated fair value as more fully described in Note 7.—Fair Value of Financial Instruments. The following table shows the remaining principal balance and fair value of junior subordinated notes issued as of March 31, 2019 and December 31, 2018:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Junior Subordinated Notes (1)	\$ 62,000	\$ 62,000
Fair value adjustment	(17,439)	(17,144)
<b>Total Junior Subordinated Notes</b>	<b>\$ 44,561</b>	<b>\$ 44,856</b>

(1) Stated maturity of March 2034; requires quarterly interest payments at a variable rate of 3-month LIBOR plus 3.75% per annum.

**Note 6.—Securitized Mortgage Trusts**

*Securitized Mortgage Trust Assets*

Securitized mortgage trust assets, which are recorded at their estimated fair value, are comprised of the following at March 31, 2019 and December 31, 2018:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Securitized mortgage collateral	\$ 3,054,720	\$ 3,157,071
Real estate owned (REO)	13,191	8,519
<b>Total securitized mortgage trust assets</b>	<b>\$ 3,067,911</b>	<b>\$ 3,165,590</b>

*Securitized Mortgage Trust Liabilities*

Securitized mortgage trust liabilities, which are recorded at their estimated fair value, are comprised of the following at March 31, 2019 and December 31, 2018:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Securitized mortgage borrowings	\$ 3,051,736	\$ 3,148,215

Changes in fair value of net trust assets, including trust REO gains and losses, are comprised of the following for the three months ended March 31, 2019 and 2018:

	<b>For the Three Months Ended</b> <b>March 31,</b>	
	<u>2019</u>	<u>2018</u>
Change in fair value of net trust assets, excluding REO	\$ (6,156)	\$ (4,331)
Gains from REO	3,473	2,193
<b>Change in fair value of net trust assets, including trust REO gains</b>	<b>\$ (2,683)</b>	<b>\$ (2,138)</b>

**Note 7.—Fair Value of Financial Instruments**

The use of fair value to measure the Company’s financial instruments is fundamental to its consolidated financial statements and is a critical accounting estimate because a substantial portion of its assets and liabilities are recorded at estimated fair value.

The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	March 31, 2019				December 31, 2018			
	Carrying Amount	Estimated Fair Value			Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>Assets</b>								
Cash and cash equivalents	\$ 22,995	\$22,995	\$ —	\$ —	\$ 23,200	\$23,200	\$ —	\$ —
Restricted cash	6,865	6,865	—	—	6,989	6,989	—	—
Mortgage loans held-for-sale	460,773	—	460,773	—	353,601	—	353,601	—
Mortgage servicing rights	59,823	—	—	59,823	64,728	—	—	64,728
Derivative assets, lending, net	3,164	—	—	3,164	3,351	—	—	3,351
Mortgage-backed securities	6,368	—	6,368	—	1,000	—	1,000	—
Securitized mortgage collateral	3,054,720	—	—	3,054,720	3,157,071	—	—	3,157,071
<b>Liabilities</b>								
Warehouse borrowings	\$ 404,763	\$ —	\$404,763	\$ —	\$ 284,137	\$ —	\$284,137	\$ —
Convertible notes	24,987	—	—	24,987	24,985	—	—	24,985
Long-term debt	44,561	—	—	44,561	44,856	—	—	44,856
Securitized mortgage borrowings	3,051,736	—	—	3,051,736	3,148,215	—	—	3,148,215
Derivative liabilities, lending, net	1,105	—	1,105	—	683	—	683	—

The fair value amounts above have been estimated by management using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop the estimates of fair value in both inactive and orderly markets. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

For securitized mortgage collateral and securitized mortgage borrowings, the underlying Alt-A (non-conforming) residential and commercial loans and mortgage-backed securities market have experienced significant declines in market activity, along with a lack of orderly transactions. The Company’s methodology to estimate fair value of these assets and liabilities include the use of internal pricing techniques such as the net present value of future expected cash flows (with observable market participant assumptions, where available) discounted at a rate of return based on the Company’s estimates of market participant requirements. The significant assumptions utilized in these internal pricing techniques, which are based on the characteristics of the underlying collateral, include estimated credit losses, estimated prepayment speeds and appropriate discount rates.

Refer to Recurring Fair Value Measurements below for a description of the valuation methods used to determine the fair value of investment securities available-for-sale, securitized mortgage collateral and borrowings, derivative assets and liabilities, long-term debt, mortgage servicing rights and mortgage loans held-for-sale.

The carrying amount of cash, cash equivalents and restricted cash approximates fair value.

Warehouse borrowings carrying amounts approximate fair value due to the short-term nature of the liabilities and do not present unanticipated interest rate or credit concerns.

Convertible notes are recorded at amortized cost, which approximates fair value.

***Fair Value Hierarchy***

The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value.

FASB ASC 820-10-35 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices (unadjusted) in active markets for identical instruments or liabilities that an entity has the ability to assess at measurement date.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for an asset or liability, including interest rates and yield curves observable at commonly quoted intervals, prepayment speeds, loss severities, credit risks and default rates; and market-corroborated inputs.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers is unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when estimating fair value.

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its mortgage servicing rights, securitized mortgage collateral and borrowings, derivative assets and liabilities (IRLCs), and long-term debt as Level 3 fair value measurements. Level 3 assets and liabilities measured at fair value on a recurring basis were approximately 87% and 99% and 90% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at March 31, 2019 and December 31, 2018.

***Recurring Fair Value Measurements***

The Company assesses the financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between Level 1 and Level 2 classified instruments during the three months ended March 31, 2019.

[Table of Contents](#)

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at March 31, 2019 and December 31, 2018, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	March 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Mortgage loans held-for-sale	\$ —	\$ 460,773	\$ —	\$ —	\$ 353,601	\$ —
Mortgage-backed securities	—	6,368	—	—	1,000	—
Derivative assets, lending, net (1)	—	—	3,164	—	—	3,351
Mortgage servicing rights	—	—	59,823	—	—	64,728
Securitized mortgage collateral	—	—	3,054,720	—	—	3,157,071
Total assets at fair value	\$ —	\$ 467,141	\$ 3,117,707	\$ —	\$ 354,601	\$ 3,225,150
<b>Liabilities</b>						
Securitized mortgage borrowings	\$ —	\$ —	\$ 3,051,736	\$ —	\$ —	\$ 3,148,215
Long-term debt	—	—	44,561	—	—	44,856
Derivative liabilities, lending, net (2)	—	1,105	—	—	683	—
Total liabilities at fair value	\$ —	\$ 1,105	\$ 3,096,297	\$ —	\$ 683	\$ 3,193,071

- (1) At March 31, 2019 and December 31, 2018, derivative assets, lending, net included \$3.2 million and \$3.4 million, respectively, in IRLCs and is included in other assets in the accompanying consolidated balance sheets.
- (2) At March 31, 2019 and December 31, 2018, derivative liabilities, lending, net are included in other liabilities in the accompanying consolidated balance sheets.

The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2019 and 2018:

	Level 3 Recurring Fair Value Measurements				
	For the Three Months Ended March 31, 2019				
	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt
Fair value, December 31, 2018	\$ 3,157,071	\$ (3,148,215)	\$ 64,728	\$ 3,351	\$ (44,856)
Total gains (losses) included in earnings:					
Interest income (1)	6,255	—	—	—	—
Interest expense (1)	—	(13,553)	—	—	(114)
Change in fair value	21,084	(27,240)	(6,488)	(187)	265
Change in fair value of instrument specific credit risk	—	—	—	—	144 (2)
Total gains (losses) included in earnings	27,339	(40,793)	(6,488)	(187)	295
Transfers in and/or out of Level 3	—	—	—	—	—
Purchases, issuances and settlements:					
Issuances	—	—	1,583	—	—
Settlements	(129,690)	137,272	—	—	—
Fair value, March 31, 2019	\$ 3,054,720	\$ (3,051,736)	\$ 59,823	\$ 3,164	\$ (44,561)
Unrealized (losses) gains still held (3)	\$ (331,987)	\$ 2,539,845	\$ 59,823	\$ 3,164	\$ 17,439

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was \$2.0 million for the three months ended March 31, 2019. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations and comprehensive (loss) earnings is primarily from contractual interest on the securitized mortgage collateral and borrowings.
- (2) Amount represents the change in instrument specific credit risk in other comprehensive earnings in the consolidated statements of operations and comprehensive (loss) earnings as required by the adoption of ASU 2016-01 on January 1, 2018.
- (3) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at March 31, 2019.

**Level 3 Recurring Fair Value Measurements  
For the Three Months Ended March 31, 2018**

	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long- term debt	Contingent consideration
Fair value, December 31, 2017	\$3,662,008	\$(3,653,265)	\$ 154,405	\$ 4,357	\$ (44,982)	\$ (554)
Total gains (losses) included in earnings:						
Interest income (1)	5,688	—	—	—	—	—
Interest expense (1)	—	(20,080)	—	—	(139)	—
Change in fair value	(32,755)	28,424	9,180	(503)	1,224	—
Change in instrument specific credit risk	—	—	—	—	(1,440)(2)	—
Total gains (losses) included in earnings	(27,067)	8,344	9,180	(503)	(355)	—
Transfers in and/or out of Level 3	—	—	—	—	—	—
Purchases, issuances and settlements:						
Purchases	—	—	—	—	—	—
Issuances	—	—	10,482	—	—	—
Settlements	(121,040)	136,444	—	—	—	554
Fair value, March 31, 2018	<u>\$3,513,901</u>	<u>\$(3,508,477)</u>	<u>\$ 174,067</u>	<u>\$ 3,854</u>	<u>\$ (45,337)</u>	<u>\$ —</u>
Unrealized (losses) gains still held (3)	<u>\$ (533,589)</u>	<u>\$ 2,694,742</u>	<u>\$ 174,067</u>	<u>\$ 3,854</u>	<u>\$ 16,663</u>	<u>\$ —</u>

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was \$2.2 million for the three months ended March 31, 2018. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations and comprehensive (loss) earnings is primarily from contractual interest on the securitized mortgage collateral and borrowings.
- (2) Amount represents the change in instrument specific credit risk in other comprehensive earnings in the consolidated statements of operations and comprehensive (loss) earnings as required by the adoption of ASU 2016-01 on January 1, 2018.
- (3) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at March 31, 2018.

The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and nonrecurring basis at March 31, 2019:

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
<b>Assets and liabilities backed by real estate</b>					
Securitized mortgage collateral, and	\$ 3,054,720	DCF	Prepayment rates	2.7 - 19.9 %	6.9 %
Securitized mortgage borrowings	(3,051,736)		Default rates	0.02 - 6.5 %	1.1 %
			Loss severities	3.1 - 81.9 %	46.1 %
			Discount rates	3.3 - 25.0 %	4.5 %
<b>Other assets and liabilities</b>					
Mortgage servicing rights	\$ 59,823	DCF	Discount rate	9.0 - 14.0 %	9.2 %
			Prepayment rates	7.7 - 84.4 %	12.5 %
Derivative assets - IRLCs, net	3,164	Market pricing	Pull-through rate	7.5 - 99.9 %	71.2 %
Long-term debt	(44,561)	DCF	Discount rate	9.8 %	9.8 %

DCF = Discounted Cash Flow

For assets and liabilities backed by real estate, a significant increase in discount rates, default rates or loss severities would result in a significantly lower estimated fair value. The effect of changes in prepayment speeds would have differing effects depending on the seniority or other characteristics of the instrument. For other assets and liabilities, a significant increase in discount rates would result in a significantly lower estimated fair value. A significant increase in one-month LIBOR would result in a significantly higher estimated fair value for derivative liabilities, net, securitized trusts. The Company believes that the imprecision of an estimate could be significant.

