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

# FORM 10-Q

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

**For the quarterly period ended June 30, 2014**

**or**

**o 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** | **33-0675505** |
| (State or other jurisdiction of incorporation or organization) | (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)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company x |

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

There were 9,401,822 shares of common stock outstanding as of August 8, 2014.



**IMPAC MORTGAGE HOLDINGS, INC.**

**FORM 10-Q QUARTERLY REPORT**
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## PART I. FINANCIAL INFORMATION

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands, except share data)**

| | June 30, 2014 (Unaudited) | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 21,091 | $ 9,969 |
| Restricted cash | 1,907 | 1,467 |
| Mortgage loans held-for-sale | 120,285 | 129,191 |
| Mortgage servicing rights | 16,166 | 35,981 |
| Securitized mortgage trust assets | 5,530,444 | 5,513,166 |
| Assets of discontinued operations | 1,050 | 2,277 |
| Other assets | 29,037 | 26,274 |
| Total assets | $ 5,719,980 | $ 5,718,325 |
| **LIABILITIES** | | |
| Warehouse borrowings | $ 111,227 | $ 119,634 |
| Convertible notes | 20,000 | 20,000 |
| Long-term debt | 17,555 | 15,871 |
| Securitized mortgage trust liabilities | 5,515,578 | 5,502,585 |
| Liabilities of discontinued operations | 6,646 | 12,883 |
| Other liabilities | 23,197 | 21,481 |
| Total liabilities | 5,694,203 | 5,692,454 |
| | | |
| 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 $16,640; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively | 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 June 30, 2014 and December 31, 2013, respectively | 14 | 14 |
| Common stock, $0.01 par value; 200,000,000 shares authorized; 9,321,368 and 8,988,910 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively | 93 | 90 |
| Additional paid-in capital | 1,086,960 | 1,084,173 |
| Net accumulated deficit: | — | — |
| Cumulative dividends declared | (822,520) | (822,520) |
| Retained deficit | (238,777) | (235,893) |
| Net accumulated deficit | (1,061,297) | (1,058,413) |
| Total stockholders' equity | 25,777 | 25,871 |
| Total liabilities and stockholders' equity | $ 5,719,980 | $ 5,718,325 |

See accompanying notes to consolidated financial statements





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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Revenues:** | | | | |
| Gain on sale of loans, net | $ 6,534 | $ 20,458 | $ 11,126 | $ 37,930 |
| Real estate services fees, net | 4,360 | 5,155 | 8,039 | 9,583 |
| Servicing income, net | 1,291 | 931 | 2,859 | 1,941 |
| (Loss) gain on mortgage servicing rights | (1,564) | 2,004 | (2,541) | 3,182 |
| Other | 84 | 375 | 1,468 | 954 |
| Total revenues | 10,705 | 28,923 | 20,951 | 53,590 |
| **Expenses:** | | | | |
| Personnel expense | 9,319 | 18,891 | 18,779 | 36,654 |
| General, administrative and other | 4,555 | 6,484 | 9,928 | 13,206 |
| Total expenses | 13,874 | 25,375 | 28,707 | 49,860 |
| **Other income (expense):** | | | | |
| Interest income | 68,962 | 77,526 | 140,982 | 166,656 |
| Interest expense | (69,058) | (77,733) | (141,391) | (166,419) |
| Change in fair value of long-term debt | 226 | (478) | (424) | (527) |
| Change in fair value of net trust assets, including trust REO gains (losses) | 4,711 | (607) | 7,749 | (2,106) |
| Total other income (expense) | 4,841 | (1,292) | 6,916 | (2,396) |
| Earnings (loss) from continuing operations before income taxes | 1,672 | 2,256 | (840) | 1,334 |
| Income tax expense (benefit) from continuing operations | 756 | 32 | 1,098 | (1,056) |
| Net earnings (loss) from continuing operations | 916 | 2,224 | (1,938) | 2,390 |
| Loss from discontinued operations, net of tax | (834) | (933) | (946) | (1,774) |
| Net earnings (loss) | 82 | 1,291 | (2,884) | 616 |
| Net earnings attributable to noncontrolling interest | — | (73) | — | (136) |
| Net earnings (loss) attributable to common stockholders | $ 82 | $ 1,218 | $ (2,884) | $ 480 |
| | | | | |
| Earnings (loss) per common share - basic: | | | | |
| Earnings (loss) from continuing operations attributable to IMH | $ 0.10 | $ 0.25 | $ (0.21) | $ 0.27 |
| Loss from discontinued operations | (0.09) | (0.11) | (0.10) | (0.21) |
| Net earnings (loss) per share available to common stockholders | $ 0.01 | $ 0.14 | $ (0.31) | $ 0.06 |
| | | | | |
| Earnings (loss) per common share - diluted: | | | | |
| Earnings (loss) from continuing operations attributable to IMH | $ 0.10 | $ 0.24 | $ (0.21) | $ 0.27 |
| Loss from discontinued operations | (0.09) | (0.10) | (0.10) | (0.19) |
| Net earnings (loss) per share available to common stockholders | $ 0.01 | $ 0.14 | $ (0.31) | $ 0.08 |

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

| | For the Six Months Ended June 30, 2014 | For the Six Months Ended June 30, 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net (loss) earnings | $ (2,884) | $ 616 |
| Gain on sale of MSRs | (1,182) | (116) |
| Change in fair value of mortgage servicing rights | 3,723 | (3,066) |
| Gain on sale of AmeriHome | (1,208) | — |
| Gain on sale of loans | (8,746) | (42,536) |
| Change in fair value of mortgage loans held-for-sale | (2,809) | 5,671 |
| Change in fair value of derivatives lending, net | (85) | (2,046) |
| Provision for repurchases | 514 | 982 |
| Origination of mortgage loans held-for-sale | (814,781) | (1,417,171) |
| Sale and principal reduction on mortgage loans held-for-sale | 826,917 | 1,375,416 |
| Gains from REO | (9,024) | (5,556) |
| Change in fair value of net trust assets, excluding REO | (1,327) | 4,215 |
| Change in fair value of long-term debt | 424 | 527 |
| Accretion of interest income and expense | 93,418 | 112,219 |
| Change in REO impairment reserve | 6,307 | 2,068 |
| Amortization of debt issuance costs and discount on note payable | 24 | 7 |
| Stock-based compensation | 810 | 816 |
| Net change in restricted cash | (440) | 1,735 |
| Net cash used in operating activities of discontinued operations | (4,075) | (6,661) |
| Net change in other assets and liabilities | 2,257 | (2,061) |
| Net cash provided by operating activities | 87,833 | 25,059 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Net change in securitized mortgage collateral | 305,305 | 386,089 |
| Proceeds from the sale of mortgage servicing rights | 18,153 | 3,104 |
| Finance receivable advances to customers | (19,251) | — |
| Repayments of finance receivables | 15,277 | — |
| Net change in mortgages held-for-investment | 3 | (17) |
| Purchase of premises and equipment | (15) | (368) |
| Net principal change on investment securities available-for-sale | 46 | 46 |
| Proceeds from the sale of REO | 18,467 | 29,346 |
| Proceeds from the sale of AmeriHome | 10,200 | — |
| Net cash provided by investing activities | 348,185 | 418,200 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Repayment of warehouse borrowings | (755,437) | (1,283,441) |
| Borrowings under warehouse agreement | 747,030 | 1,353,115 |
| Repayment of line of credit | (10,500) | (5,500) |
| Borrowings under line of credit | 11,500 | 5,500 |
| Repayment of securitized mortgage borrowings | (416,216) | (524,813) |
| Issuance of Convertible Notes | — | 20,000 |
| Principal payments on notes payable | — | (3,371) |
| Principal payments on capital lease | (370) | (282) |
| Capitalized debt issuance costs | — | (259) |
| Proceeds from exercise of stock options | 32 | 143 |
| Net cash used in financing activities | (423,961) | (438,908) |
| Net change in cash and cash equivalents | 12,057 | 4,351 |
| Cash and cash equivalents at beginning of year | 9,969 | 12,755 |
| Cash and cash equivalents at end of period - continuing operations | 21,091 | 17,067 |
| Cash and cash equivalents at end of period - discontinued operations | 935 | 39 |
| Cash and cash equivalents at end of period | $ 22,026 | $ 17,106 |
| **NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):** | | |
| Transfer of securitized mortgage collateral to real estate owned | $ 16,456 | $ 21,689 |
| Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities | 8,325 | 11,275 |
| Common stock issued upon legal settlement | 1,948 | 2,135 |
| Increase in ownership of AmeriHome | — | 46 |
| Acquisition of equipment purchased through capital leases | 453 | 418 |

See accompanying notes to consolidated financial statements





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

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

### *Business Summary*

Impac Mortgage Holdings, Inc. (the Company or IMH) is a Maryland corporation incorporated in August 1995 and has the following subsidiaries: Integrated Real Estate Service Corporation (IRES), IMH Assets Corp. (IMH Assets) and Impac Funding Corporation (IFC).

The Company's continuing operations include mortgage lending and real estate services conducted by IRES and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets). The discontinued operations include the former non-conforming mortgage operations conducted by IFC and subsidiaries.

The information set forth in these notes is presented on a continuing operations basis, unless otherwise stated.

### *Financial Statement Presentation*

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013, filed with the United States Securities and Exchange Commission (SEC).

All significant inter-company 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 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. The 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 servicing rights, mortgage loans held-for-sale and interest rate lock commitments. Actual results could differ from those estimates and assumptions.

### *Recent Accounting Pronouncements*

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. The Company will be required to adopt this ASU beginning with the quarter ending March 31, 2015. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.





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

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Government (1) | $ 66,486 | $ 81,292 |
| Conventional (2) | 47,394 | 44,303 |
| Fair value adjustment | 6,405 | 3,596 |
| Total mortgage loans held-for-sale | $ 120,285 | $ 129,191 |

(1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).
(2) Includes loans eligible for sale to Fannie Mae and Freddie Mac.

Gain on loans held-for-sale (LHFS) is comprised of the following for the three and six months ended June 30, 2014 and 2013:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Gain on sale of mortgage loans | $ 18,963 | $ 21,575 | $ 32,760 | $ 43,776 |
| Premium from servicing retained loan sales | 4,562 | 6,412 | 8,325 | 11,275 |
| Unrealized gains from derivative financial instruments | 423 | 3,064 | 85 | 2,046 |
| Realized (losses) gains from derivative financial instruments | (3,972) | 8,492 | (6,143) | 10,637 |
| Mark to market gain (loss) on LHFS | 2,270 | (5,536) | 2,809 | (5,671) |
| Direct origination expenses, net | (15,457) | (12,959) | (26,196) | (23,151) |
| Provision for repurchases | (255) | (590) | (514) | (982) |
| Total gain on sale of loans, net | $ 6,534 | $ 20,458 | $ 11,126 | $ 37,930 |

**Note 3.—Mortgage Servicing Rights**

The Company retains mortgage servicing rights (MSRs) from its sales of certain mortgage loans. MSRs are reported at fair value based on the income derived from the net positive cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the unpaid principal balances (UPB) of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or 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, 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 six months ending June 30, 2014 and 2013:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Balance at beginning of period | $ 35,981 | $ 10,703 |
| Additions from servicing retained loan sales | 8,325 | 11,275 |
| Reductions from bulk sales | (16,971) | (2,988) |
| Reduction from sale of AmeriHome | (7,446) | — |
| Changes in fair value (1) | (3,723) | 3,066 |
| Fair value of MSRs at end of period | $ 16,166 | $ 22,056 |

(1) Changes in fair value are included within other total revenues in the consolidated statements of operations.



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At June 30, 2014 and December 31, 2013, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Government | $ 483,715 | $ 1,203,478 |
| Conventional | 2,131,685 | 1,837,475 |
| 2010 Acquisition of AmeriHome (1) | — | 87,693 |
| Servicing sold but not transferred | (1,043,454) | — |
| Total loans serviced | $ 1,571,946 | $ 3,128,646 |

(1) Represents servicing portfolio acquired in the 2010 acquisition of AmeriHome and includes government and conventional loans originated by AmeriHome prior to the Company's acquisition. During March 2014, the Company sold AmeriHome. See Note 14. *Sale of AmeriHome* for more details.

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 | June 30, 2014 |
|---|---|
| Fair value of MSRs | $ 16,166 |
| Prepayment Speed: | |
| Decrease in fair value from 100 basis point (bp) adverse change | (585) |
| Decrease in fair value from 200 bp adverse change | (1,166) |
| Discount Rate: | |
| Decrease in fair value from 100 bp adverse change | (587) |
| Decrease in fair value from 200 bp adverse change | (1,135) |

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.

(Loss) gain on mortgage servicing rights are comprised of the following for the three and six months ended June 30, 2014 and 2013:

| | For the Three Months Ended June 30, 2014 | For the Three Months Ended June 30, 2013 | For the Six Months Ended June 30, 2014 | For the Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Gain on sale of mortgage servicing rights | $ 1,198 | $ 155 | $ 1,182 | $ 116 |
| Change in fair value of mortgage servicing rights | (2,762) | 1,849 | (3,723) | 3,066 |
| (Loss) gain on mortgage servicing rights | $ (1,564) | $ 2,004 | $ (2,541) | $ 3,182 |

During the three months ended June 30, 2014, the Company sold $1.0 billion in UPB of servicing at a gain of $1.2 million. The Company also recorded change in fair value loss of $2.8 million for the remaining unsold mortgage servicing rights at June 30, 2014. The change in fair value was primarily due to the decline in mortgage rates in the second quarter.



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**Note 4.—Warehouse Borrowings**

The Company, through its subsidiaries, is a party to four Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are used to fund, and are secured by, residential mortgage loans that are held for sale.

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

| | Maximum Borrowing Capacity | Balance Outstanding At June 30, 2014 | Balance Outstanding At December 31, 2013 |
|---|---|---|---|
| **Short-term borrowings:** | | | |
| Repurchase agreement 1 (1) | $ 100,000 | $ 33,771 | $ 50,794 |
| Repurchase agreement 2 (2) | 40,000 | 14,899 | 19,493 |
| Repurchase agreement 3 (3) | 50,000 | 11,244 | 15,592 |
| Repurchase agreement 4 (4) | 125,000 | 51,313 | 33,755 |
| Total short-term borrowings | $ 315,000 | $ 111,227 | $ 119,634 |

(1) In June 2014, the maturity was extended to June 2015 and the maximum borrowing capacity increased from $75.0 million to $100.0 million.
(2) In June 2014, the maturity was extended to May 2015.
(3) In June 2014, the maturity was extended to September 2014.
(4) As part of the agreement, the Company has a $40 million sublimit for re-warehousing.

**Note 5.—Convertible Notes**

In April 2013, the Company entered into a Note Purchase Agreement with the purchasers named therein (Noteholders), whereby the Company issued $20.0 million in original aggregate principal amount of Convertible Promissory Notes Due 2018 (Convertible Notes). The Convertible Notes mature on or before April 30, 2018 and accrue interest at a rate of 7.5% per annum, to be paid quarterly.

**Note 6.—Line of Credit Agreement**

In June 2014, the Company, through its subsidiaries, amended the $4.0 million working capital line of credit agreement with a national bank at an interest rate of one-month LIBOR plus 3.50% extending the expiration to June 2015. Under the terms of the agreement the Company and its subsidiaries are required to maintain various financial and other covenants. There was a $4.0 million outstanding balance on the working capital line of credit as of June 30, 2014, which is included in other liabilities in the accompanying consolidated balance sheets.

