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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Impac Mortgage Holdings third-quarter 2015 earnings call. (Operator Instructions). As a reminder, this conference is being recorded Thursday, November 5, 2015. I would now like to turn the conference over to Justin Moisio, Vice President, Investor Relations. Please go ahead, sir.

Justin Moisio - *Impac Mortgage Holdings, Inc. - VP, IR*

Thank you. Good morning, everyone. Thank you for joining Impac Mortgage Holdings third-quarter 2015 earnings conference call. During this call, we will make projections and 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 under the Securities and Exchange Act of 1934. These documents contain and identify important factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements. This presentation, including outlook and any guidance is effective as of the date given and we expressly disclaim any duty to update the information herein.

I would like to get started by introducing Bill Ashmore, President of Impac Mortgage Holdings.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Thank you, Justin. Good morning. Welcome and thank you for joining Impac's third-quarter 2015 earnings call. I have on the line with me today Joe Tomkinson, our Chairman and CEO; Todd Taylor, our Chief Financial officer; and Ron Morrison, our General Counsel.

I will begin with a brief overview of the results from the third quarter of 2015. Net earnings in the third quarter were $19.3 million as compared to $16.8 million in the second quarter. Net earnings included fair value adjustments for changes in the contingent consideration, long-term debt and net trust assets. The contingent consideration related to the CashCall Mortgage acquisition transaction was discussed in detail in the earnings release while the other fair value adjustments are related to our legacy portfolio.

These fair value adjustments are non-cash items and are not related to current operating results. We believe it is more useful to discuss the operating results excluding these items to get a better understanding of the ongoing and future operations of the Company. Third-quarter operating income, excluding contingent consideration changes, increased slightly to $8.5 million in the third quarter of 2015 as compared to $8.3 million in the second quarter. As expected, the origination volume in the third quarter declined slightly to $2.3 billion from $2.6 billion in the second quarter. During the same period, our gain-on-sale margins increased 10% to 205 basis points.

Our overall operating expenses continued to decline despite the fact that we increased our marketing efforts by $2 million. As marketing expands, our production will expand geographically giving us more marketshare in other regions of the country. As I mentioned, the decrease in originations was expected and consistent with the rest of the mortgage market, which also saw an overall decrease during the third quarter.

While the retail channels saw a decrease of approximately 17%, the wholesale and correspondent channels remained consistent with the previous quarter. Our overall production for the first nine months of this year was approximately $7.3 billion, a 429% increase from the same period in 2014.

During the third quarter, purchase money transactions increased to 25% of total production as compared to 18% in the second quarter, an increase of over $100 million. As we expand our diversification efforts in our business-to-business channels, this trend should continue.

To mitigate against any reduced refinance volumes with the expected increase in mortgage rates, we are focusing on opportunities that will create diversity of our revenue streams. Our efforts to expand our AltQM volumes, as well as increase our geographic footprint of our originations are a part of this strategy. We also believe that there is an opportunity to provide a third-party servicing retention program using our CashCall Mortgage platform to create an additional source of revenue.

In addition, we have yet to fully capitalize and expand on the lead generation potential through our Internet channels, our current mortgage leads and our servicing portfolio to unlock greater value from our consumer direct platform. I will more fully discuss these strategies later on in this call.

This year, our focus has been creating efficiencies in the business-to-business channels and the smooth transition and integration of CashCall Mortgage. As a result of these efforts, we are beginning to see a decline in overall operational expenses and a more diversified origination platform that is set to grow in 2016.

The CashCall Mortgage consumer direct channel's marketing strategy is to offer attractive mortgage interest rates through television and radio advertising to create lead generation for the call center and the Internet portal. In the third quarter of 2015, advertising costs increased as part of our overall effort to continue to develop a national campaign to better leverage the CashCall Mortgage brand name.

In the third quarter, our geographic footprint expanded as we saw volume from an additional 19 states and we expect this trend to continue in 2016. We are also expanding lead generation through our Web-based Internet marketing channel where we want to drive more origination traffic through the consumer Web portal. Web-based Internet lead generation will be an important strategy in 2016 as we continue to expand CashCall Mortgage marketing efforts.

As we continue to leverage the CashCall Mortgage platform to drive volume and profitability, we believe there is an opportunity to leverage our mortgage lending leads, our legacy portfolio and the Internet to offer additional loan products. By doing so, we expect to lower the cost of acquisition to generate additional revenue streams without materially adding infrastructure costs to our existing platform. We expect this will allow us to better monetize our current mortgage leads by using them to generate consumer loans without incurring increased lead expenses.

By adding consumer lending to our agency, government and AltQM lending, we believe that this financial diversification will provide incremental growth to our existing business and increase overall shareholder value. At September 30, 2015, the Company's mortgage servicing portfolio increased to $6.1 billion, a 50% increase from June 2015. At the end of October, the Company had grown its servicing portfolio to approximately $7 billion. The retained mortgage servicing rights increased to $63.2 million at the September 30, 2015 balance sheet as compared to $44.2 million at the June 30, 2015 balance sheet.