[Table of Contents](#)

The following tables present the changes in recurring fair value measurements included in net (loss) earnings for the three months ended March 31, 2019 and 2018:

<b>Recurring Fair Value Measurements</b>							
<b>Changes in Fair Value Included in Net (Loss) Earnings</b>							
<b>For the Three Months Ended March 31, 2019</b>							
<b>Change in Fair Value of</b>							
	<b>Interest Income (1)</b>	<b>Interest Expense (1)</b>	<b>Net Trust Assets</b>	<b>Long- term Debt</b>	<b>Other Revenue and Expense</b>	<b>Gain on Sale of Loans, net</b>	<b>Total</b>
Securitized mortgage collateral	\$ 6,255	\$ —	\$ 21,084	\$ —	\$ —	\$ —	\$ 27,339
Securitized mortgage borrowings	—	(13,553)	(27,240)	—	—	—	(40,793)
Long-term debt	—	(114)	—	265	—	—	151
Mortgage servicing rights (2)	—	—	—	—	(6,488)	—	(6,488)
Mortgage loans held-for-sale	—	—	—	—	—	3,469	3,469
Derivative assets — IRLCs	—	—	—	—	—	(187)	(187)
Derivative liabilities — Hedging Instruments	—	—	—	—	—	(422)	(422)
<b>Total</b>	<b>\$ 6,255</b>	<b>\$ (13,667)</b>	<b>\$ (6,156)</b> (3)	<b>\$ 265</b>	<b>\$ (6,488)</b>	<b>\$ 2,860</b>	<b>\$ (16,931)</b>

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in (loss) gain on MSRs, net in the consolidated statements of operations and comprehensive (loss) earnings.
- (3) For the three months ended March 31, 2019, change in the fair value of net trust assets, excluding REO was \$6.2 million.

<b>Recurring Fair Value Measurements</b>							
<b>Changes in Fair Value Included in Net (Loss) Earnings</b>							
<b>For the Three Months Ended March 31, 2018</b>							
<b>Change in Fair Value of</b>							
	<b>Interest Income (1)</b>	<b>Interest Expense (1)</b>	<b>Net Trust Assets</b>	<b>Long- term Debt</b>	<b>Other Revenue</b>	<b>Gain on Sale of Loans, net</b>	<b>Total</b>
Securitized mortgage collateral	\$ 5,688	\$ —	\$ (32,755)	\$ —	\$ —	\$ —	\$ (27,067)
Securitized mortgage borrowings	—	(20,080)	28,424	—	—	—	8,344
Long-term debt	—	(139)	—	1,224	—	—	1,085
Mortgage servicing rights (2)	—	—	—	—	9,180	—	9,180
Mortgage loans held-for-sale	—	—	—	—	—	(4,891)	(4,891)
Derivative assets — IRLCs	—	—	—	—	—	(503)	(503)
Derivative liabilities — Hedging Instruments	—	—	—	—	285	(1,597)	(1,312)
<b>Total</b>	<b>\$ 5,688</b>	<b>\$ (20,219)</b>	<b>\$ (4,331)</b> (3)	<b>\$ 1,224</b>	<b>\$ 9,465</b>	<b>\$ (6,991)</b>	<b>\$ (15,164)</b>

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in (loss) gain on MSRs, net in the consolidated statements of operations and comprehensive (loss) earnings.
- (3) For the three months ended March 31, 2018, change in the fair value of net trust assets, excluding REO was \$4.3 million.

The following is a description of the measurement techniques for items recorded at estimated fair value on a recurring basis.

*Mortgage servicing rights*—The Company elected to carry its MSRs arising from its mortgage loan origination operation at estimated fair value. The fair value of MSRs is based upon market prices for similar instruments and a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at March 31, 2019.

*Mortgage loans held-for-sale*—The Company elected to carry its mortgage loans held-for-sale originated or acquired at estimated fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for mortgage loans, active pricing is available for

similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at March 31, 2019.

*Mortgage-backed Securities*—The Company invested in mortgage-backed securities collateralized by NonQM loans originated by the Company and sold to third party investors. Fair value is based on prices for other traded mortgage-backed securities with similar characteristics and bid information received from market participants. Given the market pricing for other traded mortgage-backed securities, active pricing is available for similar assets and accordingly, the Company classifies its mortgage-backed securities as a Level 2 measurement at March 31, 2019.

*Securitized mortgage collateral*—The Company elected to carry its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2019, securitized mortgage collateral had UPB of \$3.4 billion, compared to an estimated fair value on the Company's balance sheet of \$3.1 billion. The aggregate UPB exceeded the fair value by \$0.3 billion at March 31, 2019. As of March 31, 2019, the UPB of loans 90 days or more past due was \$0.4 billion compared to an estimated fair value of \$0.2 billion. The aggregate UPB of loans 90 days or more past due exceeded the fair value by \$0.2 billion at March 31, 2019. Securitized mortgage collateral is considered a Level 3 measurement at March 31, 2019.

*Securitized mortgage borrowings*—The Company elected to carry its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2019, securitized mortgage borrowings had an outstanding principal balance of \$3.4 billion, net of \$2.2 billion in bond losses, compared to an estimated fair value of \$3.1 billion. The aggregate outstanding principal balance exceeded the fair value by \$0.3 billion at March 31, 2019. Securitized mortgage borrowings are considered a Level 3 measurement at March 31, 2019.

*Long-term debt*—The Company elected to carry its remaining long-term debt (consisting of junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of March 31, 2019, long-term debt had UPB of \$62.0 million compared to an estimated fair value of \$44.6 million. The aggregate UPB exceeded the fair value by \$17.4 million at March 31, 2019. The long-term debt is considered a Level 3 measurement at March 31, 2019.

*Derivative assets and liabilities, lending*—The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivatives include IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. The derivatives also include hedging instruments (typically TBA MBS) used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending originations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at March 31, 2019.

[Table of Contents](#)

The fair value of the Hedging Instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date. Therefore, the Hedging Instruments are classified as a Level 2 measurement at March 31, 2019.

The following table includes information for the derivative assets and liabilities related to lending for the periods presented:

	Notional Amount		Total Gains (Losses)	
	March 31,	December 31,	For the Three Months Ended	
	2019	2018	March 31,	
			2019	2018
Derivative – IRLC's (1)	\$ 214,872	\$ 183,595	\$ (187)	\$ (503)
Derivative – TBA MBS (2)	178,314	88,018	(1,476)	10,448
Derivative – Forward delivery loan commitment	74,821	150,000	—	—

- (1) Amounts included in gain on sale of loans, net within the accompanying consolidated statements of operations and comprehensive (loss) earnings.
- (2) Amounts included in gain on sale of loans, net and (loss) gain on mortgage servicing rights, net within the accompanying consolidated statements of operations and comprehensive (loss) earnings.

**Nonrecurring Fair Value Measurements**

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements under FASB ASC 820-10.

The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at March 31, 2019 and 2018, respectively:

	Nonrecurring Fair Value Measurements			Total Gains (1)
	March 31, 2019			For the Three Months Ended
	Level 1	Level 2	Level 3	March 31, 2019
REO (2)	\$ —	\$ 3,562	\$ —	\$ 3,473

- (1) Total gains reflect gains from all nonrecurring measurements during the period.
- (2) Balance represents REO at March 31, 2019, which have been impaired subsequent to foreclosure. For the three months ended March 31, 2019, the Company recorded \$3.5 million in gains which represent recovery of the NRV attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

	Nonrecurring Fair Value Measurements			Total Gains (1)
	March 31, 2018			For the Three Months Ended
	Level 1	Level 2	Level 3	March 31, 2018
REO (2)	\$ —	\$ 1,307	\$ —	\$ 2,193

- (1) Total gains reflect gains from all nonrecurring measurements during the period.
- (2) Balance represents REO at March 31, 2018, which has been impaired subsequent to foreclosure. For the three months ended March 31, 2018, the Company recorded \$2.2 million in gains which represent recovery of the NRV attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

*Real estate owned*—REO consists of residential real estate (within securitized mortgage trust assets) acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO balance representing REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and are included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and are considered Level 2 measurements at March 31, 2019.

**Note 8.—Income Taxes**

The Company calculates its quarterly tax provision pursuant to the guidelines in ASC 740 *Income Taxes*. ASC 740 requires companies to estimate the annual effective tax rate for current year ordinary income. In calculating the effective tax rate, permanent differences between financial reporting and taxable income are factored into the calculation, but temporary differences are not. The estimated annual effective tax rate represents the best estimate of the tax provision in relation to the best estimate of pre-tax ordinary income or loss. The estimated annual effective tax rate is then applied to year-to-date ordinary income or loss to calculate the year-to-date interim tax provision.

The Company recorded income tax expense of \$86 thousand and \$610 thousand for the three months ended March 31, 2019 and 2018, respectively. Tax expense for the three months ended March 31, 2019 is primarily the result of state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, offset by a benefit resulting from the intraperiod allocation rules that are applied when there is a pre-tax loss from continuing operations and pre-tax income from other comprehensive income.

As of December 31, 2018, the Company had estimated federal net operating loss (NOL) carryforwards of approximately \$564.6 million. Federal net operating loss carryforwards begin to expire in 2027. As of December 31, 2018, the Company had estimated California NOL carryforwards of approximately \$386.0 million, which begin to expire in 2028. The Company may not be able to realize the maximum benefit due to the nature and tax entities that holds the NOL.

**Note 9.—Reconciliation of (Loss) Earnings Per Share**

Basic net (loss) earnings per share is computed by dividing net (loss) earnings available to common stockholders (numerator) by the weighted average number of vested common shares outstanding during the period (denominator). Diluted net (loss) earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method. Dilutive potential common shares include shares issuable upon conversion of Convertible Notes, dilutive effect of outstanding stock options and deferred stock units (DSUs).

	For the Three Months Ended March 31,	
	2019	2018
<b>Numerator for basic (loss) earnings per share:</b>		
Net (loss) earnings	\$ (12,612)	\$ 3,873
<b>Numerator for diluted (loss) earnings per share:</b>		
Net (loss) earnings	\$ (12,612)	\$ 3,873
Interest expense attributable to convertible notes (1)	—	—
Net (loss) earnings plus interest expense attributable to convertible notes	<u>\$ (12,612)</u>	<u>\$ 3,873</u>
<b>Denominator for basic (loss) earnings per share (2):</b>		
Basic weighted average common shares outstanding during the period	<u>21,159</u>	<u>20,951</u>
<b>Denominator for diluted (loss) earnings per share (2):</b>		
Basic weighted average common shares outstanding during the period	21,159	20,951
Net effect of dilutive convertible notes (1)	—	—
Net effect of dilutive stock options and DSU's	—	151
Diluted weighted average common shares	<u>21,159</u>	<u>21,102</u>
Net (loss) earnings per common share:		
Basic	\$ (0.60)	\$ 0.18
Diluted	<u>\$ (0.60)</u>	<u>\$ 0.18</u>

- (1) Adjustments to diluted (loss) earnings per share for the convertible notes for the three months ended March 31, 2019 and 2018 were excluded from the calculation, as they were anti-dilutive.
- (2) Number of shares presented in thousands.

At March 31, 2019, there were 1.2 million shares attributable to the Convertible Notes and 1.2 million stock options outstanding which were anti-dilutive. At March 31, 2018, there were 1.2 million shares attributable to the Convertible Notes which were anti-dilutive.

**Note 10.—Segment Reporting**

The Company has three primary reporting segments which include mortgage lending, long-term mortgage portfolio and real estate services. Unallocated corporate and other administrative costs, including the costs associated with being a public company, are presented in Corporate and other.

<b>Statement of Operations Items for the Three Months Ended March 31, 2019:</b>	<b>Mortgage Lending</b>	<b>Real Estate Services</b>	<b>Long-term Portfolio</b>	<b>Corporate and other</b>	<b>Consolidated</b>
Gain on sale of loans, net	\$ 12,214	\$ —	\$ —	\$ —	\$ 12,214
Real estate services fees, net	—	806	—	—	806
Servicing fees, net	2,969	—	—	—	2,969
Loss on mortgage servicing rights, net	(5,623)	—	—	—	(5,623)
Other revenue	—	—	(32)	32	—
Other operating expense	(17,500)	(387)	(138)	(4,245)	(22,270)
Other income (expense)	1,415	—	(1,580)	(457)	(622)
Net (loss) earnings before income tax expense	<u>\$ (6,525)</u>	<u>\$ 419</u>	<u>\$ (1,750)</u>	<u>\$ (4,670)</u>	<u>(12,526)</u>
Income tax expense					86
Net loss					<u>\$ (12,612)</u>

<b>Statement of Operations Items for the Three Months Ended March 31, 2018:</b>	<b>Mortgage Lending</b>	<b>Real Estate Services</b>	<b>Long-term Portfolio</b>	<b>Corporate and other</b>	<b>Consolidated</b>
Gain on sale of loans, net	\$ 21,482	\$ —	\$ —	\$ —	\$ 21,482
Real estate services fees, net	—	1,385	—	—	1,385
Servicing fees, net	9,463	—	—	—	9,463
Loss on mortgage servicing rights, net	7,705	—	—	—	7,705
Other revenue	—	—	84	6	90
Other operating expense	(31,548)	(638)	(65)	(3,497)	(35,748)
Other income (expense)	334	—	196	(424)	106
Net earnings (loss) before income tax expense	<u>\$ 7,436</u>	<u>\$ 747</u>	<u>\$ 215</u>	<u>\$ (3,915)</u>	<u>\$ 4,483</u>
Income tax expense					610
Net earnings					<u>\$ 3,873</u>

<b>Balance Sheet Items as of:</b>	<b>Mortgage Lending</b>	<b>Real Estate Services</b>	<b>Long-term Portfolio</b>	<b>Corporate and other</b>	<b>Consolidated</b>
<b>Total Assets at March 31, 2019 (1)</b>	<u>\$ 580,569</u>	<u>\$ 104</u>	<u>\$ 3,067,979</u>	<u>\$ 25,079</u>	<u>\$ 3,673,731</u>
<b>Total Assets at December 31, 2018 (1)</b>	<u>\$ 475,734</u>	<u>\$ 126</u>	<u>\$ 3,165,669</u>	<u>\$ 6,414</u>	<u>\$ 3,647,943</u>

(1) All segment asset balances exclude intercompany balances.