**Note 7.—Securitized Mortgage Trusts**

*Trust Assets*

Trust assets, which are recorded at fair value, are comprised of the following at June 30, 2014 and December 31, 2013:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Securitized mortgage collateral | $ 5,510,741 | $ 5,494,152 |
| Real estate owned | 19,612 | 18,906 |
| Investment securities available-for-sale | 91 | 108 |
| Total trust assets | $ 5,530,444 | $ 5,513,166 |



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*Trust Liabilities*

Trust liabilities, which are recorded at fair value, are comprised of the following at June 30, 2014 and December 31, 2013:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Securitized mortgage borrowings | $ 5,507,629 | $ 5,492,371 |
| Derivative liabilities | 7,949 | 10,214 |
| Total trust liabilities | $ 5,515,578 | $ 5,502,585 |

*Change in fair value of net trust assets, including trust real estate owned (REO) gains (losses)*

Changes in fair value of net trust assets, including trust REO gains (losses) are comprised of the following for the three and six months ended June 30, 2014 and 2013:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Change in fair value of net trust assets, excluding REO | $ 1,769 | $ (2,953) | $ (1,275) | $ (7,662) |
| Gains from REO | 2,942 | 2,346 | 9,024 | 5,556 |
| Change in fair value of net trust assets, including trust REO gains (losses) | $ 4,711 | $ (607) | $ 7,749 | $ (2,106) |

**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:

| | June 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 21,091 | $ 21,091 | $ — | $ — | $ 9,969 | $ 9,969 | $ — | $ — |
| Restricted cash | 1,907 | 1,907 | — | — | 1,467 | 1,467 | — | — |
| Mortgage loans held-for-sale | 120,285 | — | 120,285 | — | 129,191 | — | 129,191 | — |
| Finance receivables | 4,305 | — | 4,305 | — | — | — | — | — |
| Mortgage servicing rights | 16,166 | — | — | 16,166 | 35,981 | — | — | 35,981 |
| Derivative assets, lending, net | 3,073 | — | — | 3,073 | 1,992 | — | 1,079 | 913 |
| Investment securities available-for-sale | 91 | — | — | 91 | 108 | — | — | 108 |
| Securitized mortgage collateral | 5,510,741 | — | — | 5,510,741 | 5,494,152 | — | — | 5,494,152 |
| **Liabilities** | | | | | | | | |
| Warehouse borrowings | $ 111,227 | $ — | $ 111,227 | $ — | $ 119,634 | $ — | $ 119,634 | $ — |
| Convertible notes | 20,000 | — | — | 20,000 | 20,000 | — | — | 20,000 |
| Long-term debt | 17,555 | — | — | 17,555 | 15,871 | — | — | 15,871 |
| Securitized mortgage borrowings | 5,507,629 | — | — | 5,507,629 | 5,492,371 | — | — | 5,492,371 |
| Derivative liabilities, securitized trusts | 7,949 | — | — | 7,949 | 10,214 | — | — | 10,214 |
| Derivative liabilities, lending, net | 1,007 | — | 1,007 | — | — | — | — | — |
| Line of credit | 4,000 | — | 4,000 | — | 3,000 | — | 3,000 | — |

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.



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

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

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

Finance receivables borrowings carrying amounts approximates fair value due to the short-term nature of the assets and do not present unanticipated interest rate or credit concerns.

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. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

Line of credit carrying amount approximates fair value due to the short-term nature of the liability and does not present unanticipated interest rate or credit concerns.

***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 investment securities available-for-sale, securitized mortgage collateral and borrowings, net derivative liabilities, securitized trusts, long-term debt, interest rate lock commitments (IRLCs) and mortgage servicing rights as Level 3 fair value measurements. Level 3 assets and liabilities were 98% and 99% and 98% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at June 30, 2014 and December 31, 2013.

***Recurring Fair Value Measurements***

The Company assesses the financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three and six months ended June 30, 2014.



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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 June 30, 2014 and December 31, 2013, based on the fair value hierarchy:

| | Recurring Fair Value Measurements | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2014 | | | December 31, 2013 | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | | | |
| Investment securities available-for-sale | $ — | $ — | $ 91 | $ — | $ — | $ 108 |
| Mortgage loans held-for-sale | — | 120,285 | — | — | 129,191 | — |
| Derivative assets, lending, net (1) | — | — | 3,073 | — | 1,079 | 913 |
| Mortgage servicing rights | — | — | 16,166 | — | — | 35,981 |
| Securitized mortgage collateral | — | — | 5,510,741 | — | — | 5,494,152 |
| Total assets at fair value | $ — | $ 120,285 | $ 5,530,071 | $ — | $ 130,270 | $ 5,531,154 |
| **Liabilities** | | | | | | |
| Securitized mortgage borrowings | $ — | $ — | $ 5,507,629 | $ — | $ — | $ 5,492,371 |
| Derivative liabilities, securitized trusts (2) | — | — | 7,949 | — | — | 10,214 |
| Long-term debt | — | — | 17,555 | — | — | 15,871 |
| Derivative liabilities, lending, net (3) | — | 1,007 | — | — | — | — |
| Total liabilities at fair value | $ — | $ 1,007 | $ 5,533,133 | $ — | $ — | $ 5,518,456 |

(1) At June 30, 2014, derivative assets, lending, net included $3.1 million in IRLCs associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2013, derivative assets, lending, net included $913 thousand in IRLCs and $1.1 million in hedging instruments, respectively, associated with the Company's mortgage lending operations, and is included in other assets and other liabilities in the accompanying consolidated balance sheets.
(2) At June 30, 2014, derivative liabilities, securitized trusts, included $7.9 million in interest rate swaps and caps, included within trust liabilities. At December 31, 2013, derivative liabilities, securitized trusts, included $10.2 million in interest rate swaps and caps, included within trust liabilities.
(3) At June 30, 2014, derivative liabilities, lending, included $1.0 million in hedging instruments associated with the Company's mortgage lending operations and is 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 and six months ended June 30, 2014 and 2013:

| | Level 3 Recurring Fair Value Measurements | | | | | | |
|---|---|---|---|---|---|---|---|
| | For the three months ended June 30, 2014 | | | | | | |
| | Investment securities available-for-sale | Securitized mortgage collateral | Securitized mortgage borrowings | Derivative liabilities, net, securitized trusts | Mortgage servicing rights | Interest rate lock commitments, net | Long-term debt |
| Fair value, March 31, 2014 | $ 104 | $ 5,460,516 | $ (5,461,058) | $ (9,145) | $ 25,079 | $ 1,415 | $ (17,235) |
| Total gains (losses) included in earnings: | | | | | | | |
| Interest income (1) | 6 | 11,140 | — | — | — | — | — |
| Interest expense (1) | — | — | (54,953) | — | — | — | (546) |
| Change in fair value | 16 | 207,509 | (205,491) | (265) | (2,762) | 1,658 | 226 |
| Total gains (losses) included in | 22 | 218,649 | (260,444) | (265) | (2,762) | 1,658 | (320) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| earnings | | | | | | | |
| Transfers in and/or out of Level 3 | — | — | — | — | — | — | — |
| Purchases, issuances and settlements | | | | | | | |
| Purchases | — | — | — | — | — | — | — |
| Issuances | — | — | — | — | 4,562 | — | — |
| Settlements | (35) | (168,424) | 213,873 | 1,461 | (10,713) | — | — |
| Fair value, June 30, 2014 | $ 91 | $ 5,510,741 | $ (5,507,629) | $ (7,949) | $ 16,166 | $ 3,073 | $ (17,555) |
| Unrealized gains (losses) still held (2) | $ 81 | $ (1,473,345) | $ 3,618,576 | $ (7,464) | $ 16,166 | $ 3,073 | $ 53,208 |

(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. The net interest income, including cash received and paid, was $1.2 million for the three months ended June 30, 2014. 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) 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 June 30, 2014.



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| | Level 3 Recurring Fair Value Measurements For the three months ended June 30, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment securities available-for-sale | Securitized mortgage collateral | Securitized mortgage borrowings | Derivative liabilities, net, securitized trusts | Mortgage servicing rights | Interest rate lock commitments, net | Call option | Put option | Long-term debt |
| Fair value, March 31, 2013 | $ 160 | $ 5,824,111 | $ (5,819,460) | $ (15,387) | $ 15,599 | $ 3,579 | $ 479 | $ — | $ (13,336) |
| Total gains (losses) included in earnings: | | | | | | | | | |
| Interest income (1) | 8 | 5,740 | — | — | — | — | — | — | — |
| Interest expense (1) | — | — | (60,486) | — | — | — | — | — | (585) |
| Change in fair value | (47) | 4,266 | (7,594) | 422 | 1,849 | (3,279) | — | — | (478) |
| Total gains (losses) included in earnings | (39) | 10,006 | (68,080) | 422 | 1,849 | (3,279) | — | — | (1,063) |
| Transfers in and/or out of Level 3 | — | — | — | — | — | | — | — | — |
| Purchases, issuances and settlements | | | | | | | | | |
| Purchases | — | — | — | — | | | — | — | — |
| Issuances | — | — | — | — | 6,412 | — | — | — | — |
| Settlements | (11) | (194,131) | 255,791 | 1,689 | (1,804) | — | — | — | — |
| Fair value, June 30, 2013 | $ 110 | $ 5,639,986 | $ (5,631,749) | $ (13,276) | $ 22,056 | $ 300 | $ 479 | $ — | $ (14,399) |
| Unrealized gains (losses) still held (2) | $ 64 | $ (2,251,607) | $ 4,381,060 | $ (12,629) | $ 22,056 | $ 300 | $ 479 | $ — | $ 56,364 |

(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. The net interest income, including cash received and paid, was $1.3 million for the three months ended June 30, 2013. 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) 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 June 30, 2013.

| | Level 3 Recurring Fair Value Measurements For the six months ended June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment securities available-for-sale | Securitized mortgage collateral | Securitized mortgage borrowings | Derivative liabilities, net, securitized trusts | Mortgage servicing rights | Interest rate lock commitments, net | Long-term debt |
| Fair value, December 31, 2013 | $ 108 | $ 5,494,152 | $ (5,492,371) | $ (10,214) | $ 35,981 | $ 913 | $ (15,871) |
| Total gains (losses) included in earnings: | | | | | | | |
| Interest income (1) | 13 | 20,956 | — | — | — | — | — |
| Interest expense (1) | — | — | (113,127) | — | — | — | (1,260) |
| Change in fair value | 16 | 317,394 | (318,259) | (426) | (3,723) | 2,171 | (424) |
| Total gains (losses) included in earnings | 29 | 338,350 | (431,386) | (426) | (3,723) | 2,171 | (1,684) |
| Transfers in and/or out of Level 3 | — | — | — | — | — | — | — |
| Purchases, issuances and settlements | | | | | | | |
| Purchases | — | — | — | — | — | — | — |
| Issuances | — | — | — | — | 8,325 | — | — |
| Settlements | (46) | (321,761) | 416,128 | 2,691 | (24,417) | (11) | — |
| Fair value, June 30, 2014 | $ 91 | $ 5,510,741 | $ (5,507,629) | $ (7,949) | $ 16,166 | $ 3,073 | $ (17,555) |

(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. The net interest income, including cash received and paid, was $2.2 million for the six months ended June 30, 2014. 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.



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| | Level 3 Recurring Fair Value Measurements For the six months ended June 30, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment securities available-for-sale | Securitized mortgage collateral | Securitized mortgage borrowings | Derivative liabilities, net, securitized trusts | Mortgage servicing rights | Interest rate lock commitments, net | Call option | Put option | Long-term debt |
| Fair value, December 31, 2012 | $ 110 | $ 5,787,884 | $ (5,777,456) | $ (17,163) | $ 10,703 | $ 3,970 | $ 368 | $ (1) | $ (12,731) |
| Total gains (losses) included in earnings: | | | | | | | | | |
| Interest income (1) | 19 | 21,152 | — | — | — | — | — | — | — |
| Interest expense (1) | — | — | (132,249) | — | — | — | — | — | (1,141) |
| Change in fair value | 27 | 238,728 | (246,799) | 382 | 3,066 | (3,670) | 111 | 1 | (527) |
| Total (losses) gains included in earnings | 46 | 259,880 | (379,048) | 382 | 3,066 | (3,670) | 111 | 1 | (1,668) |
| Transfers in and/or out of Level 3 | — | — | — | — | — | | — | — | — |
| Purchases, issuances and settlements | | | | | | | | | |
| Purchases | — | — | — | — | — | — | — | — | — |
| Issuances | — | — | — | — | 11,275 | — | — | — | — |
| Settlements | (46) | (407,778) | 524,755 | 3,505 | (2,988) | — | — | — | — |
| Fair value, June 30, 2013 | $ 110 | $ 5,639,986 | $ (5,631,749) | $ (13,276) | $ 22,056 | $ 300 | $ 479 | $ — | $ (14,399) |

(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. The net interest income, including cash received and paid, was $3.1 million for the six months ended June 30, 2013. 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.

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 non-recurring basis at June 30, 2014:

| Financial Instrument | Estimated Fair Value | Valuation Technique | Unobservable Input | Range of Inputs |
|---|---|---|---|---|
| **Assets and liabilities backed by real estate** | | | | |
| Investment securities available-for-sale, | $ 91 | DCF | Discount rates | 3.4 - 25.0% |
| Securitized mortgage collateral, and | 5,510,741 | | Prepayment rates | 0.8 - 29.5% |
| Securitized mortgage borrowings | (5,507,629) | | Default rates | 0.6 - 17.3% |
| | | | Loss severities | 7.0 - 58.4% |
| **Other assets and liabilities** | | | | |
| Mortgage servicing rights | $ 16,166 | DCF | Discount rate | 9.6 - 10.7% |
| | | | Prepayment rates | 6.0 - 14.6% |
| Derivative liabilities, net, securitized trusts | (7,949) | DCF | 1M forward LIBOR | 0.2 - 4.1% |
| Derivative assets - IRLCs, net | 3,073 | Market pricing | Pull -through rate | 36.0 - 98.0% |
| Long-term debt | (17,555) | DCF | Discount rate | 23.5% |
| Lease liability | (1,889) | DCF | Discount rate | 12.0% |

DCF = Discounted Cash Flow
1M = 1 Month

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 and six months ended June 30, 2014 and 2013:

| | Recurring Fair Value Measurements<br>Change in Fair Value Included in Net Earnings<br>For the three months ended June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Change in Fair Value of | | | | |
| | Interest Income (1) | Interest Expense (1) | Net Trust Assets | Long-term Debt | Other Revenue | Gain on sale of loans, net | Total |
| Investment securities available-for-sale | $ 6 | $ — | $ 16 | $ — | $ — | $ — | $ 22 |
| Securitized mortgage collateral | 11,140 | — | 207,509 | — | — | — | 218,649 |
| Securitized mortgage borrowings | — | (54,953) | (205,491) | — | — | — | (260,444) |
| Mortgage servicing rights | — | — | — | — | (2,762) | — | (2,762) |
| Derivative liabilities, net, securitized trusts | — | — | (265)(2) | — | — | — | (265) |
| Long-term debt | — | (546) | — | 226 | — | — | (320) |
| Mortgage loans held-for-sale | — | — | — | — | — | 2,270 | 2,270 |
| Derivative assets - IRLCs | — | — | — | — | — | 1,658 | 1,658 |
| Derivative liabilities - Hedging Instruments | — | — | — | — | — | (1,235) | (1,235) |
| **Total** | **$ 11,146** | **$ (55,499)** | **$ 1,769** | **$ 226** | **$ (2,762)** | **$ 2,693** | **$ (42,427)** |

(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 this amount is $1.1 million in changes in the fair value of derivative instruments, offset by $1.4 million in cash payments from the securitization trusts for the three months ended June 30, 2014.

| | Recurring Fair Value Measurements<br>Change in Fair Value Included in Net Loss<br>For the three months ended June 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Change in Fair Value of | | | | |
| | Interest Income (1) | Interest Expense (1) | Net Trust Assets | Long-term Debt | Other Revenue | Gain on sale of loans, net | Total |
| Investment securities available-for-sale | $ 8 | $ — | $ (47) | $ — | $ — | $ — | $ (39) |
| Securitized mortgage collateral | 5,740 | — | 4,266 | — | — | — | 10,006 |
| Securitized mortgage borrowings | — | (60,486) | (7,594) | — | — | — | (68,080) |
| Mortgage servicing rights | — | — | — | — | 1,849 | — | 1,849 |
| Derivative liabilities, net, securitized trusts | — | — | 422(2) | — | — | — | 422 |
| Long-term debt | — | (585) | — | (478) | — | — | (1,063) |
| Mortgage loans held-for-sale | — | — | — | — | — | (5,536) | (5,536) |
| Derivative assets - IRLCs | — | — | — | — | — | (3,279) | (3,279) |
| Derivative liabilities - Hedging Instruments | — | — | — | — | — | 6,343 | 6,343 |
| **Total** | **$ 5,748** | **$ (61,071)** | **$ (2,953)** | **$ (478)** | **$ 1,849** | **$ (2,472)** | **$ (59,377)** |

