
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 September 30, 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 21,220,357 shares of common stock outstanding as of November 6, 2019.

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

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS</u>	
<u>Consolidated Balance Sheets as of September 30, 2019 (unaudited) and December 31, 2018</u>	3
<u>Consolidated Statements of Operations and Comprehensive Earnings (Loss) for the Three and Nine Months Ended September 30, 2019 and 2018 (unaudited)</u>	4
<u>Consolidated Statement of Changes in Stockholders' Equity for the Three and Nine Months Ended September 30, 2019 and 2018 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018 (unaudited)</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	34
<u>Forward-Looking Statements</u>	34
<u>The Mortgage Industry and Discussion of Relevant Fiscal Periods</u>	34
<u>Selected Financial Results</u>	35
<u>Status of Operations</u>	35
<u>Liquidity and Capital Resources</u>	40
<u>Critical Accounting Policies</u>	41
<u>Financial Condition and Results of Operations</u>	41
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	63
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	63
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	65
<u>ITEM 1A. RISK FACTORS</u>	65
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	65
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	65
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	65
<u>ITEM 5. OTHER INFORMATION</u>	65
<u>ITEM 6. EXHIBITS</u>	65
<u>SIGNATURES</u>	66
<u>CERTIFICATIONS</u>	

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	September 30, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	\$ 24,115	\$ 23,200
Restricted cash	13,057	6,989
Mortgage loans held-for-sale	1,038,942	353,601
Mortgage servicing rights	40,827	64,728
Securitized mortgage trust assets	2,795,117	3,165,590
Other assets	63,954	33,835
Total assets	<u>\$ 3,976,012</u>	<u>\$ 3,647,943</u>
LIABILITIES		
Warehouse borrowings	\$ 971,595	\$ 284,137
Convertible notes, net	24,993	24,985
Long-term debt	43,577	44,856
Securitized mortgage trust liabilities	2,777,872	3,148,215
Other liabilities	53,680	35,575
Total liabilities	<u>3,871,717</u>	<u>3,537,768</u>
Commitments and contingencies (See Note 12)		
STOCKHOLDERS' EQUITY		
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 \$32,240; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of September 30, 2019 and December 31, 2018 (See Note 13)	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 September 30, 2019 and December 31, 2018 (See Note 13)	14	14
Common stock, \$0.01 par value; 200,000,000 shares authorized; 21,220,357 and 21,117,006 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	212	211
Additional paid-in capital	1,235,971	1,235,108
Accumulated other comprehensive earnings	24,433	23,877
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(333,822)	(326,522)
Net accumulated deficit	<u>(1,156,342)</u>	<u>(1,149,042)</u>
Total stockholders' equity	104,295	110,175
Total liabilities and stockholders' equity	<u>\$ 3,976,012</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 EARNINGS (LOSS)
(in thousands, except per share data)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Gain on sale of loans, net	\$ 31,073	\$ 13,673	\$ 72,759	\$ 53,896
Servicing fees, net	3,465	10,124	9,970	29,445
(Loss) gain on mortgage servicing rights, net	(9,755)	(5,192)	(25,264)	2,682
Real estate services fees, net	921	711	2,534	3,134
Other	71	71	258	278
Total revenues	<u>25,775</u>	<u>19,387</u>	<u>60,257</u>	<u>89,435</u>
Expenses:				
Personnel expense	18,725	16,061	47,186	50,481
Business promotion	1,292	4,351	6,228	23,082
General, administrative and other	5,619	7,897	16,126	27,018
Intangible asset impairment	—	4,897	—	18,347
Goodwill impairment	—	29,925	—	104,587
Total expenses	<u>25,636</u>	<u>63,131</u>	<u>69,540</u>	<u>223,515</u>
Operating income (loss)	<u>139</u>	<u>(43,744)</u>	<u>(9,283)</u>	<u>(134,080)</u>
Other income (expense):				
Interest income	39,492	45,888	127,807	145,103
Interest expense	(37,002)	(45,477)	(120,978)	(143,126)
Change in fair value of long-term debt	304	(785)	958	697
Change in fair value of net trust assets, including trust REO losses	(1,724)	(1,315)	(5,866)	(3,236)
Total other income (loss), net	<u>1,070</u>	<u>(1,689)</u>	<u>1,921</u>	<u>(562)</u>
Earnings (loss) before income taxes	1,209	(45,433)	(7,362)	(134,642)
Income tax (benefit) expense	(230)	12	(62)	4,328
Net earnings (loss)	<u>\$ 1,439</u>	<u>\$ (45,445)</u>	<u>\$ (7,300)</u>	<u>\$ (138,970)</u>
Other comprehensive earnings (loss):				
Change in fair value of mortgage-backed securities	107	—	120	—
Change in fair value of instrument specific credit risk of long-term debt	72	25	436	(1,940)
Total comprehensive earnings (loss)	<u>\$ 1,618</u>	<u>\$ (45,420)</u>	<u>\$ (6,744)</u>	<u>\$ (140,910)</u>
Net earnings (loss) per common share:				
Basic	\$ 0.07	\$ (2.16)	\$ (0.34)	\$ (6.62)
Diluted	0.07	(2.16)	(0.34)	(6.62)

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	Preferred Stock	Common Shares	Common Stock	Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Accumulated Other Comprehensive Earnings, net of tax	Total Stockholders' Equity
	<u>Outstanding</u>	<u>Stock</u>	<u>Outstanding</u>	<u>Stock</u>	<u>Capital</u>	<u>Declared</u>	<u>Deficit</u>		<u>Equity</u>
Balance, January 1, 2019	2,070,678	\$ 21	21,117,006	\$ 211	\$ 1,235,108	\$ (822,520)	\$ (326,522)	\$ 23,877	\$ 110,175
Proceeds 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>
Stock based compensation	—	—	—	—	206	—	—	—	206
Other comprehensive earnings	—	—	—	—	—	—	—	260	260
Net earnings	—	—	—	—	—	—	3,873	—	3,873
Balance, June 30, 2019	<u>2,070,678</u>	<u>\$ 21</u>	<u>21,181,357</u>	<u>\$ 212</u>	<u>\$ 1,235,583</u>	<u>\$ (822,520)</u>	<u>\$ (335,261)</u>	<u>\$ 24,254</u>	<u>\$ 102,289</u>
Proceeds from exercise of stock options	—	—	39,000	—	182	—	—	—	182
Stock based compensation	—	—	—	—	206	—	—	—	206
Other comprehensive earnings	—	—	—	—	—	—	—	179	179
Net earnings	—	—	—	—	—	—	1,439	—	1,439
Balance, September 30, 2019	<u>2,070,678</u>	<u>\$ 21</u>	<u>21,220,357</u>	<u>\$ 212</u>	<u>\$ 1,235,971</u>	<u>\$ (822,520)</u>	<u>\$ (333,822)</u>	<u>\$ 24,433</u>	<u>\$ 104,295</u>

[Table of Contents](#)

	Preferred Shares	Preferred	Common Shares	Common	Additional Paid-In	Cumulative Dividends	Retained	Accumulated Other Comprehensive Earnings (Loss), net of tax	Total Stockholders'
	Outstanding	Stock	Outstanding	Stock	Capital	Declared	Deficit		Equity
Balance, January 1, 2018	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 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>
Proceeds from exercise of stock options	—	—	73,713	—	303	—	—	—	303
Stock based compensation	—	—	—	—	170	—	—	—	170
Other comprehensive loss	—	—	—	—	—	—	—	(525)	(525)
Net loss	—	—	—	—	—	—	(97,398)	—	(97,398)
Balance, June 30, 2018	<u>2,070,678</u>	<u>\$ 21</u>	<u>21,026,392</u>	<u>\$ 210</u>	<u>\$ 1,234,622</u>	<u>\$ (822,520)</u>	<u>\$ (274,637)</u>	<u>\$ 25,053</u>	<u>\$ 162,749</u>
Proceeds from exercise of stock options	—	—	21,197	—	113	—	—	—	113
Issuance of Deferred Stock Units	—	—	62,917	1	—	—	—	—	1
Stock based compensation	—	—	—	—	211	—	—	—	211
Other comprehensive earnings	—	—	—	—	—	—	—	25	25
Net loss	—	—	—	—	—	—	(45,445)	—	(45,445)
Balance, September 30, 2018	<u>2,070,678</u>	<u>\$ 21</u>	<u>21,110,506</u>	<u>\$ 211</u>	<u>\$ 1,234,946</u>	<u>\$ (822,520)</u>	<u>\$ (320,082)</u>	<u>\$ 25,078</u>	<u>\$ 117,654</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 Nine Months Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (7,300)	\$ (138,970)
Gain on sale of mortgage servicing rights	(864)	—
Change in fair value of mortgage servicing rights	26,128	(4,127)
Gain on sale of mortgage loans	(52,000)	(71,854)
Change in fair value of mortgage loans held-for-sale	(17,609)	12,182
Change in fair value of derivatives lending, net	(6,768)	425
Provision for repurchases	3,618	5,435
Origination of mortgage loans held-for-sale	(3,039,185)	(3,207,525)
Sale and principal reduction on mortgage loans held-for-sale	2,421,231	3,468,824
Loss from trust REO	3,848	46
Change in fair value of net trust assets, excluding trust REO	2,018	3,190
Change in fair value of long-term debt	(958)	(697)
Accretion of interest income and expense	18,880	27,126
Amortization of intangible and other assets	429	3,284
Amortization of debt issuance costs and discount on note payable	14	62
Stock-based compensation	519	810
Impairment of goodwill	—	104,587
Impairment of intangible assets	—	18,347
Change in deferred tax assets, net	—	4,315
Net change in other assets	6,256	(5,558)
Net change in other liabilities	(5,776)	(3,352)
Net cash (used in) provided by operating activities	<u>(647,519)</u>	<u>216,550</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	432,969	406,456
Finance receivable advances to customers	—	(401,357)
Repayments of finance receivables	—	442,403
Purchase of premises and equipment	(654)	(670)
Purchase of investment securities available-for-sale	—	(500)
Purchase of mortgage-backed securities	(10,346)	—
Proceeds from the sale of mortgage-backed securities	1,021	—
Proceeds from the sale of trust REO	15,285	15,992
Net cash provided by investing activities	<u>438,275</u>	<u>462,324</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of MSR financing	(3,000)	(50,133)
Borrowings under MSR financing	3,000	77,000
Repayment of warehouse borrowings	(2,192,940)	(3,296,280)
Borrowings under warehouse agreements	2,880,398	3,036,069
Payment of acquisition related contingent consideration	—	(554)
Repayment of securitized mortgage borrowings	(471,436)	(450,555)
Principal payments on capital lease	(81)	(154)
Tax payments on stock based compensation awards	(59)	(143)
Issuance of deferred stock units	—	1
Proceeds from exercise of stock options	345	433
Net cash provided by (used in) financing activities	<u>216,227</u>	<u>(684,316)</u>
Net change in cash, cash equivalents and restricted cash	6,983	(5,442)
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>\$ 37,172</u>	<u>\$ 33,657</u>
NON-CASH TRANSACTIONS:		
Transfer of securitized mortgage collateral to trust REO	\$ 21,379	\$ 17,089
Mortgage servicing rights retained from issuance of mortgage backed securities and loan sales	2,222	22,473
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	—
Common stock issued upon issuance of deferred stock units	—	606

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 financial services company incorporated in Maryland 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 nine months ended September 30, 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 Accounting Standards Update (ASU) 2016-02, "*Leases (Topic 842)*", and subsequent amendments to the initial guidance: 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 remained 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

[Table of Contents](#)

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 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.

Recent Accounting Pronouncements Not Yet Effective

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 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.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments (ASU 2019-04)*, which provided certain improvements to *ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01) and ASU 2016-13. As the Company adopted ASU 2016-01 on January 1, 2018, the improvements in ASU 2019-04 are effective in the first quarter of 2020. Early adoption is permitted. The Company expects to adopt ASU 2016-13 in the first quarter of 2023, as described above, and the improvements in ASU 2019-04 will be adopted concurrently. 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:

	September 30, 2019	December 31, 2018
Government (1)	\$ 50,157	\$ 39,522
Conventional (2)	779,174	53,148
Non-qualified mortgages (NonQM)	187,562	256,491
Fair value adjustment (3)	22,049	4,440
Total mortgage loans held-for-sale	<u>\$ 1,038,942</u>	<u>\$ 353,601</u>

(1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).

[Table of Contents](#)

- (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 earnings (loss).

At September 30, 2019 and December 31, 2018, the Company had \$3.4 million and \$2.3 million, respectively, in UPB of mortgage loans held-for-sale that were in nonaccrual status as the loans were 90 days or more delinquent. The carrying value of these nonaccrual loans at September 30, 2019 and December 31, 2018 were \$3.1 million and \$1.8 million, respectively.

Gain on mortgage loans held-for-sale (LHFS), included in gain on sale of loans, net in the consolidated statements of operations and comprehensive earnings (loss), is comprised of the following for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Gain on sale of mortgage loans	\$ 32,003	\$ 27,949	\$ 73,433	\$ 85,928
Premium from servicing retained loan sales	223	5,717	2,222	22,473
Unrealized gains (losses) from derivative financial instruments	2,202	324	6,768	(341)
Realized (losses) gains from derivative financial instruments	(4,225)	(537)	(7,579)	11,281
Mark to market gain (loss) on LHFS	9,275	(6,901)	17,609	(12,182)
Direct origination expenses, net	(7,947)	(9,038)	(16,076)	(47,828)
Provision for repurchases	(458)	(3,841)	(3,618)	(5,435)
Total gain on sale of loans, net	\$ 31,073	\$ 13,673	\$ 72,759	\$ 53,896

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 expected 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 underlying mortgage 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.

The following table summarizes the activity of MSRs for the nine months ended September 30, 2019 and year ended December 31, 2018:

	September 30, 2019	December 31, 2018
Balance at beginning of period	\$ 64,728	\$ 154,405
Additions from servicing retained loan sales	2,222	24,879
Reductions from bulk sales	—	(118,313)
Other	5	—
Changes in fair value (1)	(26,128)	3,757
Fair value of MSRs at end of period	\$ 40,827	\$ 64,728

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

[Table of Contents](#)

At September 30, 2019 and December 31, 2018, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	September 30, 2019	December 31, 2018
Government insured	\$ 106,120	\$ 51,157
Conventional	5,267,939	6,165,129
NonQM	—	1,848
Total loans serviced (1)	<u>\$ 5,374,059</u>	<u>\$ 6,218,134</u>

(1) No collateral was pledged as part of the MSR Financing at September 30, 2019 or December 31, 2018. (See Note 6.)

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 8.—Fair Value of Financial Instruments for a description of the key assumptions used to determine the fair value of MSRs.