**Note 11.—Commitments and Contingencies**

*Legal Proceedings*

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

## [Table of Contents](#)

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any case, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure.

Based on the Company's current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

The legal matter updates summarized below are ongoing and may have an effect on the Company's business and future financial condition and results of operations:

In 2001, Baker, et al. v. Century Financial Group, et al., was filed in the Circuit Court of Clay County, Missouri, as a putative class action against the Company, Century Financial, and others, claiming violations of Missouri's Second Mortgage Loan Act. Plaintiffs seek on behalf of themselves and the members of the putative class, among other things, disgorgement or restitution of all allegedly improperly-collected charges, the right to rescind all affected loan transactions, the right to offset any finance charges, closing costs, points or other loan fees paid against the principal amounts due on the loans if rescinded, actual and punitive damages, and attorneys' fees. On March 12, 2019, the parties entered into a settlement agreement that resolved all matters among them.

On December 7, 2011, a purported class action was filed in the Circuit Court of Baltimore City entitled Timm, v. Impac Mortgage Holdings, Inc., et al. alleging on behalf of holders of the Company's 9.375% Series B Cumulative Redeemable Preferred Stock (Preferred B) and 9.125% Series C Cumulative Redeemable Preferred Stock (Preferred C) who did not tender their stock in connection with the Company's 2009 completion of its Offer to Purchase and Consent Solicitation that the Company failed to achieve the required consent of the Preferred B and C holders, the consents to amend the Preferred stock were not effective because they were given on unissued stock (after redemption), the Company tied the tender offer with a consent requirement that constituted an improper "vote buying" scheme, and that the tender offer was a breach of a fiduciary duty. The action seeks the payment of two quarterly dividends for the Preferred B and C holders, the unwinding of the consents and reinstatement of the cumulative dividend on the Preferred B and C stock, and the election of two directors by the Preferred B and C holders. The action also seeks punitive damages and legal expenses. On July 16, 2018, the Court entered a Judgement Order whereby it (1) declared and entered judgment in favor of all defendants on all claims related to the Preferred C holders and all claims against all individual defendants thereby affirming the validity of the 2009 amendments to the Series B Articles Supplementary; (2) declared its interpretation of the voting provision language in the Preferred B Articles Supplementary to mean that consent of two-thirds of the Preferred B stockholders was required to approve the 2009 amendments to the Preferred B Articles Supplementary, which consent was not obtained, thus rendering the amendments invalid and leaving the 2004 Preferred B Articles Supplementary in effect; (3) ordered the Company to hold a special election within sixty days for the Preferred B stockholders to elect two directors to the Board of Directors pursuant to the 2004 Preferred B Articles Supplementary (which Directors will remain on the Company's Board of Directors until such time as all accumulated dividends on the Preferred B have been paid or set aside for payment) and, (4) declared that the Company is required to pay three quarters of dividends on the Preferred B stock under the 2004 Articles Supplementary (approximately, \$1.2 million, but did not order the Company to make any payment at this time). The Court declined to certify any class pending the outcome of appeals and certified its Judgment Order for immediate appeal. On April 10, 2019, the Company filed its opening appellate brief.

On April 30, 2012, a purported class action was filed entitled Marentes v. Impac Mortgage Holdings, Inc., alleging that certain loan modification activities of the Company constitute an unfair business practice, false advertising

## [Table of Contents](#)

and marketing, and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and prejudgment interest. On August 22, 2012, the plaintiffs filed an amended complaint adding Impac Funding Corporation as a defendant and on October 2, 2012, the plaintiffs dismissed Impac Mortgage Holdings, Inc., without prejudice. On January 11, 2019, the trial court determined that the plaintiffs were unable to prove their case and ordered that judgment be entered in favor of the defendant. On April 19, 2019, the plaintiffs filed their Notice of Appeal.

On September 18, 2018, a purported class action was filed in the Superior Court of California, Orange County, entitled *McNair v. Impac Mortgage Corp. dba CashCall Mortgage*. The plaintiff contends the defendant did not pay the plaintiff and purported class members overtime compensation, provide required meal and rest breaks, or provide accurate wage statements. The action seeks damages, restitution, penalties, interest, attorney's fees, and all other appropriate injunctive, declaratory, and equitable relief. On March 8, 2019, a First Amended Complaint was filed, which added a claim alleging violations of the California Labor Code Private Attorneys General Act (PAGA). On March 12, 2019, the parties filed a stipulation with the court stating (1) the plaintiff's individual claims should be arbitrated pursuant to the parties' arbitration agreement, (2) the class claims should be struck from the First Amended Complaint, and (3) the plaintiff will proceed solely with regard to her PAGA claims.

On November 2, 2018, a purported class action was filed in the Superior Court of California, Orange County, entitled *Riggin v. Impac Mortgage Corp. dba CashCall Mortgage*. The plaintiff contends the defendant did not pay the plaintiff and purported class members overtime compensation, provide required meal and rest breaks, or provide accurate wage statements. The action seeks damages, restitution, penalties, interest, attorney's fees, and all other appropriate injunctive, declaratory, and equitable relief. On February 15, 2019, the court granted the Company's motion to compel arbitration of the plaintiff's individual claims and stayed all other claims pending completion of the arbitration.

On December 27, 2018, a purported class action was filed in the Superior Court of California, Orange County, entitled *Batres v. Impac Mortgage Corp. dba CashCall Mortgage*. The plaintiff contends the defendant did not pay the plaintiff and purported class members overtime compensation, provide required meal and rest breaks, or provide accurate wage statements. The action seeks damages, restitution, penalties, interest, attorney's fees, and all other appropriate injunctive, declaratory, and equitable relief. On March 14, 2019, the plaintiff filed an amended complaint alleging only a violation of the California Labor Code Private Attorneys General Act seeking penalties, attorneys' fees, and such other appropriate relief.

The Company is a party to other litigation and claims which are normal in the course of the Company's operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. The Company believes that it has meritorious defenses to the claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company's financial position and results of operations.

Please refer to IMH's report on Form 10-K for the year ended December 31, 2018 for a description of litigation and claims.

### *Repurchase Reserve*

When the Company sells mortgage loans, it makes customary representations and warranties to the purchasers about various characteristics of each loan such as the origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. The Company's whole loan sale agreements generally require it to repurchase loans if the Company breached a representation or warranty given to the loan purchaser.

The following table summarizes the repurchase reserve activity, within other liabilities on the consolidated balance sheets, related to previously sold loans for the three months ended March 31, 2019 and year ended December 31, 2018:

	March 31, 2019	December 31, 2018
Beginning balance	\$ 7,657	\$ 6,020
Provision for repurchases	1,630	5,074
Settlements	(321)	(3,437)
Total repurchase reserve	<u>\$ 8,966</u>	<u>\$ 7,657</u>

*Commitments to Extend Credit*

The Company enters into IRLCs with prospective borrowers whereby the Company commits to lend a certain loan amount under specific terms and interest rates to the borrower. These loan commitments are treated as derivatives and are carried at fair value. See Note 7. — Fair Value of Financial Instruments for more information.

**Note 12.—Equity and Share Based Payments**

*Redeemable Preferred Stock*

At March 31, 2019, the Company had outstanding \$66.6 million liquidation preference of Series B and Series C Preferred Stock. The holders of each series of Preferred Stock, which are non-voting and redeemable at the option of the Company, retain the right to a \$25.00 per share liquidation preference in the event of a liquidation of the Company and the right to receive dividends on the Preferred Stock if any such dividends are declared.

As previously disclosed within Note 11.—Redeemable Preferred Stock, of the 2018 Form 10-K, all rights of the Preferred B holders under the 2004 Articles were deemed reinstated. Subject to an appeal, the Company has cumulative undeclared dividends in arrears of approximately \$14.8 million, or approximately \$22.27 per outstanding share of Preferred B, increasing the liquidation value to approximately \$47.27 per share. Additionally, every quarter the cumulative undeclared dividends in arrears will increase by \$0.5859 per share, or approximately \$390 thousand. The liquidation preference, inclusive of the cumulative undeclared dividends in arrears, is only payable upon voluntary or involuntary liquidation, dissolution or winding up of the Company's affairs.

*Share Based Payments*

The following table summarizes activity, pricing and other information for the Company's stock options for the three months ended March 31, 2019:

	Number of Shares	Weighted- Average Exercise Price
Options outstanding at December 31, 2018	1,001,469	\$ 13.16
Options granted	562,500	3.69
Options exercised	(64,351)	2.52
Options forfeited/cancelled	(293,217)	14.47
Options outstanding at March 31, 2019	<u>1,206,401</u>	8.99
Options exercisable at March 31, 2019	<u>469,164</u>	\$ 14.07

As of March 31, 2019, there was approximately \$1.5 million of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 2.4 years.

[Table of Contents](#)

The following table summarizes activity, pricing and other information for the Company's restricted stock units (RSU's) for the three months ended March 31, 2019:

	Number of Shares	Weighted- Average Grant Date Fair Value
RSU's outstanding at December 31, 2018	—	\$ —
RSU's granted	75,000	3.75
RSU's issued	—	—
RSU's forfeited/cancelled	—	—
RSU's outstanding at March 31, 2019	<u>75,000</u>	<u>\$ 3.75</u>

As of March 31, 2019, there was approximately \$273 thousand of total unrecognized compensation cost related to the RSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 2.9 years

The following table summarizes activity, pricing and other information for the Company's deferred stock units (DSU's) for the three months ended March 31, 2019:

	Number of Shares	Weighted- Average Grant Date Fair Value
DSU's outstanding at December 31, 2018	24,500	\$ 10.11
DSU's granted	30,000	3.75
DSU's issued	—	—
DSU's forfeited/cancelled	—	—
DSU's outstanding at March 31, 2019	<u>54,500</u>	<u>\$ 6.61</u>

As of March 31, 2019, there was approximately \$141 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 2.6 years.

**Note 13.—Subsequent Events**

Subsequent events have been evaluated through the date of this filing.

## **ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(dollars in thousands, except per share data or as otherwise indicated)

Unless the context otherwise requires, the terms “Company,” “we,” “us,” and “our” refer to Impac Mortgage Holdings, Inc. (the Company or IMH), a Maryland corporation incorporated in August 1995, and its direct and indirect wholly-owned subsidiaries, Integrated Real Estate Service Corporation (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets), and Impac Funding Corporation (IFC).

