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IMH - Q3 2018 Impac Mortgage Holdings Inc Earnings Call

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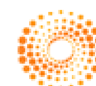

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Trevor John Cranston *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2018 Impac Mortgage Holdings Earnings Conference Call. (Operator Instructions) As a reminder, this conference may be recorded.

I would now like to introduce your host for today's conference, Justin Moisio, Senior Vice President, Investor Relations. Please begin, sir.

Justin Moisio - *Impac Mortgage Holdings, Inc. - Senior Vice President, Investor Relations and Business Development*

Good morning, everyone. Thank you for joining Impac Mortgage Holdings Third Quarter 2018 Earnings Conference Call.

During this call, we will make projections or other forward-looking statements in regards to, but not limited to, GAAP and taxable earnings, cash flows, interest rate risk and market risk exposure, mortgage production and general market conditions.

I would like to refer you to the business risk factors in our most recently filed Form 10-K with the Securities and Exchange Act of 1934. These documents contain and identify important factors that could differ materially from those contained in our projections or forward-looking statements. This presentation, including outlook and any guidance, is effective as of the date given. We expressly disclaim any duty to update the information herein.

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

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

Thank you, Justin. Good morning. Before we review our third quarter results, I'd like to spend a moment to discuss what proved to be yet another difficult quarter for residential mortgage originators.

In the third quarter of 2018, the industry continued to experience deterioration in market conditions that starts to limit the prospect of interest rate-driven GSE and government origination. With respect to total industry origination volume, MBA annual projections for 2018 and '19 have recently been revised downward to $1.6 trillion, approximately 25% below the 2016 volume of $2.1 trillion. The MBA projects volume to be flat to marginally incremental for the foreseeable future, years 2020 and beyond.

The MBA Refinance Index published in -- since 1981 approached historic lows. Industry refinance activity is measured by volume and percent of total volume at levels not seen since December 2000. 2-year treasury rates have risen to 2008 levels. 10-year treasury rates to 2011 levels. The benchmark 30-year conventional mortgage rate now stands at north of 5 1/8%, the highest level in 8 years, and up from an average of 4% at the

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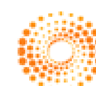

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beginning of 2018, more than 1% higher than the rate year-to-date. To put that into perspective, additional monthly payment of $200 per borrower on a $300,000 loan.

Purchase mortgage volume has also been impacted by declining housing activities, higher rates, affordability and market volatility have taken a toll on housing starts and new and existing home sales. New home sales have fallen to a 2-year low. The S&P Homebuilder ETF is off 20% year-to-date, a significant portion of that market cap loss experienced over the third quarter. And in the company's local market of Southern California, CoreLogic reports that new and existing home sales dropped 18% year-over-year for September, the slowest case since September 2007.

Taken in totality, the developments over the past year accelerating in the third quarter of 2018 beyond prior projections had exposed the excess capacity in the industry and resulted in further compressed margins within the GSE and government product lines. In the face of these headwinds, we believe many nondepository market participants over the last year have continued to attempt to protect market share at the expense of margin profitability and liquidity.

Liquidity reserves that were accumulated over the last decade's favorable market conditions are being depleted. These reserves were created over the course of arguably the most prolonged period of prosperity for nondepository mortgage originators, an environment made possible by a confluence of factors: quantitative easing [served] to tighten rate spreads of mortgages to U.S. treasuries; accommodative monetary policy lowered absolute mortgage rates to historic lows; also, preassigned unfavorable risk weightings and capital treatment to mortgage servicing rights, or MSRs, held by depository lenders, creating an imbalance between economic and market value of MSRs; and serving to shift MSRs from traditional depository lenders to nonbank lenders.

Term debt and financing of MSRs became available to nonbank lenders through the evolution of GSE acknowledgment agreements and securitization of MSRs. As noted previously, postcrisis measures have tapered in 2018 and macro conditions for nonbank lenders have become more difficult to navigate.