Mortgage Servicing Rights Sensitivity Analysis	September 30, 2019	December 31, 2018
Fair value of MSRs	\$ 40,827	\$ 64,728
Prepayment Speed:		
Decrease in fair value from 10% adverse change	(2,170)	(1,419)
Decrease in fair value from 20% adverse change	(4,190)	(2,918)
Decrease in fair value from 30% adverse change	(6,067)	(4,475)
Discount Rate:		
Decrease in fair value from 10% adverse change	(1,216)	(2,345)
Decrease in fair value from 20% adverse change	(2,362)	(4,532)
Decrease in fair value from 30% adverse change	(3,443)	(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 and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Change in fair value of mortgage servicing rights	\$ (9,755)	\$ (5,445)	\$ (26,128)	\$ 4,127
Gain on sale of mortgage servicing rights	—	—	864	—
Realized and unrealized gains (losses) from hedging instruments	—	253	—	(1,445)
(Loss) gain on mortgage servicing rights, net	\$ (9,755)	\$ (5,192)	\$ (25,264)	\$ 2,682

Servicing fees, net is comprised of the following for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Contractual servicing fees	\$ 3,723	\$ 11,458	\$ 11,803	\$ 34,322
Late and ancillary fees	45	182	137	500
Subservicing and other costs	(303)	(1,516)	(1,970)	(5,377)
Servicing fees, net	\$ 3,465	\$ 10,124	\$ 9,970	\$ 29,445

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 other liabilities, respectively, in the accompanying consolidated balance sheets.

The Company has four 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. 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 no financing leases at September 30, 2019.

During the three and nine months ended September 30, 2019, cash paid for operating leases was \$1.2 million and \$3.4 million, respectively, while total operating lease expense was \$1.1 million and \$3.0 million, respectively. Operating lease expense 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 September 30, 2019:

<u>Lease Assets and Liabilities</u>	<u>Classification</u>	<u>September 30, 2019</u>
Assets		
Operating lease ROU assets	Other assets	\$ 18,131
Liabilities		
Operating lease liabilities	Other liabilities	\$ 21,653
Weighted average remaining lease term		4.85
Weighted average discount rate		4.8 %

The following table presents the maturity of the Company's operating lease liabilities as of September 30, 2019

Remainder of 2019	\$ 1,325
Year 2020	5,138
Year 2021	4,593
Year 2022	4,721
Year 2023	4,867
Year 2024	3,729
Total lease commitments	<u>24,373</u>
Less: imputed interest	<u>(2,720)</u>
Total operating lease liability	<u>\$ 21,653</u>

As of September 30, 2019, the Company had no additional operating or finance leases that had not yet commenced.

Note 5.—Goodwill and Intangible Assets

In the first quarter of 2015, the Company acquired CCM and recorded \$104.6 million of goodwill and intangible assets of \$33.1 million. The Company reviewed its goodwill and intangible assets for impairment at least annually as of December 31 or more frequently if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit that has goodwill is less than its carrying value. As previously disclosed in our quarterly and annual reports, in the second and third quarters of 2018, the Company performed impairment tests and determined that the goodwill and intangible assets were impaired. As a result, an impairment charge of \$74.7 million related to goodwill and \$13.5 million related to intangible assets was recorded during the quarter ended June 30, 2018, and an additional \$29.9 million and \$4.9 million, respectively, was recorded during the quarter ended September 30, 2018. At December 31, 2018 and September 30, 2019, the Company had no goodwill or intangible assets remaining related to the CCM acquisition. Refer to Note 5.-Goodwill and Intangible Assets of the "Notes to Consolidated Financial Statements" on IMH's report on Form 10-K for the year ended December 31, 2018 for a full description of the prior impairment.

Note 6.—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.

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
		September 30, 2019	December 31, 2018	
Short-term borrowings:				
Repurchase agreement 1	\$ 75,000	\$ 10,406	\$ 84,897	April 1, 2020
Repurchase agreement 2	50,000	48,643	47,108	May 28, 2020
Repurchase agreement 3	425,000	209,955	35,920	January 17, 2020
Repurchase agreement 4	200,000	136,912	80,141	July 30, 2020
Repurchase agreement 5 (1)	175,000	133,238	23,370	March 31, 2020
Repurchase agreement 6	600,000	432,441	12,701	June 25, 2020
Total warehouse borrowings	\$ 1,525,000	\$ 971,595	\$ 284,137	

(1) In October 2019, the maximum borrowing capacity was increased to \$300.0 million.

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. In April 2019, the maturity of the line was extended until January 31, 2020. At September 30, 2019, there were no outstanding borrowings under the FHLMC and GNMA Financing and approximately \$24.0 million was available for borrowing.

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 8.—Fair Value of Financial Instruments. The following table shows the remaining principal balance and fair value of Junior Subordinated Notes issued as of September 30, 2019 and December 31, 2018:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Junior Subordinated Notes (1)	\$ 62,000	\$ 62,000
Fair value adjustment	(18,423)	(17,144)
Total Junior Subordinated Notes	<u>\$ 43,577</u>	<u>\$ 44,856</u>

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

Note 7.—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 September 30, 2019 and December 31, 2018:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Securitized mortgage collateral	\$ 2,783,256	\$ 3,157,071
Real estate owned (REO), at net realizable value (NRV)	11,861	8,519
Total securitized mortgage trust assets	<u>\$ 2,795,117</u>	<u>\$ 3,165,590</u>

Securitized Mortgage Trust Liabilities

Securitized mortgage trust liabilities, which are recorded at their estimated fair value, are comprised of the following at September 30, 2019 and December 31, 2018:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Securitized mortgage borrowings	\$ 2,777,872	\$ 3,148,215

Changes in fair value of net trust assets, including trust REO losses, are comprised of the following for the three and nine months ended September 30, 2019 and 2018:

	<u>For the Three Months Ended</u> <u>September 30,</u>		<u>For the Nine Months Ended</u> <u>September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Change in fair value of net trust assets, excluding REO	\$ 1,025	\$ (666)	\$ (2,018)	\$ (3,190)
Losses from REO	(2,749)	(649)	(3,848)	(46)
Change in fair value of net trust assets, including trust REO losses	<u>\$ (1,724)</u>	<u>\$ (1,315)</u>	<u>\$ (5,866)</u>	<u>\$ (3,236)</u>

Note 8.—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:

	September 30, 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
Assets								
Cash and cash equivalents	\$ 24,115	\$ 24,115	\$ —	\$ —	\$ 23,200	\$ 23,200	\$ —	\$ —
Restricted cash	13,057	13,057	—	—	6,989	6,989	—	—
Mortgage loans held-for-sale	1,038,942	—	1,038,942	—	353,601	—	353,601	—
Mortgage servicing rights	40,827	—	—	40,827	64,728	—	—	64,728
Derivative assets, lending, net (1)	9,435	—	512	8,923	3,351	—	—	3,351
Mortgage-backed securities (1)	10,482	—	10,482	—	1,000	—	1,000	—
Securitized mortgage collateral	2,783,256	—	—	2,783,256	3,157,071	—	—	3,157,071
Liabilities								
Warehouse borrowings	\$ 971,595	\$ —	\$ 971,595	\$ —	\$ 284,137	\$ —	\$ 284,137	\$ —
Convertible notes	24,993	—	—	24,993	24,985	—	—	24,985
Long-term debt	43,577	—	—	43,577	44,856	—	—	44,856
Securitized mortgage borrowings	2,777,872	—	—	2,777,872	3,148,215	—	—	3,148,215
Derivative liabilities, lending, net (2)	—	—	—	—	683	—	683	—

(1) Included in other assets in the accompanying consolidated balance sheets.

(2) Included in other liabilities in the accompanying consolidated balance sheets.

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 bonds are collateralized by Alt-A (non-conforming) residential and commercial loans and have limited or no market activity. 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 mortgage servicing rights, mortgage loans held-for-sale, mortgage-backed securities, securitized mortgage collateral and borrowings, long-term debt and derivative assets and liabilities.

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 due to the short duration to maturity.

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 73% and 99% and 90% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at September 30, 2019 and December 31, 2018.

Recurring Fair Value Measurements

The Company assesses its 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, Level 2 or Level 3 classified instruments during the nine months ended September 30, 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 September 30, 2019 and December 31, 2018, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Mortgage loans held-for-sale	\$ —	\$ 1,038,942	\$ —	\$ —	\$ 353,601	\$ —
Mortgage-backed securities	—	10,482	—	—	1,000	—
Derivative assets, lending, net (1)	—	512	8,923	—	—	3,351
Mortgage servicing rights	—	—	40,827	—	—	64,728
Securitized mortgage collateral	—	—	2,783,256	—	—	3,157,071
Total assets at fair value	\$ —	\$ 1,049,936	\$ 2,833,006	\$ —	\$ 354,601	\$ 3,225,150
Liabilities						
Securitized mortgage borrowings	\$ —	\$ —	\$ 2,777,872	\$ —	\$ —	\$ 3,148,215
Long-term debt	—	—	43,577	—	—	44,856
Derivative liabilities, lending, net (2)	—	—	—	—	683	—
Total liabilities at fair value	\$ —	\$ —	\$ 2,821,449	\$ —	\$ 683	\$ 3,193,071

- (1) At September 30, 2019, derivative assets, lending, net included \$8.9 million in IRLCs and \$512 thousand in hedging instruments, respectively, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2018, derivative assets, lending, net included \$3.4 million in IRLCs and is included in other assets in the accompanying consolidated balance sheets.
- (2) At 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 September 30, 2019 and 2018:

	Level 3 Recurring Fair Value Measurements				
	For the Three Months Ended September 30, 2019				
	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt
Fair value, June 30, 2019	\$ 2,920,849	\$ (2,915,156)	\$ 50,346	\$ 8,449	\$ (43,910)
Total gains (losses) included in earnings:					
Interest income (1)	1,751	—	—	—	—
Interest expense (1)	—	(6,748)	—	—	(115)
Change in fair value	6,934	(5,909)	(9,755)	474	304
Change in instrument specific credit risk	—	—	—	—	144 (2)
Total gains (losses) included in earnings	8,685	(12,657)	(9,755)	474	333
Transfers in and/or out of Level 3	—	—	—	—	—
Purchases, issuances and settlements:					
Purchases	—	—	—	—	—
Issuances	—	—	223	—	—
Settlements	(146,278)	149,941	13	—	—
Fair value, September 30, 2019	\$ 2,783,256	\$ (2,777,872)	\$ 40,827	\$ 8,923	\$ (43,577)
Unrealized (losses) gains still held (3)	\$ (235,050)	\$ 264,168	\$ 40,827	\$ 8,923	\$ 18,423

- (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 \$2.6 million for three months ended September 30, 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 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 earnings (loss).

[Table of Contents](#)

- (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 September 30, 2019.

Level 3 Recurring Fair Value Measurements					
For the Three Months Ended September 30, 2018					
	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long- term debt
Fair value, June 30, 2018	\$ 3,401,037	\$ (3,393,721)	\$ 180,733	\$ 4,538	\$ (45,787)
Total gains (losses) included in earnings:					
Interest income (1)	7,097	—	—	—	—
Interest expense (1)	—	(13,487)	—	—	(191)
Change in fair value	59,727	(60,393)	(5,445)	(720)	(785)
Change in instrument specific credit risk	—	—	—	—	25 (2)
Total gains (losses) included in earnings	66,824	(73,880)	(5,445)	(720)	(951)
Transfers in and/or out of Level 3	—	—	—	—	—
Purchases, issuances and settlements:					
Purchases	—	—	—	—	—
Issuances	—	—	5,717	—	—
Settlements	(165,669)	171,359	—	—	—
Fair value, September 30, 2018	<u>\$ 3,302,192</u>	<u>\$ (3,296,242)</u>	<u>\$ 181,005</u>	<u>\$ 3,818</u>	<u>\$ (46,738)</u>
Unrealized (losses) gains still held (3)	<u>\$ (403,516)</u>	<u>\$ 402,084</u>	<u>\$ 181,005</u>	<u>\$ 3,818</u>	<u>\$ 15,262</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 \$1.9 million for three months ended September 30, 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 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 earnings (loss).
- (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 September 30, 2018.

[Table of Contents](#)

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 nine months ended September 30, 2019:

Level 3 Recurring Fair Value Measurements For the Nine Months Ended September 30, 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)	11,957	—	—	—	—
Interest expense (1)	—	(30,499)	—	—	(338)
Change in fair value	68,576	(70,594)	(26,128)	5,572	958
Change in instrument specific credit risk	—	—	—	—	659 (2)
Total gains (losses) included in earnings	80,533	(101,093)	(26,128)	5,572	1,279
Transfers in and/or out of Level 3	—	—	—	—	—
Purchases, issuances and settlements:					
Purchases	—	—	—	—	—
Issuances	—	—	2,222	—	—
Settlements	(454,348)	471,436	5	—	—
Fair value, September 30, 2019	<u>\$ 2,783,256</u>	<u>\$ (2,777,872)</u>	<u>\$ 40,827</u>	<u>\$ 8,923</u>	<u>\$ (43,577)</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 \$6.7 million for the nine months ended September 30, 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 earnings (loss) 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 earnings (loss) as required by the adoption of ASU 2016-01 on January 1, 2018.

Level 3 Recurring Fair Value Measurements For the Nine Months Ended September 30, 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)	24,071	—	—	—	—	—
Interest expense (1)	—	(50,684)	—	—	(513)	—
Change in fair value	39,658	(42,848)	4,127	(539)	697	—
Change in instrument specific credit risk	—	—	—	—	(1,940)(2)	—
Total gains (losses) included in earnings	63,729	(93,532)	4,127	(539)	(1,756)	—
Transfers in and/or out of Level 3	—	—	—	—	—	—
Purchases, issuances and settlements:						
Purchases	—	—	—	—	—	—
Issuances	—	—	22,473	—	—	—
Settlements	(423,545)	450,555	—	—	—	554
Fair value, September 30, 2018	<u>\$ 3,302,192</u>	<u>\$ (3,296,242)</u>	<u>\$ 181,005</u>	<u>\$ 3,818</u>	<u>\$ (46,738)</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 \$5.9 million for the nine months ended September 30, 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 earnings (loss) 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 earnings (loss) as required by the adoption of ASU 2016-01 on January 1, 2018.

[Table of Contents](#)

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 September 30, 2019:

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
Assets and liabilities backed by real estate					
Securitized mortgage collateral, and	\$ 2,783,256	DCF	Prepayment rates	3.4 - 29.5 %	7.0 %
Securitized mortgage borrowings	(2,777,872)		Default rates	0.01 - 4.1 %	1.6 %
			Loss severities	4.4 - 99.9 %	47.3 %
			Discount rates	2.5 - 25.0 %	3.6 %
Other assets and liabilities					
Mortgage servicing rights	\$ 40,827	DCF	Discount rate	9.0 - 13.0 %	9.2 %
			Prepayment rates	8.0 - 86.6 %	18.2 %
Derivative assets - IRLCs, net	8,923	Market pricing	Pull-through rate	9.0 - 99.9 %	79.5 %
Long-term debt	(43,577)	DCF	Discount rate	9.0 %	9.0 %

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.