### **Forward-Looking Statements**

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as “may,” “will,” “believe,” “expect,” “likely,” “projected,” “should,” “could,” “seem to,” “anticipate,” “plan,” “intend,” “project,” “assume,” or similar terms or variations on those terms or the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: successful development, marketing, sale and financing of new mortgage products, including expansion of non-Qualified Mortgage originations and government loan programs; inability to successfully reduce prepayment on our mortgage loans; ability to successfully diversify our loan products; decrease in our mortgage servicing portfolio or its market value; ability to increase our market share and geographic footprint in the various residential mortgage businesses; ability to manage and sell MSRAs as needed; ability to successfully sell loans to third-party investors; volatility in the mortgage industry; unexpected interest rate fluctuations and margin compression; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology including cyber risk and data security risk; ability to successfully create cost and product efficiencies through new technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing, through lending and repurchase facilities, debt or equity funding, strategic relationships or otherwise; the terms of any financing, whether debt or equity, that we do obtain and our expected use of proceeds from any financing; increase in loan repurchase requests and ability to adequately settle repurchase obligations; failure to create brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies; and our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the period ended December 31, 2018, and other subsequent reports we file under the Securities Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

### **The Mortgage Industry and Discussion of Relevant Fiscal Periods**

The mortgage industry is subject to current events that occur in the financial services industry including changes to regulations and compliance requirements that result in uncertainty surrounding the actions of states, municipalities and government agencies, including the Consumer Financial Protection Bureau (CFPB) and Federal Housing Finance Agency (FHFA). These events can also include changes in economic indicators, interest rates, price competition, geographic shifts, disposable income, housing prices, market liquidity, market anticipation, environmental conditions, such as hurricanes and floods, and customer perception, as well as others. The factors that affect the industry change rapidly and can be unforeseeable making it difficult to predict and manage an operation in the financial services industry.

Current events can diminish the relevance of “quarter over quarter” and “year-to-date over year-to-date” comparisons of financial information. In such instances, we attempt to present financial information in Management’s

[Table of Contents](#)

Discussion and Analysis of Financial Condition and Results of Operations that is the most relevant to our financial information.

**Selected Financial Results**

	<b>For the Three Months Ended</b>		
	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
<b>Revenues:</b>			
Gain on sale of loans, net	\$ 12,214	\$ 12,854	\$ 21,482
Servicing fees, net	2,969	7,807	9,463
(Loss) gain on mortgage servicing rights, net	(5,623)	(6,303)	7,705
Real estate services fees, net	806	1,192	1,385
Other	—	15	90
Total revenues	<u>10,366</u>	<u>15,565</u>	<u>40,125</u>
<b>Expenses:</b>			
Personnel expense	14,121	13,661	17,742
Business promotion	2,923	3,854	9,731
General, administrative and other	5,226	8,323	8,275
Total expenses	<u>22,270</u>	<u>25,838</u>	<u>35,748</u>
<b>Operating (loss) income:</b>	<u>(11,904)</u>	<u>(10,273)</u>	<u>4,377</u>
<b>Other income (expense):</b>			
Net interest income	1,796	540	1,020
Change in fair value of long-term debt	265	3,281	1,224
Change in fair value of net trust assets	(2,683)	687	(2,138)
Total other (expense) income	<u>(622)</u>	<u>4,508</u>	<u>106</u>
(Loss) earnings before income taxes	(12,526)	(5,765)	4,483
Income tax expense	86	676	610
Net (loss) earnings	<u>\$ (12,612)</u>	<u>\$ (6,441)</u>	<u>\$ 3,873</u>
<b>Other comprehensive (loss) earnings:</b>			
Change in fair value of mortgage-backed securities	21	—	—
Change in fair value of instrument specific credit risk	96	(1,201)	(1,440)
Total comprehensive (loss) earnings	<u>\$ (12,495)</u>	<u>\$ (7,642)</u>	<u>\$ 2,433</u>
Diluted weighted average common shares	21,159	21,116	21,102
Diluted (loss) earnings per share	<u>\$ (0.60)</u>	<u>\$ (0.31)</u>	<u>\$ 0.18</u>

**Status of Operations**

*Summary Highlights*

- NonQM mortgage origination volumes decreased to \$343.3 million in the first quarter of 2019 from \$397.4 million in the fourth quarter of 2018 and increased from \$248.2 million in the first quarter of 2018.
- Mortgage servicing portfolio was flat at \$6.2 billion at March 31, 2019 and December 31, 2018 and decreased as compared to \$16.8 billion at March 31, 2018.
- Servicing fees, net decreased to \$3.0 million for the three months ended March 31, 2019 from \$7.8 million for the three months ended December 31, 2018 and \$9.5 million for the three months ended March 31, 2018.
- Invested \$5.3 million in the capital structure of a private securitization which was 100% backed by Impac NonQM collateral.
- Mortgage servicing rights (MSRs) decreased to \$59.8 million at March 31, 2019 as compared to \$64.7 million at December 31, 2018 and \$174.0 million at March 31, 2018.
- Operating expenses (personnel, business promotion and general, administrative and other) for the three months ended March 31, 2019 decreased to \$22.3 million from \$25.8 million for the quarter ended December

31, 2018 and \$35.7 for the quarter ended March 31, 2018.

For the first quarter of 2019, we reported net loss of \$12.6 million, or \$0.60 per diluted common share, as compared to net earnings of \$3.9 million, or \$0.18 per diluted common share, for the first quarter of 2018. For the first quarter of 2019, core earnings (loss) (as defined below) was a loss of \$5.8 million, or \$0.28 per diluted common share, as compared to core earnings (loss) of \$10.0 million, or \$0.47 per diluted common share, for the first quarter of 2018.

Net (loss) earnings for the first quarter of 2019 increased from the three months ended March 31, 2018 due to a decline in revenue from gain on sale of loans, net as a result of a decrease in origination volumes as well as a mark-to-market decrease in fair value of our MSR's, partially offset by a decrease in operating expenses. Originations decreased to \$581.5 million as compared to \$1.3 billion in the first quarter of 2018, as a result of higher interest rates as compared to the first quarter of 2018. Partially offsetting the decline in origination volume was an increase in gain on sale margins, which increased by 47 basis point (bps) to 210 bps in the first quarter of 2019, as compared to 163 bps in the first quarter of 2018. NonQM originations increased to 59% of total originations as compared to 19% during the first quarter of 2018, which was the primary driver of margin expansion during the first quarter. Additionally, during the first quarter of 2019, we had mark-to-market decreases in fair value of our MSR's of \$6.5 million primarily due to the decrease in interest rates during March 2019. These decreases in revenue were partially offset by a decrease in operating expenses (personnel, business promotion and general, administrative and other) for the three months ended March 31, 2019 which decreased to \$22.3 million from \$35.7 million for the quarter ended March 31, 2018.

#### Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States (GAAP), we use the following non-GAAP financial measures: core earnings (loss) and core earnings (loss) per share. Core earnings (loss) and core earnings (loss) per share are financial measurements calculated by adjusting GAAP earnings before tax to exclude certain non-cash items, such as fair value adjustments and mark-to-market of mortgage servicing rights (MSR's), and legacy non-recurring expenses. The fair value adjustments are non-cash items which management believes should be excluded when discussing our ongoing and future operations. The Company has begun to use core earnings as it believes that it more accurately reflects the Company's current business operations of mortgage originations and further aids our investors in understanding and analyzing our core operating results and comparing them among periods. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for net earnings before income taxes, net earnings or diluted earnings per share (EPS) prepared in accordance with GAAP. The tables below provide a reconciliation of net (loss) earnings before tax and diluted (loss) earnings per share to non-GAAP core earnings (loss) and per share non-GAAP core earnings (loss):

[Table of Contents](#)

	For the Three Months Ended		
	March 31, 2019	December 31, 2018	March 31, 2018
<b>Net (loss) earnings before tax:</b>	\$ (12,526)	\$ (5,765)	\$ 4,483
MTM mortgage servicing rights	3,671	1,760	(16,198)
Change in fair value of long-term debt	(265)	(687)	(1,224)
Change in fair value of net trust assets, including trust REO gains	2,683	(3,281)	2,138
Legal Settlements and Professional Fees, for Legacy Matters	50	1,072	594
Severance	539	326	237
<b>Core loss</b>	<b>\$ (5,848)</b>	<b>\$ (6,575)</b>	<b>\$ (9,970)</b>
Diluted weighted average common shares	21,159	21,116	21,102
<b>Diluted core loss per share</b>	<b>\$ (0.28)</b>	<b>\$ (0.31)</b>	<b>\$ (0.47)</b>
<b>Diluted (loss) earnings per share</b>	<b>\$ (0.60)</b>	<b>\$ (0.31)</b>	<b>\$ 0.18</b>
Adjustments:			
Income tax expense	—	0.03	0.04
MTM mortgage servicing rights	0.17	0.08	(0.77)
Change in fair value of long-term debt	(0.01)	(0.03)	(0.06)
Change in fair value of net trust assets, including trust REO gains	0.13	(0.15)	0.10
Legal Settlements and Professional Fees, for Legacy Matters	—	0.05	0.03
Severance	0.03	0.02	0.01
Other (1)	—	—	—
<b>Diluted core loss per share</b>	<b>\$ (0.28)</b>	<b>\$ (0.31)</b>	<b>\$ (0.47)</b>

(1) Except for when anti-dilutive, convertible debt interest expense, net of tax, is included for calculating diluted (loss) earnings per share (EPS) and is excluded for purposes of reconciling GAAP diluted EPS to non-GAAP diluted core loss per share.

**Originations by Channel:**

	For the Three Months Ended				
	March 31, 2019	December 31, 2018	% Change	March 31, 2018	% Change
(in millions)					
Retail	\$ 321.6	\$ 318.5	1 %	\$ 631.1	(49)%
Correspondent	57.0	64.4	(11)	479.6	(88)
Wholesale	202.9	249.2	(19)	209.4	(3)
Total originations	<u>\$ 581.5</u>	<u>\$ 632.1</u>	(8)%	<u>\$ 1,320.1</u>	(56)%

During the first quarter of 2019, total originations decreased 8% to \$581.5 million as compared to \$632.1 million in the fourth quarter of 2018 and decreased 56% as compared to \$1.3 billion in the first quarter of 2018. The decrease in originations from the fourth quarter of 2018 was the result of seasonality in the mortgage origination cycle which typically has reduced origination volumes beginning in December through the end of the first quarter. The decrease in originations from the first quarter of 2018 was also a result of higher interest rates. Despite the recent decline in interest rates towards the end of the first quarter of 2019, from January 2017 through 2018, interest rates have increased significantly from the historically low interest rate environment the previous years, causing a sharp drop in refinance volume which has been the predominance of our retail originations.

Our loan products primarily include NonQM mortgages, conventional loans eligible for sale to Fannie Mae and Freddie Mac, loans eligible for government insurance (government loans) by the Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).

**Originations by Loan Type:**

For the Three Months Ended March 31,

[Table of Contents](#)

(in millions)	2019	2018	% Change
NonQM	\$ 343.3	\$ 248.2	38
Conventional	205.7	520.1	(60)%
Government (1)	32.5	551.8	(94)
Total originations	<u>\$ 581.5</u>	<u>\$ 1,320.1</u>	(56)%

(1) Includes all government-insured loans including FHA, VA and USDA.

We continue to shift our strategy and direct our efforts on repositioning the Company by focusing on our core NonQM lending business. During the three months ended March 31, 2019, NonQM originations were 59% of total originations as compared to 63% and 19% for the three months ended December 31, 2018 and March 31, 2018, respectively.

For 2019, we will continue to build upon this momentum and further our competitive advantage in the higher margin alternative credit product segment of the market.

During the first quarter of 2019, the origination volume of NonQM loans decreased to \$343.3 million as compared to \$397.4 million in the fourth quarter of 2018 and increased from \$248.2 million in the first quarter of 2018. In the first quarter of 2019 and fourth quarter of 2018, the retail channel accounted for 26% of NonQM originations while the wholesale and correspondent channels accounted for 74% of NonQM production as compared 23% and 77%, respectively, in the first quarter of 2018. The NonQM loans originated since 2016 have all been sold on a servicing released basis.

We believe there is an underserved mortgage market for borrowers with good credit who may not meet the qualified mortgage (QM) guidelines set out by the Consumer Financial Protection Bureau (CFPB). NonQM borrowers generally have a good credit history but income documentation that does not allow them to qualify for an agency loan, such as a self-employed borrower. We have established strict lending guidelines, including determining the prospective borrowers' ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable levels. We continue to refine our guidelines to expand our reach to the underserved market of credit worthy borrowers who can fully document and substantiate an ability to repay mortgage loans, but unable to obtain financing through traditional programs (QM loans).

We invested in the capital structure of two securitizations in 2018 and one during the first quarter of 2019, which were 100% backed by Impac NonQM collateral and the senior tranches received AAA ratings. During the fourth quarter of 2018, we expanded our investor relationships for NonQM which provides us with additional exit strategies for these nonconforming loans. We view these development as the next step in the evolution and maturity of the NonQM market, and further evidence of the acceptance of the Company's NonQM product within both the primary and secondary markets, reflective of the quality, consistency and performance of our loans.