(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 this amount is $2.1 million in change in the fair value of derivative instruments, offset by $1.7 million in cash payments from the securitization trusts for the three months ended June 30, 2013.

| | Recurring Fair Value Measurements<br>Changes in Fair Value Included in Net Earnings<br>For the six months ended June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Change in Fair Value of | | | | |
| | Interest Income (1) | Interest Expense (1) | Net Trust Assets | Long-term Debt | Other Revenue | Gain on sale of loans, net | Total |
| Investment securities available-for-sale | $ 13 | $ — | $ 16 | $ — | $ — | $ — | $ 29 |
| Securitized mortgage collateral | 20,956 | — | 317,394 | — | — | — | 338,350 |
| Securitized mortgage borrowings | — | (113,127) | (318,259) | — | — | — | (431,386) |
| Mortgage servicing rights | — | — | — | — | (3,723) | — | (3,723) |
| Derivative liabilities, net, securitized trusts | — | — | (426)(2) | — | — | — | (426) |
| Long-term debt | — | (1,260) | — | (424) | — | — | (1,684) |
| Mortgage loans held-for-sale | — | — | — | — | — | 2,809 | 2,809 |
| Derivative assets - IRLCs | — | — | — | — | — | 2,171 | 2,171 |

| | Interest Income (1) | Interest Expense (1) | Net Trust Assets | Long-term Debt | Other Revenue | Gain on sale of loans, net | Total |
|---|---|---|---|---|---|---|---|
| Derivative liabilities - Hedging Instruments | — | — | — | — | — | (2,086) | (2,086) |
| **Total** | **$ 20,969** | **$ (114,387)** | **$ (1,275)(3)** | **$ (424)** | **$ (3,723)** | **$ 2,894** | **$ (95,946)** |

(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 this amount is $2.2 million in changes in the fair value of derivative instruments, offset by $2.6 million in cash payments from the securitization trusts for the six months ended June 30, 2014.
(3) For the six months ended June 30, 2014, change in the fair value of net trust assets, excluding REO was $(1.3) million. Excluded from the $1.3 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is $2.6 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.





| | Recurring Fair Value Measurements | | | | | | |
|---|---|---|---|---|---|---|---|
| | Changes in Fair Value Included in Net Earnings | | | | | | |
| | For the six months ended June 30, 2013 | | | | | | |
| | | | Change in Fair Value of | | | | |
| | Interest Income (1) | Interest Expense (1) | Net Trust Assets | Long-term Debt | Other Revenue | Gain on sale of loans, net | Total |
| Investment securities available-for-sale | $ 19 | $ — | $ 27 | $ — | $ — | $ — | $ 46 |
| Securitized mortgage collateral | 21,152 | — | 238,728 | — | — | — | 259,880 |
| Securitized mortgage borrowings | — | (132,249) | (246,799) | — | — | — | (379,048) |
| Mortgage servicing rights | — | — | — | — | 3,066 | — | 3,066 |
| Call option | — | — | — | — | 111 | — | 111 |
| Put option | — | — | — | — | 1 | — | 1 |
| Derivative liabilities, net, securitized trusts | — | — | 382(2) | — | — | — | 382 |
| Long-term debt | — | (1,141) | — | (527) | — | — | (1,668) |
| Mortgage loans held-for-sale | — | — | — | — | — | (5,671) | (5,671) |
| Derivative assets - IRLCs | — | — | — | — | — | (3,670) | (3,670) |
| Derivative liabilities - Hedging Instruments | — | — | — | — | — | 5,716 | 5,716 |
| **Total** | **$ 21,171** | **$ (133,390)** | **$ (7,662)(3)** | **$ (527)** | **$ 3,178** | **$ (3,625)** | **$ (120,855)** |

(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 this amount is $3.8 million in changes in the fair value of derivative instruments, offset by $3.4 million in cash payments from the securitization trusts for the six months ended June 30, 2013.
(3) For the six months ended June 30, 2013, change in the fair value of net trust assets, excluding REO was $(7.7) million. Excluded from the $4.2 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is $3.5 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

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

*Investment securities available-for-sale*—Investment securities available-for-sale are carried at fair value. The investment securities consist primarily of non-investment grade mortgage-backed securities. The fair value of the investment securities is measured based upon the Company's expectation of inputs that other market participants would use. Such assumptions include judgments about the underlying collateral, prepayment speeds, future credit losses, forward interest rates and certain other factors. Given the lack of observable market data as of June 30, 2014 and December 31, 2013 relating to these securities, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants' assumptions. Investment securities available-for-sale is considered a Level 3 measurement at June 30, 2014.

*Mortgage servicing rights*—The Company elected to carry its entire mortgage servicing rights arising from its mortgage loan origination operation at estimated fair value. The fair value of mortgage servicing rights 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 June 30, 2014.

*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 June 30, 2014.





*Securitized mortgage collateral*—The Company elected to carry all of 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 June 30, 2014, securitized mortgage collateral had an unpaid principal balance of $7.0 billion, compared to an estimated fair value on the Company's balance sheet of $5.5 billion. The aggregate unpaid principal balance exceeds the fair value by $1.5 billion at June 30, 2014. As of June 30, 2014, the unpaid principal balance of loans 90 days or more past due was $1.2 billion compared to an estimated fair value of $0.7 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by $0.5 billion at June 30, 2014. Securitized mortgage collateral is considered a Level 3 measurement at June 30, 2014.

*Securitized mortgage borrowings*—The Company elected to carry all of 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 June 30, 2014, securitized mortgage borrowings had an outstanding principal balance of $7.0 billion, net of $2.2 billion in bond losses, compared to an estimated fair value of $5.5 billion. The aggregate outstanding principal balance exceeds the fair value by $1.5 billion at June 30, 2014. Securitized mortgage borrowings are considered a Level 3 measurement at June 30, 2014.

*Long-term debt*—The Company elected to carry all of its long-term debt (consisting of trust preferred securities and junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of June 30, 2014, long-term debt had an unpaid principal balance of $70.5 million compared to an estimated fair value of $17.6 million. The aggregate unpaid principal balance exceeds the fair value by $52.9 million at June 30, 2014. The long-term debt is considered a Level 3 measurement at June 30, 2014.

*Derivative assets and liabilities, Securitized trusts*—For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair values measurements include the Company's judgments about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account the Company's own credit standing, to the extent applicable; thus, the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract. As of June 30, 2014, the notional balance of derivative assets and liabilities, securitized trusts was $109.5 million. These derivatives are included in the consolidated securitization trusts, which are nonrecourse to the Company, and thus the economic risk from these derivatives is limited to the Company's residual interests in the securitization trusts. Derivative assets and liabilities, securitized trusts are considered a Level 3 measurement at June 30, 2014.

*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. IRLCs and hedging instruments can be either assets or liabilities depending on interest rate fluctuations subsequent to entering into the commitments. IRLCs are entered into 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. Hedging instruments (typically TBA MBS) are used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date the loan is committed for sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at June 30, 2014.

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 June 30, 2014.



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

| | Notional Balance | | Total Gains (Losses) (1) For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | 2014 | 2013 | 2014 | 2013 |
| Derivative - IRLC's | $ 170,058 | $ 286,436 | $ 1,658 | $ (3,279) | $ 2,171 | $ (3,670) |
| Derivative - TBA's | 201,848 | 259,196 | (5,207) | 14,835 | (8,229) | 16,353 |

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

*Call/Put option*—As part of the initial acquisition of AmeriHome, the purchase agreement included a call option to purchase an additional 39% of AmeriHome and a put option which allows the noncontrolling interest holder to sell his then remaining 49% of AmeriHome to the Company in the event the Company does not exercise the call option. In June 2012 and January 2013, the Company and the noncontrolling interest holder entered into agreements to transfer an additional 27.5% and 1.5% ownership, respectively, of AmeriHome to the Company in exchange for the settlement of balances owed from the noncontrolling interest holder related to the Company for capital contributions made by the Company to AmeriHome and indemnification provisions included in the purchase agreement. In July 2013, the Company acquired the remaining 20% ownership of AmeriHome from the noncontrolling interest holder for $350 thousand in cash and $1.1 million in IMH common stock. As of December 31, 2013, the Company owned 100% of AmeriHome. The estimated fair values of the call and put options were based on models incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. AmeriHome was sold in March 2014. See Note 14. Sale of AmeriHome for more details.

***Nonrecurring Fair Value Measurements***

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

The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at June 30, 2014 and 2013, respectively:

| | Nonrecurring Fair Value Measurements June 30, 2014 | | | Total Gains (Losses) (3) | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | For the Three Months Ended June 30, 2014 | For the Six Months Ended June 30, 2014 |
| REO (1) | $ — | $ 1,430 | $ — | $ 2,942 | $ 9,024 |
| Lease liability (2) | — | — | (1,889) | (59) | (628) |

(1) Balance represents REO at June 30, 2014 which has been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three and six months ended June 30, 2014, the $2.9 million and $9.0 million gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

(2) For the three and six months ended June 30, 2014, the Company recorded $59 thousand and $628 thousand in impairment, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.
(3) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.

| | Non-recurring Fair Value Measurements June 30, 2013 | | | Total Gains (Losses) (3) | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | For the Three Months Ended June 30, 2013 | For the Six Months Ended June 30, 2013 |
| REO (1) | $ — | $ 5,536 | $ — | $ 2,346 | $ 5,530 |
| Lease liability (2) | — | — | (1,841) | (57) | (76) |

(1) Balance represents REO at June 30, 2013 which has been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three and six months ended June 30, 2013, the $2.3 million and $5.5 million gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.
(2) For the three and six months ended June 30, 2013, the Company recorded $57 thousand and $76 thousand in impairment, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.
(3) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.



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*Real estate owned*—REO consists of residential real estate 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 included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at June 30, 2014.

*Lease liability*—In connection with the discontinuation of our non-conforming lending and commercial operations, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. Additionally, the Company has office space at the continuing operations that is no longer occupied by the Company and we intend to sublease it. The Company has recorded a liability representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company's judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at June 30, 2014.

**Note 9.—Income Taxes**

In January 2013, the Company acquired additional ownership of its AmeriHome subsidiary bringing the Company's controlling interest to 80%. The increase in ownership allowed the Company to include AmeriHome in the IMH federal consolidated tax returns for 2013. During the first quarter of 2013, the Company recorded a $1.2 million tax benefit resulting from the use of net operating losses (NOL) to offset AmeriHome deferred tax liabilities.

Additionally, for the three and six months ended June 30, 2013 the Company recorded an expense of $32 thousand and $140 thousand, respectively, in state income tax expense primarily related to states where the Company does not have NOL carryforwards. For the three and six months ended June 30, 2014, the Company recorded an expense of $756 thousand and $1.1 million, respectively, primarily related to alternative minimum taxes associated with taxable income generated from the sale of AmeriHome and mortgage servicing rights. The Company cannot utilize its NOL carryforward on a small portion of its taxable income because statutory limits on the use of NOL's generates an alternative minimum tax liability.

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

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders (numerator) by the weighted average number of vested, common shares outstanding during the period (denominator). Diluted net income (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).



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| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Numerator for basic earnings (loss) per share:** | | | | |
| Earnings (loss) from continuing operations | $ 916 | $ 2,224 | $ (1,938) | $ 2,390 |
| Net earnings attributable to noncontrolling interest | — | (73) | — | (136) |
| Earnings (loss) from continuing operations attributable to IMH | 916 | 2,151 | (1,938) | 2,254 |
| Loss from discontinued operations | (834) | (933) | (946) | (1,774) |
| Net earnings (loss) attributable to IMH common stockholders | $ 82 | $ 1,218 | $ (2,884) | $ 480 |
| | | | | |
| **Numerator for diluted earnings (loss) per share:** | | | | |
| Earnings (loss) from continuing operations attributable to IMH | $ 916 | $ 2,151 | $ (1,938) | $ 2,254 |

| | | | | |
|---|---|---|---|---|
| Interest expense attributable to convertible notes | — | 261 | — | 261 |
| Earnings (loss) from continuing operations attributable to IMH plus interest expense attributable to convertible notes | 916 | 2,412 | (1,938) | 2,515 |
| Loss from discontinued operations | (834) | (933) | (946) | (1,774) |
| Net earnings (loss) attributable to IMH common stockholders plus interest expense attributable to convertible notes | $ 82 | $ 1,479 | $ (2,884) | $ 741 |
| **Denominator for basic earnings (loss) per share (1):** | | | | |
| Basic weighted average common shares outstanding during the year | 9,254 | 8,668 | 9,158 | 8,636 |
| **Denominator for diluted earnings (loss) per share (1):** | | | | |
| Basic weighted average common shares outstanding during the year | 9,254 | 8,668 | 9,158 | 8,636 |
| Net effect of dilutive convertible notes | — | 1,273 | — | 640 |
| Net effect of dilutive stock options and DSU's | 202 | 232 | — | 241 |
| Diluted weighted average common shares | 9,456 | 10,173 | 9,158 | 9,517 |
| Earnings (loss) per common share - basic: | | | | |
| Earnings (loss) from continuing operations attributable to IMH | $ 0.10 | $ 0.25 | $ (0.21) | $ 0.27 |
| Loss from discontinued operations | $ (0.09) | (0.11) | $ (0.10) | $ (0.21) |
| Net earnings (loss) per share available to common stockholders | $ 0.01 | $ 0.14 | $ (0.31) | $ 0.06 |
| Earnings (loss) per common share - diluted: | | | | |
| Earnings (loss) from continuing operations attributable to IMH | $ 0.10 | $ 0.24 | $ (0.21) | $ 0.27 |
| Loss from discontinued operations | (0.09) | (0.10) | (0.10) | (0.19) |
| Net earnings (loss) per share available to common stockholders | $ 0.01 | $ 0.14 | $ (0.31) | $ 0.08 |

(1) Number of shares presented in thousands.

The anti-dilutive stock options outstanding for the three and six months ended June 30, 2014 were 2.1 million and 2.6 million shares, respectively. The anti-dilutive stock options outstanding for the three and six months ended June 30, 2013 were 271 thousand shares. Included in the anti-dilutive shares for the three and six months ended June 30, 2014 are 1.8 million shares attributable to the Convertible Notes.