We do not believe that current macroeconomic trends and market dynamics will ease in the near term. We expect the industry to experience staffing reductions, a possible attempt in consolidation between now and the end of the first quarter of 2019, as excess origination capacity adjust to demand realities as is customary at the close of a [full] interest rate cycle.

Impac has not been immune to these broader trends and market forces. However, in the beginning of the third quarter of 2017, we anticipate and plan to manage for a scenario to address today's current market conditions. Over the last year, we have continually measured and proactively rightsized our cost and overhead. We focused on near-term origination activities on healthier-margin credit product through our NonQM offering, and we've concurrently maintained optionality within our GSE and government business through our direct-to-consumer channel.

This shift by the company, of course, has not been without disruption to the company's operating results, GAAP income and EPS. Our headline reporting reflects these stresses. An alternative measure that the management team utilizes to gauge company's performance is what we call our recurring adjusted operating income, effectively adjusted operating income excluding certain nonrecurring items such as changes in reserves, a noncash component within gain on sale; and gain and loss on mortgage servicing rights.

Excluding the provision for repurchases and gain and loss of mortgage servicing rights, the company's recurring adjusted operating income for the third quarter of 2018 was breakeven; and for the 9 months ended September 30, 2018, was a loss of $8 million. In our view, these results more accurately measure the company's performance and evidenced the durability of our recurring business activities, and the effectiveness of the initiatives we have executed over the last 12 months in repositioning the company.

I will now spend a moment to broadly discuss some central themes to our repositioning: run common, NonQM and capital allocation.

Run common. The company operates, of course, 3 origination channels: direct to consumer via call center, and business to business via third-party origination or TPO group, comprised of our wholesale and correspondent channels.

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Historically, the call center model being primarily refinanced and California centric has proven to be most sensitive to fluctuations and interest rates, and a leading indicator to form our view as to future origination activities. Over market cycles, the company has scaled and contracted the call center to calibrate the platform to changing market conditions. The company first identified the signs of the current market dynamics within our call centers as early as third quarter of 2017 and took measures to apply these learnings to reduce headcount and expense across all of our channels.

In October 2018, the company reallocated the call center from Orange to Irvine, absorbing all of our employees into our headquarters at 19500 Jamboree. This move will result in future cost savings with respect to lease expense, improved operating efficiencies and fixed cost expense load.

As part of our continued objective to run common across channels, we've recently realized management of operations underwriting and post-closing under an enterprise concept. Enterprise focus will commit our production teams to leverage, and management to consistently deploy critical resources across technology, marketing compliance in capital markets.

NonQM. Since the company's inception in the early 1990s, Impac has historically been an innovator with respect to the design, origination, securitization and master servicing of alternative credit products. Since 2014, the company has spearheaded the reemergence of this sector by actively promoting a creation and market acceptance of next-gen product and structures, originating nearly $2.5 billion of alternative NonQM loans since that time.

With respect to origination, the third quarter of 2018 continued to validate the company's commitment to this vision, with the demonstrable results across our entire franchise. Within TPO and consumer direct, we've gained traction with the broker community and the consumer, respectively, for training, product offering and revised marketing campaigns. This is evidenced by the following third quarter and early fourth quarter results.

NonQM volume increased to $350 million in the third quarter versus $306 million in the second quarter of 2018, a quarter-over-quarter gain of 15%. NonQM volume increased to $900 million for the 9 months ended September 2018 versus $650 million for the same period in 2017, a year-over-year gain of 38%. Over the last 12 months, NonQM production has grown from just 11% to now 41% of the company's total originations. The momentum in NonQM continued in October, with the posting of approximately $160 million in volume enterprise-wide, with TPO and consumer direct both posting record months.