To manage the capital needs of the Company and to reduce the Company's net asset concentration of mortgage servicing rights, in October, the Company sold $3.5 billion of conventional mortgage servicing rights for approximately $34 million. After the sale, the remaining servicing portfolio at the end of October was $3.4 billion.

With ongoing profitability, a stronger balance sheet, larger cash balances and the improvements made in secondary marketing, which is driving better transaction velocity and execution, we've been able to obtain better financing terms from our warehouse lenders and our Wall Street counterparties. The AltQM market will be a sizable segment of the overall mortgage production in coming years and as such, we are committed to growing this portion of our originations.

In the third quarter, as a result of feedback from borrowers and our business-to-business channels, we have simplified our AltQM program guidelines, which has created a more origination-friendly loan product. These changes will provide greater flexibility to help qualified creditworthy borrowers that are unable to get financing from current traditional mortgage programs. As a result, we have seen a 33% increase in our AltQM pipeline to approximately $100 million.

With regard to our business-to-business channels during 2015, our strategies remain to increase the percentage of customers delivering multiple loans per month, expand geographically to the Midwest and East Coast, while increasing overall pullthrough percentages. As mentioned earlier, a major focus on our business-to-business channel is to improve efficiencies and reduce our cost of loan acquisition, which will make us more competitive and should drive margin improvement.

Before I move to my closing remarks, it should also be noted that, in October, the long-awaited implementation of the new TILA-RESPA Integrated Disclosure rule, or commonly known as TRID, was implemented on time by all origination channels and did not have any significant effect on overall production.

In closing, let me comment that the Company delivered another profitable quarter with improved margins and lower expenses. With the normal seasonal trends at year-end, we expect the fourth-quarter volume to be similar to the third. We are looking to 2016 to implement strategies to not only profitably grow the mortgage business, but also position the Company to diversify its lending business model. Now I will close my prepared remarks and open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Walter Keating, UBS Financial.

Walter Keating - *UBS - Analyst*

Good morning. Congratulations on another great quarter. It's great. My question, it seems to me that we are getting to the point of critical mass where (technical difficulty) more earnings, you have more cash. As you have more cash, you increase capacity. You increase capacity, you increase earnings. It looks to me like you are just getting ready to explode. Am I right?

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

I think that this year, again, as we stated, with the acquisition of CashCall, we wanted to ensure that there was a smooth integration and we continued with the success of the CashCall model while, along with that, growing our business-to-business unit. So I think to a large extent, you are correct from the standpoint we are looking to 2015 when we established the 2015 with our business model from a mortgage lending standpoint along with adding cash overall to the bottom line. We are in a much better position this year to be able to more aggressively grow next year.

Walter Keating - *UBS - Analyst*

One last question. You mentioned a sale of some of the servicing, which is logical because you don't have too much concentration in servicing, although it's a good business. What is the current servicing rate on servicing? How much do you get for servicing loans now?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

The gross rate is 25 basis points and servicing is a good business, but you have to have a tremendous amount of mass for it to be a good business. And I think the business is -- for it to be really profitable and to make sense, it's got to be at least I think in the neighborhood of $20 billion. We sold off a big chunk of servicing because quite frankly the servicing values are too volatile and it's just one risk that, if you could eliminate and convert to cash, you are better off doing that.

And we believe, at least I do, that, as we go forward, cash is king and so rather than having all this capital tied up in a servicing asset that fluctuates in value from month-to-month, it's better to take the cash. And our strategy, which we really haven't talked about in 2016, is to expand the platform in CashCall and really develop what we have been quietly developing and that's the Internet ability of the Company, especially in the consumer loan business.

So we are going to be concentrating on that on a go-forward basis. And the other thing is, as we said at the beginning of the year when we bought CashCall, that we were going to spend the year to bring it into the Company, integrate it. We were going to look at our expenses. We were going to continue to improve the efficiencies and we've been doing that through our lending platform and our Internet capabilities and now what we are going to do is -- and we also said, this is important and I don't think people really appreciate it yet, is even though we spent more money on our advertising, we were still able to bring our overall expenses down, but we've also increased our presence from I think it was seven states, now we are actively originating in -- what, tell me?

Unidentified Company Representative

33.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

33 states.

Unidentified Company Representative

38 states, excuse me.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

38 states -- and now we are concentrating on bringing that more volume in. So we think 2016 -- you said you are getting ready to explode. I don't think we have even seen our potential yet.

Walter Keating - *UBS - Analyst*

One last thing. On the AltQM market, that product -- how to the profit margins compare to the other products in your portfolio?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

I will answer it and then Bill will probably have something more. As you will recall when we concentrated on Alt-A product several years ago, our margins on that product were anywhere from 200 basis points to 275 basis points and that's because we held onto the residuals and at the time, we were paying out as much as $3 in dividends.

Walter Keating - *UBS - Analyst*

Right. Remember that well.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

We see the same sort of margins and so I don't know if they are yet that rich or not, but they are certainly a lot better than 25 basis points and then when you take away -- I used to tell people, I would say why are we servicing for 25 basis point and then after your expenses, you are netting somewhere around 17 basis points when we can hold onto the residuals and we can capture 200 basis points. Do you understand?