The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three months ended September 30, 2019 and 2018:

	Recurring Fair Value Measurements						
	Changes in Fair Value Included in Net Earnings (Loss)						
	For the Three Months Ended September 30, 2019						
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on Sale of Loans, net	Total
Securitized mortgage collateral	\$ 1,751	\$ —	\$ 6,934	\$ —	\$ —	\$ —	\$ 8,685
Securitized mortgage borrowings	—	(6,748)	(5,909)	—	—	—	(12,657)
Long-term debt	—	(115)	—	304	—	—	189
Mortgage servicing rights (2)	—	—	—	—	(9,755)	—	(9,755)
Mortgage loans held-for-sale	—	—	—	—	—	9,275	9,275
Derivative assets — IRLCs	—	—	—	—	—	474	474
Derivative liabilities — Hedging Instruments	—	—	—	—	—	1,728	1,728
Total	\$ 1,751	\$ (6,863)	\$ 1,025	\$ 304	\$ (9,755)	\$ 11,477	\$ (2,061)

(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 earnings (loss).

Recurring Fair Value Measurements							
Changes in Fair Value Included in Net (Loss) Earnings							
For the Three Months Ended September 30, 2018							
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on Sale of Loans, net	Total
Securitized mortgage collateral	\$ 7,097	\$ —	\$ 59,727	\$ —	\$ —	\$ —	\$ 66,824
Securitized mortgage borrowings	—	(13,487)	(60,393)	—	—	—	(73,880)
Long-term debt	—	(191)	—	(785)	—	—	(976)
Mortgage servicing rights (2)	—	—	—	—	(5,445)	—	(5,445)
Mortgage loans held-for-sale	—	—	—	—	—	(6,901)	(6,901)
Derivative assets — IRLCs	—	—	—	—	—	(720)	(720)
Derivative liabilities — Hedging Instruments	—	—	—	—	(331)	1,044	713
Total	\$ 7,097	\$ (13,678)	\$ (666)	\$ (785)	\$ (5,776)	\$ (6,577)	\$ (20,385)

- (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 MSR, net in the consolidated statements of operations and comprehensive earnings (loss).

The following tables present the changes in recurring fair value measurements included in net (loss) earnings for the nine months ended September 30, 2019 and 2018:

Recurring Fair Value Measurements							
Changes in Fair Value Included in Net (Loss) Earnings							
For the Nine Months Ended September 30, 2019							
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on Sale of Loans, net	Total
Securitized mortgage collateral	\$ 11,957	\$ —	\$ 68,576	\$ —	\$ —	\$ —	\$ 80,533
Securitized mortgage borrowings	—	(30,499)	(70,594)	—	—	—	(101,093)
Long-term debt	—	(338)	—	958	—	—	620
Mortgage servicing rights (2)	—	—	—	—	(26,128)	—	(26,128)
Mortgage loans held-for-sale	—	—	—	—	—	17,609	17,609
Derivative assets — IRLCs	—	—	—	—	—	5,572	5,572
Derivative liabilities — Hedging Instruments	—	—	—	—	—	1,196	1,196
Total	\$ 11,957	\$ (30,837)	\$ (2,018)⁽³⁾	\$ 958	\$ (26,128)	\$ 24,377	\$ (21,691)

- (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 MSR, net in the consolidated statements of operations and comprehensive earnings (loss).
- (3) For the nine months ended September 30, 2019, change in the fair value of net trust assets, excluding REO was \$2.0 million.

Recurring Fair Value Measurements							
Changes in Fair Value Included in Net (Loss) Earnings							
For the Nine Months Ended September 30, 2018							
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on Sale of Loans, net	Total
Securitized mortgage collateral	\$ 24,071	\$ —	\$ 39,658	\$ —	\$ —	\$ —	\$ 63,729
Securitized mortgage borrowings	—	(50,684)	(42,848)	—	—	—	(93,532)
Long-term debt	—	(513)	—	697	—	—	184
Mortgage servicing rights (2)	—	—	—	—	4,127	—	4,127
Mortgage loans held-for-sale	—	—	—	—	—	(12,182)	(12,182)
Derivative assets — IRLCs	—	—	—	—	—	(539)	(539)
Derivative liabilities — Hedging Instruments	—	—	—	—	(85)	198	113
Total	\$ 24,071	\$ (51,197)	\$ (3,190)⁽³⁾	\$ 697	\$ 4,042	\$ (12,523)	\$ (38,100)

- (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 MSR, net in the consolidated statements of operations and comprehensive earnings (loss).
- (3) For the nine months ended September 30, 2018, change in the fair value of net trust assets, excluding REO was \$3.2 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 MSR arising from its mortgage loan origination operation at estimated fair value. The fair value of MSR 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 September 30, 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 September 30, 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 September 30, 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 September 30, 2019, securitized mortgage collateral had UPB of \$3.0 billion, compared to an estimated fair value on the Company's balance sheet of \$2.8 billion. The aggregate UPB exceeded the fair value by \$0.2 billion at September 30, 2019. As of September 30, 2019, the UPB of loans 90 days or more past due was \$0.4 billion compared to an estimated fair value of \$0.1 billion. The aggregate UPB of loans 90 days or more past due exceeded the fair value by \$0.3 billion at September 30, 2019. Securitized mortgage collateral is considered a Level 3 measurement at September 30, 2019.

[Table of Contents](#)

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 September 30, 2019, securitized mortgage borrowings had an outstanding principal balance of \$3.0 billion, net of \$2.2 billion in bond losses, compared to an estimated fair value of \$2.8 billion. The aggregate outstanding principal balance exceeded the fair value by \$0.2 billion at September 30, 2019. Securitized mortgage borrowings are considered a Level 3 measurement at September 30, 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 previous settlements with trust preferred debt holders and discounted cash flow analysis. As of September 30, 2019, long-term debt had UPB of \$62.0 million compared to an estimated fair value of \$43.6 million. The aggregate UPB exceeded the fair value by \$18.4 million at September 30, 2019. The long-term debt is considered a Level 3 measurement at September 30, 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 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 September 30, 2019.

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 September 30, 2019.

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

	Notional Amount		Total Gains (Losses) For the Three Months Ended		Total Gains (Losses) For the Nine Months Ended	
	September 30, 2019	December 31, 2018	September 30,		September 30,	
			2019	2018	2019	2018
Derivative – IRLC's (1)	\$ 502,522	\$ 183,595	\$ 474	\$ (720)	\$ 5,572	\$ (539)
Derivative – TBA MBS (2)	616,893	88,018	(2,497)	759	(6,383)	10,034
Derivative – Forward delivery loan commitment	46,486	150,000	—	—	—	—

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

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 measured using nonrecurring fair value measurements at September 30, 2019 and 2018, respectively:

	Nonrecurring Fair Value Measurements			Total Losses (1)	Total Losses (1)
	September 30, 2019			For the Three Months Ended	For the Nine Months Ended
	Level 1	Level 2	Level 3	September 30, 2019	September 30, 2019
REO (2)	\$ —	\$ 12,131	\$ —	\$ (2,749)	\$ (3,848)

- (1) Total losses reflect losses from all nonrecurring measurements during the period.
(2) At September 30, 2019, \$11.9 million of REO was within the securitized mortgage trust assets. Balance represents REO at September 30, 2019, which have been impaired subsequent to foreclosure. For the three and nine months ended September 30, 2019, the Company recorded \$2.7 million and \$3.8 million, respectively, losses related to changes in NRV of properties. Losses represent impairment of the NRV attributable to an increase in state specific loss severities on properties held during the period which resulted in a decrease to NRV.

	Nonrecurring Fair Value Measurements			Total Losses (1)	Total Losses (1)
	September 30, 2018			For the Three Months Ended	For the Nine Months Ended
	Level 1	Level 2	Level 3	September 30, 2018	September 30, 2018
REO (2)	\$ —	\$ 9,593	\$ —	\$ (649)	\$ (46)
Intangible assets	—	—	380	(4,897)	(18,347)
Goodwill	—	—	—	(29,925)	(104,587)

- (1) Total losses reflect losses from all nonrecurring measurements during the period.
(2) Balance represents REO at September 30, 2018, which has been impaired subsequent to foreclosure. For the three and nine months ended September 30, 2018, the Company recorded \$649 thousand and \$46 thousand, respectively, in losses related to changes in NRV of properties. Losses represent impairment of the NRV attributable to an increase in state specific loss severities on properties held during the period which resulted in a decrease 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 September 30, 2019.

Intangible assets— The methodology used to determine the fair value as well as measure potential impairment of trademarks includes assumptions with inherent uncertainty, including projected sales volumes and related projected revenues, long-term growth rates, royalty rates that a market participant might assume and judgments regarding the factors to develop an applied discount rate. The carrying value of intangible assets is at risk of impairment if future projected usage, revenues or long-term growth rates are lower than those currently projected, or if factors used in the development of a discount rate result in the application of a higher discount rate. As the results of our testing indicated that the carrying values of certain of these assets would not be recoverable, we recorded intangible asset impairment of approximately \$13.5 million during the quarter ended June 30, 2018. The intangible assets were considered Level 3 nonrecurring fair value measurements at June 30, 2018. Subsequent to June 30, 2018, an additional \$4.9 million of intangible asset impairment was recorded and as of December 31, 2018 and September 30, 2019, the Company had no intangible assets remaining.

Goodwill— For goodwill, the determination of fair value of a reporting unit involves, among other things, application of various approaches, which include developing forecasts of future cash flows with a number of assumptions including but not limited to, origination and margin projections, growth and terminal value projections, and judgements regarding the factors to develop discount rates and cost of capital. The Company reviews its goodwill for impairment at

least annually as of December 31 or more frequently if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit that has goodwill is less than its carrying value. The Company compared the fair value of its net assets using three methodologies (two income approaches and one market approach), to the carrying value and determined that its goodwill was impaired. As a result, the Company recorded an impairment charge of \$74.7 million related to goodwill during the quarter ended June 30, 2018. Goodwill was considered a Level 3 nonrecurring fair value measurement at September 30, 2018. During the quarter ended September 30, 2018, an additional \$29.9 million of goodwill impairment was recorded and as of December 31, 2018 and September 30, 2019, the Company had no goodwill remaining.

Note 9.—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, and temporary differences are not. The estimated annual effective tax rate represents the Company's 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 benefit of \$230 thousand and \$62 thousand for the three and nine months ended September 30, 2019, respectively. Tax benefit for the three and nine months ended September 30, 2019 is primarily the result of 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 partially offset by state taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes.

The Company recorded income tax expense of \$12 thousand and \$4.3 million for the three and nine months ended September 30, 2018, respectively. Tax expense for the three months ended September 30, 2018 is primarily the result of state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT. Tax expense for the nine months ended September 30, 2018 is primarily the result of an increase in the valuation allowance eliminating the net deferred tax asset, state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT.

At September 30, 2019, the Company had accumulated other comprehensive earnings of \$24.4 million, which was net of tax of \$11.2 million.

As of December 31, 2018, the Company had estimated federal net operating loss (NOL) carryforwards of approximately \$564.6 million. Federal NOL 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 hold the NOL.

Note 10.—Reconciliation of Earnings (Loss) Per Share

Basic net earnings (loss) per share is computed by dividing net earnings (loss) available to common stockholders (numerator) by the weighted average number of vested common shares outstanding during the period (denominator). Diluted net earnings (loss) 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		For the Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Numerator for basic earnings (loss) per share:				
Net earnings (loss)	\$ 1,439	\$ (45,445)	\$ (7,300)	\$ (138,970)
Numerator for diluted earnings (loss) per share:				
Net earnings (loss)	\$ 1,439	\$ (45,445)	\$ (7,300)	\$ (138,970)
Interest expense attributable to convertible notes (1)	—	—	—	—
Net earnings (loss) plus interest expense attributable to convertible notes	\$ 1,439	\$ (45,445)	\$ (7,300)	\$ (138,970)
Denominator for basic earnings (loss) per share (2):				
Basic weighted average common shares outstanding during the period	21,195	21,071	21,179	20,996
Denominator for diluted earnings (loss) per share (2):				
Basic weighted average common shares outstanding during the period	21,195	21,071	21,179	20,996
Net effect of dilutive convertible notes (1)	—	—	—	—
Net effect of dilutive stock options and DSU's	64	—	—	—
Diluted weighted average common shares	21,259	21,071	21,179	20,996
Net earnings (loss) per common share:				
Basic	\$ 0.07	\$ (2.16)	\$ (0.34)	\$ (6.62)
Diluted	\$ 0.07	\$ (2.16)	\$ (0.34)	\$ (6.62)

(1) Adjustments to diluted earnings (loss) per share for the convertible notes for the three and nine months ended September 30, 2019 and 2018 were excluded from the calculation, as they were anti-dilutive.

(2) Number of shares presented in thousands.

For the three months ended September 30, 2019, there were 1.2 million shares underlying Convertible Notes and 477 thousand stock options outstanding which were anti-dilutive. For the nine months ended September 30, 2019, there were 1.2 million shares underlying Convertible Notes and 1.0 million stock options outstanding which were anti-dilutive. For the three and nine months ended September 30, 2018, there were 1.2 million shares underlying Convertible Notes and 1.2 million stock options outstanding which were anti-dilutive.

Note 11.—Segment Reporting

The Company has three primary reporting segments which include mortgage lending, real estate services and long-term mortgage portfolio. Unallocated corporate and other administrative costs are presented in Corporate and other.