These are important milestones for the company, again, validating the vision we had as far back as 2014 and reflecting our commitment to serve as a market leader in alternative credit. We should also highlight the company has been able to consistently grow NonQM production while maintaining a commitment to the integrity of the credit profile of the borrower through responsible underwriting writing and lending guidelines. The weighted average LTV and FICO score of our NonQM product has remained in the mid-60s and 720s, respectively, throughout the year.

With respect to NonQM distribution, the company expanded our group of investors in the third quarter of 2018 to include direct distribution to Wall Street as a supplement to our stable of hedge fund and alternative capital investment partners. We view this development as the next step in the evolution and maturity of NonQM market and further evidence of the acceptance within capital markets of the quality and consistency of our originations.

In June, we announced we had entered into a strategic relationship with Starwood Property Trust to collaborate on the origination and securitization of NonQM loans. In August, Starwood closed a $370 million private-label 144A securitization, STAR 2018-IMC1, with AAA ratings by both S&P and Kroll, which is backed 100% by NonQM collateral originated by Impac. This deal was oversubscribed in various levels of the capital structure and achieved attractive AAA attachment points. In relation, the deal is backed by competing NonQM loans.

Impac's NonQM collateral performance, origination rankings and adjustment factors with the rating agencies has resulted in optimized permanent capital structures for our investors. Starwood expects to bring to market a second deal, STAR 2018-IMC2 before the end of the year. This deal will also be 100% backed by Impac NonQM collateral. Impac invested in the capital structure of 2018-1 and intends to do so on 2018-2 as well. Now that the company has achieved scale in our NonQM business, a natural shift in the company's capital allocation from noncore assets to retained NonQM assets is possible.

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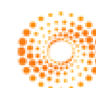

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Capital allocation. In line with the company's reallocation of capital, in October 2018, we liquidated approximately $3.4 billion in notional UPB of Ginnie Mae MSRs. A portion of the proceeds from the sale will be utilized to deleverage the balance sheet by retiring increasingly expensive floating-rate debt in this flattening yield curve environment. We will direct the remaining proceeds from sale to build enterprise value across our NonQM activities: origination, technology, business reengineering, aggregation and investment in retained portions of the securitized tranches of the deals back by our NonQM loans. NonQM is a core competency and differentiator for the company.

We will continue to build on the momentum we've created over the last several quarters by directing financial capital and resources to further our competitive advantage in these alternative credit products.

Now I'm going to pass the discussion over to CFO, Brian Kuelbs; and COO, Rian Furey who'll provide greater detail on our financial results and origination activities.

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

Thank you, George. I'll now provide a brief review of the results for the third quarter. For the third quarter of 2018, we reported a net loss of $45.4 million, $2.16 per diluted common share compared to net earnings of $2.3 million or $0.11 per diluted common share for the third quarter of 2017.

Adjusted operating income for the third quarter of 2018 was a loss of $8.9 million or $0.42 per diluted common share, as compared to adjusted operating income of $114,000 or $0.01 per diluted common share for the third quarter of 2017.

For the 9 months ended September 30, 2018, we reported a net loss of $139 million or $6.62 per diluted common share, as compared to net earnings of $13.4 million or $0.71 per diluted common share for the 9 months ended September 30, 2017.

Adjusted operating income for the 9 months ended September 30, 2018 was a loss of $11.1 million or $0.53 per diluted common share, as compared to income of $2.1 million or $0.10 per diluted common share for the 9 months ended September 30, 2017.

I'll now address the impairment charge taken in Q3. As previously discussed in our quarterly annual reports, CashCall Mortgage continued to experience declines in mortgage refinancing originations and margin compression, primarily result of sustained increases in market interest rates from historically low interest rate environment. The additional margin compression had occurred through adverse demand from investors as a result of borrowers that needed to refinance quickly.

In light of these developments, reductions in the anticipated future cash flows and estimated fair value for the reporting unit had occurred. In the second quarter of 2018, the change in conditions resulted in an impairment of goodwill and intangible assets of $88.1 million. During the third quarter of 2018, CashCall Mortgage experienced a further decline in origination volume and margin compression in excess of our projections from the second quarter, in addition to continued adverse treatment in the capital markets.