**Note 11.—Segment Reporting**

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





| **Statement of Operations Items for the three months ended June 30, 2014:** | **Mortgage Lending** | **Real Estate Services** | **Long-term Portfolio** | **Corporate and other** | **Consolidated** |
|---|---|---|---|---|---|
| Gain on sale of loans, net | $ 6,534 | $ — | $ — | $ — | $ 6,534 |
| Real estate services fees, net | — | 4,360 | — | — | 4,360 |
| Servicing income, net | 1,291 | — | — | — | 1,291 |
| Loss on mortgage servicing rights | (1,564) | — | — | — | (1,564) |
| Other revenue | 43 | — | 41 | — | 84 |
| Other income (expense) | 215 | — | 5,031 | (405) | 4,841 |
| Total expense | (8,608) | (1,534) | (265) | (3,467) | (13,874) |
| (Loss) earnings from continuing operations before income taxes | $ (2,089) | $ 2,826 | $ 4,807 | $ (3,872) | 1,672 |
| Income tax expense from continuing operations | | | | | 756 |
| Earnings from continuing operations | | | | | 916 |
| Loss from discontinued operations, net of tax | | | | | (834) |
| Net earnings | | | | | 82 |
| Net earnings attributable to noncontrolling interest | | | | | — |
| Net earnings attributable to common stockholders | | | | | $ 82 |

| **Statement of Operations Items for the three months ended June 30, 2013:** | **Mortgage Lending** | **Real Estate Services** | **Long-term Portfolio** | **Corporate and other** | **Consolidated** |
|---|---|---|---|---|---|
| Gain on sale of loans, net | $ 20,458 | $ — | $ — | $ — | $ 20,458 |
| Real estate services fees, net | — | 5,155 | — | — | 5,155 |
| Servicing income, net | 931 | — | — | — | 931 |

| | | | | | |
|---|---|---|---|---|---|
| Gain on mortgage servicing rights | 2,004 | — | — | — | 2,004 |
| Other revenue | — | — | 381 | (6) | 375 |
| Other income (expense) | (148) | 5 | (874) | (275) | (1,292) |
| Total expense | (19,882) | (1,818) | (415) | (3,260) | (25,375) |
| Earnings (loss) from continuing operations before income taxes | $ 3,363 | $ 3,342 | $ (908) | $ (3,541) | 2,256 |
| Income tax benefit from continuing operations | | | | | 32 |
| Earnings from continuing operations | | | | | 2,224 |
| Loss from discontinued operations, net of tax | | | | | (933) |
| Net earnings | | | | | 1,291 |
| Net earnings attributable to noncontrolling interest | | | | | (73) |
| Net earnings attributable to common stockholders | | | | | $ 1,218 |

| Statement of Operations Items for the six months ended June 30, 2014: | Mortgage Lending | Real Estate Services | Long-term Portfolio | Corporate and other | Consolidated |
|---|---|---|---|---|---|
| Gain on sale of loans, net | $ 11,126 | $ — | $ — | $ — | $ 11,126 |
| Real estate services fees, net | — | 8,039 | — | — | 8,039 |
| Servicing income, net | 2,859 | — | — | — | 2,859 |
| Loss on mortgage servicing rights | (2,541) | — | — | — | (2,541) |
| Other revenue | 1,257 | — | 211 | — | 1,468 |
| Other income (expense) | 371 | — | 7,351 | (806) | 6,916 |
| Total expense | (17,575) | (3,056) | (506) | (7,570) | (28,707) |
| (Loss) earnings from continuing operations before income taxes | $ (4,503) | $ 4,983 | $ 7,056 | $ (8,376) | (840) |
| Income tax expense from continuing operations | | | | | 1,098 |
| Loss from continuing operations | | | | | (1,938) |
| Loss from discontinued operations, net of tax | | | | | (946) |
| Net loss | | | | | (2,884) |
| Net earnings attributable to noncontrolling interest | | | | | — |
| Net loss attributable to common stockholders | | | | | $ (2,884) |





| Statement of Operations Items for the six months ended June 30, 2013: | Mortgage Lending | Real Estate Services | Long-term Portfolio | Corporate and other | Consolidated |
|---|---|---|---|---|---|
| Gain on sale of loans, net | $ 37,930 | $ — | $ — | $ — | $ 37,930 |
| Real estate services fees, net | — | 9,583 | — | — | 9,583 |
| Servicing income, net | 1,941 | — | — | — | 1,941 |
| Gain on mortgage servicing rights | 3,182 | — | — | — | 3,182 |
| Other revenue | 113 | — | 853 | (12) | 954 |
| Other income (expense) | (305) | 11 | (1,807) | (295) | (2,396) |
| Total expense | (39,389) | (4,032) | (934) | (5,505) | (49,860) |
| Earnings (loss) from continuing operations before income taxes | $ 3,472 | $ 5,562 | $ (1,888) | $ (5,812) | 1,334 |
| Income tax benefit from continuing operations | | | | | (1,056) |
| Earnings from continuing operations | | | | | 2,390 |
| Loss from discontinued operations, net of tax | | | | | (1,774) |
| Net earnings | | | | | 616 |
| Net earnings attributable to noncontrolling interest | | | | | (136) |
| Net earnings attributable to common stockholders | | | | | $ 480 |

| Balance Sheet Items as of: | Mortgage Lending | Real Estate Services | Long-term Mortgage Portfolio | Corporate and other | Discontinued Operations | Consolidated |
|---|---|---|---|---|---|---|
| **Total Assets at June 30, 2014** | $ 167,179 | $ 8,939 | $ 5,542,692 | $ 120 | $ 1,050 | $ 5,719,980 |
| **Total Assets at December 31, 2013** | $ 175,419 | $ 8,048 | $ 5,513,222 | $ 19,359 | $ 2,277 | $ 5,718,325 |

**Note 12.—Commitments and Contingencies**

*Legal Proceedings*

The Company is a defendant in or a party to 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. At June 30, 2014, the Company has a $1.9 million accrued liability recorded for such estimated loss exposure as explained below.

Based on the Company's current understanding of these pending legal actions and proceedings, management cannot ascertain whether the 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.

Updates to legal matters for the period ended June 30, 2014 are as follows:

On April 30, 2012 a purported class action was filed entitled Marentes v. Impac Mortgage Holdings, Inc., alleging that certain loan modification activities of the Company constitute an unfair business practice, false advertising and marketing, and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and prejudgment interest. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant and on October 2, 2012, the plaintiff dismissed Impac Mortgage Holdings, Inc., without prejudice. On December 27, 2012, the court granted IFC's motion to dismiss and on May 23, 2014, the court of appeals reversed the dismissal and the Company will file an appropriate response.





On January 30, 2012, a Summons with Notice was filed entitled Deutsche Zentral-Genossenschaftsbank AG New York Branch, dba DZ Bank AG, New York Branch v. JPMorgan Chase & Co., et al. Named as a defendant in that action is ISAC. On August 3, 2012, a Consolidated Complaint was filed in which the above matter was consolidated with two other cases by the same plaintiff and DG Holding Trust. The Consolidated Complaint alleges misrepresentations in connection with the marketing and sale of mortgage backed securities issued by ISAC that the plaintiff purchased and seeks rescission, damages, prejudgment interest, punitive damages, and attorney's fees in an amount to be proven at trial. Subsequent to the end of the quarter, on July 23, 2014, the parties entered into a settlement agreement whereby ISAC agreed to pay $120 thousand which is payable in installments.

We are a party to other litigation and claims which are normal in the course of our 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 above 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, 2013 and subsequent Form 10-Q filings for a description of litigation and claims.

*Repurchase Reserve*

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

During the six months ended June 30, 2014, the Company paid approximately $3.5 million to settle previous repurchase claims related to the discontinued operations. At June 30, 2014, the repurchase reserve within discontinued operations was $2.2 million as compared to $5.5 million at December 31, 2013. Additionally, the Company had approximately $4.1 million at June 30, 2014 and $4.0 million at December 31, 2013, in repurchase reserves related to the loans sold since early 2011 by the continuing mortgage lending operation.

*Short-Term Loan Commitments*

The Company uses a portion of the excess warehouse borrowing capacity to provide secured short-term revolving financing to small and medium-size mortgage originators to finance mortgage loans from the closing of the mortgage loans until sold to investors (Finance Receivables). As of June 30, 2014, the warehouse lending operations had committed warehouse lines to non-affiliated customers totaling $26 million and an outstanding balance of $4.3 million in finance receivables and none as of December 31, 2013. The finance receivables are secured by residential mortgage loans as well as personal guarantees and are included in other assets on the accompanying consolidated balance sheets.

**Note 13.—Share Based Payments**

There were 5,000 and no options granted during the six months ended June 30, 2014 and 2013, respectively.





The fair value of options granted, which is amortized to expense over the option vesting period, is estimated on the date of grant with the following weighted average assumptions:

| | | June 30, 2014 |
|---|---|---|
| Risk-free interest rate | | 1.79% |
| Expected lives (in years) | | 5.73 |
| Expected volatility (1) | | 75.93% |
| Expected dividend yield | | 0.00% |
| Fair value per share | $ | 4.46 |

(1) Expected volatilities are based on the volatility of the Company's stock over the expected option term, adjusted for expected mean reversion.

The following table summarizes activity, pricing and other information for the Company's stock options for the six months ended June 30, 2014:

| | Number of Shares | | Weighted-Average Exercise Price |
|---|---|---|---|
| Options outstanding at beginning of year | 787,132 | $ | 9.07 |
| Options granted | 5,000 | | 6.81 |
| Options exercised | (12,458) | | 2.54 |
| Options forfeited / cancelled | (45,257) | | 30.26 |
| Options outstanding at end of period | 734,417 | $ | 7.86 |
| Options exercisable at end of period | 399,505 | $ | 4.62 |

As of June 30, 2014, there was approximately $1.9 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 1.6 years.

For the six months ended June 30, 2014 and 2013, the aggregate grant-date fair value of stock options granted was approximately $22 thousand and none, respectively.

The following table summarizes activity, pricing and other information for the Company's DSU's, also referred to as deferred stock units as the issuance of the stock is deferred until termination of service, for the six months ended June 30, 2014:

| | Number of Shares | | Weighted-Average Grant Date Fair Value |
|---|---|---|---|
| DSU's outstanding at beginning of year | 72,000 | $ | 8.80 |
| DSU's granted | — | | — |
| DSU's exercised | — | | — |
| DSU's forfeited/cancelled | — | | — |
| DSU's outstanding at end of period | 72,000 | $ | 8.80 |

As of June 30, 2014, there was approximately $270 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 1.8 years.

**Note 14.—Sale of AmeriHome**

In March 2014, the Company sold AmeriHome for $10.2 million in cash, recording a gain of approximately $1.2 million, net of a deferred tax adjustment within other revenues in the consolidated statements of operations. In conjunction with the transaction, as required by Fannie Mae, the Company used $3.0 million of the proceeds to reduce the legacy repurchase liability with Fannie Mae.





**Note 15.—Subsequent Events**

On July 22, 2014, the stockholders of Impac Mortgage Holdings, Inc. (the "Company") approved an amendment to the Company's 2010 Omnibus Incentive Plan, as amended (the "Plan"), increasing the number of shares available under the Plan by 300,000 shares. Awards under the Plan may include incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares of common stock, restricted stock units, performance share or unit awards, other stock-based awards and cash-based incentive awards. The increase in shares available under the Plan is designed to enhance the flexibility in granting stock options and other awards to officers, employees, non-employee directors and other key persons and to ensure that the Company can continue to grant stock options and other awards to such persons at levels determined to be appropriate by the Company's compensation committee.

On July 24, 2014, the Company issued an additional 80,000 shares of common stock pursuant to the terms of a Settlement and Release Agreement dated January 10, 2014 with Wilmington Trust Company. Pursuant to the Settlement and Release Agreement, the Company agreed to pay Wilmington an aggregate of $1.05 million in installments, which can be paid in shares of common stock or cash at the Company's discretion, and the Company may be required to true-up proceeds from the sales of shares with the issuance of additional shares. The Company has previously issued an aggregate of 95,000 shares pursuant to the terms of the Settlement and Release Agreement.

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 subsidiaries, Integrated Real Estate Service Corporation (IRES), 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," "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: our ability to manage effectively our mortgage lending operations and increase mortgage originations; successful development, marketing, sale and financing of new mortgage products, including the non-Qualified Mortgage loan program; volatility in the mortgage industry; unexpected interest rate fluctuations and margin compression; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing, the terms of any financing 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, 2013, and other 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 new 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, 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, the Company attempts to present financial information in its Management's Discussion and Analysis of Financial Condition and Results of Operations that is the most relevant to its financial information.

**Market Update**

The U.S. economy continued its gradual recovery during the first half of 2014. While consumer confidence, buoyed by healthy job growth, began to increase during the second quarter of 2014 from the first quarter, it remained flat compared with December 31, 2013. Labor market conditions, household and business spending continue their modest improvement. Despite stronger economic data in various regions, credit market volatility, emerging market and geopolitical concerns continue to weigh on investor sentiment.

Housing markets in the U.S. continue to recover with the strength of recovery varying by market. Housing inventories are at their highest levels in over a year which has helped slow price gains in many regions during the second quarter of 2014. The significant backlog of properties in foreclosure will continue to play a key role in the housing recovery.





In the U.S., both economic data and corporate earnings were mixed, while the Federal Reserve Board announced further reductions in its bond buying stimulus program and updated its guidance on short-term interest rates, putting less weight on the unemployment rate and indicating that it would look at 'a broad range of economic indicators' in deciding when to start raising short-term interest rates.

**Selected Financial Results for the Three and Six Months Ended June 30, 2014 and 2013**

| | For the Three Months Ended | | | For the Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2014 | March 31, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| **Revenues:** | | | | | |
| Gain on sale of loans, net | $ 6,534 | $ 4,591 | $ 20,458 | $ 11,126 | $ 37,930 |
| Real estate services fees, net | 4,360 | 3,679 | 5,155 | 8,039 | 9,583 |
| Servicing income, net | 1,291 | 1,569 | 931 | 2,859 | 1,941 |
| (Loss) gain on mortgage servicing rights | (1,564) | (977) | 2,004 | (2,541) | 3,182 |

| | | | | | |
|---|---|---|---|---|---|
| Other | 84 | 1,383 | 375 | 1,468 | 954 |
| Total revenues | 10,705 | 10,245 | 28,923 | 20,951 | 53,590 |
| **Expenses:** | | | | | |
| Personnel expense | 9,319 | 9,460 | 18,891 | 18,779 | 36,654 |
| General, administrative and other | 4,555 | 5,372 | 6,484 | 9,928 | 13,206 |
| Total expenses | 13,874 | 14,832 | 25,375 | 28,707 | 49,860 |
| **Other income (expense):** | | | | | |
| Net interest (expense) income | (96) | (313) | (207) | (409) | 237 |
| Change in fair value of long-term debt | 226 | (650) | (478) | (424) | (527) |
| Change in fair value of net trust assets | 4,711 | 3,038 | (607) | 7,749 | (2,106) |
| Loss from discontinued operations, net of tax | (834) | (112) | (933) | (946) | (1,774) |
| Total other income (expense) | 4,007 | 1,963 | (2,225) | 5,970 | (4,170) |
| Net earnings (loss) before income taxes | 838 | (2,624) | 1,323 | (1,786) | (440) |
| Income tax expense (benefit) | 756 | 342 | 32 | 1,098 | (1,056) |
| Net earnings (loss) | $ 82 | $ (2,966) | $ 1,291 | $ (2,884) | $ 616 |
| | | | | | |
| Diluted earnings (loss) per share | $ 0.01 | $ (0.33) | $ 0.14 | $ (0.31) | $ 0.08 |

**Status of Operations**

*Summary Highlights*

- Mortgage lending volumes increased in the second quarter of 2014 to $465.2 million from $353.1 million in the first quarter of 2014 and decreased as compared to $780.1 million in the second quarter of 2013.
- Mortgage lending revenues and margins increased in the second quarter of 2014 to $6.5 million, or 140 bps, from $4.6 million, or 131 bps in the first quarter of 2014, and decreased as compared to $20.5 million, or 262 bps, in the second quarter of 2013.
- Mortgage servicing income decreased in the second quarter of 2014 to $1.3 million from $1.6 million in the first quarter of 2014, due to servicing sold in the first quarter, and increased as compared to $1.0 million in the second quarter of 2013.
- Mortgage servicing rights decreased $19.8 million to $16.2 million at June 30, 2014 as compared to $36.0 million at December 31, 2013. The decrease is due to bulk sale transactions of servicing rights totaling $1.6 billion in unpaid principal balance (UPB), and the sale of AmeriHome, which had servicing rights totaling $702.1 million in UPB. Partially offsetting the decrease was servicing retained loan sales of $807.0 million. At June 30, 2014, the servicing portfolio was $1.6 billion in UPB as compared to $3.1 billion at December 31, 2013.
- Real estate services revenue increased to $4.4 million in the second quarter of 2014 as compared to $3.7 million in the first quarter of 2014 as compared to $5.2 million in the second quarter of 2013.
- In our long-term mortgage portfolio, based on continued improved performance of the portfolio which was better than expected, we updated certain loss and discount rate assumptions at June 30, 2014 resulting in $4.8 million increase in the estimated fair value of the portfolio in the second quarter of 2014.
- Expenses decreased in the second quarter of 2014 to $13.9 million from $14.8 million in the first quarter of 2014, and as compared to $25.4 million in the second quarter of 2013.