Statement of Operations Items for the	Mortgage	Real Estate	Long-term	Corporate	
Three Months Ended September 30, 2019:	Lending	Services	Portfolio	and other	Consolidated
Gain on sale of loans, net	\$ 31,073	\$ —	\$ —	\$ —	\$ 31,073
Servicing fees, net	3,465	—	—	—	3,465
Loss on mortgage servicing rights, net	(9,755)	—	—	—	(9,755)
Real estate services fees, net	—	921	—	—	921
Other revenue	—	—	68	3	71
Other operating expense	(21,782)	(341)	(131)	(3,382)	(25,636)
Other income (expense)	1,445	—	73	(448)	1,070
Net earnings (loss) before income tax expense	\$ 4,446	\$ 580	\$ 10	\$ (3,827)	\$ 1,209
Income tax benefit					(230)
Net earnings					\$ 1,439

Statement of Operations Items for the	Mortgage	Real Estate	Long-term	Corporate	
Three Months Ended September 30, 2018:	Lending	Services	Portfolio	and other	Consolidated
Gain on sale of loans, net	\$ 13,673	\$ —	\$ —	\$ —	\$ 13,673
Servicing fees, net	10,124	—	—	—	10,124
Loss on mortgage servicing rights, net	(5,192)	—	—	—	(5,192)
Real estate services fees, net	—	711	—	—	711
Other revenue	—	—	195	(124)	71
Intangible asset impairment	(4,897)	—	—	—	(4,897)
Goodwill impairment	(29,925)	—	—	—	(29,925)
Other operating expense	(21,452)	(372)	(146)	(6,339)	(28,309)
Other income (expense)	133	—	(1,363)	(459)	(1,689)
Net (loss) earnings before income tax expense	\$ (37,536)	\$ 339	\$ (1,314)	\$ (6,922)	\$ (45,433)
Income tax expense					12
Net loss					\$ (45,445)

Statement of Operations Items for the	Mortgage	Real Estate	Long-term	Corporate	
Nine Months Ended September 30, 2019:	Lending	Services	Portfolio	and other	Consolidated
Gain on sale of loans, net	\$ 72,759	\$ —	\$ —	\$ —	\$ 72,759
Servicing fees, net	9,970	—	—	—	9,970
Loss on mortgage servicing rights, net	(25,264)	—	—	—	(25,264)
Real estate services fees, net	—	2,534	—	—	2,534
Other revenue	36	—	166	56	258
Other operating expense	(56,738)	(1,073)	(381)	(11,348)	(69,540)
Other income (expense)	4,765	—	(1,487)	(1,357)	1,921
Net earnings (loss) before income tax expense	\$ 5,528	\$ 1,461	\$ (1,702)	\$ (12,649)	(7,362)
Income tax benefit					(62)
Net loss					\$ (7,300)

Statement of Operations Items for the Nine Months Ended September 30, 2018:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 53,896	\$ —	\$ —	\$ —	\$ 53,896
Servicing fees, net	29,445	—	—	—	29,445
Gain on mortgage servicing rights, net	2,682	—	—	—	2,682
Real estate services fees, net	—	3,134	—	—	3,134
Other revenue	—	—	381	(103)	278
Intangible asset impairment	(18,347)	—	—	—	(18,347)
Goodwill impairment	(104,587)	—	—	—	(104,587)
Other operating expense	(81,985)	(1,601)	(322)	(16,673)	(100,581)
Other income (expense)	771	—	10	(1,343)	(562)
Net (loss) earnings before income tax expense	\$ (118,125)	\$ 1,533	\$ 69	\$ (18,119)	\$ (134,642)
Income tax expense					4,328
Net loss					\$ (138,970)

Balance Sheet Items as of:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Total Assets at September 30, 2019 (1)	\$ 1,156,897	\$ 4	\$ 2,795,182	\$ 23,929	\$ 3,976,012
Total Assets at December 31, 2018 (1)	\$ 475,734	\$ 126	\$ 3,165,669	\$ 6,414	\$ 3,647,943

(1) All segment asset balances exclude intercompany balances.

Note 12.—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.

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.

[Table of Contents](#)

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:

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 October 2, 2019, the appellate court held oral argument for all appeals in the matter.

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 full 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 as well as refunds of premiums to investors for early payoffs on loans sold.

The following table summarizes the repurchase reserve activity, within other liabilities on the consolidated balance sheets, related to previously sold loans for the nine months ended September 30, 2019 and year ended December 31, 2018:

	September 30, 2019	December 31, 2018
Beginning balance	\$ 7,657	\$ 6,020
Provision for repurchases	3,618	5,074
Settlements	(2,276)	(3,437)
Total repurchase reserve	<u>\$ 8,999</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 8. — Fair Value of Financial Instruments for more information.

Note 13.—Equity and Share Based Payments

Redeemable Preferred Stock

At September 30, 2019, the Company had outstanding \$67.4 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 \$15.6 million, or approximately \$23.44 per outstanding share of Preferred B, increasing the liquidation value to approximately \$48.44 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 nine months ended September 30, 2019:

	Number of Shares	Weighted- Average Exercise Price
Options outstanding at December 31, 2018	1,001,469	\$ 13.16
Options granted	592,500	3.66
Options exercised	(103,351)	3.34
Options forfeited/cancelled	(457,448)	12.99
Options outstanding at September 30, 2019	<u>1,033,170</u>	8.78
Options exercisable at September 30, 2019	<u>435,967</u>	\$ 14.52

As of September 30, 2019, there was approximately \$1.0 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 2.1 years.

[Table of Contents](#)

The following table summarizes activity, pricing and other information for the Company's restricted stock units (RSU's) for the nine months ended September 30, 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 September 30, 2019	<u>75,000</u>	<u>\$ 3.75</u>

As of September 30, 2019, there was approximately \$226 thousand of total unrecognized compensation cost related to the RSU compensation arrangements granted under the plan. That cost is expected to be recognized over the remaining weighted average period of 2.4 years.

The following table summarizes activity, pricing and other information for the Company's deferred stock units (DSU's) for the nine months ended September 30, 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 September 30, 2019	<u>54,500</u>	<u>\$ 6.61</u>

As of September 30, 2019, there was approximately \$111 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. That cost is expected to be recognized over the remaining weighted average period of 2.1 years.

The following table summarizes activity, pricing and other information for the Company's restricted stock awards (RSA's) for the nine months ended September 30, 2019:

	Number of Shares	Weighted- Average Grant Date Fair Value
RSA's outstanding at December 31, 2018	—	\$ —
RSA's granted	35,069	3.57
RSA's issued	—	—
RSA's forfeited/cancelled	—	—
RSA's outstanding at September 30, 2019	<u>35,069</u>	<u>\$ 3.57</u>

As of September 30, 2019, there was no unrecognized compensation cost related to the RSA compensation arrangements granted under the plan as the amounts were accrued as part of an executive stay bonus in accordance with the executive's employment agreement.

Note 14.—Subsequent Events

On October 23, 2019, the Company adopted a Tax Benefits Preservation Rights Agreement (Rights Plan) to help preserve the value of certain deferred tax benefits, including those generated by net operating losses (collectively, Tax Benefits). In general, the Company may “carry forward” net operating losses in certain circumstances to offset current and future taxable income, which will reduce federal and state income tax liability, subject to certain requirements and restrictions. The Company’s ability to use these Tax Benefits would be substantially limited and impaired if it were to experience an “ownership change” for purposes of Section 382 of the Internal Revenue Code of 1986, as amended (the Code) and the Treasury Regulations promulgated thereunder. Generally, the Company will experience an “ownership change” if the percentage of the shares of Common Stock owned by one or more “five-percent shareholders” increases by more than 50 percentage points over the lowest percentage of shares of Common Stock owned by such stockholder at any time during the prior three year on a rolling basis. As such, the Rights Plan has a 4.99% “trigger” threshold that is intended to act as a deterrent to any person or entity seeking to acquire 4.99% or more of the outstanding Common Stock without the prior approval of the Board. The Rights Plan also has certain ancillary anti takeover effects. The rights accompany each share of common stock of the Company and are evidenced by ownership of common stock. The rights are not exercisable except upon the occurrence of certain change of control events. Once triggered, the rights would entitle the stockholders, other than a person qualifying as an “Acquiring Person” pursuant to the rights plan, to certain “flip in”, “flip over” and exchange rights. The rights issued under the Rights Plan may be redeemed by the board of directors at a nominal redemption price of \$0.001 per right, and the board of directors may amend the rights in any respect until the rights are triggered. The Rights Plan will expire at the Company’s 2020 annual meeting of stockholders if the stockholders do not approve the Rights Plan. Otherwise, the Rights Plan will generally expire on the three-year anniversary of its adoption.

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; 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 and satisfy financial covenants; 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

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

Selected Financial Results

	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenues:					
Gain on sale of loans, net	\$ 31,073	\$ 29,472	\$ 13,673	\$ 72,759	\$ 53,896
Servicing fees, net	3,465	3,536	10,124	9,970	29,445
(Loss) gain on mortgage servicing rights, net	(9,755)	(9,887)	(5,192)	(25,264)	2,682
Real estate services fees, net	921	807	711	2,534	3,134
Other	71	187	71	258	278
Total revenues	25,775	24,115	19,387	60,257	89,435
Expenses:					
Personnel expense	18,725	14,339	16,061	47,186	50,481
Business promotion	1,292	2,013	4,351	6,228	23,082
General, administrative and other	5,619	5,281	7,897	16,126	27,018
Intangible asset impairment	—	—	4,897	—	18,347
Goodwill impairment	—	—	29,925	—	104,587
Total expenses	25,636	21,633	63,131	69,540	223,515
Operating income (loss):	139	2,482	(43,744)	(9,283)	(134,080)
Other income (expense):					
Net interest income	2,490	2,543	411	6,829	1,977
Change in fair value of long-term debt	304	388	(785)	958	697
Change in fair value of net trust assets	(1,724)	(1,459)	(1,315)	(5,866)	(3,236)
Total other income (expense)	1,070	1,472	(1,689)	1,921	(562)
Earnings (loss) before income taxes	1,209	3,954	(45,433)	(7,362)	(134,642)
Income tax (benefit) expense	(230)	81	12	(62)	4,328
Net earnings (loss)	\$ 1,439	\$ 3,873	\$ (45,445)	\$ (7,300)	\$ (138,970)
Other comprehensive earnings (loss):					
Change in fair value of mortgage-backed securities	107	(7)	—	120	—
Change in fair value of instrument specific credit risk	72	267	25	436	(1,940)
Total comprehensive earnings (loss)	\$ 1,618	\$ 4,133	\$ (45,420)	\$ (6,744)	\$ (140,910)
Diluted weighted average common shares	21,259	21,189	21,071	21,179	20,996
Diluted earnings (loss) per share	\$ 0.07	\$ 0.18	\$ (2.16)	\$ (0.34)	\$ (6.62)

Status of Operations

Summary Highlights

- During the third quarter of 2019, total originations increased 99% to \$1.6 billion as compared to \$821.4 million in the second quarter of 2019 and increased 92% as compared to \$853.2 million in the third quarter of 2018.
- NonQM mortgage origination volumes were \$257.4 million in the third quarter of 2019 compared to \$315.1 million in the second quarter of 2019 and \$349.2 million in the third quarter of 2018.
- Mortgage servicing portfolio decreased to \$5.4 billion at September 30, 2019 as compared to \$6.2 billion at December 31, 2018 and \$16.8 billion at September 30, 2018.
- Mortgage servicing rights (MSRs) decreased to \$40.8 million at September 30, 2019 as compared to \$50.4 million at June 30, 2019 and \$64.7 million at December 31, 2018.

[Table of Contents](#)

- Net earnings were \$1.4 million for the three months ended September 30, 2019 as compared to net earnings of \$3.9 million for the three months ended June 30, 2019 and net losses of \$45.4 million for the three months ended September 30, 2018.
- Gain on sale of loans increased to \$31.1 million for the three months ended September 30, 2019 as compared to \$29.5 million for the three months ended June 30, 2019 and \$13.7 million for the three months ended September 30, 2018.
- Servicing fees, net were flat at \$3.5 million for the three months ended September 30, 2019 as compared to \$3.5 million for the three months ended June 30, 2019 and decreased from \$10.1 million for the three months ended September 30, 2018.
- Operating expenses (personnel, business promotion and general, administrative and other) for the three months ended September 30, 2019 increased to \$25.6 million from \$21.6 million for the quarter ended June 30, 2019 but decreased from \$28.3 million for the quarter ended September 30, 2018.

For the third quarter of 2019, we reported net earnings of \$1.4 million, or \$0.07 per diluted common share, as compared to net loss of \$45.4 million, or \$2.16 per diluted common share, for the third quarter of 2018. For the third quarter of 2019, core earnings before tax (as defined below) were \$7.9 million, or \$0.37 per diluted common share, as compared to core loss before tax of \$6.8 million, or \$0.32 per diluted common share, for the third quarter of 2018.

For the nine months ended September 30, 2019, we reported net loss of \$7.3 million, or \$0.34 per diluted common share, as compared to net loss of \$139 million, or \$6.62 per diluted common share, for the nine months ended September 30, 2018. For the nine months ended September 30, 2019, core earnings before tax (as defined below) were \$14.0 million, or \$0.66 per diluted common share, as compared to core loss before tax of \$28.2 million, or \$1.34 per diluted common share, for the nine months ended September 30, 2018.

Net earnings (loss) for the third quarter of 2019 increased from the three months ended September 30, 2018 as a result of an increase in gain on sale of loans, net as well as a decrease in operating expenses and intangible asset and goodwill impairment charges partially offset by a mark-to-market decrease in fair value of our MSR. The increase in gain on sale of loans during the third quarter of 2019 was due to origination volumes increasing to \$1.6 billion, with margins of approximately 190 bps as compared to \$0.9 billion in originations in the third quarter of 2018, with margins of approximately 160 bps. The increase in margins was a result of the significant drop in mortgage interest rates during the third quarter of 2019 which led to wider gain on sale margins. The primary driver of margin expansion was an increase in our consumer direct originations, which increased to 85% of total originations during the three months ended September 30, 2019 as compared to 51% of total originations during the same period in 2018. During the third quarter of 2019, operating expenses (personnel, business promotion and general, administrative and other) decreased to \$25.6 million from \$28.3 million (excluding impairment) for the quarter ended September 30, 2018. Additionally, the Company recorded intangible asset and goodwill impairment charges of \$4.9 million and \$29.9 million in the third quarter of 2018 while no impairment charges were recorded in the third quarter of 2019.

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 (MSRs), 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 (loss) before income taxes, net earnings (loss) or diluted earnings (loss) per share (EPS) prepared in accordance with GAAP. The tables below provide a reconciliation of

[Table of Contents](#)

net earnings (loss) before tax and diluted earnings (loss) per share to non-GAAP core earnings (loss) and per share non-GAAP core earnings (loss):

(in thousands, except per share data)	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net earnings (loss) before tax:	\$ 1,209	\$ 3,954	\$ (45,433)	\$ (7,362)	\$ (134,642)
Change in fair value of mortgage servicing rights	5,264	6,920	(841)	15,853	(24,621)
Change in fair value of long-term debt	(304)	(388)	785	(958)	(697)
Change in fair value of net trust assets, including trust REO gains	1,724	1,459	1,315	5,866	3,236
Legal settlements and professional fees, for legacy matters	—	—	1,420	50	3,775
Severance	—	—	1,091	539	1,832
Intangible asset impairment	—	—	4,897	—	18,347
Goodwill impairment	—	—	29,925	—	104,587
Core earnings (loss) before tax	\$ 7,893	\$ 11,945	\$ (6,841)	\$ 13,988	\$ (28,183)
Diluted weighted average common shares	21,259	21,189	21,071	21,179	20,996
Diluted core earnings (loss) per share before tax	\$ 0.37	\$ 0.56	\$ (0.32)	\$ 0.66	\$ (1.34)
Diluted earnings (loss) per share	\$ 0.07	\$ 0.18	\$ (2.16)	\$ (0.34)	\$ (6.62)
Adjustments:					
Income tax (benefit) expense	(0.01)	—	—	—	0.21
Change in fair value of mortgage servicing rights	0.24	0.33	(0.03)	0.75	(1.17)
Change in fair value of long-term debt	(0.01)	(0.02)	0.04	(0.05)	(0.03)
Change in fair value of net trust assets, including trust REO gains	0.08	0.07	0.06	0.27	0.15
Legal settlements and professional fees, for legacy matters	—	—	0.07	—	0.18
Severance	—	—	0.05	0.03	0.09
Intangible asset impairment	—	—	0.23	—	0.87
Goodwill impairment	—	—	1.42	—	4.98
Diluted core earnings (loss) per share before tax	\$ 0.37	\$ 0.56	\$ (0.32)	\$ 0.66	\$ (1.34)

Originations by Channel:

(in millions)	For the Three Months Ended				
	September 30, 2019	June 30, 2019	% Change	September 30, 2018	% Change
Retail	\$ 1,386.1	\$ 566.5	145 %	\$ 432.7	220 %
Correspondent	57.9	52.9	9	200.6	(71)
Wholesale	192.3	202.0	(5)	219.9	(13)
Total originations	\$ 1,636.3	\$ 821.4	99 %	\$ 853.2	92 %

During the third quarter of 2019, total originations increased 99% to \$1.6 billion as compared to \$821.4 million in the second quarter of 2019 and increased 92% as compared to \$853.2 million in the third quarter of 2018. The increase in originations from the second quarter of 2019 and third quarter of 2018 was the result of the continued drop in mortgage interest rates during the third quarter of 2019.