In the third quarter of 2018, the company performed impairment tests comparing the fair value of CashCall Mortgage to its carrying value, which resulted in impairment. As a result, during the 3 months ended September 30, 2018, we recorded an impairment charge of $29.9 million related to goodwill and $4.9 million related to intangible assets, for a total charge due to impairment of $34.8 million. Despite impairment of the remaining goodwill and intangible assets, the consumer direct channel remained an integral component of the company's distribution capabilities.

I'll now touch on revenue results. Gain on sale declined to $13.7 million for the third quarter of September 30, 2018 compared to $42.5 million as of September 30, 2017. For the 9-month period ending September 30, 2018, gain on sale declined to $53.9 million compared to $116.6 million for the comparable period in 2017. Gain on sale margins decreased by 44 basis points to 160 basis points in the third quarter of 2018 as compared to 204 basis points in the third quarter of 2017.

I'll now address production volume. In the third quarter of 2018, total originations decreased 18% to $852 million as compared to $1 billion in the second quarter of 2018. The third quarter volume decreased 59% compared to $2.1 billion in volume in the third quarter of 2017.

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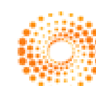

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With respect to our NonQM production, in the third quarter of 2018, the consumer direct retail channel accounted for 29% of NonQM originations, while wholesale and correspondent collectively accounted for 71% of NonQM production. The NonQM average FICO score was 723, with a weighted average loan-to-value of 67% for the third quarter of 2018, which is consistent with the second quarter of 2018 with a score of 721 and a loan-to-value of 67%.

Turning to production purpose, during the third quarter of 2018, refinance volume decreased approximately 65% to $548.6 million as compared to $1.6 billion in the third quarter of 2017. Purchase money transaction decreased 38% to $304.6 million as compared to $494.5 million in the third quarter of 2017.

I'll now touch on our servicing portfolio. The servicing portfolio generated net servicing income of $10.1 million in the third quarter of 2018, a 19% increase over the net servicing fees of $8.5 million in the third quarter of 2017. The mortgage servicing portfolio remained flat at $16.8 billion as of September 30, 2018 as compared to June 30, 2018, but increased from $15.7 billion as of September 30, 2017. The servicing portfolio is comprised of Fannie Mae, Freddie Mac and Ginnie Mae servicing assets, $6.8 billion, $6.2 billion and $3.8 billion, respectively, as of September 30.

MSRs increased $26.6 million to $181 million as of September 30, as compared to $154.4 million at December 31, 2017. The increase is due to servicing retained at $2.1 billion in UPB as well as mark-to-market increase in fair value of $4.1 million. Plus 60-day delinquencies for the servicing portfolio is 81 basis points as of September 30, 2018.

In October 2018, the company sold $3.4 billion in UPB of Ginnie Mae servicing for approximately $35.9 million, receiving 80% of the proceeds upon sale and 10% of the proceeds upon transfer of the servicing, and the final 10% upon transfer to trailing documents. The company used the proceeds from the MSR sale to pay down MSR financing.

I'd now like to turn to our liquidity position. Total combined warehouse financing and MSR borrowing capacity is $1.1 billion as of September 30, 2018, with $377 million drawn and $723 million available capacity, or approximately 66% availability. As of September 30, warehouse borrowing capacity is $1 billion versus borrowings $315 million. As of September 30, MSR financing capacity totaled $100 million, with borrowings of $62 million.

Now I'd like to turn to expenses. For the third quarter of 2018, total expenses were $28.3 million, excluding impairment charges, as compared to $42 million in total expenses, excluding contingent consideration charges during the third quarter of 2017, a 33% decrease in total expenses. For the first 9 months to 2018, total expenses were $100.6 million, excluding impairment charges as compared to $125 million in total expenses excluding contingent consideration charges during the first 9 months of 2017, a 19% decrease in total expenses.