Walter Keating - *UBS - Analyst*

Yes, absolutely.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Now we are retaining cash and growing our volumes in the AltQM. It is slower than we expected, but that's because there's been, in the lending space, there's been a lot of fear of originating that type of product. However -- and that's because there's been a lot of misinterpretations in the guidelines that the CFPB has put out. Now we are getting better and better clarification. The loans are make sense loans and the CFPB has come out and said you should be making good sense loans. So we are way ahead of the curve on that.

Walter Keating - *UBS - Analyst*

Fantastic. Another great quarter. Keep up the good work, Joe.

Operator

[Michael Damani], Morgan Stanley.

Michael Damani - *Morgan Stanley - Analyst*

Could you expand a little bit more on the retention program possibilities?

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Yes, we are in the final stages of putting together the agreement for our first retention program.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

For a third-party.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

For a third-party. And we are hoping to grow on that next year. We want to make sure from a compliant standpoint that we've got everything exactly right on doing this program. We think it's a huge potential there because no matter if interest rates go up or down, there's always refi runoff and targeting some of these buyers of MSRs that need to be able to retain that servicing is we think an important strategy for us on the CashCall platform since they are the preeminent originator out there with low rates and speed of velocity in order to close those transactions. So again, we are in the final stages of finalizing that agreement with our first third-party provider.

Michael Damani - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

David Sims, RidgeHaven Capital.

David Sims - *RidgeHaven Capital - Analyst*

Hey, guys. Great quarter. It's good to see another quarter of profitability. I'm curious about this consumer lending and it seems pretty interesting, pretty exciting, especially with the other competitors. Can you describe some of the products that you might be doing in that market?

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Yes, basically the Company has been evaluating and researching several consumer-based lending models, each of which will easily fit within our current centralized call center platform. We believe that during the first part of 2016, we are going to be able to outline what the consumer lending offering would be, but basically starting off with unsecured consumer loans. We think that again trying to monetize additional leads that we already have that we're not capitalizing on within our legacy portfolio, in addition to the Internet and then also through our mortgage business, there's a lot of leads here that are coming through that we could capitalize with this consumer lending model.

So we think that this diversification is absolutely necessary and we have been thinking about it, working on it, but the number one importance was initially to get the integration of the platform of CashCall completed throughout this year and then move towards additional loan products, which would include the AltQM, along with the unsecured loans, consumer loans.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Let me add to that. With the acquisition of the CashCall, we already acquired -- we acquired the intellectual properties that would allow us to easily transition into consumer direct business and there's been a lot of talk about that with the other companies. We don't have to -- there's not a lot of brain damage for us to get into this business. We have as much as past applications that are available to us. So it's going to be a very easy transition for us to begin marketing that and we think for us it will be very, very profitable. Does that help you, David?

David Sims - *RidgeHaven Capital - Analyst*

Yes. That's great. And if you don't mind, I'd like to ask a question about the deferred tax asset. Can you describe how the Company would analyze the need to recognize the DTA this year?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

We will turn that over to Todd.

Todd Taylor - *Impac Mortgage Holdings, Inc. - EVP & CFO*

Was the question did the deferred tax asset -- how we analyze the -- do the analysis? Can you repeat that, make sure I got it right?

David Sims - *RidgeHaven Capital - Analyst*

I used to work in SEC reporting and do some accounting work and I know that usually at year-end, you look at your reserves and you look at your accruals and your valuations and that might be a time when you might look at the DTA. I was wondering if you could just describe that process, maybe what kind of inputs might go into that model.

Todd Taylor - *Impac Mortgage Holdings, Inc. - EVP & CFO*

Oh, sure. Actually we are looking at that every quarter at this point in time to understand what is our ongoing future taxable income potential, which is what really drives any change in that valuation -- it sounds like you are familiar with how that works, which would end up adding more deferred tax assets to the balance sheet.

So yes, at year-end, we will do the same and again, it's based on the forecasted taxable income that we see relative to the forecasts of all the parts of the Company, CashCall as well as our wholesale and our correspondent and other pieces too. So it's something we hope to continue to evaluate and be able to add, which would be indicative of ongoing expectations of higher taxable income into the future.

David Sims - *RidgeHaven Capital - Analyst*

Okay. Very good. That's all I've got for now. Thanks.

Operator

(Operator Instructions). [Andrew Derune], Wells Fargo Advisors.

Andrew Derune - *Wells Fargo Advisors - Analyst*

Many years ago, Impac Mortgage was a REIT. Is there any chance that you would revisit that again in the future?

Unidentified Company Representative

No.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Yes, short answer is no. We've got a lot of deferred tax assets that are in front of us that puts us in position to pay minimal to no taxes, so converting to a REIT doesn't give us any advantage at this point in time.

Andrew Derune - *Wells Fargo Advisors - Analyst*

Okay, thank you.

Operator

One moment please for our next question. Ladies and gentlemen, that was our last question. I will turn the call back over to you.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Okay, well, if there is no further questions, we will go ahead and end the phone call today. Appreciate everybody's participation. Thank you very much.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.