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:

(in millions)	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2019	2018	% Change	2019	2018	% Change
NonQM	\$ 257.4	\$ 349.2	(26)%	\$ 915.8	903.5	1 %
Conventional	1,328.0	267.5	396	1,990.1	1,090.0	83
Government (1)	50.9	236.5	(78)	133.3	1,214.0	(89)
Total originations	\$ 1,636.3	\$ 853.2	92 %	\$ 3,039.2	\$ 3,207.5	(5)%

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

We continue to direct our efforts on repositioning the Company by focusing on our core NonQM lending business. With the recent decline in interest rates in the second and third quarters of 2019, our NonQM production has slipped to just 16% of production for the three months ended September 30, 2019, as compared to 38% and 41% for the three months ended June 30, 2019 and September 30, 2018. Despite this recent dip in NonQM production, we continue to build upon the momentum we have established in the higher margin alternative credit product segment of the market and have recently dedicated more resources to focus on the growth of this product in a low rate environment.

During the third quarter of 2019, the origination volume of NonQM loans decreased to \$257.4 million as compared to \$315.1 million in the second quarter of 2019 and decreased from \$349.2 million in the third quarter of 2018. In the third quarter of 2019, the retail channel accounted for 15% of NonQM originations while the wholesale and correspondent channels accounted for 85% of NonQM production. In the second quarter of 2019, the retail channel accounted for 24% of NonQM originations while the wholesale and correspondent channels accounted for 76% of NonQM production as compared 29% and 71%, respectively, in the third 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 an additional two during the first nine months of 2019, which were 100% backed by Impac NonQM collateral and the senior tranches received AAA ratings. During the fourth quarter of 2018 and through the first nine months of 2019, we expanded our investor relationships for NonQM which provides us with additional exit strategies for these nonconforming loans. We view these developments 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 third quarter of 2019, our NonQM origination volume was \$257.4 million with an average FICO of 728 and a weighted average LTV of 71% as compared to NonQM origination volume of \$315.1 million with an average FICO of 732 and a weighted average LTV of 70% for the quarter ended June 30, 2019 and NonQM origination volume of \$349.2 million with an average FICO of 724 and a weighted average LTV of 68% for the quarter ended September 30, 2018.

Originations by Purpose:

(in millions)	For the Three Months Ended				For the Nine Months Ended			
	September 30,				September 30,			
	2019	%	2018	%	2019	%	2018	%
Refinance	\$ 1,452.9	89 %	\$ 548.6	64 %	\$ 2,488.6	82 %	\$ 2,087.0	65 %
Purchase	183.4	11	304.6	36	550.6	18	1,120.5	35
Total originations	\$ 1,636.3	100 %	\$ 853.2	100 %	\$ 3,039.2	100 %	\$ 3,207.5	100 %

During the third quarter of 2019, refinance volume increased approximately 165% to \$1.5 billion as compared to \$548.6 million in the third quarter of 2018 as a result of the continued drop in mortgage interest rates during the third quarter of 2019. Our purchase money transactions declined 40% to \$183.4 million during the third quarter of 2019, as compared to \$304.6 million in the third quarter of 2018. The reduction in purchase money transactions stems from the combination of the aforementioned drop in interest rates during 2019 as well as increasing home prices in California which have contributed to a decline in home sales.

Mortgage Servicing Portfolio:

(Unpaid principal balance (UPB), in millions)	September 30, 2019	December 31, 2018	% Change
Mortgage servicing portfolio	\$ 5,374.0	\$ 6,218.1	(13.6)%

The mortgage servicing portfolio decreased slightly to \$5.4 billion at September 30, 2019 as compared to \$6.2 billion at December 31, 2018 and \$16.8 billion at September 30, 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 and nine months ended September 30, 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 \$3.5 million in the third quarter of 2019, a 65% decrease over the net servicing fees of \$10.1 million in the third quarter of 2018 as a result of the aforementioned mortgage servicing sales in 2018. Delinquencies within the servicing portfolio have remained low at 0.38% for 60+ days delinquent as of September 30, 2019 as compared to 0.25% at December 31, 2018.

The following table includes information about our mortgage servicing portfolio:

(in millions)	At September 30, 2019	% 60+ days delinquent (1)	At December 31, 2018	% 60+ days delinquent (1)
Fannie Mae	\$ 2.5	0.00 %	\$ —	0.00 %
Freddie Mac	5,265.4	0.36	6,165.1	0.25
Ginnie Mae	106.1	1.57	51.2	0.53
Other	—	0.00	1.8	0.00
Total servicing portfolio	\$ 5,374.0	0.38 %	\$ 6,218.1	0.25 %

(1) Based on loan count.

For the third quarter of 2019, real estate services fees were \$921 million as compared to \$807 thousand in the second quarter of 2019 and \$711 thousand in the third 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 \$247 thousand in the third quarter of 2019 as compared to \$274 thousand in the second quarter of 2019 and \$786 thousand in the third quarter of 2018. The estimated fair value of the net residual interests increased \$608 thousand in the third quarter of 2019 to \$17.2 million at September 30, 2019, as a result of a decrease in forward LIBOR partially offset by 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 nine months ended September 30, 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. In April 2019, the maturity of the line was extended until January 31, 2020. At September 30, 2019, there were no outstanding borrowings under the FHLMC and GNMA Financing and we had approximately \$24.0 million of available financing based on the fair market value of the mortgage servicing rights that we own.

In May 2015, we issued \$25.0 million Convertible Promissory Notes (Convertible Notes). The Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, paid quarterly. We are currently evaluating various options as to the appropriate settlement of the Convertible Notes.

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 MSRs 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 nine months of 2019, we completed servicing released loan sales to 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, availability on unused FHLMC and GNMA Financing, 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

[Table of Contents](#)

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 September 30, 2019 compared to December 31, 2018

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

	September 30, 2019	December 31, 2018	Increase (Decrease)	% Change
ASSETS				
Cash	\$ 24,115	\$ 23,200	\$ 915	4 %
Restricted cash	13,057	6,989	6,068	87
Mortgage loans held-for-sale	1,038,942	353,601	685,341	194
Mortgage servicing rights	40,827	64,728	(23,901)	(37)
Securitized mortgage trust assets	2,795,117	3,165,590	(370,473)	(12)
Other assets	63,954	33,835	30,119	89
Total assets	\$ 3,976,012	\$ 3,647,943	\$ 328,069	9 %
LIABILITIES & EQUITY				
Warehouse borrowings	\$ 971,595	\$ 284,137	\$ 687,458	242 %
Convertible notes	24,993	24,985	8	0
Long-term debt (Par value; \$62,000)	43,577	44,856	(1,279)	(3)
Securitized mortgage trust liabilities	2,777,872	3,148,215	(370,343)	(12)
Repurchase reserve	8,999	7,657	1,342	18
Other liabilities	44,681	27,918	16,763	60
Total liabilities	3,871,717	3,537,768	333,949	9
Total equity	104,295	110,175	(5,880)	(5)
Total liabilities and stockholders' equity	\$ 3,976,012	\$ 3,647,943	\$ 328,069	9 %
Book value per share	\$ 4.91	\$ 5.22	\$ (0.31)	(6)%
Tangible Book value per share	\$ 4.91	\$ 5.22	\$ (0.31)	(6)%

[Table of Contents](#)

At September 30, 2019, cash increased \$0.9 million to \$24.1 million from \$23.2 million at December 31, 2018. Cash balances increased primarily due an \$2.1 million decrease in warehouse haircuts (difference between loan balance funded and amount advanced by warehouse lender). Offsetting the increase in cash was the payment of operating expenses and pay down of higher cost warehouse borrowings.

LHFS increased \$685.3 million to \$1.0 billion at September 30, 2019 as compared to \$353.6 million at December 31, 2018. The increase was due to \$3.0 billion in originations during the nine months ended September 30, 2019 partially offset by \$2.4 billion 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.

MSRs decreased \$23.9 million to \$40.8 million at September 30, 2019 as compared to \$64.7 million at December 31, 2018. The decrease was due to mark-to-market decreases in fair value of \$26.1 million partially offset by additions of \$2.2 million from servicing retained loan sales of \$264.3 million in UPB. At September 30, 2019 and December 31, 2018, we serviced \$5.4 billion and \$6.2 billion, respectively 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 ASU No. 2016-02 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.

Warehouse borrowings increased \$687.5 million to \$971.6 million at September 30, 2019 as compared to \$284.1 million at December 31, 2018. The increase was due to a \$685.3 million increase in LHFS at September 30, 2019. Our total borrowing capacity increased to \$1.5 billion at September 30, 2019 as compared to \$900 million at 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 \$40.0 million facility converted into a term loan with no balance in February 2019. At September 30, 2019, there were no outstanding borrowings under this facility and is not available for borrowing against. 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. At September 30, 2019, there were no outstanding borrowings under this facility and we had approximately \$24.0 million of available financing based on the fair market value of the mortgage servicing rights that we own.

Repurchase reserve increased \$1.3 million to \$9.0 million at September 30, 2019 as compared to \$7.7 million at December 31, 2018. The increase was due to a \$3.6 million provision for repurchases as a result of an increase in expected future losses, partially offset by \$2.3 million 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.

	September 30, 2019	December 31, 2018	Increase (Decrease)	% Change
Securitized mortgage collateral	\$ 2,783,256	\$ 3,157,071	\$ (373,815)	(12) %
Other trust assets	11,861	8,519	3,342	39
Total trust assets	2,795,117	3,165,590	(370,473)	(12)
Securitized mortgage borrowings	\$ 2,777,872	\$ 3,148,215	\$ (370,343)	(12) %
Total trust liabilities	2,777,872	3,148,215	(370,343)	(12)
Residual interests in securitizations	\$ 17,245	\$ 17,375	\$ (130)	(1) %

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 \$17.2 million at September 30, 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 nine months ended September 30, 2019, actual losses were slightly elevated as compared to forecasted losses for the majority of trusts, including those with residual value. Principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings also contributed to the reduction in trust assets and liabilities. The decrease in residual fair value at September 30, 2019 was the result of an increase in loss assumptions for certain trusts as well as residual cash flows received during the nine months ended September 30 2019, partially offset by the decrease in forward LIBOR during the second and third quarters of 2019.

- The estimated fair value of securitized mortgage collateral decreased \$373.8 million during the nine months ended September 30, 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 \$3.3 million during the nine months ended September 30, 2019, primarily due to an increase in REO from foreclosures of \$21.4 million. Partially offsetting the increase was a decrease of \$14.2 million in REO from liquidations for the nine months ended September 30, 2019 and a \$3.8 million decrease in the net realizable value (NRV) of REO.
- The estimated fair value of securitized mortgage borrowings decreased \$370.3 million during the nine months ended September 30, 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.

[Table of Contents](#)

The following table presents changes in the trust assets and trust liabilities for the nine months ended September 30, 2019:

	Level 3 Recurring Fair Value Measurement			TRUST LIABILITIES	
	Securitized mortgage collateral	NRV (1) Real estate owned	Total trust assets	Level 3 Recurring Fair Value Measurement	
				Securitized mortgage borrowings	Net trust assets
Recorded fair value at December 31, 2018	\$ 3,157,071	\$ 8,519	\$ 3,165,590	\$ (3,148,215)	\$ 17,375
Total gains/(losses) included in earnings:					
Interest income	11,957	—	11,957	—	11,957
Interest expense	—	—	—	(30,499)	(30,499)
Change in FV of net trust assets, excluding REO (1)	68,576	—	68,576	(70,594)	(2,018)
Losses from REO – not at FV but at NRV (2)	—	(3,848)	(3,848)	—	(3,848)
Total gains (losses) included in earnings	80,533	(3,848)	76,685	(101,093)	(24,408)
Transfers in and/or out of level 3	—	—	—	—	—
Purchases, issuances and settlements	(454,348)	7,190	(447,158)	471,436	24,278
Recorded fair value at September 30, 2019	\$ 2,783,256	\$ 11,861	\$ 2,795,117	\$ (2,777,872)	\$ 17,245

- (1) Represents change in fair value of net trust assets, including trust REO gains in the consolidated statements of operations and comprehensive earnings (loss) for the nine months ended September 30, 2019.
(2) Accounted for at net realizable value.

Inclusive of losses from REO, total trust assets above reflect a net gain of \$64.7 million as a result of an increase in fair value from securitized mortgage collateral of \$68.5 million offset by losses from REO of \$3.8 million. Net losses on trust liabilities were \$70.6 million as a result of the increase in fair value of securitized mortgage borrowings. As a result, non-interest income—net trust assets decreased by \$5.9 million for the nine months ended September 30, 2019.

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

	September 30, 2019	December 31, 2018
Net trust assets	\$ 17,245	\$ 17,375
Total trust assets	2,795,117	3,165,590
Net trust assets as a percentage of total trust assets	0.62 %	0.55 %

For the nine months ended September 30, 2019, the estimated fair value of the net trust assets increased slightly as a percentage of total trust assets due to a decrease in forward LIBOR slightly offset by 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.

[Table of Contents](#)

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 September 30, 2019 and December 31, 2018:

Origination Year	Estimated Fair Value of Residual Interests by Vintage Year at September 30, 2019			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2018		
	SF	MF	Total	SF	MF	Total
2002-2003 (1)	\$ 8,525	\$ 637	\$ 9,162	\$ 10,097	\$ 617	\$ 10,714
2004	3,071	895	3,966	1,554	668	2,222
2005	80	135	215	2	2	4
2006	—	3,902	3,902	—	4,435	4,435
2007 (2)	—	—	—	—	—	—
Total	\$ 11,676	\$ 5,569	\$ 17,245	\$ 11,653	\$ 5,722	\$ 17,375
Weighted avg. prepayment rate	9.8 %	6.0 %	9.4 %	8.2 %	6.2 %	8.0 %
Weighted avg. discount rate	17.7	17.6	17.7	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.