For the 3 months ended September 30, 2018, personnel expense decreased 30% or $7 million to $16 million. The decrease is primarily related to staff reductions and reduced commissions due to client and loan production volume. As a result of the staff reduction in the third quarter of 2018, average headcount decreased 26% to 437 for the third quarter of 2018 as compared to 593 personnel for the same period of 2017. Offsetting the decrease in personnel expense was $1.1 million in severance costs associated with repositioning the staff and executive management team.

Business promotion decreased $6.1 million to $4.4 million for the 3 months ended September 30, 2018. General, administrative and other expenses decreased to $7.9 million for the 3 months ended September 30, 2018 compared to $8.5 million for the same period in 2017. The company will continue to align capacity and expenses with loan production volume in the fourth quarter of 2018.

This concludes the financial report. I'd like to turn the call over to Rian Furey to discuss our mortgage operation.

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

Thanks, Brian. As we've already begun to discuss in regards to cash flow mortgage, much of our focus in the third quarter continue to be on adjusting our approach to the market in the face of rising rates and a significant drop in refinancing activity. A large focus of our marketing activity has been on attracting NonQM borrowers to our consumer direct platform.

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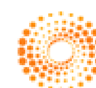

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CashCall Mortgage launched new TV and radio created at the end of the quarter, with distinct messaging around the NonQM borrowers as well as debt consolidation and home improvement themes for traditional refinance. In addition to TV and radio ads, we've continued to refine our online advertising and lead acquisition strategy to focus on geographic diversity and specifically target NonQM production.

As George mentioned, we've completed the relocation of all of our CashCall Mortgage team members into our Irvine, California headquarters. The platform occupies its own floor and is operating at a stabilized headcount of around 160 people.

In the third quarter, we also completed major upgrades to our call center technology, helping us better manage our call routing and digital lead delivery through our relaunch of the [RM] tool. It improved our reporting capabilities around marketing spend, completed hardware and software upgrades and retired legacy systems.

In the fourth quarter, we'll continue to focus on reaching the NonQM borrowers with our marketing and using our newly upgraded technology to improve our contact rate and conversion, trying to further lower the cost of acquisition of new customers at CashCall platforms.

We brought up the negative effect of elevated prepayment fees to our direct-to-consumer business many times in the past. I'm pleased to report that through a variety of operational product and compensation changes that we've highlighted on calls previously, we've continued to see normalized prepayment speeds on our conforming GSE production. The steady increase in rates of this year has also played a part in the lack of prepayments, but we're confident that the changes we've instituted will cause our speeds to compare to cohorts through various interest rate cycles. Those normalized speeds will help us improve over the long run our execution levels for loans and MSRs in the capital market.

As we've mentioned, we continue to see growth in the NonQM production on our TPO channel, so we continue to invest in our inside and outside sales efforts and on increasing our operational efficiencies. Through technology perspective, we continue to invest and launch new tools for our brokers, allowing them a more seamless experience in loan delivery and better real-time access to our program, pricing and parameters. Operationally, we'll implement our first our RPA or robotic process automation initiative this quarter and have identified other manual processes that will be automated by this technology solution going forward.

With that, I'll hand it back to George for additional comments.

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

Thanks, Rian. We recognize that these are challenging times for residential mortgage originators, but our senior management team continues to be up to the challenge and optimistic about our competitive positioning in the market.

As one of the few, if not the only, public monoline residential originator, it's difficult to gauge our financial performance relative to a peer group. However, by anecdote and word of mouth, we believe many of the nondepository lenders have elected to remain committed to GSE and government market share, maintaining staffing levels at the expense of margin, operating profit and liquidity.

Impac has charted a different course. Over a year ago, the company embarked on a dual mandate to focus the enterprise on our core competency of creating alternative credit products, while at the same time maintaining optionality for continued commitment to GSE and government production should market conditions improve.