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**Originations**
(in millions)

| For the three months ended | | | | |
|---|---|---|---|---|
| June 30, 2014 | March 31, 2014 | % Change | June 30, 2013 | % Change |
| $ 465.2 | $ 353.1 | 32% | $ 780.1 | -40% |

The decline in volumes and margins as compared to the prior year was primarily due to the sale of our retail branches at the end of 2013, which operated at a monthly loss of approximately $700 thousand. Excluding the production from our retail branches, the decline in our origination volumes was 18% in the second quarter of 2014 as compared to second quarter of 2013. Without this retail production, we had a higher concentration of correspondent and wholesale volume, which generally earn lower margins than retail but also incur lower operational costs. During the second quarter of 2014, lending volumes increased as compared to the first quarter of 2014, predominately due to the ongoing low interest rate environment, resulting in a 38% increase in wholesale and correspondent originations. Despite the higher concentration of correspondent and wholesale originations during the second quarter of 2014, mortgage lending margins improved over the first quarter due to a higher concentration of government loans, which have higher margins.

Purchase money transactions as a percentage of overall originations have increased in the second quarter of 2014 to 53%, as compared to 42% in the first quarter of 2014, and 39% in the second quarter of 2013. We believe the increase in purchase money transactions in the last two quarters was primarily a result of our recent focus in sales and operations to provide a better purchase transaction related customer service experience.

**Originations by Channel:**

| | For the three months ended June 30, | | | |
|---|---|---|---|---|
| **(in millions)** | **2014** | **%** | **2013** | **%** |
| Wholesale | $ 180.6 | 39% | $ 328.2 | 42% |
| Correspondent | 271.4 | 58% | 222.4 | 29% |
| Retail | 13.2 | 3% | 229.5 | 29% |
| Total originations | $ 465.2 | 100% | $ 780.1 | 100% |

**Originations by Channel:**

For the six months ended June 30,

| (in millions) | | 2014 | % | | 2013 | % |
|---|---|---|---|---|---|---|
| Wholesale | $ | 280.9 | 34% | $ | 634.7 | 44% |
| Correspondent | | 498.9 | 61% | | 378.9 | 26% |
| Retail | | 38.5 | 5% | | 440.3 | 30% |
| Total originations | $ | 818.3 | 100% | $ | 1,453.9 | 100% |

During the second quarter of 2014, the Company continued its strategy to increase the correspondent and wholesale channel originations. In the second quarter of 2014, although wholesale originations declined, our wholesale and correspondent channels, combined, contributed 97% of total originations as compared to 71% in the second quarter of 2013. Contributing to the large quarter over quarter percentage increase was the reduction in retail originations in 2014 due to the sale of the retail branches in December 2013.





We continue to build our wholesale and correspondent channels. We have added sales staff and streamlined our operations in an effort to provide quality customer service to attract broker and correspondent seller clients and to increase the volume of loans submitted from repeat customers. With our sales, marketing, and operational efforts during the second quarter of 2014, our pipeline has increased in excess of $500 million subsequent to the end of the second quarter, which is expected to result in an increase in originations in the third quarter.

**Mortgage servicing portfolio**
(in millions)

| For the three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|
| | June 30, 2014 | | December 31, 2013 | % Change | | June 30, 2013 | % Change |
| $ | 1,571.9 | $ | 3,128.6 | -50% | $ | 2,110.2 | -26% |

The mortgage servicing portfolio decreased to $1.6 billion at June 30, 2014, a 50% decrease from March 31, 2014. The decrease is primarily due to bulk sales of servicing rights totaling $1.6 billion in UPB and the sale of AmeriHome, which had servicing rights totaling $702.1 million in UPB. As previously announced, in the first quarter of 2014, we planned to sell up to $1.3 billion in servicing in the first half of 2014. This decision was based on the current market conditions that offered attractive pricing. The sale of servicing in the second quarter of 2014 generated $11.0 million in cash proceeds, with additional proceeds of $1.2 million to be received at the time when the servicing is transferred during the third quarter. Net servicing income in the second quarter of 2014 decreased to $1.3 million as compared to $1.6 million in the first quarter of 2014 due to the aforementioned sale of servicing and the sale of AmeriHome.

The following table includes information about our mortgage servicing portfolio:

| (in millions) | | At June 30, 2014 | % 60+ days delinquent (1) | | At December 31, 2013 | % 60+ days delinquent (1) |
|---|---|---|---|---|---|---|
| Fannie Mae | $ | 795.9 | 0.14% | $ | 1,520.2 | 0.19% |
| Freddie Mac | | 292.3 | 0.15% | | 317.2 | 0.28% |
| Ginnie Mae | | 483.7 | 0.99% | | 1,203.5 | 1.28% |
| **Total owned servicing portfolio** | $ | 1,571.9 | 0.31% | $ | 3,040.9 | 0.65% |
| | | | | | | |
| Acquired Portfolio (2) | | — | 0.00% | | 87.7 | 9.86% |
| **Total servicing portfolio** | $ | 1,571.9 | 0.31% | $ | 3,128.6 | 1.57% |

(1) Based on loan count.
(2) Represents servicing portfolio acquired in 2010 acquisition of AmeriHome. AmeriHome was sold during the first quarter of 2014.

Our loan products primarily include conventional loans for Fannie Mae and Freddie Mac and government loans insured by FHA, VA and USDA.

**Originations by Loan Type:**

| | For the three months ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions) | | June 30, 2014 | % | | March 31, 2014 | % | | June 30, 2013 | % |
| Government (1) | | 191.7 | 41% | $ | 117.8 | 33% | $ | 212.7 | 27% |
| Conventional (2) | | 254.4 | 55% | | 227.4 | 65% | | 558.4 | 72% |
| Other | | 19.1 | 4% | | 7.9 | 2% | | 9.0 | 1% |
| Total originations | $ | 465.2 | 100% | $ | 353.1 | 100% | $ | 780.1 | 100% |

(1) Includes government-insured loans including FHA, VA and USDA.
(2) Includes loans eligible for sale to Fannie Mae and Freddie Mac.





| | For the six months ended | | | | | |
|---|---|---|---|---|---|---|
| (in millions) | | June 30, 2014 | % | | June 30, 2013 | % |
| Government (1) | $ | 309.5 | 38% | $ | 393.8 | 27% |
| Conventional (2) | | 481.8 | 59% | | 1,044.5 | 72% |
| Other | | 27.0 | 3% | | 15.6 | 1% |

| | | | | | |
|---|---|---|---|---|---|
| Total originations | $ | 818.3 | 100% | $ 1,453.9 | 100% |

**Originations by Purpose:**

| (in millions) | For the three months ended June 30, 2014 | % | 2013 | % |
|---|---|---|---|---|
| Refinance | $ 220.2 | 47% | $ 477.6 | 61% |
| Purchase | 245.0 | 53% | 302.5 | 39% |
| Total originations | $ 465.2 | 100% | $ 780.1 | 100% |

**Originations by Purpose:**

| (in millions) | For the six months ended June 30, 2014 | % | 2013 | % |
|---|---|---|---|---|
| Refinance | $ 424.4 | 52% | $ 962.8 | 66% |
| Purchase | 393.9 | 48% | 491.1 | 34% |
| Total originations | $ 818.3 | 100% | $ 1,453.9 | 100% |

During the first six months of 2014, we have been developing non-Qualified Mortgage (QM) loan programs, being marketed as AltQM, along with qualified mortgages not eligible for delivery to the GSE's, which were introduced to the market in July 2014. We have also been developing relationships with other institutions in an effort to forge a strategic alliance to provide financing sources and exit strategy alternatives for the non-qualified mortgages that we generate. In conjunction with launching these new AltQM products, we are establishing a strategic investor relationship which will provide balance sheet capacity to fund these non- conforming loans. We believe there is an underserved mortgage market for borrowers with good credit who may not meet the new QM guidelines set out by the Consumer Financial Protection Bureau (CFPB). In our opinion, as the demand by consumers for a non-QM product grows and the investor appetite increases, non-QM mortgages will be in more demand. 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.

Furthermore, with our excess warehouse borrowing capacity, we are seeking ways to utilize the excess borrowing capacity by making re-warehousing available to our current wholesale brokers and existing correspondent sellers to expand volumes and better serve customers and the borrowers. We presently use a portion of our excess capacity to provide re-warehouse facilities to customers. During the first six months of 2014, we increased our outstanding commitments to customers to $26 million and subsequent to quarter end have increased commitments to $30.0 million. The average outstanding balance of the re-warehouse facilities was approximately $2.3 million in the second quarter of 2014.

In the second half of 2014, we anticipate a continued increase in overall originations as well as our operational efficiencies. The Company will work to increase originations through its business to business channels, by expanding our sales forces, and by hiring experienced lending sales personnel for our wholesale and correspondent channels and increasing efficiencies and service to our customers. By leveraging our re-warehousing division, we hope to increase the capture rate of our approved correspondent sellers business as well as expand our active customer base to include new customers seeking warehouse lines.

The long-term mortgage portfolio primarily includes the residual interests in securitizations, master servicing rights from the securitizations and long-term debt.



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Our residual interests in securitizations (represented by the difference between total trust assets and total trust liabilities), have recently performed better than expected. Additionally, estimated bond prices continued to improve and corresponding yields have decreased. The decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings resulted in an increase in the estimated fair value of these trust assets and liabilities. The cash received from the residual interests was approximately $5.7 million in the second quarter of 2014, a significant increase over our expectations. Based on improved performance and other market data received regarding yield assumptions and discount rates, we lowered future loss assumptions as well as yield and discount rate assumptions in estimating the fair value of the long-term mortgage portfolio. This resulted in an increase in estimated fair value of residual interests of $3.3 million to $14.9 million at June 30, 2014 as compared to $11.6 million at March 31, 2014.

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

**Liquidity and Capital Resources**

During the first six months of 2014, we funded our operations primarily from mortgage lending revenues and real estate services fees, net, which include gains on sale of loans, net, and other mortgage related income, portfolio loss mitigation and real estate services fees, net, primarily generated from our long-term mortgage portfolio, and cash flows from our residual interests in securitizations. Additionally, we funded mortgage loan production using warehouse facilities which are repaid once the loan is sold. Furthermore, we utilized the proceeds from the sale of AmeriHome, the sale of mortgage servicing rights and borrowings under the line of credit as additional sources of liquidity.

As previously announced, in March 2014 we generated additional liquidity with the sale of AmeriHome for $10.2 million in cash. In conjunction with the transaction, as required by Fannie Mae, we used $3.0 million of the proceeds to reduce our legacy repurchase liability with Fannie Mae. Additionally, during the six months ended June 30, 2014, we sold $1.6 billion in UPB of mortgage servicing generating $16.8 million in cash and a $1.9 million receivable.

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 on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

We believe that current cash balances, cash flows from our mortgage lending operations, real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs. However, 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, mortgage REITs and other finance companies which have offices in our market area as well as operations 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. Additionally, competition for loss mitigation servicing, loan modification services and other portfolio services has increased due to the difficult mortgage environment, credit tightening and a recovering economy. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability to provide mortgage and real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows from our residual interests in securitizations are sensitive to delinquencies, defaults and credit losses associated with the securitized loans. Losses in excess of current estimates will reduce the residual interest cash receipts from our long-term mortgage portfolio.

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



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**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, 2013.  Such policies have not changed during 2014.

**Financial Condition and Results of Operations**

**Financial Condition**

*As of June 30, 2014 compared to December 31, 2013*

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

| | June 30, 2014 | December 31, 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Cash | $ 21,091 | $ 9,969 | $ 11,122 | 112% |
| Restricted cash | 1,907 | 1,467 | 440 | 30 |
| Mortgage loans held-for-sale | 120,285 | 129,191 | (8,906) | (7) |
| Mortgage servicing rights | 16,166 | 35,981 | (19,815) | (55) |
| Securitized mortgage trust assets | 5,530,444 | 5,513,166 | 17,278 | 0 |
| Other assets (2) | 30,087 | 28,551 | 1,536 | 5 |
| **Total assets** | $ 5,719,980 | $ 5,718,325 | $ 1,655 | 0% |
| | | | | |
| Warehouse borrowings | $ 111,227 | $ 119,634 | $ (8,407) | (7)% |
| Convertible notes | 20,000 | 20,000 | — | n/a |
| Long-term debt ($71,120 par) | 17,555 | 15,871 | 1,684 | 11 |
| Repurchase reserve (1) | 6,335 | 9,478 | (3,143) | (33) |
| Securitized mortgage trust liabilities | 5,515,578 | 5,502,585 | 12,993 | 0 |
| Other liabilities (2) | 23,508 | 24,886 | (1,378) | (6) |
| **Total liabilities** | 5,694,203 | 5,692,454 | 1,749 | 0 |
| **Total equity** | 25,777 | 25,871 | (94) | (0) |
| **Total liabilities and stockholders' equity** | $ 5,719,980 | $ 5,718,325 | $ 1,655 | 0% |

(1) $4.1 million and $5.5 million of the repurchase reserve was within discontinued operations at June 30, 2014 and December 31, 2013.
(2) Included within other assets and liabilities are the assets and liabilities of discontinued operations.

At June 30, 2014, cash increased to $21.1 million from $10.0 million at December 31, 2013. The primary sources of cash between periods were $16.8 million from the sale of mortgage servicing rights, $13.5 million in fees generated from the mortgage lending operations and real estate services (net of non-cash fair value adjustments), $10.2 million from the sale of AmeriHome, $5.7 million from residual interests in securitizations and $1.0 million in borrowings on the line of credit. Offsetting the sources of cash were continuing operating expenses totaling $26.9 million (net of non-cash depreciation expense), $3.0 million in interest payments on the Convertible Notes and long-term debt and settlements of repurchase requests associated with loans sold by the discontinued non-conforming mortgage operations of approximately $3.5 million.

Mortgage loans held-for-sale decreased $8.9 million to $120.3 million at June 30, 2014 as compared to $129.2 million at December 31, 2013. The decrease was due to $818.3 million in originations offset by $828.4 million in loan sales. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

Mortgage servicing rights decreased $19.8 million to $16.2 million at June 30, 2014 as compared to $36.0 million at December 31, 2013. The decrease was due to bulk sales of servicing rights totaling $1.6 billion in UPB, the sale of AmeriHome, which had servicing rights totaling $702.1 million in UPB as well as a mark-to-market reduction in fair value of $3.7 million. Partially offsetting the decrease was servicing retained loan sales of $807.0 million. At June 30, 2014, we serviced $1.6 billion in UPB for others as compared to $3.1 billion at December 31, 2013.

Warehouse borrowings decreased $8.4 million to $111.2 million at June 30, 2014 as compared to $119.6 million at December 31, 2013. The decrease was due to a decrease in mortgage loans held-for-sale at June 30, 2014 partially offset by an increase in finance receivables of $4.3 million. During the first six months of 2014, we increased our total borrowing capacity to $315.0 million as compared to $265.0 million at December 31, 2013.

Repurchase reserve liability decreased to $6.3 million at June 30, 2014 as compared to $9.5 million at December 31, 2013. During the six months ended June 30, 2014, we paid approximately $3.5 million to settle previous repurchase claims related to our discontinued operations. At June 30, 2014, the repurchase reserve within discontinued operations was $2.2 million as compared to $5.5 million at December 31, 2013. Additionally, we have approximately $4.1 million in repurchase reserves related to the loans sold by the continuing mortgage lending operation since early 2011. We have received a minimal amount of repurchase requests for loans sold by the continuing mortgage lending operation.