In the first quarter of 2019, our NonQM origination volume was \$343.3 million with an average FICO of 728 and a weighted average LTV of 69% as compared to NonQM origination volume of \$397.4 million with an average FICO of 730 and a weighted average LTV of 69% for the quarter ended December 31, 2018 and NonQM origination volume of \$248.2 million with an average FICO of 720 and a weighted average LTV of 66% for the quarter ended March 31, 2018.

**Originations by Purpose:**

(in millions)	For the Three Months Ended March 31,			
	2019	%	2018	%
Refinance	\$ 410.2	71 %	\$ 878.4	67 %
Purchase	171.3	29	441.7	33
Total originations	<u>\$ 581.5</u>	100 %	<u>\$ 1,320.1</u>	100 %

During the first quarter of 2019, refinance volume decreased approximately 53% to \$410.2 million as compared to \$878.4 million in the first quarter of 2018 as a result of rising interest rates since the first quarter of 2018. Our purchase money transactions declined 61% to \$171.3 million during the first quarter of 2019, as compared to \$441.7 million in the first quarter of 2018. The reduction in purchase money transactions stems from the combination of rising interest rates as

[Table of Contents](#)

compared to the first quarter of 2018 and increasing home prices in California which have contributed to a decline in home sales.

**Mortgage Servicing Portfolio:**

<u>(in millions)</u>	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>%</u> <u>Change</u>
Mortgage servicing portfolio	\$ 6,235.2	\$ 6,218.1	0.3 %

The mortgage servicing portfolio remained flat at \$6.2 billion at March 31, 2019 as compared to December 31, 2018 but decreased from \$16.8 billion at March 31, 2018. The decrease was due to a shift in strategy during the second half of 2018 to direct our efforts on repositioning the Company by focusing on our core NonQM lending business and strengthen our liquidity position. During the fourth quarter of 2018, we sold approximately \$10.5 billion UPB of MSRs. During the three months ended March 31, 2019, we continued to selectively retain mortgage servicing as well as increase whole loan sales on a servicing released basis to investors. The servicing portfolio generated net servicing fees of \$3.0 million in the first quarter of 2019, a 69% decrease over the net servicing fees of \$9.5 million in the first quarter of 2018 as a result of the aforementioned mortgage servicing sales in 2018. Delinquencies within the servicing portfolio have remained low at 0.28% for 60+ days delinquent as of March 31, 2019 as compared to 0.25% at December 31, 2018.

The following table includes information about our mortgage servicing portfolio:

<u>(in millions)</u>	<u>At March 31,</u> <u>2019</u>	<u>% 60+ days</u> <u>delinquent (1)</u>	<u>At December 31,</u> <u>2018</u>	<u>% 60+ days</u> <u>delinquent (1)</u>
Fannie Mae	\$ 0.2	100.00 %	\$ —	0.00 %
Freddie Mac	6,139.3	0.27	6,165.1	0.25
Ginnie Mae	93.9	0.29	51.2	0.53
Other	1.8	0.00	1.8	0.00
<b>Total servicing portfolio</b>	<b>\$ 6,235.2</b>	<b>0.28 %</b>	<b>\$ 6,218.1</b>	<b>0.25 %</b>

(1) Based on loan count.

For the first quarter of 2019, real estate services fees were \$806 thousand as compared to \$1.2 million in the fourth quarter of 2018 and \$1.4 million in the first quarter of 2018. Most of our real estate services business is generated from our long-term mortgage portfolio, and as the long-term mortgage portfolio continues to decline, we expect real estate services and the related revenues to decline.

In our long-term mortgage portfolio, the residual interests generated cash flows of \$488 thousand in the first quarter of 2019 as compared to \$681 thousand in the fourth quarter of 2018 and \$1.8 million in the first quarter of 2018. The estimated fair value of the net residual interests decreased \$1.2 million in the first quarter of 2019 to \$16.2 million at March 31, 2019, as a result of an increase in loss assumptions for certain trusts as well as residual cash flows received.

For additional information regarding the long-term mortgage portfolio refer to Financial Condition and Results of Operations below.

**Liquidity and Capital Resources**

During the three months ended March 31, 2019, we funded our operations primarily from mortgage lending revenues and, to a lesser extent, real estate services fees and cash flows from our residual interests in securitizations. Mortgage lending revenues include gains on sale of loans, net, servicing fees, net, proceeds from the sale of mortgage servicing rights and other mortgage related income. We funded mortgage loan originations using warehouse facilities, which are repaid once the loan is sold. We may continue to manage our capital through the financing or sale of mortgage servicing rights. We may also seek to raise capital by issuing debt or equity.

In February 2018, IMC (Borrower), amended the Line of Credit Promissory Note (FHLMC and GNMA Financing) originally entered into in August 2017, increasing the maximum borrowing capacity of the revolving line of

credit to \$50.0 million and extending the term to January 31, 2019. In May 2018, the Line of Credit was further amended increasing the maximum borrowing capacity of the revolving line of credit to \$60.0 million, increasing the borrowing capacity up to 60% of the fair market value of the pledged mortgage servicing rights and reducing the interest rate per annum to one-month LIBOR plus 3.0%. As part of the May 2018 amendment, the obligations under the Line of Credit are secured by FHLMC and GNMA pledged mortgage servicing rights (subject to an acknowledge agreement) and is guaranteed by Integrated Real Estate Services, Corp. At March 31, 2019, there were no outstanding borrowings under the FHLMC and GNMA Financing and we had approximately \$36.0 million of available financing based on the fair market value of the mortgage servicing rights that we own. In April 2019, the maturity of the line was extended until January 31, 2020.

In February 2017, IMC (Borrower) entered into a Loan and Security Agreement (Agreement) with a lender providing for a revolving loan commitment of \$40.0 million for a period of two years (FNMA Financing). The Borrower is able to borrow up to 55% of the fair market value of Fannie Mae pledged servicing rights. Upon the two-year anniversary of the Agreement, any amounts outstanding will automatically be converted into a term loan due and payable in full on the one-year anniversary of the conversion date. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0%. The balance of the obligation may be prepaid at any time. In February 2019, the Fannie Mae revolving line of credit converted into a term loan with no balance. At March 31, 2019, there were no outstanding borrowings under the FNMA Financing.

Our results of operations and liquidity are materially affected by conditions in the markets for mortgages and mortgage-related assets, as well as the broader financial markets and the general economy. Concerns over economic recession, geopolitical issues, unemployment, the availability and cost of financing, the mortgage market and real estate market conditions contribute to increased volatility and diminished expectations for the economy and markets. Volatility and uncertainty in the marketplace may make it more difficult for us to obtain financing or raise capital on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

It is important for us to sell or securitize the loans we originate and, when doing so, maintain the option to also sell the related MSR associated with these loans. Some investors have raised concerns about the high prepayment speeds of our loans generated through our retail direct channel and this has resulted and could further result in adverse pricing or delays in our ability to sell or securitize loans and related MSRs on a timely and profitable basis. During the fourth quarter of 2017, Fannie Mae sufficiently limited the manner and volume for our deliveries of eligible loans such that we elected to cease deliveries to them and we expanded our whole loan investor base for these loans. During 2018 and through the first quarter of 2019, we completed servicing released loan sales to these whole loan investors and expect to continue to utilize these alternative exit strategies for Fannie Mae eligible loans. We continue to take steps to manage our prepayment speeds to be more consistent with our industry comparables and to reestablish the full confidence and delivery mechanisms to our investor base. We remain an approved Seller and Servicer with Fannie Mae and Freddie Mac.

We believe that current cash balances, cash flows from our mortgage lending operations, the sale of mortgage servicing rights, real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs based on the current operating environment. We believe the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which operate in our market area as well as throughout the United States. We compete for loans principally on the basis of the interest rates and loan fees we charge, the types of loans we originate and the quality of services we provide to borrowers, brokers and sellers. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows from our residual interests in securitizations are sensitive to delinquencies, defaults and credit losses associated with the securitized loans. Losses in excess of current estimates will reduce the residual interest cash receipts from our long-term mortgage portfolio.

While we continue to pay our obligations as they become due, the ability to continue to meet our current and long-term obligations is dependent upon many factors, particularly our ability to successfully operate our mortgage lending segment, manage and monetize our MSRs, real estate services segment and realizing cash flows from the long-term mortgage portfolio. Our future financial performance and profitability are dependent in large part upon the ability to expand our mortgage lending platform successfully.

**Critical Accounting Policies**

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the effect of changing market conditions and/or consumer behavior. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include those issues included in Management's Discussion and Analysis of Results of Operations in IMH's report on Form 10-K for the year ended December 31, 2018. Such policies have not changed during 2019.

**Financial Condition and Results of Operations**

**Financial Condition**

*As of March 31, 2019 compared to December 31, 2018*

The following table shows the condensed consolidated balance sheets for the following periods:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
<b>ASSETS</b>				
Cash	\$ 22,995	\$ 23,200	\$ (205)	(1)%
Restricted cash	6,865	6,989	(124)	(2)
Mortgage loans held-for-sale	460,773	353,601	107,172	30
Mortgage servicing rights	59,823	64,728	(4,905)	(8)
Securitized mortgage trust assets	3,067,911	3,165,590	(97,679)	(3)
Other assets	55,364	33,835	21,529	64
<b>Total assets</b>	<b>\$ 3,673,731</b>	<b>\$ 3,647,943</b>	<b>\$ 25,788</b>	<b>1 %</b>
<b>LIABILITIES &amp; EQUITY</b>				
Warehouse borrowings	\$ 404,763	\$ 284,137	\$ 120,626	42 %
Convertible notes	24,987	24,985	2	0
Long-term debt (Par value; \$62,000)	44,561	44,856	(295)	(1)
Securitized mortgage trust liabilities	3,051,736	3,148,215	(96,479)	(3)
Repurchase reserve	8,966	7,657	1,309	17
Other liabilities	40,768	27,918	12,850	46
<b>Total liabilities</b>	<b>3,575,781</b>	<b>3,537,768</b>	<b>38,013</b>	<b>1</b>
<b>Total equity</b>	<b>97,950</b>	<b>110,175</b>	<b>(12,225)</b>	<b>(11)</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,673,731</b>	<b>\$ 3,647,943</b>	<b>\$ 25,788</b>	<b>1 %</b>
<b>Book value per share</b>	<b>\$ 4.62</b>	<b>\$ 5.22</b>	<b>\$ (0.60)</b>	<b>(12)%</b>
<b>Tangible Book value per share</b>	<b>\$ 4.62</b>	<b>\$ 5.22</b>	<b>\$ (0.60)</b>	<b>(12)%</b>

At March 31, 2019, cash decreased \$0.2 million to \$23.0 million from \$23.2 million at December 31, 2018. Cash balances decreased primarily due to the payment of operating expenses and paydown of high cost warehouse borrowings. Partially offsetting the decrease in cash was a \$13.5 million decrease in warehouse haircuts (difference between loan balance funded and amount advanced by warehouse lender) and \$488 thousand in residual cash flows.

LHFS increased \$107.2 million to \$460.8 million at March 31, 2019 as compared to \$353.6 million at December 31, 2018. The increase was due to \$581.5 million in originations during the three months ended March 31, 2019 partially offset by \$469.4 million in loan sales. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

[Table of Contents](#)

MSRs decreased \$4.9 million to \$59.8 million at March 31, 2019 as compared to \$64.7 million at December 31, 2018. The decrease was due to mark-to-market decreases in fair value of \$6.5 million partially offset by servicing retained loan sales of \$190.1 million in UPB. At March 31, 2019 and December 31, 2018, we serviced \$6.2 billion in UPB for others.

In January 2019, we adopted ASU No. 2016-02, *Leases*, which requires the majority of leases to be recognized on the balance sheet. We adopted the ASU using the modified retrospective transition approach and elected the practical expedients transition option to recognize the adjustment in the period of adoption rather than in the earliest period presented. As a result, adoption of the new guidance resulted in the initial recognition of right of use (ROU) assets of \$19.7 million (net of the reversal of \$3.8 million deferred rent liability) and lease liabilities of \$23.4 million in the consolidated balance sheet within other assets and liabilities, respectively. The ROU assets and lease liabilities are included in other assets and other liabilities, respectively, in the consolidated balance sheets.