We remain committed to offering the consumer a full-diversified set of products through our 3 channel origination platform. We've demonstrated the ability to make difficult decisions to proactively eliminate cost and expense to rightsize the company. And we will continue to measure our origination capacity to demand and fine-tune our resources to ensure we appropriately calibrate it to changing market conditions.

Our initiatives related to technology and customer acquisition have shown promising early results, and we anticipate the full benefit of these activities to drive origination and operating efficiencies in the future periods. We're encouraged by the durability of the company's results from our recurring business operations, and the growth of our NonQM origination volume across our direct to consumer and TPO channels has been extraordinary.

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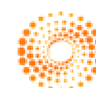

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We anticipate that the addressable market for alternative products to continue to expand and that the company will remain uniquely positioned to build upon our standing as a recognized leader in providing innovative and responsible products that match consumer needs to capital market investment objectives.

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

QUESTIONS AND ANSWERS

Operator

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

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

I guess, first off, a question on the competitive environment. You guys talked a lot about obviously what's caused a lot of the pressure within the industry. But when we think about where you sit today and sort of looking out over the next several months, we're heading into a slow seasonal part of the year from an origination perspective. So I guess the question is, when you guys think about where the margins are today and how competitive the market is, do you think we've sort of seen a peak in how competitive things are and where margins are? Or do you think that may even intensify further as the origination market slows down seasonally?

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

I don't believe we've seen [capitulation] yet with respect to other originators just kind of being more reactive to the excess capacity that needs to exit. We have, in the last several weeks, had evidence of some downsizing, but we believe the excess capacity, if we trigger it back to 2016 and measured to that, will be something in the order of 25% across the industry, and we don't feel as if the origination capacity has decreased yet to normalized margins.

Your comment around seasonality is spot on. I -- typically, in November, December until holidays and some portion of January are very difficult markets. We expect the margin compression to continue and we might see a peak to that in -- sometime in the first quarter of 2019. Oftentimes, the discipline on the industry is forced by -- is required to be forced by an external force, warehouse lenders, lenders against MSRs, of course unless there's a credit event. I was thinking back to 2007 and 2008 when I was on Wall Street in those seats, and I'd visit the CEO's offices of these companies often, and one CEO had a sign by Dante hanging outside of his office: Abandon hope all ye who enter here. And that's was a credit event in '07 and '08, there was a credit event in '98. We're not at that spot here. We're just in a market where excess capacity needs to exit and then the market needs to reformulate on the normalized margins. But I don't see that until sometime in the first quarter of '19.

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

Got it. Okay. That's helpful color. And I guess from your perspective, as you enter the next few months, obviously personnel expense came down a good amount in the third quarter. I guess, is your -- is the level of staffing where you are at sort of towards the end of the third quarter sort of where you want to be given how you anticipate the market evolving over the next few months? Or is there still sort of room for that to come down further as we go through the fourth quarter?

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

We continually reevaluate that, and I think you could expect us certainly to continue to rightsize our platform for demand in the marketplace. So we're mindful of that and we continue to fine-tune it.

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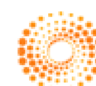

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Trevor John Cranston - *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

Got it. Okay. And then looking at the origination numbers for the third quarter, it looks like the -- I mean, the biggest drop by far was in the correspondent channel. Can you comment on why that was and if that's part of a shift away from doing more conventional conforming originations in that channel and towards being more focused on NonQM? Or just talk about what the driver of that decline was.

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

Brian, do you want to take that?

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

Yes, Trevor, the correspondent channel fees is the most acute margin compression due to competitive forces sourcing conventional government mortgages through the correspondent channel. And some of the largest players in the sector really source tremendous volume of assets to correspondent. And so evaluating the unit and channel profitability, it just became clear that it was very difficult for us to compete for those assets, conventional and government loan products, through to the correspondent channel versus some of the money center institutions that have a much different cost to capital and capital structure than we have. And so we adjusted our pricing to meet our margin requirements with respect to return hurdles. And that resulted in a reduction in volume for conventional and government production through our correspondent channel. It was a proactive management decision that we made a few months ago and we're seeing the adjustment pull through the financials this quarter.