At June 30, 2014 and December 31, 2013, net trust assets and liabilities were as follows:

| | June 30, 2014 | December 31, 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Total trust assets | $ 5,530,444 | $ 5,513,166 | $ 17,278 | 0% |
| Total trust liabilities | 5,515,578 | 5,502,585 | 12,993 | 0 |
| **Residual interests in securitizations** | $ 14,866 | $ 10,581 | $ 4,285 | 40% |

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and derivative liabilities. 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 $14.9 million at June 30, 2014, compared to $10.6 million at December 31, 2013. During the first six months of 2014, the securitized trusts continued to perform better than expected due to reduced losses resulting in increased residual cash flows. In response to the continued trend of higher than expected residual cash flows as a result of the improved performance and reduced losses of the securitized trusts, we decreased future loss assumptions. Additionally, we decreased the investor yield requirements for securitized mortgage borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. The decrease in investor yield requirements also led to a reduction in yield assumptions on securitized mortgage collateral and discount rate assumptions on residual interests. The decrease in future loss assumptions, investor yield assumptions and discount rates resulted in an increase in the estimated fair value of these trust assets and liabilities of $4.3 million.





The changes in total assets and liabilities are primarily attributable to decreases in our trust assets and trust liabilities as summarized below.

| | June 30, 2014 | December 31, 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Securitized mortgage collateral | $ 5,510,741 | $ 5,494,152 | $ 16,589 | 0% |
| Other trust assets | 19,703 | 19,014 | 689 | 4 |
| Total trust assets | 5,530,444 | 5,513,166 | 17,278 | 0 |
| | | | | |
| Securitized mortgage borrowings | $ 5,507,629 | $ 5,492,371 | $ 15,258 | 0% |
| Other trust liabilities | 7,949 | 10,214 | (2,265) | (22) |
| Total trust liabilities | 5,515,578 | 5,502,585 | 12,993 | 0 |
| **Residual interests in securitizations** | $ 14,866 | $ 10,581 | $ 4,285 | 40% |

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 six months ended June 30, 2014, actual and forecasted losses have continued to decrease with a considerable improvement during the second quarter of 2014. During the six months ended June 30, 2014, we decreased the investor yield requirements for certain securitized mortgage collateral and borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. Additionally, during the first six months of 2014, we lowered the discount rate on certain residual interest vintages. The decrease in loss and loss assumptions, decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings as well as decreased discount rates resulted in an increase in the value of these trust assets and liabilities resulting in an increase in the value of our residual interests. However, offsetting the increase was principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings.

- The estimated fair value of securitized mortgage collateral increased $16.6 million during the first six months of 2014, primarily due to a decrease in loss and severity assumptions and a decrease in investor yield requirements, partially offset by reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral. Additionally, other trust assets increased

$689 thousand during the first six months of 2014, primarily due to $16.5 million in REO foreclosures and a $9.0 million increase in the net realizable value (NRV) of REO. Partially offsetting the increase were decreases in REO from liquidations of $18.5 million.

- The estimated fair value of securitized mortgage borrowings increased $15.3 million during the first six months of 2014, primarily due to a decrease in loss and severity assumptions and a decrease in investor yield requirements, partially offset by reductions in principal balances from principal payments during the period for single-family and multi-family collateral. The $2.3 million reduction in other trust liabilities during the first six months of 2014 was primarily due to $2.7 million in derivative cash payments from the securitization trusts, and a $426 thousand increase in derivative fair value resulting from changes in forward LIBOR interest rates.

In previous years, we securitized mortgage loans by transferring originated and acquired residential single-family mortgage loans and multi-family commercial loans (the “transferred assets”) into non-recourse bankruptcy remote trusts which in turn issued tranches of bonds to investors supported only by the cash flows of the transferred assets. Because the assets and liabilities in the securitizations are nonrecourse to us, the bondholders cannot look to us for repayment of their bonds in the event of a shortfall. These securitizations were structured to include interest rate derivatives. We retained the residual interest in each trust, and in most cases would perform the master servicing function. A trustee and servicer, unrelated to us, was utilized for each securitization. Cash flows from the loans (the loan payments as well as liquidation of foreclosed real estate properties) collected by the loan sub-servicer are remitted to us, the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The sub-servicer collects loan payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO.

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. Forecasted assumptions sometimes referred to as “curves,” for defaults, loss severity, interest rates (LIBOR) and prepayments are inputted into the valuation model for each securitization trust. We hire third-party market participants to provide forecasted curves for the aforementioned assumptions for each of the securitizations. Before inputting this information into the model, management employs a process to qualitatively and quantitatively review the assumption curves for reasonableness using other information gathered from the mortgage and real estate market (*i.e.*, third party home price indices, published industry reports discussing regional mortgage and commercial loan performance and delinquency) as well as actual default and foreclosure information for each trust from the respective trustees.





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, derivative assets/liabilities, 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 (after taking into consideration any derivatives in the securitization). As previously discussed, during the first six months of 2014, we adjusted the acceptable range of expected yields and discount rates for some of our earlier vintage securitizations. Based on improving bond prices and declining yields in the Company’s securitization trusts and better than expected residual cash flows as well as conversations with market participants, the Company lowered certain residual discount rates during the first six months of 2014.

The following table presents changes in the trust assets and trust liabilities for the six months ended June 30, 2014:

| | TRUST ASSETS | | | | TRUST LIABILITIES | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 3 Recurring Fair Value Measurements | | NRV (1) | | Level 3 Recurring Fair Value Measurements | | | |
| | **Investment securities available-for-sale** | **Securitized mortgage collateral** | **Real estate owned** | **Total trust assets** | **Securitized mortgage borrowings** | **Derivative liabilities** | **Total trust liabilities** | **Net trust assets** |
| **Recorded book value at 12/31/2013** | **$ 108** | **$ 5,494,152** | **$ 18,906** | **$ 5,513,166** | **$ (5,492,371)** | **$ (10,214)** | **$ (5,502,585)** | **$ 10,581** |
| Total gains/(losses) included in earnings: | | | | | | | | |
| Interest income | 13 | 20,956 | — | 20,969 | — | — | — | 20,969 |
| Interest expense | — | — | — | — | (113,127) | — | (113,127) | (113,127) |
| Change in FV of net trust assets, excluding REO | 16 | 317,394 | — | 317,410(2) | (318,259) | (426) | (318,685)(2) | (1,275) |
| Gains from REO - not at FV but at NRV | — | — | 9,024 | 9,024(2) | — | — | — | 9,024 |
| Total gains (losses) included in earnings | 29 | 338,350 | 9,024 | 347,403 | (431,386) | (426) | (431,812) | (84,409) |
| Transfers in and/or out of level 3 | — | — | — | — | — | — | — | — |
| Purchases, issuances and settlements | (46) | (321,761) | (8,318) | (330,125) | 416,128 | 2,691 | 418,819 | 88,694 |
| **Recorded book value at 6/30/2014** | **$ 91** | **$ 5,510,741** | **$ 19,612** | **$ 5,530,444** | **$ (5,507,629)** | **$ (7,949)** | **$ (5,515,578)** | **$ 14,866** |

(1) Accounted for at net realizable value.
(2) Represents non-interest income-net trust assets in the consolidated statements of operations for the six months ended June 30, 2014.

Inclusive of gains from REO, total trust assets above reflect a net gain of $326.4 million as a result of an increase in fair value of securitized mortgage collateral of $317.4 million, gains from REO of $9.0 million and increases from other trust assets of $16 thousand. Net losses on trust liabilities were $318.7 million as a result of $318.3 million in losses from the increase in fair value of securitized mortgage borrowings and losses from derivative liabilities of $426 thousand. As a result, non-interest income—net trust assets totaled a gain of $7.7 million for the six months ended June 30, 2014.

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Net trust assets** | $ 14,866 | $ 10,581 |

| | | |
|---|---|---|
| **Total trust assets** | 5,530,444 | 5,513,166 |
| **Net trust assets as a percentage of total trust assets** | 0.27% | 0.19% |



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For the six months ended June 30, 2014, the estimated fair value of the net trust assets increased as a percentage of total trust assets. The increase was primarily due to the reduction in loss assumptions as well as the decrease in discount rate assumptions for residual interests as discussed above.

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

The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at June 30, 2014 and December 31, 2013:

| Origination Year | Estimated Fair Value of Residual Interests by Vintage Year at June 30, 2014 | | | Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | SF | MF | Total | SF | MF | Total |
| 2002-2003 (1) | $ 8,735 | $ 2,000 | $ 10,735 | $ 5,761 | $ 2,184 | $ 7,945 |
| 2004 | 1,886 | 1,671 | 3,557 | 462 | 2,099 | 2,561 |
| 2005 (2) | — | 356 | 356 | — | 75 | 75 |
| 2006 (2) | — | 218 | 218 | — | — | — |
| 2007 (2) | — | — | — | — | — | — |
| **Total** | **$ 10,621** | **$ 4,245** | **$ 14,866** | **$ 6,223** | **$ 4,358** | **$ 10,581** |
| | | | | | | |
| Weighted avg. prepayment rate | 3.6% | 11.8% | 4.3% | 2.7% | 12.6% | 3.6% |
| Weighted avg. discount rate | 20.9% | 20.0% | 20.6% | 25.4% | 20.2% | 23.2% |

(1) 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.
(2) The estimated fair values of residual interests in vintage years 2005 through 2007 is reflective of higher estimated future losses and investor yield requirements compared to earlier vintage years.

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. As previously discussed, based on recent better than expected performance, during the first six months of 2014, residual interest discount rates for the single-family (SF) vintages were lowered to a range of 20% to 35% (20.9% weighted average) from 25% to 40% (25.4% weighted average) and the multi-family (MF) vintages were lowered to 20% from 20% to 35% (20.2% weighted average). The combined SF and MF weighted average discount rate for the quarter ended June 30, 2014 dropped to 20.6% from 23.2% at December 31, 2013.



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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 June 30, 2014:

| | Estimated Future Losses (1) | | Investor Yield Requirement (2) | |
|---|---|---|---|---|
| | SF | MF | SF | MF |
| 2002-2003 | 8% | *(3) | 5% | 9% |
| 2004 | 8% | 0% | 5% | 6% |
| 2005 | 13% | 2% | 5% | 5% |
| 2006 | 23% | 5% | 6% | 5% |
| 2007 | 25% | 2% | 5% | 5% |

(1) Estimated future losses derived by dividing future projected losses by unpaid principal balances at June 30, 2014.
(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 from December 2012 through June 2014, housing prices in many parts of the country are still at levels which has significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

### Long-Term Mortgage Portfolio Credit Quality

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days delinquent or greater, foreclosures and delinquent bankruptcies were $1.6 billion or 21.7% of the long-term mortgage portfolio as of June 30, 2014.

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

| | June 30, 2014 | Total Collateral % | December 31, 2013 | Total Collateral % |
|---|---|---|---|---|
| Securitized mortgage collateral | | | | |
| 60 - 89 days delinquent | $ 149,830 | 2.1% | $ 180,002 | 2.4% |
| 90 or more days delinquent | 515,998 | 7.2% | 580,318 | 7.6% |
| Foreclosures (1) | 569,073 | 7.9% | 605,201 | 7.9% |
| Delinquent bankruptcies (2) | 326,616 | 4.5% | 340,102 | 4.5% |
| Total 60+ days delinquent long-term mortgage portfolio | 1,561,517 | 21.7% | 1,705,623 | 22.4% |
| Total 60 or more days delinquent | $ 1,561,517 | 21.7% | $ 1,705,623 | 22.4% |
| Total collateral | $ 7,184,666 | 100% | $ 7,610,999 | 100% |

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



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

| | June 30, 2014 | Total Collateral % | December 31, 2013 | Total Collateral % |
|---|---|---|---|---|
| 90 or more days delinquent, foreclosures and delinquent bankruptcies | $ 1,411,687 | 19.6% | $ 1,525,621 | 20.0% |
| Real estate owned | 19,627 | 0.3% | 18,921 | 0.3% |
| Total non-performing assets | $ 1,431,314 | 19.9% | $ 1,544,542 | 20.3% |

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 the Company's 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 June 30, 2014, non-performing assets (unpaid principal balance of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 19.9%. At December 31, 2013, non-performing assets to total collateral was 20.3%. Non-performing assets decreased by approximately $113.2 million at June 30, 2014 as compared to December 31, 2013. At June 30, 2014, 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 $501.2 million or 8.8% of total assets. At December 31, 2013, the estimated fair value of non-performing assets was $536.8 million or 9.4% 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 gains or losses from real estate owned in the consolidated statements of operations. REO, for continuing and discontinued operations, at June 30, 2014 increased $706 thousand or 4% to $19.6 million from $18.9 million at December 31, 2013, as a result of an increase of the net realizable value of the REO.

For the three and six months ended June 30, 2014, we recorded an increase in net realizable value of the REO in the amount of $2.9 million and $9.0 million, respectively, compared to an increase of $2.3 million and $5.6 million for the comparable 2013 period. Increases in net realizable value reflect increases in value of the REO subsequent to foreclosure date, but prior to the date of sale.

The following table presents the balances of REO for continuing operations:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| REO | $ 21,590 | $ 23,601 |
| Impairment (1) | (1,963) | (4,680) |
| Ending balance | $ 19,627 | $ 18,921 |
| | | |
| REO inside trusts | $ 19,612 | $ 18,906 |
| REO outside trusts | 15 | 15 |
| Total | $ 19,627 | $ 18,921 |

(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.



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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 and Six Months Ended June 30, 2014 compared to the Three and Six Months Ended June 30, 2013*

| | For the Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Revenues | $ 10,705 | $ 28,923 | $ (18,218) | (63)% |
| Expenses | (13,874) | (25,375) | 11,501 | 45 |
| Net interest (expense) income | (96) | (207) | 111 | 54 |
| Change in fair value of long-term debt | 226 | (478) | 704 | 147 |
| Change in fair value of net trust assets, including trust REO gains (losses) | 4,711 | (607) | 5,318 | 876 |
| Income tax expense from continuing operations | (756) | (32) | (724) | (2,263) |
| Net earnings from continuing operations | 916 | 2,224 | (1,308) | (59) |
| Loss from discontinued operations, net | (834) | (933) | 99 | 11 |
| Net earnings | 82 | 1,291 | (1,209) | (94) |
| Net earnings attributable to noncontrolling interest (1) | — | (73) | 73 | 100 |
| Net earnings attributable to IMH | $ 82 | $ 1,218 | $ (1,136) | (93) |
| Earnings per share available to common stockholders - basic | $ 0.01 | $ 0.14 | $ (0.13) | (93)% |
| Earnings per share available to common stockholders - diluted | $ 0.01 | $ 0.14 | $ (0.13) | (93)% |

(1) For the three months ended June 30, 2013, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome that we did not wholly-own.

| | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Revenues | $ 20,951 | $ 53,590 | $ (32,639) | (61)% |
| Expenses | (28,707) | (49,860) | 21,153 | 42 |
| Net interest (expense) income | (409) | 237 | (646) | (273) |
| Change in fair value of long-term debt | (424) | (527) | 103 | 20 |
| Change in fair value of net trust assets, including trust REO gains (losses) | 7,749 | (2,106) | 9,855 | 468 |
| Income tax (expense) benefit from continuing operations | (1,098) | 1,056 | (2,154) | (204) |
| Net (loss) earnings from continuing operations | (1,938) | 2,390 | (4,328) | (181) |
| Loss from discontinued operations, net | (946) | (1,774) | 828 | 47 |
| Net (loss) earnings | (2,884) | 616 | (3,500) | (568) |
| Net earnings attributable to noncontrolling interest (1) | — | (136) | 136 | 100 |
| Net (loss) earnings attributable to IMH | $ (2,884) | $ 480 | $ (3,364) | (701)% |
| (Loss) earnings per share available to common stockholders - basic | $ (0.31) | $ 0.06 | $ (0.37) | (612)% |
| (Loss) earnings per share available to common stockholders - diluted | $ (0.31) | $ 0.08 | $ (0.39) | (474)% |

(1) For the six months ended June 30, 2013, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome that we did not wholly-own.