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 September 30, 2019:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	7 %	* (3)	5 %	8 %
2004	6	* (3)	5	5
2005	7	* (3)	4	3
2006	11	* (3)	4	4
2007	15	* (3)	5	2

(1) Estimated future losses derived by dividing future projected losses by UPB at September 30, 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 September 30, 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

[Table of Contents](#)

were \$517.6 million, or 16.5% of the long-term mortgage portfolio, as of September 30, 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	September 30, 2019	Total Collateral	December 31, 2018	Total Collateral
60 - 89 days delinquent	\$ 85,905	2.7 %	\$ 101,546	2.8 %
90 or more days delinquent	194,685	6.2	212,668	5.8
Foreclosures (1)	159,001	5.1	177,099	4.9
Delinquent bankruptcies (2)	78,044	2.5	104,232	2.9
Total 60 or more days delinquent	\$ 517,635	16.5 %	\$ 595,545	16.4 %
Total collateral	\$ 3,130,814	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.

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):

	September 30, 2019	Total Collateral %	December 31, 2018	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 431,730	13.8 %	\$ 493,999	13.6 %
Real estate owned inside and outside trusts	12,131	0.4	9,885	0.3
Total non-performing assets	\$ 443,861	14.2 %	\$ 503,884	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 September 30, 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 14.2%. At December 31, 2018, non-performing assets to total collateral was 13.9%. Non-performing assets decreased by approximately \$60.0 million at September 30, 2019 as compared to December 31, 2018. At September 30, 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 \$153.4 million or 3.9% 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 earnings (loss).

For the three and nine months ended September 30, 2019, we recorded a decrease of \$2.7 million and \$3.8 million in net realizable value of REO, respectively, compared to a decrease of \$649 thousand and \$46 thousand for the comparable

[Table of Contents](#)

2018 periods. Increases and write-downs of the net realizable value reflect increases or declines in value of the REO subsequent to foreclosure date, but prior to the date of sale.

The following table presents the balances of REO:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
REO	\$ 23,907	\$ 17,813
Impairment (1)	(11,776)	(7,928)
Ending balance	<u>\$ 12,131</u>	<u>\$ 9,885</u>
REO inside trusts	\$ 11,861	\$ 8,519
REO outside trusts	270	1,366
Total	<u>\$ 12,131</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 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 September 30, 2019 compared to the Three Months Ended September 30, 2018

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Revenues	\$ 25,775	\$ 19,387	\$ 6,388	33 %
Expenses	(25,636)	(63,131)	37,495	59
Net interest income	2,490	411	2,079	506
Change in fair value of long-term debt	304	(785)	1,089	139
Change in fair value of net trust assets, including trust REO gains (losses)	(1,724)	(1,315)	(409)	(31)
Income tax benefit (expense)	230	(12)	242	2017
Net earnings (loss)	<u>\$ 1,439</u>	<u>\$ (45,445)</u>	<u>\$ 46,884</u>	<u>103 %</u>
Earnings (loss) per share available to common stockholders—basic	<u>\$ 0.07</u>	<u>\$ (2.16)</u>	<u>\$ 2.22</u>	<u>103 %</u>
Earnings (loss) per share available to common stockholders—diluted	<u>\$ 0.07</u>	<u>\$ (2.16)</u>	<u>\$ 2.22</u>	<u>103 %</u>

For the Nine Months Ended September 30, 2019 compared to the Nine Months Ended September 30, 2018

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Revenues	\$ 60,257	\$ 89,435	\$ (29,178)	(33)%
Expenses	(69,540)	(223,515)	153,975	69
Net interest income	6,829	1,977	4,852	245
Change in fair value of long-term debt	958	697	261	37
Change in fair value of net trust assets, including trust REO gains (losses)	(5,866)	(3,236)	(2,630)	(81)
Income tax benefit (expense)	62	(4,328)	4,390	101
Net loss	<u>\$ (7,300)</u>	<u>\$ (138,970)</u>	<u>\$ 131,670</u>	<u>95 %</u>
Loss per share available to common stockholders—basic	<u>\$ (0.34)</u>	<u>\$ (6.62)</u>	<u>\$ 6.27</u>	<u>95 %</u>
Loss per share available to common stockholders—diluted	<u>\$ (0.34)</u>	<u>\$ (6.62)</u>	<u>\$ 6.27</u>	<u>95 %</u>

For the Three Months Ended September 30, 2019 compared to the Three Months Ended September 30, 2018

Revenues

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 31,073	\$ 13,673	\$ 17,400	127 %
Servicing fees, net	3,465	10,124	(6,659)	(66)
(Loss) gain on mortgage servicing rights, net	(9,755)	(5,192)	(4,563)	(88)
Real estate services fees, net	921	711	210	30
Other revenues	71	71	—	0
Total revenues	<u>\$ 25,775</u>	<u>\$ 19,387</u>	<u>\$ 6,388</u>	<u>33 %</u>

Gain on sale of loans, net. For the three months ended September 30, 2019, gain on sale of loans, net totaled \$31.1 million compared to \$13.7 million in the comparable 2018 period. The \$17.4 million increase for the three months ended September 30, 2019 is primarily due to a \$16.2 million increase in mark-to-market gains on LHFS, a \$4.1 million increase from the sale of mortgage loans, a \$3.4 million decrease in provision for repurchases and a \$1.1 million decrease in direct loan origination expenses. Partially offsetting the increase in gain on sale of loans, net was a \$5.5 million reduction of premiums from servicing retained loan sales and a \$1.8 million increase in realized and unrealized net losses on derivative financial instruments.

The increase in gain on sale of loans, net was primarily due to an increase in mortgage loans originated and sold during the third quarter of 2019 as well as an increase in margins. For the three months ended September 30, 2019, we

[Table of Contents](#)

originated and sold \$1.6 billion and \$1.0 billion of loans, respectively, as compared to \$0.9 billion and \$1.0 billion of loans originated and sold, respectively, during the same period in 2018. During the third quarter of 2019, margins increased to approximately 190 bps as compared to 160 bps for the same period in 2018. The increase in margins was a result of the significant drop in mortgage interest rates during the third quarter of 2019 which led to wider gain on sale margins as compared to 2018. The primary driver of margin expansion was an increase in our consumer direct originations, which increased to 85% of total originations during the three months ended September 30, 2019 as compared 51% of total originations during the same period in 2018.

Servicing fees, net. For the three months ended September 30, 2019, servicing fees, net were \$3.5 million compared to \$10.1 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 67% to \$5.6 billion for the three months ended September 30, 2019 as compared to an average balance of \$16.8 billion for the three months ended September 30, 2018. During the three months ended September 30, 2019, we had \$22.5 million in servicing retained loan sales.

(Loss) gain on mortgage servicing rights, net.

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Realized and unrealized losses from hedging instruments	\$ —	\$ 253	\$ (253)	(100)%
Changes in fair value:				
Due to changes in valuation market rates, inputs or assumptions	(5,264)	841	(6,105)	(726)
Other changes in fair value:				
Scheduled principal prepayments	(471)	(2,293)	1,822	79
Voluntary prepayments	(4,020)	(3,993)	(27)	(1)
Total changes in fair value	<u>\$ (9,755)</u>	<u>\$ (5,445)</u>	<u>\$ (4,310)</u>	<u>(79)%</u>
(Loss) gain on mortgage servicing rights, net	<u>\$ (9,755)</u>	<u>\$ (5,192)</u>	<u>\$ (4,563)</u>	<u>(88)%</u>

For the three months ended September 30, 2019, (loss) gain on MSRs, net was a loss of \$9.8 million compared to a loss of \$5.2 million in the comparable 2018 period. For the three months ended September 30, 2019, we recorded a \$9.8 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. As a result of the aforementioned decrease in interest rates during the third quarter of 2019, \$9.3 million of the \$9.8 million change in fair value of MSRs was due to prepayments, with \$5.3 million due to an increase in prepayment speed assumptions and \$4.0 million due to voluntary prepayments.

Real estate services fees, net. For the three months ended September 30, 2019, real estate services fees, net were \$921 thousand as compared to \$711 million in the comparable 2018 period. The \$210 thousand increase was primarily the result of multifamily loss mitigation fees during the third quarter of 2019 as compared to the comparable period in 2018.

For the Nine Months Ended September 30, 2019 compared to the Nine Months Ended September 30, 2018

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 72,759	\$ 53,896	\$ 18,863	35 %
Servicing fees, net	9,970	29,445	(19,475)	(66)
(Loss) gain on mortgage servicing rights, net	(25,264)	2,682	(27,946)	(1042)
Real estate services fees, net	2,534	3,134	(600)	(19)
Other revenues	258	278	(20)	(7)
Total revenues	<u>\$ 60,257</u>	<u>\$ 89,435</u>	<u>\$ (29,178)</u>	(33)%

Gain on sale of loans, net. For the nine months ended September 30, 2019, gain on sale of loans, net totaled \$72.8 million compared to \$53.9 million in the comparable 2018 period. The \$18.9 million increase for the nine months ended September 30, 2019 is primarily due to a \$31.8 million decrease in direct origination expenses, a \$29.8 million increase in mark-to-market gains on LHFS, a \$1.8 million decrease in provision for repurchases. Partially offsetting the increase in gain on sale of loans, net was a \$20.3 million reduction of premiums from servicing retained loan sales, a \$12.5 million decrease in gain on sale of loans and a \$11.8 million decrease in realized and unrealized net gains on derivative financial instruments.

The overall increase in gain on sale of loans, net was primarily due to an increase in margins despite the slight decrease in mortgage loans originated and sold during the first nine months of 2019. For the nine months ended September 30, 2019, we originated and sold \$3.0 billion and \$2.4 billion of loans, respectively, as compared to \$3.2 billion and \$3.4 billion of loans originated and sold, respectively, during the same period in 2018. During the nine months ended September 30, 2019, margins increased to approximately 239 bps as compared to 168 bps for the same period in 2018. The increase in margins was a result of the significant drop in mortgage interest rates which began in the first quarter of 2019, which led to wider gain on sale margins and more than offset our 5% decrease in originations compared to 2018. The primary driver of margin expansion was an increase in our consumer direct originations, which increased to 75% of total originations during the nine months ended September 30, 2019 as compared 48% of total originations during the same period in 2018. Additionally, for the nine months ended September 30, 2019, NonQM originations increased to 30% of total originations as compared 28% of total originations during the same period in 2018.

Servicing fees, net. For the nine months ended September 30, 2019, servicing fees, net were \$10.0 million compared to \$29.4 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 64% to \$6.0 billion for the nine months ended September 30, 2019 as compared to an average balance of \$16.7 billion for the nine months ended September 30, 2018. During the nine months ended September 30, 2019, we had \$264.3 million in servicing retained loan sales.

(Loss) gain on mortgage servicing rights, net

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Realized and unrealized losses from hedging instruments	\$ —	\$ (1,445)	\$ 1,445	100 %
Gain on sale of mortgage servicing rights	864	—	864	n/a
Changes in fair value:				
Due to changes in valuation market rates, inputs or assumptions	(16,717)	24,621	(41,338)	(168)
Other changes in fair value:				
Scheduled principal prepayments	(1,974)	(8,251)	6,277	76
Voluntary prepayments	(7,437)	(12,243)	4,806	39
Total changes in fair value	\$ (26,128)	\$ 4,127	\$ (30,255)	(733)%
(Loss) gain on mortgage servicing rights, net	<u>\$ (25,264)</u>	<u>\$ 2,682</u>	<u>\$ (27,946)</u>	(1042)%

For the nine months ended September 30, 2019, (loss) gain on MSR, net was a loss of \$25.3 million compared to a gain of \$2.7 million in the comparable 2018 period. For the nine months ended September 30, 2019, we recorded a \$26.1 million loss from a change in fair value of MSR primarily due to changes in fair value associated with changes in market rates, inputs and assumptions as well as voluntary and scheduled prepayments. As a result of the aforementioned significant decrease in interest rates during the nine months ended September 30, 2019, \$24.2 million of the \$26.1 million change in fair value of MSR was due to prepayments, with \$16.7 million due to an increase in prepayment speed assumptions and \$7.5 million due to voluntary prepayments. Additionally, during the third quarter of 2018, we stopped hedging our mortgage servicing portfolio resulting in a \$1.4 million reduction in realized and unrealized losses from hedging instruments related to MSR during the nine months ended September 30, 2019.

Real estate services fees, net. For the nine months ended September 30, 2019, real estate services fees, net were \$2.5 million as compared to \$3.1 million in the comparable 2018 period. The \$600 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.

For the Three Months Ended September 30, 2019 compared to the Three Months Ended September 30, 2018

Expenses

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Personnel expense	\$ 18,725	\$ 16,061	\$ 2,664	17 %
Business promotion	1,292	4,351	(3,059)	(70)
General, administrative and other	5,619	7,897	(2,278)	(29)
Intangible asset impairment	—	4,897	(4,897)	n/a
Goodwill impairment	—	29,925	(29,925)	n/a
Total expenses	<u>\$ 25,636</u>	<u>\$ 63,131</u>	<u>\$ (37,495)</u>	(59)%

Total expenses decreased by \$37.5 million, or 59%, to \$25.6 million for the third quarter of 2019, compared to \$63.1 million for the comparable period in 2018. Excluding goodwill and intangible asset impairment, total expenses decreased by \$2.7 million, or 9% for the third quarter of 2019 as compared to the comparable quarter in the prior period. Personnel expense increased \$2.7 million to \$18.7 million for the three months ended September 30, 2019 as compared to the same period in 2018. The increase is primarily related to an increase in staffing levels and commission expense as a result of the aforementioned increase in origination volumes, which increased 92% during the third quarter of 2019 as compared to the same period in 2018. Despite the increase in personnel expense as a result of the increase in origination

[Table of Contents](#)

volume during the quarter, personnel expense decreased to 114 bps of funding's as compared to 188 bps of funding's for the same period in 2018. As a result of the decrease in mortgage interest rates in 2019, we have increased overhead to align capacity levels with our increased origination projections. As a result, average headcount increased 8% for the third quarter of 2019 as compared to the same period in 2018.

Business promotion decreased \$3.1 million to \$1.3 million for the three months ended September 30, 2019 as compared to \$4.4 million for the same period in the prior year. 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 \$5.6 million for the three months ended September 30, 2019, compared to \$7.9 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 \$757 thousand decrease in intangible asset amortization which was fully written-off or amortized in 2018, a \$330 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. Partially offsetting the decrease was a \$142 thousand increase in other general and administrative expenses.

We recorded an impairment charge of \$29.9 million related to goodwill and \$4.9 million related to intangible assets during the three months ended September 30, 2018. As previously disclosed in our quarterly and annual reports, in the second and third quarters of 2018, we performed impairment tests and determined that the goodwill and intangible assets were impaired. At December 31, 2018 and September 30, 2019, we had no goodwill or intangible assets remaining related to the CCM acquisition. See Note 5.-Goodwill and Intangible Assets of the "Notes to Consolidated Financial Statements" on Form 10-K for the year ended December 31, 2018 for a full description.