Warehouse borrowings increased \$120.6 million to \$404.8 million at March 31, 2019 as compared to \$284.1 million at December 31, 2018. The increase was due to a \$107.2 million increase in LHFS at March 31, 2019. Our total borrowing capacity was \$900 million at March 31, 2019 and December 31, 2018.

We have separate agreements with two lenders providing for MSR financing facilities of up to \$60.0 million and \$40.0 million. The \$60.0 million facility allows us to borrow up to 60% of the fair market value of Freddie Mac and Ginnie Mae (subject to an acknowledgment agreement) pledged mortgage servicing rights. The \$40.0 million facility allows us to borrow up to 55% of the fair market value of Fannie Mae pledged mortgage servicing rights. At March 31, 2019 and December 31, 2018, there was no outstanding balance on either MSR financing facility.

Repurchase reserve increased \$1.3 million to \$9.0 million at March 31, 2019 as compared to \$7.7 million at December 31, 2018. The increase was due to a \$1.6 million provision for repurchase as a result of an increase in expected future losses, partially offset by \$321 thousand in settlements primarily related to repurchased loans as well as refunds of premiums to investors for early payoffs on loans sold.

The changes in total assets and liabilities, at fair market value, are primarily attributable to decreases in our trust assets and trust liabilities as summarized below.

	March 31, 2019	December 31, 2018	Increase (Decrease)	% Change
Securitized mortgage collateral	\$ 3,054,720	\$ 3,157,071	\$ (102,351)	(3) %
Other trust assets	13,191	8,519	4,672	55
Total trust assets	3,067,911	3,165,590	(97,679)	(3)
Securitized mortgage borrowings	\$ 3,051,736	\$ 3,148,215	\$ (96,479)	(3) %
Total trust liabilities	3,051,736	3,148,215	(96,479)	(3)
<b>Residual interests in securitizations</b>	<b>\$ 16,175</b>	<b>\$ 17,375</b>	<b>\$ (1,200)</b>	<b>(7) %</b>

We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was \$16.2 million at March 31, 2019 as compared to \$17.4 million at December 31, 2018.

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the three months ended March 31, 2019, actual losses were slightly elevated as compared to forecasted losses for the majority of trust, including those with residual value. Principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings also contributed to the reduction

[Table of Contents](#)

in trust assets and liabilities. The decrease in residual fair value at March 31, 2019 was the result of an increase in loss assumptions for certain trusts as well as residual cash flows received during the first quarter of 2019.

- The estimated fair value of securitized mortgage collateral decreased \$102.4 million during the three months ended March 31, 2019, primarily due to reductions in principal from borrower payments and transfers of loans to Real Estate Owned (REO) for single-family and multi-family collateral. Additionally, other trust assets increased \$4.7 million during the three months ended March 31, 2019, primarily due to an increase in REO from foreclosures of \$5.8 million and a \$3.5 million increase in the net realizable value (NRV) of REO. Partially offsetting the increase was a decrease of \$4.6 million in REO from liquidations for the three months ended March 31, 2019.
- The estimated fair value of securitized mortgage borrowings decreased \$96.5 million during the three months ended March 31, 2019, primarily due to reductions in principal balances from principal payments during the period for single-family and multi-family collateral partially offset by an increase in loss assumptions.

To estimate fair value of the assets and liabilities within the securitization trusts each reporting period, management uses an industry standard valuation and analytical model that is updated monthly with current collateral, real estate, derivative, bond and cost (servicer, trustee, etc.) information for each securitization trust. We employ an internal process to validate the accuracy of the model as well as the data within this model. We use the valuation model to generate the expected cash flows to be collected from the trust assets and the expected required bondholder distribution (trust liabilities). To the extent that the trusts are over collateralized, we may receive the excess interest as the holder of the residual interest. The information above provides us with the future expected cash flows for the securitized mortgage collateral, real estate owned, securitized mortgage borrowings and the residual interests.

To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization.

The following table presents changes in the trust assets and trust liabilities for the three months ended March 31, 2019:

	Level 3 Recurring Fair			TRUST LIABILITIES	
	Value Measurement			Level 3 Recurring Fair	
	Securitized mortgage collateral	NRV (1) Real estate owned	Total trust assets	Securitized mortgage borrowings	Net trust assets
<b>Recorded fair value at December 31, 2018</b>	\$ 3,157,071	\$ 8,519	\$3,165,590	\$ (3,148,215)	\$ 17,375
Total gains/(losses) included in earnings:					
Interest income	6,255	—	6,255	—	6,255
Interest expense	—	—	—	(13,553)	(13,553)
Change in FV of net trust assets, excluding REO (2)	21,084	—	21,084	(27,240)	(6,156)
Gains from REO – not at FV but at NRV (2)	—	3,473	3,473	—	3,473
Total gains (losses) included in earnings	27,339	3,473	30,812	(40,793)	(9,981)
Transfers in and/or out of level 3	—	—	—	—	—
Purchases, issuances and settlements	(129,690)	1,199	(128,491)	137,272	8,781
<b>Recorded fair value at March 31, 2019</b>	<b>\$ 3,054,720</b>	<b>\$ 13,191</b>	<b>\$3,067,911</b>	<b>\$ (3,051,736)</b>	<b>\$ 16,175</b>

(1) Accounted for at net realizable value.

(2) Represents change in fair value of net trust assets, including trust REO gains in the consolidated statements of operations and comprehensive (loss) earnings for the three months ended March 31, 2019.

Inclusive of gains from REO, total trust assets above reflect a net gain of \$24.6 million as a result of an increase in fair value from securitized mortgage collateral of \$21.1 million and gains from REO of \$3.5 million. Net losses on trust

[Table of Contents](#)

liabilities were \$27.2 million from the increase in fair value of securitized mortgage borrowings. As a result, non-interest income—net trust assets decreased by \$2.7 million for the three months ended March 31, 2019.

The table below reflects the net trust assets as a percentage of total trust assets (residual interests in securitizations):

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
<b>Net trust assets</b>	\$ 16,175	\$ 17,375
<b>Total trust assets</b>	3,067,911	3,165,590
<b>Net trust assets as a percentage of total trust assets</b>	0.53 %	0.55 %

For the three months ended March 31, 2019, the estimated fair value of the net trust assets decreased slightly as a percentage of total trust assets due to an increase in loss assumptions.

Since the consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts. Therefore, in the following table we have netted trust assets and trust liabilities to present these residual interests more simply. Our residual interests in securitizations are segregated between our single-family (SF) residential and multi-family (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities.

The following tables present the estimated fair value of our residual interests, by securitization vintage year, and other related assumptions used to derive these values at March 31, 2019 and December 31, 2018:

<u>Origination Year</u>	<u>Estimated Fair Value of Residual</u> <u>Interests by Vintage Year at</u> <u>March 31, 2019</u>			<u>Estimated Fair Value of Residual</u> <u>Interests by Vintage Year at</u> <u>December 31, 2018</u>		
	<u>SF</u>	<u>MF</u>	<u>Total</u>	<u>SF</u>	<u>MF</u>	<u>Total</u>
2002-2003 (1)	\$ 10,115	\$ 579	\$ 10,694	\$ 10,097	\$ 617	\$ 10,714
2004	1,813	677	2,490	1,554	668	2,222
2005	42	23	65	2	2	4
2006	—	2,926	2,926	—	4,435	4,435
2007 (2)	—	—	—	—	—	—
<b>Total</b>	<b>\$ 11,970</b>	<b>\$ 4,205</b>	<b>\$ 16,175</b>	<b>\$ 11,653</b>	<b>\$ 5,722</b>	<b>\$ 17,375</b>
Weighted avg. prepayment rate	8.3 %	6.1 %	8.0 %	8.2 %	6.2 %	8.0 %
Weighted avg. discount rate	16.6	17.6	16.8	16.3	18.2	16.9

(1) 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions.

[Table of Contents](#)

The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at March 31, 2019:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	5 %	* (3)	6 %	8 %
2004	4	* (3)	5	5
2005	6	* (3)	4	4
2006	8	* (3)	5	4
2007	8	* (3)	6	3

- (1) Estimated future losses derived by dividing future projected losses by UPB at March 31, 2019.  
(2) Investor yield requirements represent our estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.  
(3) Represents less than 1%.

Despite the increase in housing prices through March 31, 2019, housing prices in many parts of the country are still at levels which have significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2005 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

**Long-Term Mortgage Portfolio Credit Quality**

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days delinquent or greater, foreclosures and delinquent bankruptcies were \$577.3 million or 16.5% of the long-term mortgage portfolio as of March 31, 2019 as compared to \$595.5 million or 16.4% at December 31, 2018.

The following table summarizes the gross UPB of loans in our mortgage portfolio, included in securitized mortgage collateral, that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

Securitized mortgage collateral	March 31, 2019	Total Collateral	December 31, 2018	Total Collateral
60 - 89 days delinquent	\$ 90,850	2.6 %	\$ 101,546	2.8 %
90 or more days delinquent	234,657	6.7	212,668	5.8
Foreclosures (1)	162,059	4.6	177,099	4.9
Delinquent bankruptcies (2)	89,742	2.6	104,232	2.9
Total 60 or more days delinquent	\$ 577,308	16.5 %	\$ 595,545	16.4 %
Total collateral	\$ 3,488,953	100.0 %	\$ 3,640,902	100.0 %

- (1) Represents properties in the process of foreclosure.  
(2) Represents bankruptcies that are 30 days or more delinquent.

[Table of Contents](#)

The following table summarizes the gross securitized mortgage collateral and REO at NRV, that were non-performing as of the dates indicated (excludes 60-89 days delinquent):

	March 31, 2019	Total Collateral %	December 31, 2018	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 486,458	13.9 %	\$ 493,999	13.6 %
Real estate owned inside and outside trusts	13,596	0.4	9,885	0.3
Total non-performing assets	<u>\$ 500,054</u>	14.3 %	<u>\$ 503,884</u>	13.9 %

Non-performing assets consist of non-performing loans (mortgages that are 90 or more days delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is our policy to place a mortgage on nonaccrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of March 31, 2019, non-performing assets (UPB of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 14.3%. At December 31, 2018, non-performing assets to total collateral was 13.9%. Non-performing assets decreased by approximately \$3.8 million at March 31, 2019 as compared to December 31, 2018. At March 31, 2019, the estimated fair value of non-performing assets (representing the fair value of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) was \$202.7 million or 5.5% of total assets. At December 31, 2018, the estimated fair value of non-performing assets was \$197.2 million or 5.4% of total assets.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in our estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as change in fair value of net trust assets including trust REO gains (losses) in the consolidated statements of operations and comprehensive (loss) earnings.

For the three months ended March 31, 2019 and 2018, we recorded an increase in net realizable value of REO in the amount of \$3.5 million and \$2.2 million, respectively. Increases of the net realizable value reflect increases in value of the REO subsequent to foreclosure date, but prior to the date of sale.

The following table presents the balances of REO:

	March 31, 2019	December 31, 2018
REO	\$ 17,646	\$ 17,813
Impairment (1)	(4,455)	(7,928)
Ending balance	<u>\$ 13,191</u>	<u>\$ 9,885</u>
REO inside trusts	\$ 13,191	\$ 8,519
REO outside trusts	405	1,366
Total	<u>\$ 13,596</u>	<u>\$ 9,885</u>

(1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.

In calculating the cash flows to assess the fair value of the securitized mortgage collateral, we estimate the future losses embedded in our loan portfolio. In evaluating the adequacy of these losses, management takes many factors into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization

[Table of Contents](#)

issuance. The data is also broken down by collection status. Our estimate of losses for these loans is developed by estimating both the rate of default of the loans and the amount of loss severity in the event of default. The rate of default is assigned to the loans based on their attributes (e.g., original loan-to-value, borrower credit score, documentation type, geographic location, etc.) and collection status. The rate of default is based on analysis of migration of loans from each aging category. The loss severity is determined by estimating the net proceeds from the ultimate sale of the foreclosed property. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the future loan losses.

Management recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring losses in the loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower's ability to pay, changes in value of collateral, political factors, employment and market conditions, competitor's performance, market perception, historical losses, and industry statistics. The assessment for losses is based on delinquency trends and prior loss experience and management's judgment and assumptions regarding various matters, including general economic conditions and loan portfolio composition. Management continually evaluates these assumptions and various relevant factors affecting credit quality and inherent losses.