*Revenues*

| | For the Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Gain on sale of loans, net | $ 6,534 | $ 20,458 | $ (13,924) | (68)% |
| Real estate services fees, net | 4,360 | 5,155 | (795) | (15) |
| Servicing income, net | 1,291 | 931 | 360 | 39 |
| (Loss) gain on mortgage servicing rights | (1,564) | 2,004 | (3,568) | (178) |
| Other revenues | 84 | 375 | (291) | (78) |
| Total revenues | $ 10,705 | $ 28,923 | $ (18,218) | (63)% |

*Gain on sale of loans, net.* For the three months ended June 30, 2014, gain on sale of loans, net were $6.5 million compared to $20.5 million in the comparable 2013 period. The $13.9 million decrease is primarily related to a $15.1 million decrease in realized and unrealized losses on derivative financial instruments, a $2.6 million decrease in premiums received from the sale of mortgage loans, a $2.5 million increase in net direct loan origination expenses and a $1.9 million decrease in premiums from servicing retained loan sales, partially offset by a $7.8 million increase in mark-to-market gains. The overall decrease in gain on sale of loans, net was due to a reduction in mortgage loan origination and sale volumes as well as tighter lending spreads and gain on sale margins associated with $465.2 million and $449.5 million of loans originated and sold, respectively, during the three months ended June 30, 2014, as compared to $780.1 million and $704.7 million of loans originated and sold, respectively, during the same period in 2013.

*(Loss) gain on mortgage servicing rights.* For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of $1.6 million compared to revenue of $2.0 million in the comparable 2013 period. For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a ($2.8) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to $1.8 million for the same period in 2013. Partially offsetting the change in fair value was a $1.2 million gain on the sale of mortgage servicing rights during the three months ended June 30, 2014, as compared to $155 thousand during the same period in 2013.

*Real estate services fees, net.* For the three months ended June 30, 2014, real estate services fees, net were $4.4 million compared to $5.2 million in the comparable 2013 period. The $795 thousand decrease was primarily the result of a decrease in transactions related to the decline in loans and the balance of the long-term mortgage portfolio.

*Servicing gain and loss, net.* For the three months ended June 30, 2014, servicing gain and loss, net was an expense of $1.6 million compared to revenue of $2.0 million in the comparable 2013 period. For the three months ended June 30, 2014, the mark-to-market mortgage servicing rights expense was primarily the result of an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period.

*Other revenues.* For the three months ended June 30, 2014, other revenue was $84 thousand compared to $375 thousand for the comparable 2013 period. The decrease in other revenue was due to a $300 thousand reduction in investment income.

| | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Gain on sale of loans, net | $ 11,126 | $ 37,930 | $ (26,804) | (71)% |
| Real estate services fees, net | 8,039 | 9,583 | (1,544) | (16) |
| Servicing income, net | 2,859 | 1,941 | 918 | 47 |
| (Loss) gain on mortgage servicing rights | (2,541) | 3,182 | (5,723) | (180) |
| Other revenues | 1,468 | 954 | 514 | 54 |
| Total revenues | $ 20,951 | $ 53,590 | $ (32,639) | (61)% |

*Gain on sale of loans, net.* For the six months ended June 30, 2014, gain on sale of loans, net were $11.1 million compared to $37.9 million in the comparable 2013 period. The $26.8 million decrease is primarily related to a $18.7 million decrease in realized and unrealized losses on derivative financial instruments, an $11.0 million decrease in premiums received from the sale of mortgage loans, a $3.0 million decrease in premiums from servicing retained loan sales and a $3.0 million increase in net direct loan origination expenses, partially offset by a $8.5 million increase in mark-to-market gains. The overall decrease in gain on sale of loans, net was due to a reduction in mortgage loan origination and sale volumes as well as tighter lending spreads and gain on sale margins associated with $818.3 million and $828.4 million of loans originated and sold, respectively, during the six months ended June 30, 2014, as compared to $1.5 billion and $1.3 billion of loans originated and sold, respectively, during the same period in 2013.





*Servicing income, net.* For the six months ended June 30, 2014, servicing income, net was $2.9 million compared to $1.9 million in the comparable 2013 period. The increase in servicing income, net was the result of the servicing portfolio increasing 55% to an average balance of $2.7 billion for the six months ended June 30, 2014 as compared to an average balance of $1.7 billion for the six months ended June 30, 2013. During 2014, we sold $1.6 billion in UPB of servicing rights and sold AmeriHome, which had servicing rights of $702.1 million in UPB. Additionally, during the second quarter of 2014, we retained servicing rights on $807.0 million in loans sales.

*Real estate services fees, net.* For the six months ended June 30, 2014, real estate services fees, net were $8.0 million compared to $9.6 million in the comparable 2013 period. The $1.6 million decrease was primarily the result of a decrease in transactions related to the decline in loans and the balance of the long-term mortgage portfolio.

*(Loss) gain on mortgage servicing rights.* For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of $2.5 million compared to revenue of $3.2 million in the comparable 2013 period. For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a ($3.7) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to $3.1 million for the same period in 2013. Partially offsetting the change in fair value was a $1.2 million gain on the sale of mortgage servicing rights during the six months ended June 30, 2014, as compared to $116 thousand during the same period in 2013.

*Other revenues.* For the six months ended June 30, 2014, other revenue was $1.5 million compared to $954 thousand for the comparable 2013 period. The increase in other revenue was due to the sale of AmeriHome during the first quarter of 2014 resulting in a $1.2 million gain, partially offset by a $600 thousand reduction in investment income.

*Expenses*

| | For the Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Personnel expense | $ 9,319 | $ 18,891 | $ (9,572) | (51)% |
| General, administrative and other | 4,555 | 6,484 | (1,929) | (30) |
| Total expenses | $ 13,874 | $ 25,375 | $ (11,501) | (45)% |

Total expenses were $13.9 million for the three months ended June 30, 2014, compared to $25.4 million for the comparable period of 2013. Personnel expense decreased $9.6 million to $9.3 million for the three months ended June 30, 2014. The decrease is primarily due to a reduction in personnel related costs due to a decrease in employees and a decrease in commission expense due to a reduction in loan origination volumes and a shift to correspondent and wholesale lending resulting in lower commission expense. In the fourth quarter of 2013, we sold our retail branch offices and consolidated our lending fulfillment centers reducing staffing to a level appropriate for our lending volumes. At June 30, 2014 the average number of employees declined to 290 during the three months ended June 30, 2014 as compared to 650 for the three months ended June 30, 2013.

General, administrative and other expenses decreased to $4.6 million for the three months ended June 30, 2014, compared to $6.5 million for the same period in 2013. The decrease was primarily related to a $1.2 million decline in marketing and other expenses and a $407 thousand reduction in occupancy expense attributable to reduced lending volumes as well as the closure of the retail branches in the fourth quarter of 2013.

| | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Personnel expense | $ 18,779 | $ 36,654 | $ (17,875) | (49)% |
| General, administrative and other | 9,928 | 13,206 | (3,278) | (25) |
| Total expenses | $ 28,707 | $ 49,860 | $ (21,153) | (42)% |

Total expenses were $28.7 million for the six months ended June 30, 2014, compared to $49.9 million for the comparable period of 2013. Personnel expense decreased $17.9 million to $18.8 million for the six months ended June 30, 2014. The decrease is primarily due to a reduction in personnel related costs due to a decrease in employees and a decrease in commission expense due to a reduction in loan origination volumes and a shift to correspondent and wholesale lending resulting in lower commission expense. In the fourth quarter of 2013, we sold our retail branch offices and consolidated our lending fulfillment centers reducing staffing to a level appropriate for our lending volumes. At June 30, 2014 the average number of employees declined to 295 during the six months ended June 30, 2014 as compared to 631 for the six months ended June 30, 2013.





General, administrative and other expenses decreased to $9.9 million for the six months ended June 30, 2014, compared to $13.2 million for the same period in 2013. The decrease was primarily related to a $2.0 million decline in marketing and other expenses and a $911 thousand reduction in legal and professional fees attributable to reduced lending volumes as well as the closure of the retail branches in the fourth quarter of 2013. The reduction in legal and professional fees is primarily due to a non-operational $700 thousand legal settlement expense recorded during the first quarter of 2013.

*Net Interest (Expense) Income*

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, loans held-for-sale and investment securities available-for-sale, 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, notes payable and line of credit. 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, included within continuing operations, 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 June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Balance | Interest | Yield | Average Balance | Interest | Yield |
| **ASSETS** | | | | | | |
| Securitized mortgage collateral | $ 5,485,629 | $ 67,784 | 4.94% | $ 5,732,048 | $ 76,256 | 5.32% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mortgage loans held-for-sale | 110,643 | 1,141 | 4.12% | 145,063 | 1,252 | 3.45% |
| Other | 13,507 | 37 | 1.10% | 16,687 | 18 | 0.43% |
| Total interest-earning assets | $ 5,609,779 | $ 68,962 | 4.92% | $ 5,893,798 | $ 77,526 | 5.26% |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Securitized mortgage borrowings | $ 5,484,344 | $ 66,623 | 4.86% | $ 5,725,605 | $ 74,963 | 5.24% |
| Warehouse borrowings | 106,993 | 953 | 3.56% | 138,181 | 1,397 | 4.04% |
| Long-term debt | 17,395 | 1,074 | 24.70% | 13,867 | 986 | 28.44% |
| Convertible Notes | 20,000 | 387 | 7.74% | 13,846 | 265 | 7.66% |
| Note payable | — | — | 0.00% | 711 | 104 | 58.51% |
| Other | 2,841 | 21 | 2.96% | 1,293 | 18 | 5.57% |
| Total interest-bearing liabilities | $ 5,631,573 | $ 69,058 | 4.91% | $ 5,893,503 | $ 77,733 | 5.28% |
| | | | | | | |
| **Net Interest Spread (1)** | | $ (96) | 0.02% | | $ (207) | -0.02% |
| **Net Interest Margin (2)** | | | -0.01% | | | -0.01% |

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest spread increased $111 thousand for the quarter ended June 30, 2014 primarily attributable to an increase in the net interest spread between loans held-for-sale and warehouse borrowings and a decrease in interest expense on notes payable. The increase was partially offset by a decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio, an increase in interest expense associated with the long-term debt and an increase in interest expense associated with the issuance of the Convertible Notes during the second quarter of 2013. As a result, net interest margin remained flat at -0.01% for the quarters ended June 30, 2014 and 2013.



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During the quarter ended June 30, 2014, the yield on interest-earning assets decreased to 4.92% from 5.26% in the comparable 2013 period. The yield on interest-bearing liabilities decreased to 4.91% for the quarter ended June 30, 2014 from 5.28% for the comparable 2013 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is 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 increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond prices received from pricing services and other market participants have increased over the past few quarters as investor's demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

| | For the Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Balance | Interest | Yield | Average Balance | Interest | Yield |
| **ASSETS** | | | | | | |
| Securitized mortgage collateral | $ 5,488,470 | $ 138,867 | 5.06% | $ 5,750,660 | $ 164,533 | 5.72% |
| Mortgage loans held-for-sale | 97,912 | 2,064 | 4.22% | 121,501 | 2,083 | 3.43% |
| Other | 11,994 | 51 | 0.85% | 13,962 | 40 | 0.57% |
| Total interest-earning assets | $ 5,598,376 | $ 140,982 | 5.04% | $ 5,886,123 | $ 166,656 | 5.66% |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Securitized mortgage borrowings | $ 5,487,020 | $ 136,670 | 4.98% | $ 5,742,889 | $ 161,482 | 5.62% |
| Warehouse borrowings | 93,644 | 1,699 | 3.63% | 115,956 | 2,390 | 4.12% |
| Long-term debt | 16,887 | 2,185 | 25.88% | 13,489 | 1,940 | 28.76% |
| Convertible notes | 20,000 | 774 | 7.74% | 6,961 | 273 | 7.84% |
| Note payable | — | — | 0.00% | 1,766 | 303 | 34.31% |
| Other | 3,338 | 63 | 3.77% | 899 | 31 | 6.90% |
| Total interest-bearing liabilities | $ 5,620,889 | $ 141,391 | 5.03% | $ 5,881,960 | $ 166,419 | 5.66% |
| | | | | | | |
| **Net Interest Spread (1)** | | $ (409) | 0.01% | | $ 237 | 0.00% |
| **Net Interest Margin (2)** | | | -0.01% | | | 0.01% |

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest spread decreased $646 thousand for the six months ended June 30, 2014 primarily attributable to a decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio, an increase in interest expense associated with the long-term debt and an increase in interest expense associated with the issuance of the Convertible Notes during the second quarter of 2013. The decrease was partially offset by a decrease in interest expense on the note payable as well as an increase in the net interest spread between loans held-for-sale and warehouse borrowings. As a result, net interest margin decreased from 0.01% for the six months ended June 30, 2013 to -0.01% for the six months ended June 30, 2014.

During the six months ended June 30, 2014, the yield on interest-earning assets decreased to 5.04% from 5.66% in the comparable 2013 period. The yield on interest-bearing liabilities decreased to 5.03% for the six months ended June 30, 2014 from 5.66% for the comparable 2013 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is 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 increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond



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prices received from pricing services and other market participants have increased over the past few quarters as investor's demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

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

Change in the fair value of long-term debt was a gain of $226 thousand for the quarter ended June 30, 2014, compared to a loss of $478 thousand for the comparable 2013 period. The decrease in the estimated fair value of long-term debt was primarily the result of a decrease in forward LIBOR interest rates. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by us, which considers the Company's own credit risk, including consideration of settlements with trust preferred debt holders and discounted cash flow analyses.

Change in the fair value of long-term debt was a loss of $424 thousand for the six months ended June 30, 2014, compared to a loss of $527 thousand for the comparable 2014 period. The increase in the estimated fair value of long-term debt was primarily the result of a reduction in discount rate during the first quarter of 2014 as well as an increase in forward LIBOR interest rates as compared to the same period in the prior year.

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Change in fair value of net trust assets, excluding REO | $ 1,769 | $ (2,953) | $ (1,275) | $ (7,662) |
| Gains from REO | 2,942 | 2,346 | 9,024 | 5,556 |
| Change in fair value of net trust assets, including trust REO gains (losses) | $ 4,711 | $ (607) | $ 7,749 | $ (2,106) |

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $4.7 million for the quarter ended June 30, 2014, compared to a loss of $607 thousand in the comparable 2013 period. The change in fair value of net trust assets, including REO was due to $1.8 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of decreased collateral losses and severities in the future and lower interest rates. Additionally, the NRV of REO increased $2.9 million during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

For the quarter ended June 30, 2013, the $607 thousand loss from change in fair value of net trust assets, including REO was due to $3.0 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates. Partially offsetting the loss was a $2.3 million increase in NRV of REO during the period attributed to lower expected loss severities on properties 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 gain of $7.7 million for the six months ended June 30, 2014, compared to a loss of $2.1 million in the comparable 2013 period. For the six months ended June 30, 2014, the change in fair value of net trust assets, including REO was due to a $9.0 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period. Partially offsetting the gain was $1.3 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses and severities in the future and higher interest rates.

For the six months ended June 30, 2013, the $2.1 million loss from change in fair value of net trust assets, including REO was due to $7.7 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates. Partially offsetting the loss was a $5.6 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.



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*Income Taxes*

We recorded income tax expense of $756 thousand and $1.1 million for the three and six months ended June 30, 2014, respectively. We recorded income tax expense (benefit) of $32 thousand and ($1.1) million for the three and six months ended June 30, 2013, respectively. The tax expense in 2014 is primarily related to alternative minimum taxes associated with taxable income generated from sale of AmeriHome and mortgage servicing rights. The income tax benefit for 2013 is the result of the inclusion of AmeriHome in the IMH federal and California consolidated tax returns as a result of the Company increasing its ownership in AmeriHome to 80% during the first quarter of 2013.

As of December 31, 2013, the Company had estimated federal and California net operating loss (NOL) carryforwards of approximately $518.7 million and $437.0 million, respectively, of which approximately $293.1 million (federal) related to discontinued operations. Federal and state net operating loss carryforwards begin to expire in 2027 and 2018, respectively.