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

Got it. Okay. That makes sense. Now on the NonQM side, it looks like you guys made some nice progress in the third quarter and into October. Can you comment on sort of what you're saying in terms of any particular products that are really gaining traction? Obviously, we can see that the FICO and LTVs you guys disclosed. But I was curious if there's any particular products that are really working for you guys or if there's any sort of other things you see out there in the market from other originators that might make sense to add. Sort of just curious about sort of your approach to underwriting on those loans, new products you might be thinking about and sort of what's your stance is on maintaining credit quality versus sort of maybe potentially loosening up standards a little bit going forward.

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

Trevor, it's Rian. I'll speak on the product side for NonQM. We've definitely had some improvement in the quarter. We've seen that there product expertise that we built the cash, CashCall platform over the several years, is starting to pay off. And again, with kind of the targeted off-line and online spend around NonQM, we're seeing those customers come in really complemented by an increased awareness among borrowers about why NonQM products exist. I would say that from an origination standpoint, our bank statement program for self-employed borrowers and our cash flow program for investors are the 2 that we see the highest level of traction with. We've been able to originate there without expanding too far out. And our kind of FICO and LTV universe and kind of the competitive cost structure of the call center has lent itself to kind of an increased production there.

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

Got it. Okay. That's helpful. Switching to the MSR side, so obviously, you announced the sale of some of the Ginnie MSRs in October. Can you talk about how you guys are thinking about the remainder of the MSR portfolio going forward and if it's something you might be sort of looking to opportunistically sell as you have chances to reinvest more into the NonQM business? Or just how should we think about the remainder of the MSR portfolio going forward?

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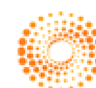

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Brian Kuelbs - *Impac Mortgage Holdings, Inc. - Executive VP & CFO*

Trevor, this is Brian. We're really looking at the MSR asset as an opportunity to, over time, redeploy capital that's allocated to that asset class into the growth in NonQM production as well as the retained investment in NonQM assets. And so we're viewing it as a capital allocation opportunity for the company. And so the Ginnie Mae servicing portfolio was the first asset that we released from the balance sheet, really, to free up capital for NonQM business activities. And as we move forward, we may continue to reallocate capital as we build production volume in our NonQM channels.

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

Got it. Okay. Last thing for me. I guess the last thing we saw on the preferred B was in the announcement that the special meeting has been canceled. Is there any update you guys can give on the status of that and how you guys are sort of thinking about the preferred Bs? Anything you could say there would be helpful.

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

Yes. Ron Morrison is with us, he'll address that for us.

Ronald M. Morrison - *Impac Mortgage Holdings, Inc. - Executive VP, General Counsel & Secretary*

Trevor, and I'm sure you realize that we generally don't comment on pending litigation. At this point though, I can tell you that the Maryland court in that matter did enter a partial judgment on the case in July 2018. And as part of that, the court certified certain issues for an immediate appeal for us, and both sides. We won on some claims and lost on some claims, ultimately. But since that point, both sides have filed cross appeals in the case. In our request, the court then did issue a stay of enforcement during the appeal. Had they not done that, that would have allowed the preferred B holders to elect directors to our board. Therefore, at this point, all of the remedies are stayed until all of the appeals are exhausted. And we don't know what the timeline of that is, that's up to the court.

Operator

At this time, I'd like to turn the call back over to management for closing remarks.

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

Thanks you, everyone, for joining us on our third quarter earnings call. We'll talk to you early next year for our year-end call. Have a great day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. You may disconnect. Have a wonderful day.

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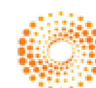

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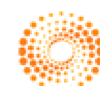

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