**Results of Operations**

*For the Three Months Ended March 31, 2019 compared to the Three Months Ended March 31, 2018*

	<b>For the Three Months Ended March 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>% Change</b>
Revenues	\$ 10,366	\$ 40,125	(74)%
Expenses	(22,270)	(35,748)	38
Net interest income	1,796	1,020	76
Change in fair value of long-term debt	265	1,224	(78)
Change in fair value of net trust assets, including trust REO gains (losses)	(2,683)	(2,138)	(25)
Income tax expense	(86)	(610)	86
Net (loss) earnings	<u>\$ (12,612)</u>	<u>\$ 3,873</u>	(426)%
(Loss) earnings per share available to common stockholders—basic	<u>\$ (0.60)</u>	<u>\$ 0.18</u>	(422)%
(Loss) earnings per share available to common stockholders—diluted	<u>\$ (0.60)</u>	<u>\$ 0.18</u>	(425)%

*Revenues*

	<b>For the Three Months Ended March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Gain on sale of loans, net	\$ 12,214	\$ 21,482	\$ (9,268)	(43)%
Servicing fees, net	2,969	9,463	(6,494)	(69)
(Loss) gain on mortgage servicing rights, net	(5,623)	7,705	(13,328)	173
Real estate services fees, net	806	1,385	(579)	(42)
Other revenues	—	90	(90)	(100)
Total revenues	<u>\$ 10,366</u>	<u>\$ 40,125</u>	<u>\$ (29,759)</u>	(74)%

*Gain on sale of loans, net.* For the three months ended March 31, 2019, gain on sale of loans, net totaled \$12.2 million compared to \$21.5 million in the comparable 2018 period. The \$9.3 million decrease for the three months ended March 31, 2019 is primarily due to a \$15.7 million decrease in premiums from the sale of mortgage loans, a \$11.6 million increase in realized and unrealized net losses on derivative financial instruments, an \$8.9 million decrease in premiums from servicing retained loan sales and a \$1.3 million increase in provision for repurchases. Partially offsetting the decrease in gain on sale of loans, net was a \$19.9 million decrease in direct loan origination expenses and an \$8.4 million increase in mark-to-market gains on LHFS.

[Table of Contents](#)

The overall decrease in gain on sale of loans, net was primarily due to a \$760 million or 62% decrease in mortgage loans sold for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. For the three months ended March 31, 2019, we originated and sold \$581.5 million and \$469.4 million of loans, respectively, as compared to \$1.3 billion and \$1.2 billion of loans originated and sold, respectively, during the same period in 2018. Despite the increase in interest rates from the first quarter of 2018 and corresponding decline in origination volumes, margins increased to approximately 210 bps for the three months ended March 31, 2019 as compared to 163 bps for the same period in 2018. The primary driver of margin expansion was NonQM originations, which increased to 59% of total originations during the three months ended March 31, 2019 as compared 19% of total originations during the same period in 2018.

*Servicing fees, net.* For the three months ended March 31, 2019, servicing fees, net were \$3.0 million compared to \$9.5 million in the comparable 2018 period. The decrease in servicing fees, net was the result of \$10.5 billion in UPB of servicing sales during the fourth quarter of 2018 which decreased the servicing portfolio average balance 62% to \$6.2 billion for the three months ended March 31, 2019 as compared to an average balance of \$16.6 billion for the three months ended March 31, 2018. During the three months ended March 31, 2019, we had \$190.1 million in servicing retained loan sales.

*(Loss) gain on mortgage servicing rights, net.*

	<b>For the Three Months Ended March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Realized and unrealized losses from hedging instruments	\$ —	\$ (1,473)	\$ 1,473	(100)%
Gain (loss) on sale of mortgage servicing rights	865	(2)	867	43350
<b>Changes in fair value:</b>				
Due to changes in valuation market rates, inputs or assumptions	(4,536)	16,200	(20,736)	128
<b>Other changes in fair value:</b>				
Scheduled principal prepayments	(783)	(3,108)	2,325	75
Voluntary prepayments	(1,169)	(3,912)	2,743	70
<b>Total changes in fair value</b>	<b>\$ (6,488)</b>	<b>\$ 9,180</b>	<b>\$ (15,668)</b>	<b>171 %</b>
<b>(Loss) gain on mortgage servicing rights, net</b>	<b>\$ (5,623)</b>	<b>\$ 7,705</b>	<b>\$ (13,328)</b>	<b>173 %</b>

For the three months ended March 31, 2019, (loss) gain on MSRs, net was a loss of \$5.6 million compared to a gain of \$7.7 million in the comparable 2018 period. For the three months ended March 31, 2019, we recorded a \$6.5 million loss from a change in fair value of MSRs primarily due to changes in fair value associated with changes in market rates, inputs and assumptions as well as voluntary and scheduled prepayments. The \$4.5 million loss from changes in valuation market rates, inputs or assumptions was primarily due to an increase in prepayment speed assumptions as a result of a decrease in interest rates in March 2019. Additionally, during the third quarter of 2018, we stopped hedging our mortgage servicing portfolio resulting in a \$1.5 million increase in realized and unrealized gains from hedging instruments related to MSRs during the three months ended March 31, 2019.

*Real estate services fees, net.* For the three months ended March 31, 2019, real estate services fees, net were \$806 thousand as compared to \$1.4 million in the comparable 2018 period. The \$579 thousand decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to the comparable period in 2018.

*Expenses*

	For the Three Months Ended March 31,			
	2019	2018	Increase (Decrease)	% Change
Personnel expense	\$ 14,121	\$ 17,742	\$ (3,621)	(20)%
Business promotion	2,923	9,731	(6,808)	(70)
General, administrative and other	5,225	8,275	(3,050)	(37)
Total expenses	<u>\$ 22,269</u>	<u>\$ 35,748</u>	<u>\$ (13,479)</u>	(38)%

Total expenses decreased by \$13.5 million or 38% to \$22.3 million for the first quarter of 2019, compared to \$35.7 million for the comparable period in 2018. Personnel expense decreased \$3.6 million to \$14.1 million for the three months ended March 31, 2019 as compared to the same period in 2018. The decrease is primarily related to staff reductions during 2018 as well as a reduction in commission expense due to a decrease in loan originations. As a result of the reduction in loan origination volumes, we reduced overhead throughout 2018 to more closely align staffing levels to origination volumes in the current economic environment. As a result of the staff reductions made in 2018, average headcount decreased 26% for the first quarter of 2019 as compared to the same period in 2018.

Business promotion decreased \$6.8 million to \$2.9 million for the three months ended March 31, 2019. Business promotion decreased as a result of the shift in consumer direct marketing strategy we made in the latter half of 2018 away from radio and television advertisements to a digital campaign. The shift in strategy allows for a more cost effective approach, increasing the ability to be more price and product competitive to more specific target geographies.

General, administrative and other expenses decreased to \$5.2 million for the three months ended March 31, 2019, compared to \$8.3 million for the same period in 2018. The decrease was partially related to a \$1.3 million reduction in legal fees as a result of the Company successfully resolving, through dismissal or settlement, three long standing litigation matters in 2018, which dated back to origination and securitization activities related to the mortgage crisis of 2008. The decrease in general, administrative and other expense was also attributable to a \$1.0 million decrease in intangible asset amortization as a result of the intangible asset impairment in 2018, a \$493 thousand decrease in other general and administrative expenses and a \$221 thousand decrease in occupancy expense as a result of the relocation of the retail direct division into our corporate office in the fourth quarter of 2018.

*Net Interest Income (Expense)*

We earn net interest income primarily from mortgage assets, which include securitized mortgage collateral, loans held-for-sale and finance receivables, or collectively, "mortgage assets," and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings secured by mortgage assets, which include securitized mortgage borrowings and warehouse borrowings and to a lesser extent, interest expense paid on long-term debt, Convertible Notes, MSR Financing and Term Financing. Interest income and interest expense during the period primarily represents the effective yield, based on the fair value of the trust assets and liabilities.

[Table of Contents](#)

The following tables summarize average balance, interest and weighted average yield on interest-earning assets and interest-bearing liabilities, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the Three Months Ended March 31,					
	2019			2018		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<b>ASSETS</b>						
Securitized mortgage collateral	\$ 3,105,895	\$ 40,022	5.15 %	\$ 3,587,954	\$ 43,137	4.81 %
Mortgage loans held-for-sale	348,517	5,117	5.87	566,684	6,617	4.67
Finance receivables	—	—	—	23,083	382	6.62
Other	29,697	115	1.55	31,597	14	0.18
Total interest-earning assets	<u>\$ 3,484,109</u>	<u>\$ 45,254</u>	5.20 %	<u>\$ 4,209,318</u>	<u>\$ 50,150</u>	4.77 %
<b>LIABILITIES</b>						
Securitized mortgage borrowings	\$ 3,099,976	\$ 38,052	4.91	\$ 3,580,871	\$ 40,958	4.58 %
Warehouse borrowings (1)	293,578	3,796	5.17	577,962	6,125	4.24
MSR financing facilities	—	—	—	34,047	497	5.84
Long-term debt	44,709	1,132	10.13	45,159	1,069	9.47
Convertible notes	24,986	471	7.54	24,966	471	7.55
Other	53	7	52.83	245	10	16.33
Total interest-bearing liabilities	<u>\$ 3,463,302</u>	<u>\$ 43,458</u>	5.02 %	<u>\$ 4,263,250</u>	<u>\$ 49,130</u>	4.61 %
Net interest spread (2)		\$ 1,796	0.18 %		\$ 1,020	0.16 %
Net interest margin (3)			0.21 %			0.10 %

- (1) Warehouse borrowings include the borrowings from mortgage loans held-for-sale and finance receivables.
- (2) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.
- (3) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest spread increased \$776 thousand for the three months ended March 31, 2019 primarily attributable to an increase in the net interest spread between loans held-for-sale, finance receivables and their related warehouse borrowings as well as a decrease in interest expense as a result of the reduction in utilization of the MSR financing facility during the period. As a result, the net interest margin increased to 0.21% for the three months ended March 31, 2019 from 0.10% for the three months ended March 31, 2018.

During the quarter ended March 31, 2019, the yield on interest-earning assets increased to 5.20% from 4.77% in the comparable 2018 period. The yield on interest-bearing liabilities increased to 5.02% for the three months ended March 31, 2019 from 4.61% for the comparable 2018 period. In connection with the fair value accounting for securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense are recognized using effective yields based on estimated fair values for these instruments. The increase in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to decreased prices on mortgage-backed bonds as well as an increase in LIBOR which resulted in an increase in yield as compared to the previous period.

*Change in the fair value of long-term debt.*

Long-term debt (consisting of junior subordinated notes) is measured based upon an internal analysis, which considers our own credit risk and discounted cash flow analyses. Improvements in our financial results and financial condition in the future could result in additional increases in the estimated fair value of the long-term debt, while deterioration in financial results and financial condition could result in a decrease in the estimated fair value of the long-term debt.

[Table of Contents](#)

In the first quarter of 2018, we adopted ASU 2016-01, which effectively bifurcates the market and instrument specific credit risk components of changes in long-term debt. The market portion will continue to be a component of net earnings (loss) as the change in fair value of long-term debt, but the instrument specific credit risk portion will be a component of accumulated other comprehensive earnings (loss).

During the three months ended March 31, 2019, the fair value of the long-term debt decreased \$295 thousand. The decrease in estimated fair value was the result of a \$265 thousand change in the market specific credit risk during the quarter as well as a \$144 thousand change in the instrument specific credit risk partially offset by an increase due to accretion.

*Change in fair value of net trust assets, including trust REO gains*

	For the Three Months Ended	
	March 31,	
	2019	2018
Change in fair value of net trust assets, excluding REO	\$ (6,156)	\$ (4,331)
Gains from REO	3,473	2,193
Change in fair value of net trust assets, including trust REO gains	\$ (2,683)	\$ (2,138)

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$2.7 million for the three months ended March 31, 2019. The change in fair value of net trust assets, excluding REO was due to \$6.2 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in loss assumptions. Additionally, the NRV of REO increased \$3.5 million during the period attributed to lower expected loss severities on properties within certain states held in the long-term mortgage portfolio during the period.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$2.1 million for the three months ended March 31, 2018. The change in fair value of net trust assets, excluding REO was due to \$4.3 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR, partially offset by updated assumptions on certain later vintage trusts with improved performance. Additionally, the NRV of REO increased \$2.2 million during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

#### *Income Taxes*

We recorded income tax expense of \$86 thousand and \$610 thousand for the three months ended March 31, 2019 and 2018, respectively. Tax expense for the three months ended March 31, 2019 is primarily the result of state income taxes from states where we do not have net operating loss carryforwards or state minimum taxes, offset by a benefit resulting from the intraperiod allocation rules that are applied when there is a pre-tax loss from continuing operations and pre-tax income from other comprehensive income.