For the Nine Months Ended September 30, 2019 compared to the Nine Months Ended September 30, 2018

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Personnel expense	\$ 47,186	\$ 50,481	\$ (3,295)	(7)%
Business promotion	6,228	23,082	(16,854)	(73)
General, administrative and other	16,126	27,018	(10,892)	(40)
Intangible asset impairment	—	18,347	(18,347)	n/a
Goodwill impairment	—	104,587	(104,587)	n/a
Total expenses	<u>\$ 69,540</u>	<u>\$ 223,515</u>	<u>\$ (153,975)</u>	(69)%

Total expenses decreased by \$154.0 million, or 69%, to \$69.5 million for the nine months ended September 30, 2019, compared to \$223.5 million for the comparable period in 2018. Excluding goodwill and intangible asset impairment, total expenses decreased by \$31.0 million, or 31% for the nine months ended September 2019. Personnel expense decreased \$3.3 million to \$47.2 million for the nine months ended September 30, 2019 as compared to the same period in 2018. The decrease is primarily related to staff reductions during 2018 and early 2019 partially offset by an increase in staffing levels and commission expense during the third quarter of 2019 as a result of the aforementioned increase in origination volumes. As a result of the decrease in mortgage interest rates in 2019, we have increased overhead during the third quarter to align capacity levels with our increased origination projections. Despite this recent increase in headcount, average headcount decreased 13% for the nine months ended September 30, 2019 as compared to the same period in 2018.

Business promotion decreased \$16.9 million to \$6.2 million for the nine months ended September 30, 2019 as compared to \$23.1 million for the same period in the prior year. 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 \$16.1 million for the nine months ended September 30, 2019, compared to \$27.0 million for the same period in 2018. The decrease was partially related to a \$6.5 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 \$2.9 million decrease in intangible asset amortization which was fully written-off or amortized in 2018, a \$1.1 million 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 and a \$433 thousand decrease in other general and administrative expenses.

We recorded an impairment charge of \$104.6 million related to goodwill and \$18.3 million related to intangible assets during the nine months ended September 30, 2018. As previously disclosed in our quarterly and annual reports, in the second and third quarters of 2018, we performed impairment tests and determined that the goodwill and intangible assets were impaired. At December 31, 2018 and September 30, 2019, we had no goodwill or intangible assets remaining related to the CCM acquisition.

See Note 5.-Goodwill and Intangible Assets of the “Notes to Consolidated Financial Statements” on Form 10-K for the year ended December 31, 2018 for a full description.

Net Interest Income

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.

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 September 30,					
	2019			2018		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	\$ 2,852,052	\$ 30,814	4.32 %	\$ 3,352,365	\$ 39,741	4.74 %
Mortgage loans held-for-sale	715,217	8,506	4.76	429,530	5,900	5.49
Finance receivables	—	—	—	14,385	219	6.09
Other	32,221	172	2.14	30,254	28	0.37
Total interest-earning assets	<u>\$ 3,599,490</u>	<u>\$ 39,492</u>	4.39 %	<u>\$ 3,826,534</u>	<u>\$ 45,888</u>	4.80 %
LIABILITIES						
Securitized mortgage borrowings	\$ 2,846,514	\$ 28,235	3.97	\$ 3,345,711	\$ 37,854	4.53 %
Warehouse borrowings (1)	671,625	7,205	4.29	419,494	5,078	4.84
MSR financing facilities	359	4	4.46	63,739	919	5.77
Long-term debt	43,743	1,086	9.93	46,262	1,151	9.95
Convertible notes	24,991	472	7.55	24,971	471	7.54
Other	—	—	—	147	4	10.88
Total interest-bearing liabilities	<u>\$ 3,587,232</u>	<u>\$ 37,002</u>	4.13 %	<u>\$ 3,900,324</u>	<u>\$ 45,477</u>	4.66 %
Net interest spread (2)		\$ 2,490	0.26 %		\$ 411	0.14 %
Net interest margin (3)			0.28 %			0.04 %

(1) Warehouse borrowings include the borrowings from mortgage loans held-for-sale and finance receivables in 2018.

[Table of Contents](#)

- (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 \$2.1 million for the three months ended September 30, 2019 primarily attributable to an increase in the net interest spread on the securitized mortgage collateral and securitized mortgage borrowings, an increase in the net interest spread between loans held-for-sale and their related warehouse borrowings, an increase in interest income on mortgage-backed securities (included in "Other") and 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 0.28% for the three months ended September 30, 2019 from 0.04% for the three months ended September 30, 2018.

During the quarter ended September 30, 2019, the yield on interest-earning assets decreased to 4.39% from 4.80% in the comparable 2018 period. The yield on interest-bearing liabilities decreased to 4.13% for the three months ended September 30, 2019 from 4.66% 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 decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to a decrease in forward LIBOR which resulted in a decrease in yield as compared to the previous period.

	For the Nine Months Ended September 30,					
	2019			2018		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	\$ 2,978,974	\$ 107,466	4.81 %	\$ 3,470,160	\$ 125,366	4.82 %
Mortgage loans held-for-sale	502,403	19,882	5.28	485,681	18,653	5.12
Finance receivables	—	—	—	21,220	1,019	6.40
Other	30,890	459	1.98	32,002	65	0.27
Total interest-earning assets	<u>\$ 3,512,267</u>	<u>\$ 127,807</u>	4.85 %	<u>\$ 4,009,063</u>	<u>\$ 145,103</u>	4.83 %
LIABILITIES						
Securitized mortgage borrowings	\$ 2,973,245	\$ 100,722	4.52 %	\$ 3,463,291	\$ 119,463	4.60 %
Warehouse borrowings (1)	453,228	15,507	4.56	488,858	16,681	4.55
MSR financing facilities	121	10	11.02	50,230	2,192	5.82
Long-term debt	44,226	3,323	10.02	45,711	3,354	9.78
Convertible notes	24,988	1,415	7.55	24,969	1,414	7.55
Other	23	1	5.80	196	22	14.97
Total interest-bearing liabilities	<u>\$ 3,495,831</u>	<u>\$ 120,978</u>	4.61 %	<u>\$ 4,073,255</u>	<u>\$ 143,126</u>	4.69 %
Net interest spread (2)		\$ 6,829	0.24 %		\$ 1,977	0.14 %
Net interest margin (3)			0.26 %			0.07 %

- (1) Warehouse borrowings include the borrowings from mortgage loans held-for-sale and finance receivables in 2018.
- (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 \$4.9 million for the nine months ended September 30, 2019 primarily attributable to an increase in the net interest spread between loans held-for-sale and their related warehouse borrowings, an increase in the net interest spread on the securitized mortgage collateral and securitized mortgage borrowings, an increase in interest income on mortgage-backed securities (included in "Other") and 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 0.26% for the nine months ended September 30, 2019 from 0.07% for the nine months ended September 30, 2018.

During the nine months ended September 30, 2019, the yield on interest-earning assets increased to 4.85% from 4.83% in the comparable 2018 period. The yield on interest-bearing liabilities decreased to 4.61% for the nine months ended September 30, 2019 from 4.69% for the comparable 2018 period. In connection with the fair value accounting for

[Table of Contents](#)

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 partially offset by a decrease in forward LIBOR 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.

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 September 30, 2019, the fair value of the long-term debt decreased \$333 thousand. The decrease in estimated fair value was the result of a \$304 thousand change in the market specific credit risk during the quarter as well as a \$144 thousand change in the instrument specific credit risk (\$72 thousand net of tax) partially offset by an increase due to accretion. During the nine months ended September 30, 2019, the fair value of the long-term debt decreased \$1.3 million. The decrease in estimated fair value was the result of a \$958 thousand change in the market specific credit risk during the quarter as well as a \$659 thousand change in the instrument specific credit risk (\$436 thousand net of tax) partially offset by an increase due to accretion.

During the three months ended September 30, 2018, the fair value of the long-term debt increased by \$760 thousand. The \$760 thousand change was the result of a \$785 thousand change in the instrument specific credit risk partially offset by a \$25 thousand change in the market risk during the quarter. During the nine months ended September 30, 2018, the fair value of the long-term debt increased by \$1.8 million. The \$1.8 million change was the result of a \$1.9 million change in the instrument specific credit risk partially offset by a \$697 thousand change in the market risk during the nine months ended September 30, 2018.

Change in fair value of net trust assets, including trust REO losses

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Change in fair value of net trust assets, excluding REO	\$ 1,025	\$ (666)	\$ (2,018)	\$ (3,190)
Loss from REO	(2,749)	(649)	(3,848)	(46)
Change in fair value of net trust assets, including trust REO loss	<u>\$ (1,724)</u>	<u>\$ (1,315)</u>	<u>\$ (5,866)</u>	<u>\$ (3,236)</u>

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$1.7 million for the three months ended September 30, 2019. The change in fair value of net trust assets, excluding REO was due to \$1.0 million in gains from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral as a result of a decrease in forward LIBOR during the quarter partially offset by an increase in loss assumptions for certain trusts. Additionally, the NRV of REO decreased \$2.7 million during the period attributed to higher 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 \$1.3 million for the three months ended September 30, 2018. The change in fair value of net trust assets, excluding REO was due to \$0.7 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR, as well as loss assumptions. Additionally, the NRV of REO decreased \$0.6 million during the period attributed to higher expected loss severities on properties within certain states held in the long-term mortgage portfolio during the period.

[Table of Contents](#)

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$5.9 million for the nine months ended September 30, 2019. The change in fair value of net trust assets, excluding REO was due to \$2.0 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with increased loss assumptions partially offset by the decrease in forward LIBOR. Additionally, the NRV of REO decreased \$3.8 million during the period attributed to higher 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 \$3.2 million for the nine months ended September 30, 2018. The change in fair value of net trust assets, excluding REO was due to \$3.2 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR as well as loss assumptions, partially offset by updated assumptions on certain later vintage trusts with improved performance. Additionally, the NRV of REO decreased \$46 thousand during the period attributed to higher expected loss severities on properties held in the long-term mortgage portfolio during the period.

Income Taxes

We recorded an income tax benefit of \$230 thousand and \$62 thousand for the three and nine months ended September 30, 2019, respectively. Tax benefit for the three and nine months ended September 30, 2019 is primarily the result of 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 partially offset by state taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes. For the three and nine months ended September 30, 2018, we recorded income tax expense of \$12 thousand and \$4.3 million, respectively, primarily the result of an increase in the valuation allowance eliminating the net deferred tax asset, state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT.

As of December 31, 2018, we had estimated federal net operating loss (NOL) carryforwards of approximately \$564.2 million. Federal NOL carryforwards begin to expire in 2027. As of December 31, 2018, we had estimated California NOL carryforwards of approximately \$383.2 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

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 31,073	\$ 13,673	\$ 17,400	127 %
Servicing fees, net	3,465	10,124	(6,659)	(66)
Loss on mortgage servicing rights, net	(9,755)	(5,192)	(4,563)	(88)
Total revenues	24,783	18,605	6,178	33
Other income	1,445	133	1,312	986
Personnel expense	(17,485)	(13,409)	(4,076)	(30)
Business promotion	(1,284)	(4,324)	3,040	70
General, administrative and other	(3,013)	(3,719)	706	19
Intangible asset impairment	—	(4,897)	4,897	n/a
Goodwill impairment	—	(29,925)	29,925	n/a
Earnings (loss) before income taxes	<u>\$ 4,446</u>	<u>\$ (37,536)</u>	<u>\$ 41,982</u>	<u>112 %</u>

For the three months ended September 30, 2019, gain on sale of loans, net totaled \$31.1 million compared to \$13.7 million in the comparable 2018 period. The \$17.4 million increase for the three months ended September 30, 2019 is primarily due to a \$16.2 million increase in mark-to-market gains on LHFS, a \$4.1 million increase in from the sale of mortgage loans, a \$3.4 million decrease in provision for repurchases and a \$1.1 million decrease in direct loan origination expenses. Partially offsetting the increase in gain on sale of loans, net was a \$5.5 million reduction of premiums from servicing retained loan sales and a \$1.8 million increase in realized and unrealized net losses on derivative financial instruments.

The increase in gain on sale of loans, net was primarily due to an increase in mortgage loans originated and sold during the third quarter of 2019 as well as an increase in margins. For the three months ended September 30, 2019, we originated and sold \$1.6 billion and \$1.0 billion of loans, respectively, as compared to \$0.9 billion and \$1.0 billion of loans originated and sold, respectively, during the same period in 2018. During the third quarter of 2019, margins increased to approximately 190 bps as compared to 160 bps for the same period in 2018. The increase in margins was a result of the significant drop in mortgage interest rates during the third quarter of 2019 which led to wider gain on sale margins as compared to 2018. The primary driver of margin expansion was an increase in our consumer direct originations, which increased to 85% of total originations during the three months ended September 30, 2019 as compared 51% of total originations during the same period in 2018.

For the three months ended September 30, 2019, servicing fees, net were \$3.5 million compared to \$10.1 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 67% to \$5.6 billion for the three months ended September 30, 2019 as compared to an average balance of \$16.8 billion for the three months ended September 30, 2018. During the three months ended September 30, 2019, we had \$22.5 million in servicing retained loan sales.

For the three months ended September 30, 2019, (loss) gain on MSRs, net was a loss of \$9.8 million compared to a loss of \$5.2 million in the comparable 2018 period. For the three months ended September 30, 2019, we recorded a \$9.8 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. As a result of the aforementioned decrease in interest rates during the third quarter of 2019, \$9.3 million of the \$9.8 million change in fair value of MSRs was due to prepayments, with \$5.3 million due to an increase in prepayment speed assumptions and \$4.0 million due to voluntary prepayments.

[Table of Contents](#)

For the three months ended September 30, 2019, other income increased to \$1.4 million as compared to \$133 thousand in the comparable 2018 period. The \$1.3 million increase in other income was primarily due to a \$914 thousand decrease in interest expense related to a decrease in the utilization of the MSR financing facilities during the third quarter of 2019. Net interest spread between loans held-for-sale and their related warehouse borrowing expense increased \$260 thousand during the third quarter of 2019 as compared to the comparable period in 2018. Additionally, interest income increased \$65 thousand on invested cash balances and \$69 thousand on interest received on mortgage-backed securities purchased during 2019.

Personnel expense increased \$4.1 million to \$17.5 million for the three months ended September 30, 2019 as compared to \$13.4 million in the comparable 2018 period. The increase is primarily related to an increase in staffing levels and commission expense as a result of the aforementioned increase in origination volumes, which increased 92% during the third quarter of 2019 as compared to the same period in 2018. Despite the increase in personnel expense as a result of the increase in origination volume during the quarter, personnel expense decreased to 107 bps of funding's as compared to 157 bps of funding's for the same period in 2018. As a result of the decrease in mortgage interest rates in 2019, we have increased overhead to align capacity levels with our increased origination projections. As a result, average headcount increased 6% for the third quarter as compared to the same period in 2018.