As of December 31, 2018, we had estimated federal net operating loss (NOL) carryforwards of approximately \$564.6 million. Federal net operating loss carryforwards begin to expire in 2027. As of December 31, 2018, we had estimated California NOL carryforwards of approximately \$386.0 million, which begin to expire in 2028. We may not be able to realize the maximum benefit due to the nature and tax entities that holds the NOL.

#### *Results of Operations by Business Segment*

We have three primary operating segments: Mortgage Lending, Long-Term Mortgage Portfolio and Real Estate Services. Unallocated corporate and other administrative costs, including the cost associated with being a public company, are presented in Corporate. Segment operating results are as follows:

*Mortgage Lending*

	<b>For the Three Months Ended March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Gain on sale of loans, net	\$ 12,214	\$ 21,482	\$ (9,268)	(43)%
Servicing fees, net	2,969	9,463	(6,494)	(69)
Loss on mortgage servicing rights, net	(5,623)	7,705	(13,328)	173
Total revenues	9,560	38,650	(29,090)	(75)
Other income	1,415	334	1,081	324
Personnel expense	(12,059)	(17,206)	5,147	30
Business promotion	(2,896)	(9,711)	6,815	70
General, administrative and other	(2,545)	(4,631)	2,086	45
(Loss) earnings before income taxes	\$ (6,525)	\$ 7,436	\$ (13,961)	(188)%

For the three months ended March 31, 2019, gain on sale of loans, net totaled \$12.2 million compared to \$21.5 million in the comparable 2018 period. The \$9.3 million decrease for the three months ended March 31, 2019 is primarily due to a \$15.7 million decrease in premiums from the sale of mortgage loans, a \$11.6 million increase in realized and unrealized net losses on derivative financial instruments, an \$8.9 million decrease in premiums from servicing retained loan sales and a \$1.3 million increase in provision for repurchases. Partially offsetting the decrease in gain on sale of loans, net was a \$19.9 million decrease in direct loan origination expenses and an \$8.4 million increase in mark-to-market gains on LHFS.

The overall decrease in gain on sale of loans, net was primarily due to a \$760 million or 62% decrease in mortgage loans sold for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. For the three months ended March 31, 2019, we originated and sold \$581.5 million and \$469.4 million of loans, respectively, as compared to \$1.3 billion and \$1.2 billion of loans originated and sold, respectively, during the same period in 2018. Despite the increase in interest rates from the first quarter of 2018 and corresponding decline in origination volumes, margins increased to approximately 210 bps for the three months ended March 31, 2019 as compared to 163 bps for the same period in 2018. The primary driver of margin expansion was NonQM originations, which increased to 59% of total originations during the three months ended March 31, 2019 as compared 19% of total originations during the same period in 2018.

For the three months ended March 31, 2019, servicing fees, net were \$3.0 million compared to \$9.5 million in the comparable 2018 period. The decrease in servicing fees, net was the result of \$10.5 billion in UPB of servicing sales during the fourth quarter of 2018 which decreased the servicing portfolio average balance 62% to \$6.2 billion for the three months ended March 31, 2019 as compared to an average balance of \$16.6 billion for the three months ended March 31, 2018. During the three months ended March 31, 2019, we had \$190.1 million in servicing retained loan sales.

For the three months ended March 31, 2019, (loss) gain on MSRs, net was a loss of \$5.6 million compared to a gain of \$7.7 million in the comparable 2018 period. For the three months ended March 31, 2019, we recorded a \$6.5 million loss from a change in fair value of MSRs primarily due to changes in fair value associated with changes in market rates, inputs and assumptions as well as voluntary and scheduled prepayments. The \$4.5 million loss from changes in valuation market rates, inputs or assumptions was primarily due to an increase in prepayment speed assumptions as a result of a decrease in interest rates in March. Additionally, during the third quarter of 2018, we stopped hedging our mortgage servicing portfolio resulting in a \$1.5 million increase in realized and unrealized gains from hedging instruments related to MSRs during the three months ended March 31, 2019.

For the three months ended March 31, 2019, other income increased to \$1.4 million as compared to \$334 thousand in the comparable 2018 period. The \$1.1 million increase in other income was primarily due to a \$497 decrease in interest

[Table of Contents](#)

expense related to a decrease in the utilization of the MSR financing facilities during the first quarter of 2019. Additionally, net interest spread between loans held-for-sale, finance receivables and their related warehouse borrowing expense increased \$447 thousand during the first quarter of 2019 as compared to the comparable period in 2018.

Personnel expense decreased \$5.1 million to \$12.1 million for the three months ended March 31, 2019 as compared to the same period in 2018. The decrease is primarily related to staff reductions we did throughout 2018 as well as a reduction in commission expense due to a decrease in loan originations. As a result of the reduction in loan origination volumes, we reduced overhead throughout 2018 to more closely align staffing levels to origination volumes in the current economic environment. As a result of the staff reductions made in 2018, average headcount in the mortgage lending segment decreased 30% for the first quarter of 2019 as compared to the same period in 2018.

Business promotion decreased \$6.8 million to \$2.9 million for the three months ended March 31, 2019. Business promotion decreased as a result of the shift in consumer direct marketing strategy we made in the latter half of 2018 away from radio and television advertisements to a digital campaigns. The shift in strategy allows for a more cost effective approach, increasing the ability to be more price and product competitive to more specific target geographies.

General, administrative and other expenses decreased to \$2.5 million for the three months ended March 31, 2019, compared to \$4.6 million for the same period in 2018. The decrease was primarily related to a \$1.0 million decrease in intangible asset amortization as a result of the intangible asset impairment in 2018, a \$708 thousand decrease in other general and administrative expenses and a \$328 thousand decrease in occupancy expense as a result of the relocation of the retail direct division into our corporate office in the fourth quarter of 2018.

*Long-Term Mortgage Portfolio*

	<b>For the Three Months Ended March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Other (expense) revenue	\$ (32)	\$ 84	\$ (116)	(138)%
Personnel expense	(35)	(2)	(33)	(1650)%
General, administrative and other	(104)	(63)	(41)	(65)
Total expenses	(139)	(65)	(74)	(114)
Net interest income	839	1,110	(271)	(24)
Change in fair value of long-term debt	265	1,224	(959)	(78)
Change in fair value of net trust assets, including trust REO gains	(2,683)	(2,138)	(545)	(25)
Total other (expense) income	(1,579)	196	(1,775)	(906)
(Losses) earnings before income taxes	<u>\$ (1,750)</u>	<u>\$ 215</u>	<u>\$ (1,965)</u>	<u>(914)%</u>

For the three months ended March 31, 2019, net interest income totaled \$839 thousand as compared to \$1.1 million for the comparable 2018 period. Net interest income decreased \$271 thousand for the three months ended March 31, 2019 primarily attributable to a \$209 thousand decrease in net interest spread on the long-term mortgage portfolio as well as a \$63 thousand increase in interest expense on the long-term debt associated with an increase in three-month LIBOR.

In the first quarter of 2018, we adopted ASU 2016-01, which effectively bifurcates the market and instrument specific credit risk components of changes in long-term debt. The market portion will continue to be a component of net earnings (loss) as the change in fair value of long-term debt, but the instrument specific credit risk portion will be a component of accumulated other comprehensive earnings (loss). During the three months ended March 31, 2019, the fair value of the long-term debt decreased \$295 thousand. The decrease in estimated fair value was the result of a \$265 thousand change in the market specific credit risk during the quarter as well as a \$144 thousand change in the instrument specific credit risk partially offset by an increase due to accretion.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$2.7 million for the three months ended March 31, 2019. The change in fair value of net trust assets, excluding REO was

[Table of Contents](#)

due to \$6.2 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in loss assumptions. Partially offsetting these losses was a \$3.5 million increase in the NRV of REO during the period attributed to lower expected loss severities on properties within certain states held in the long-term mortgage portfolio during the period.

*Real Estate Services*

	<b>For the Three Months Ended March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Real estate services fees, net	\$ 806	\$ 1,385	\$ (579)	(42)%
Personnel expense	(322)	(572)	250	44
General, administrative and other	(65)	(66)	1	2
Earnings before income taxes	<u>\$ 419</u>	<u>\$ 747</u>	<u>\$ (328)</u>	<u>(44)%</u>

For the three months ended March 31, 2019, real estate services fees, net were \$806 thousand compared to \$1.4 million in the comparable 2018 period. The \$579 thousand decrease in real estate services fees, net was the result of a \$276 thousand decrease in real estate and recovery fees, a \$165 thousand decrease in loss mitigation fees and a \$138 thousand decrease in real estate service fees. The decrease is primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2018.

For the three months ended March 31, 2019, the \$250 thousand reduction in personnel expense was due to a reduction in personnel and personnel related costs as a result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2018.

*Corporate*

The corporate segment includes all compensation applicable to the corporate services groups, public company costs as well as debt expense related to the Convertible Notes and capital leases. This corporate services group supports all operating segments. A portion of the corporate services costs is allocated to the operating segments. The costs associated with being a public company as well as the interest expense related to the Convertible Notes and capital leases are not allocated to our other segments and remain in this segment.

	<b>For the Three Months Ended March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Interest expense	\$ (457)	\$ (424)	\$ (33)	(8)%
Other expenses	(4,212)	(3,491)	(721)	(21)
Net loss before income taxes	<u>\$ (4,669)</u>	<u>\$ (3,915)</u>	<u>\$ (754)</u>	<u>(19)%</u>

For the three months ended March 31, 2019, other expenses increased to \$4.2 million as compared to \$3.5 thousand for the comparable 2018 period. The increase was primarily due to a \$1.2 million increase in personnel costs related to benefits and severance costs, a \$147 thousand increase in data processing expense and a \$141 thousand increase in occupancy expense. Partially offsetting the increase in other expenses was a reduction in legal fees of \$1.1 million. The decrease in legal fees is a result of the Company successfully resolving, through dismissal or settlement, three long standing litigation matters in 2018, which dated back to origination and securitization activities related to the mortgage crisis of 2008.

**ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, the Company is not required to provide the information required by this Item.

**ITEM 4: CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed at a reasonable assurance level to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that, as March 31, 2019, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

*Changes in Internal Control Over Financial Reporting*

There has been no change in the Company's internal control over financial reporting during the Company's quarter ended March 31, 2019, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1: LEGAL PROCEEDINGS**

*Legal Proceedings*

Information with respect to this item may be found in Note 11 – Commitments and Contingencies of the “Notes to Unaudited Consolidated Financial Statements” included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**ITEM 1A: RISK FACTORS**

None.

**ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4: MINE SAFETY DISCLOSURES**

None.

**ITEM 5: OTHER INFORMATION**

On April 18, 2019, the term of the Line of Credit Promissory Note (FHLMC and GNMA Financing) was extended to January 31, 2020.

**ITEM 6: EXHIBITS**

<b>(a)</b>	<b>Exhibits:</b>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	The following materials from Impac Mortgage Holdings, Inc.’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Earnings, (3) the Condensed Consolidated Statements of Cash Flows, and (4) Notes to Unaudited Consolidated Financial Statements, tagged as blocks of text.

\* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

**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.

**IMPAC MORTGAGE HOLDINGS, INC.**

/s/ BRIAN KUELBS

Brian Kuelbs

*Chief Financial Officer*

*(authorized officer of registrant and principal financial officer)*

May 10, 2019

## CERTIFICATION

I, George Mangiaracina, certify that:

1. I have reviewed this report on Form 10-Q of Impac Mortgage Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GEORGE MANGIARACINA

George Mangiaracina  
Chief Executive Officer  
May 10, 2019

---

## CERTIFICATION

I, Brian Kuelbs, certify that:

1. I have reviewed this report on Form 10-Q of Impac Mortgage Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BRIAN KUELBS  
Brian Kuelbs  
Chief Financial Officer  
May 10, 2019

---

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the report of Impac Mortgage Holdings, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GEORGE MANGIARACINA

George Mangiaracina  
*Chief Executive Officer*  
May 10, 2019

/s/ BRIAN KUELBS

Brian Kuelbs  
*Chief Financial Officer*  
May 10, 2019

---