Business promotion decreased \$3.0 million to \$1.3 million for the three months ended September 30, 2019 as compared to \$4.3 million for the same period in the prior year. 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 \$3.0 million for the three months ended September 30, 2019, compared to \$3.7 million for the same period in 2018. The decrease was primarily related to a \$757 million decrease in intangible asset amortization which was fully written-off or amortized in 2018 and a \$321 thousand decrease in legal and professional fees. The decrease in expense was partially offset by a \$230 increase in other general and administrative expenses as well as a \$142 thousand increase in occupancy expense as a result of leasing additional office space to accommodate the staffing increase during the third quarter of 2019.

We recorded an impairment charge of \$29.9 million related to goodwill and \$4.9 million related to intangible assets during the three months ended September 30, 2018. As previously disclosed in our quarterly and annual reports, in the second and third quarters of 2018, we performed impairment tests and determined that the goodwill and intangible assets were impaired. At December 31, 2018 and September 30, 2019, we had no goodwill or intangible assets remaining related to the CCM acquisition. See Note 5.-Goodwill and Intangible Assets of the "Notes to Consolidated Financial Statements" on Form 10-K for the year ended December 31, 2018 for a full description.

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 72,759	\$ 53,896	\$ 18,863	35 %
Servicing fees, net	9,970	29,445	(19,475)	(66)
(Loss) gain on mortgage servicing rights, net	(25,264)	2,682	(27,946)	(1042)
Total revenues	57,465	86,023	(28,558)	(33)
Other income	4,801	771	4,030	523
Personnel expense	(42,321)	(45,651)	3,330	7
Business promotion	(6,193)	(23,019)	16,826	73
General, administrative and other	(8,224)	(13,315)	5,091	38
Intangible asset impairment	—	(18,347)	18,347	n/a
Goodwill impairment	—	(104,587)	104,587	n/a
Earnings (loss) before income taxes	\$ 5,528	\$ (118,125)	\$ 123,653	105 %

[Table of Contents](#)

For the nine months ended September 30, 2019, gain on sale of loans, net totaled \$72.8 million compared to \$53.9 million in the comparable 2018 period. The \$18.9 million increase for the nine months ended September 30, 2019 is primarily due to a \$31.8 million decrease in direct origination expenses, a \$29.8 million increase in mark-to-market gains on LHFS, a \$1.8 million decrease in provision for repurchases. Partially offsetting the increase in gain on sale of loans, net was a \$20.3 million reduction of premiums from servicing retained loan sales, a \$12.5 million decrease in gain on sale of loans and an \$11.8 million decrease in realized and unrealized net gains on derivative financial instruments.

The overall increase in gain on sale of loans, net was primarily due to an increase in margins despite the slight decrease in mortgage loans originated and sold during the first nine months of 2019. For the nine months ended September 30, 2019, we originated and sold \$3.0 billion and \$2.4 billion of loans, respectively, as compared to \$3.2 billion and \$3.4 billion of loans originated and sold, respectively, during the same period in 2018. During the nine months ended September 30, 2019, margins increased to approximately 239 bps as compared to 168 bps for the same period in 2018. The increase in margins was a result of the significant drop in mortgage interest rates which began in the first quarter of 2019, which led to wider gain on sale margins and more than offset our 5% decrease in originations compared to 2018. The primary driver of margin expansion was an increase in our consumer direct originations, which increased to 75% of total originations during the nine months ended September 30, 2019 as compared 48% of total originations during the same period in 2018. Additionally, for the nine months ended September 30, 2019, NonQM originations increased to 30% of total originations as compared 28% of total originations during the same period in 2018.

For the nine months ended September 30, 2019, servicing fees, net were \$10.0 million compared to \$29.4 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 64% to \$6.0 billion for the nine months ended September 30, 2019 as compared to an average balance of \$16.7 billion for the nine months ended September 30, 2018. During the nine months ended September 30, 2019, we had \$264.3 million in servicing retained loan sales.

For the nine months ended September 30, 2019, (loss) gain on MSR, net was a loss of \$25.3 million compared to a gain of \$2.7 million in the comparable 2018 period. For the nine months ended September 30, 2019, we recorded a \$26.1 million loss from a change in fair value of MSR primarily due to changes in fair value associated with changes in market rates, inputs and assumptions as well as voluntary and scheduled prepayments. As a result of the aforementioned significant decrease in interest rates during the nine months ended September 30, 2019, \$24.2 million of the \$26.1 million change in fair value of MSR was due to prepayments, with \$16.7 million due to an increase in prepayment speed assumptions and \$7.5 million due to voluntary prepayments. Additionally, during the third quarter of 2018, we stopped hedging our mortgage servicing portfolio resulting in a \$1.4 million reduction in realized and unrealized losses from hedging instruments related to MSR during the nine months ended September 30, 2019.

For the nine months ended September 30, 2019, other income increased to \$4.8 million as compared to \$771 thousand in the comparable 2018 period. The \$4.0 million increase in other income was primarily due to a \$2.2 million decrease in interest expense related to a decrease in the utilization of the MSR financing facilities in the first nine months of 2019. Net interest spread between loans held-for-sale and their related warehouse borrowing expense increased \$1.4 million during the nine months of 2019 as compared to the comparable period in 2018. Additionally, interest income increased \$220 thousand on invested cash balances and \$161 thousand on interest received on mortgage-backed securities purchased during 2019.

Personnel expense decreased \$3.3 million to \$42.3 million for the nine months ended September 30, 2019 as compared to the same period in 2018. The decrease is primarily related to staff reductions during 2018 and early 2019 partially offset by an increase in staffing levels and commission expense during the third quarter of 2019 as a result of the aforementioned increase in origination volumes. As a result of the decrease in mortgage interest rates in 2019, we have increased overhead during the third quarter to align capacity levels with our increased origination projections. Despite this recent increase in headcount, average headcount decreased 17% for the nine months ended September 30, 2019 as compared to the same period in 2018.

Business promotion decreased \$16.8 million to \$6.2 million for the nine months ended September 30, 2019 as compared to \$23.0 million for the same period in the prior year. Business promotion decreased as a result of the shift in

[Table of Contents](#)

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 \$8.2 million for the nine months ended September 30, 2019, compared to \$13.3 million for the same period in 2018. The decrease was primarily related to a \$2.9 million decrease in intangible asset amortization which was fully written-off or amortized in 2018, an \$835 thousand decrease in legal and professional fees, a \$733 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 and a \$668 thousand decrease in other general and administrative expenses.

We recorded an impairment charge of \$104.6 million related to goodwill and \$18.3 million related to intangible assets during the nine months ended September 30, 2018. As previously disclosed in our quarterly and annual reports, in the second and third quarters of 2018, we performed impairment tests and determined that the goodwill and intangible assets were impaired. At December 31, 2018 and September 30, 2019, we had no goodwill or intangible assets remaining related to the CCM acquisition. See Note 5.-Goodwill and Intangible Assets of the “Notes to Consolidated Financial Statements” on Form 10-K for the year ended December 31, 2018 for a full description

As part of the acquisition of CCM, we recorded accretion and change in fair value of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017. With the end of the earn-out period in December 2017 and the final contingent consideration payment in the first quarter of 2018, we have no contingent consideration liability.

Long-Term Mortgage Portfolio

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Other revenue	\$ 68	\$ 195	\$ (127)	(65)%
Personnel expense	(28)	(14)	(14)	(100)%
General, administrative and other	(103)	(132)	29	22
Total expenses	(131)	(146)	15	10
Net interest income	1,493	737	756	103
Change in fair value of long-term debt	304	(785)	1,089	(139)
Change in fair value of net trust assets, including trust REO losses	(1,724)	(1,315)	(409)	31
Total other income (loss)	73	(1,363)	1,436	(105)
Earnings (loss) before income taxes	<u>\$ 10</u>	<u>\$ (1,314)</u>	<u>\$ 1,324</u>	<u>(101)%</u>

For the three months ended September 30, 2019, net interest income totaled \$1.5 million as compared to \$737 thousand for the comparable 2018 period. Net interest income increased \$756 thousand for the three months ended September 30, 2019 primarily attributable to a \$692 thousand increase in net interest spread on the long-term mortgage portfolio as well as a \$65 thousand decrease in interest expense on the long-term debt associated with an decrease in three-month LIBOR as compared to the same period in 2018.

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 September 30, 2019, the fair value of the long-term debt decreased \$333 thousand. The decrease in estimated fair value was the result of a \$304 thousand change in the market specific credit risk during the quarter as well as a \$144 thousand change in the instrument specific credit risk (\$72 thousand net of tax) 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 \$1.7 million for the three months ended September 30, 2019. The change in fair value of net trust assets, excluding REO

[Table of Contents](#)

was due to \$1.0 million in gains from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral as a result of a decrease in forward LIBOR during the quarter partially offset by an increase in loss assumptions for certain trusts. Additionally, the NRV of REO decreased \$2.7 million during the period attributed to higher expected loss severities on properties within certain states held in the long-term mortgage portfolio during the period.

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Other revenue	\$ 166	\$ 381	\$ (215)	(56)%
Personnel expense	(94)	(36)	(58)	(161)%
General, administrative and other	(287)	(286)	(1)	(0)
Total expenses	(381)	(322)	(59)	(18)
Net interest income	3,421	2,549	872	34
Change in fair value of long-term debt	958	697	261	37
Change in fair value of net trust assets, including trust REO losses	(5,866)	(3,236)	(2,630)	(81)
Total other (expense) income	(1,487)	10	(1,497)	(14970)
(Loss) earnings before income taxes	\$ (1,702)	\$ 69	\$ (1,771)	(2567)%

For the nine months ended September 30, 2019, net interest income totaled \$3.4 million as compared to \$2.5 million for the comparable 2018 period. Net interest income increased \$872 thousand for the nine months ended September 30, 2019 primarily attributable to a \$841 thousand increase in net interest spread on the long-term mortgage portfolio as well as a \$31 thousand decrease in interest expense on the long-term debt associated with a decrease in three-month LIBOR as compared to the same period in 2018.

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 nine months ended September 30, 2019, the fair value of the long-term debt decreased \$1.3 million. The decrease in estimated fair value was the result of a \$958 thousand change in the market specific credit risk during the quarter as well as a \$659 thousand change in the instrument specific credit risk (\$436 thousand net of tax) 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 \$5.9 million for the nine months ended September 30, 2019. The change in fair value of net trust assets, excluding REO was due to \$2.0 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with increased loss assumptions partially offset by the decrease in forward LIBOR. Additionally, the NRV of REO decreased \$3.8 million during the period attributed to higher expected loss severities on properties within certain states held in the long-term mortgage portfolio during the period.

[Table of Contents](#)

Real Estate Services

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Real estate services fees, net	\$ 921	\$ 711	\$ 210	30 %
Personnel expense	(273)	(282)	9	3
General, administrative and other	(68)	(90)	22	24
Earnings before income taxes	<u>\$ 580</u>	<u>\$ 339</u>	<u>\$ 241</u>	71 %

For the three months ended September 30, 2019, real estate services fees, net were \$921 thousand compared to \$711 in the comparable 2018 period. The \$210 thousand increase in real estate services fees, net was the result of a \$244 thousand increase in loss mitigation fees and a \$90 increase in real estate service fees partially offset by a \$124 thousand reduction in real estate and recovery fees. The increase in loss mitigation and real estate service fees was attributable to an increase in loss mitigation work associated with certain multifamily properties within the long term portfolio. Partially offsetting the increase was a reduction in real estate and recovery fees as a result of the 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 September 30, 2019, the \$31 thousand reduction in personnel and general, administrative and other 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 the comparable period in 2018.

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Real estate services fees, net	\$ 2,534	\$ 3,134	\$ (600)	(19)%
Personnel expense	(874)	(1,326)	452	34
General, administrative and other	(199)	(275)	76	28
Earnings before income taxes	<u>\$ 1,461</u>	<u>\$ 1,533</u>	<u>\$ (72)</u>	(5)%

For the nine months ended September 30, 2019, real estate services fees, net were \$2.5 million compared to \$3.1 million in the comparable 2018 period. The \$600 thousand decrease in real estate services fees, net was the result of a \$661 thousand decrease in real estate and recovery fees and a \$40 thousand decrease in real estate service fees partially offset by a \$101 thousand increase in loss mitigation fees. The overall 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 nine months ended September 30, 2019, the \$528 thousand reduction in personnel and general, administrative and other 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

[Table of Contents](#)

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.

	For the Three Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Interest expense	\$ (448)	\$ (459)	\$ 11	2 %
Other expenses	(3,379)	(6,463)	3,084	48
Net loss before income taxes	<u>\$ (3,827)</u>	<u>\$ (6,922)</u>	<u>\$ 3,095</u>	<u>45 %</u>

For the three months ended September 30, 2019, other expenses decreased to \$3.4 million as compared to \$6.5 million for the comparable 2018 period. The decrease was primarily due to a reduction in personnel costs and professional fees, legal fees and occupancy costs. During the three months ended September 30, 2019, personnel costs and professional fees decreased \$1.8 million associated with the repositioning of the executive management team as compared to 2018. Legal fees decreased \$757 thousand for the three months ended September 30, 2019, associated with 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. Additionally, occupancy expense decreased \$466 thousand for the three months ended September 30, 2019, as compared to the same period in 2018.

	For the Nine Months Ended September 30,			
	2019	2018	Increase (Decrease)	% Change
Interest expense	\$ (1,357)	\$ (1,343)	\$ (14)	(1)%
Other expenses	(11,292)	(16,776)	5,484	33
Net loss before income taxes	<u>\$ (12,649)</u>	<u>\$ (18,119)</u>	<u>\$ 5,470</u>	<u>30 %</u>

For the nine months ended September 30, 2019, other expenses decreased to \$11.3 million as compared to \$16.8 million for the comparable 2018 period. The decrease was primarily due to a \$5.6 million reduction in legal fees associated with 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 expense was partially offset by a \$265 increase in other general and administrative expenses during the year.

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 September 30, 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 September 30, 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 12 – 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

None.

ITEM 6: EXHIBITS

(a)	Exhibits:
10.1	Confidential Separation and Release Agreement executed August 14, 2019 between Rian Furey and Impac Mortgage Holdings, Inc. (incorporated by reference to exhibit 10.1 of the Company’s Current Report on Form 8-K filed with the SEC on August 19, 2019)
31.1	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.
31.2	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.
32.1*	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.
101	The following materials from Impac Mortgage Holdings, Inc.’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss), (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)

November 8, 2019

/s/ PAUL LICON

Paul Licon
Chief Accounting Officer
(authorized officer of registrant and Principal Accounting Officer)

November 8, 2019

Exhibit 31.1

CERTIFICATION

I, George A. 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 A. MANGIARACINA

George A. Mangiaracina

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
November 8, 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 September 30, 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 A. MANGIARACINA

George Mangiaracina
Chief Executive Officer
November 8, 2019

/s/ BRIAN KUELBS

Brian Kuelbs
Chief Financial Officer
November 8, 2019