We have significant NOL carry-forwards from prior years. If there is an improvement in earnings from our continuing operations, we may be able to generate sufficient taxable income in future years to utilize these loss carry-forwards, however, at June 30, 2014; we have recognized a full valuation allowance against our net deferred tax assets. As of June 30, 2014, we have no material uncertain tax positions.

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

Today, we have three primary operating segments: Mortgage Lending, Real Estate Services and Long-Term Mortgage Portfolio. 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 June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Gain on sale of loans, net | $ 6,534 | $ 20,458 | $ (13,924) | (68)% |
| Servicing income, net | 1,291 | 931 | 360 | 39 |
| (Loss) gain on mortgage servicing rights | (1,564) | 2,004 | (3,568) | (178) |
| Other | 43 | — | 43 | N/A |
| Total revenues | 6,304 | 23,393 | (17,089) | (73) |
| | | | | |
| Other income (expense) | 215 | (148) | 363 | 245 |
| | | | | |
| Personnel expense | (6,741) | (16,581) | 9,840 | 59 |
| General, administrative and other | (1,867) | (3,301) | 1,434 | 43 |
| Net (loss) earnings before income taxes | $ (2,089) | $ 3,363 | $ (5,452) | (162)% |

For the quarter ended June 30, 2014, gain on sale of loans, net were $6.5 million or 1.40% compared to $20.5 million or 2.67% in the comparable 2013 period. The $13.9 million decrease was due to a reduction in mortgage loan origination and sales volumes as well as tighter lending spreads and gain on sale margins associated with $465.2 million and $449.5 million of loans originated and sold, respectively, during the three months ended June 30, 2014, as compared to $780.1 million and $704.7 million of loans originated and sold, respectively, during the same period in 2013.

For the quarter ended June 30, 2014, servicing income, net was $1.3 million compared to $931 thousand in the comparable 2013 period. The increase in servicing income, net was the result of the servicing portfolio increasing 31% to an average quarterly balance of $2.5 billion for the three months ended June 30, 2014 as compared to an average quarterly balance of $1.9 billion for the three months ended June 30, 2013. During the second quarter of 2014, we sold $1.0 billion in UPB of servicing rights and retained servicing rights on $432.5 million in loans sales.

For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of $1.6 million compared to revenue of $2.0 million in the comparable 2013 period. For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a ($2.8) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to $1.8 million for the same period in 2013. Partially offsetting the change in fair value was a $1.2 million gain on the sale of mortgage servicing rights during the three months ended June 30, 2014, as compared to $155 thousand during the same period in 2013.

Personnel expense decreased $9.8 million to $6.7 million for the three months ended June 30, 2014. The decrease is primarily due to the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013, reducing staffing to a level appropriate for our lending volumes. The average number of mortgage lending employees declined to 192 in the second quarter of 2014 as compared to 533 during the same period in 2013. Additionally, the decrease is also related to a reduction in loan origination volumes resulting in a decrease in commission expense.



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The $1.4 million decrease in general, administrative and other expense is primarily related to reductions in occupancy, legal and professional fees and other marketing costs primarily attributable to a reduction in lending volumes as well as the sale of our retail branches during the fourth quarter of 2013.

| | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Gain on sale of loans, net | $ 11,126 | $ 37,930 | $ (26,804) | (71)% |
| Servicing income, net | 2,859 | 1,941 | 918 | 47 |
| (Loss) gain on mortgage servicing rights | (2,541) | 3,182 | (5,723) | (180) |
| Other | 1,257 | 113 | 1,144 | 1,012 |
| Total revenues | 12,701 | 43,166 | (30,465) | (71) |
| | | | | |
| Other income (expense) | 371 | (305) | 676 | 222 |
| | | | | |
| Personnel expense | (13,543) | (31,439) | 17,896 | 57 |
| General, administrative and other | (4,032) | (7,950) | 3,918 | 49 |
| Net earnings before income taxes | $ (4,503) | $ 3,472 | $ (7,975) | (230)% |

For the six months ended June 30, 2014, gain on sale of loans, net was $11.1 million or 1.37% compared to $37.9 million or 2.66% in the comparable 2013 period. The $26.8 million decrease was due to a reduction in mortgage loan origination and sales volumes as well as tighter lending spreads and gain on sale margins associated with $818.3 million and $828.4 million of loans originated and sold, respectively, during the six months ended June 30, 2014, as compared to $1.5 billion and $1.3 billion of loans originated and sold, respectively, during the same period in 2013.

For the six months ended June 30, 2014, servicing income, net was $2.9 million compared to $1.9 million in the comparable 2013 period. The increase in servicing income, net was the result of the servicing portfolio increasing 55% to an average balance of $2.7 billion for the six months ended June 30, 2014 as compared to an average balance of $1.7 billion for the six months ended June 30, 2013. During 2014, we sold $1.6 billion in UPB of servicing rights and sold AmeriHome, which had servicing rights of $702.1 million in UPB. Additionally, during the first six months of 2014, we retained servicing rights on $807.0 million in loans sales.

For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of $2.5 million compared to revenue of $3.2 million in the comparable 2013 period. For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a ($3.7) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to $3.1 million for the same period in 2013. Partially offsetting the change in fair value was a $1.2 million gain on the sale of mortgage servicing rights during the six months ended June 30, 2014, as compared to $116 thousand during the same period in 2013.

For the six months ended June 30, 2014, other revenue was $1.2 million compared to $113 thousand for the comparable 2013 period. The increase in other revenue was due to the sale of AmeriHome during the first quarter of 2014 resulting in a $1.2 million gain.

Personnel expense decreased $17.9 million to $13.5 million for the six months ended June 30, 2014. The decrease is primarily due to the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013, reducing staffing to a level appropriate for our lending volumes. The average number of mortgage lending employees declined to 199 for the first six months of 2014 as compared to 510 during the same period in 2013. Additionally, the decrease is also related to a reduction in loan origination volumes resulting in a decrease in commission expense.

The $3.4 million decrease in general, administrative and other expense is primarily related to reductions in occupancy, legal and professional fees and other marketing costs primarily attributable to the reduction in lending volumes as well as the sale of our retail branches during the fourth quarter of 2013. The reduction in legal and professional fees is primarily due to a non-operational $700 thousand legal settlement expense recorded during the first quarter of 2013.



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*Real Estate Services*

| | For the Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Real estate services fees, net | $ 4,360 | $ 5,155 | $ (795) | (15)% |
| Other income (expense) | — | 5 | (5) | (100) |
| Personnel expense | (1,357) | (1,568) | 211 | 13 |
| General, administrative and other | (177) | (250) | 73 | 29 |
| Net earnings before income taxes | $ 2,826 | $ 3,342 | $ (516) | (15)% |

For the quarter ended June 30, 2014, real estate services fees, net were $4.4 million compared to $5.2 million in the comparable 2013 period. The $795 thousand decrease in real estate services fees, net was the result of a $448 thousand decrease in real estate and recovery fees real estate services, $279 thousand decrease in loss mitigation fees and a $68 thousand decrease in real estate services.

For the quarter ended June 30, 2014, personnel expense decreased to $1.4 million as compared to $1.6 million for the comparable 2013 period. The $211 thousand decrease is primarily related to a reduction in personnel as well as a reduction in commissions associated with reduced transactions and the decline in loans and balance of the long-term mortgage portfolio.

| | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Real estate services fees, net | $ 8,039 | $ 9,583 | $ (1,544) | (16)% |
| Other income (expense) | — | 11 | (11) | (100) |
| Personnel expense | (2,574) | (3,452) | 878 | 25 |
| General, administrative and other | (482) | (580) | 98 | 17 |
| Net earnings before income taxes | $ 4,983 | $ 5,562 | $ (579) | (10)% |

For the six months ended June 30, 2014, real estate services fees, net were $8.0 million compared to $9.6 million in the comparable 2013 period. The $1.5 million decrease in real estate services fees, net was the result of a $1.3 million decrease in real estate and recovery fees real estate services and a $631 thousand decrease in loss mitigation fees partially offset by a $344 thousand increase in real estate services.

For the six months ended June 30, 2014, personnel expense decreased to $2.6 million as compared to $3.5 million for the comparable 2013 period. The $878 thousand decrease is primarily related to a reduction in personnel as well as a reduction in commissions associated with reduced transactions and the decline in loans and balance of the long-term mortgage portfolio.



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*Long-term Mortgage Portfolio*

| | For the Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Other revenue | $ 41 | $ 381 | (340) | (89)% |
| | | | | |
| Personnel expense | (64) | (257) | 193 | 75 |
| General, administrative and other | (201) | (158) | (43) | (27) |
| Total expenses | (265) | (415) | 150 | 36 |
| | | | | |
| Net interest income | 94 | 211 | (117) | (55) |
| Change in fair value of long-term debt | 226 | (478) | 704 | 147 |
| Change in fair value of net trust assets, including trust REO gains (losses) | 4,711 | (607) | 5,318 | 876 |
| Total other income (expense) | 5,031 | (874) | 5,905 | 676 |
| Net earnings (loss) before income taxes | $ 4,807 | $ (908) | $ 5,715 | 629% |

For the quarter ended June 30, 2014, other revenue totaled $41 thousand as compared to $381 thousand for the comparable 2013 period. The $340 thousand decrease is primarily due to a $305 thousand decrease in investment earnings.

For the quarter ended June 30, 2014, personnel expense was $64 thousand as compared to $257 thousand for the comparable 2013 period. The $193 thousand decrease in personnel expense was primarily due to a decrease in allocated personnel expenses associated with ongoing activities in the long-term mortgage portfolio associated with a decline in loans and balances of the long-term mortgage portfolio.

For the quarter ended June 30, 2014, net interest income totaled $94 thousand as compared to $211 thousand for the comparable 2013 period. Net interest income decreased $117 thousand for the quarter ended June 30, 2014 primarily attributable to a $132 thousand decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio. Additionally, interest expense on the long-term debt increased $88 thousand due to an increase in interest rates. Partially offsetting the decrease was a $103 thousand decrease in interest expense on the note payable due to the repayment of the note in April 2013.

Change in the fair value of long-term debt was a gain of $226 thousand for the quarter ended June 30, 2014, compared to a loss of $478 thousand for the comparable 2013 period. The decrease in the estimated fair value of long-term debt was primarily the result of a decrease in forward LIBOR interest rates.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $4.7 million for the quarter ended June 30, 2014, compared to a loss of $607 thousand in the comparable 2013 period. The change in fair value of net trust assets, including REO was due to $1.8 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of decreased collateral losses and severities in the future and lower interest rates. Additionally, the NRV of REO increased $2.9 million during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.





| | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | % Change |
| Other revenue | $ 211 | $ 853 | (642) | (75)% |
| | | | | |
| Personnel expense | (155) | (507) | 352 | 69 |
| General, administrative and other | (351) | (427) | 76 | 18 |
| Total expenses | (506) | (934) | 428 | 46 |
| | | | | |
| Net interest (expense) income | 26 | 826 | (800) | (97) |
| Change in fair value of long-term debt | (424) | (527) | 103 | 20 |
| Change in fair value of net trust assets, including trust REO gains (losses) | 7,749 | (2,106) | 9,855 | 468 |
| Total other income (expense) | 7,351 | (1,807) | 9,158 | 507 |
| Net earnings (loss) before income taxes | $ 7,056 | $ (1,888) | $ 8,944 | 474% |

For the six months ended June 30, 2014, other revenue totaled $211 thousand as compared to $853 thousand for the comparable 2013 period. The $642 thousand decrease is primarily due to a $614 thousand decrease in investment earnings.

For the six months ended June 30, 2014, personnel expense was $155 thousand as compared to $507 thousand for the comparable 2013 period. The $352 thousand decrease in personnel expense was primarily due to a decrease in allocated personnel expenses associated with ongoing activities in the long-term mortgage portfolio associated with a decline in loans and balances of the long-term mortgage portfolio.

For the six months ended June 30, 2014, net interest income totaled $26 thousand as compared to $826 thousand for the comparable 2013 period. Net interest income decreased $800 thousand for the six months ended June 30, 2014 primarily attributable to an $854 thousand decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio. Additionally, interest expense on the long-term debt increased $245 thousand due to an increase in interest rates. Partially offsetting the decrease in net interest income was a $303 thousand decrease in interest expense on the note payable due to the repayment of the note in April 2013.

Change in the fair value of long-term debt was a loss of $424 thousand for the six months ended June 30, 2014, compared to a loss of $527 thousand for the comparable 2013 period. The increase in the estimated fair value of long-term debt was primarily the result of a reduction in discount rate during the first quarter of 2014, partially offset by a decrease in forward LIBOR interest rates at June 30, 2014.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $7.7 million for the six months ended June 30, 2014, compared to a loss of $2.1 million in the comparable 2013 period. For the six months ended June 30, 2014, the change in fair value of net trust assets, including REO was due to a $9.0 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period. Partially offsetting the gain was $1.3 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses and severities in the future and higher interest rates.

*Corporate*

The corporate segment includes all compensation applicable to the corporate services groups, public company costs, unused office space as well as debt expense related to the Convertible Notes and capital leases. This corporate services group supports all operating segments. A portion of the corporate services costs is allocated to the operating segments. The costs associated with being a public company, unused space 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.



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| | For the Three Months Ended June 30, 2014 | 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Interest expense | $ (405) | $ (276) | (129) | (47) |
| Other expenses | (3,467) | (3,265) | (202) | (6) |
| Net loss before income taxes | $ (3,872) | $ (3,541) | $ (331) | (9)% |

For the quarter ended June 30, 2014, interest expense increased as compared to the comparable 2013 period primarily due to a $122 thousand increase in interest expense on the $20.0 million Convertible Notes issued in April 2013.

For the quarter ended June 30, 2014, expenses increased to $3.5 million as compared to $3.3 million for the comparable 2013 period. The increase was due to a net reduction in allocated corporate expenses. Although corporate costs decreased $724 thousand in the second quarter of 2014 as compared to second quarter of 2013, the sale of the retail branch network and closure of the lending fulfillment center at the end of 2013 resulted in a reduced allocation of certain fixed corporate costs due to reduced headcount primarily in mortgage lending and the associated reductions in business operations. The combination of the two resulted in a net increase in expenses recorded in the corporate segment.

| | For the Six Months Ended June 30, 2014 | 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Interest expense | $ (806) | $ (296) | (510) | (172) |
| Other expenses | (7,570) | (5,516) | (2,054) | (37) |
| Net loss before income taxes | $ (8,376) | $ (5,812) | $ (2,564) | (44)% |

For the six months ended June 30, 2014, interest expense increased as compared to the comparable 2013 period primarily due to a $500 thousand increase in interest expense on the $20.0 million Convertible Notes issued in April 2013.

For the six months ended June 30, 2014, expenses increased to $7.6 million as compared to $6.2 million for the comparable 2013 period. The increase was primarily due to non-cash lease impairment charge and a net reduction in allocated corporate expenses. With the further consolidation of the mortgage lending and real estate services operations in the first quarter of 2014, the Company recorded a non-cash lease impairment charge of $548 thousand for the space that we no longer used and expect to sublease in the future. Additionally, the sale of the retail branch network and closure of the lending fulfillment center at the end of 2013 resulted in a reduced allocation of certain fixed corporate costs due to reduced headcount primarily in mortgage lending and the associated reductions in business operations. The combination of the two resulted in a net increase in expenses recorded in the corporate segment.

*Discontinued Operations*

| | For the Three Months Ended June 30, 2014 | 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Provision for repurchases | $ (231) | $ (705) | $ 474 | 67% |
| General, administrative and other | (603) | (228) | (375) | (164) |
| Net loss after income taxes | $ (834) | $ (933) | $ 99 | 11% |

We recorded approximately $231 thousand in provision for repurchases during the quarter ended June 30, 2014 as compared to $705 thousand for the comparable 2013 period. The decrease is the result of a decrease in estimated repurchase losses during the three months ended June 30, 2014 related to repurchase claims as compared to the same period in 2013.

For the quarter ended June 30, 2014, general, administrative and other expense increased to $603 thousand as compared to $228 thousand for the comparable 2013 period. The increase of $375 thousand between periods is primarily due legal expenses for various matters pertaining to the discontinued non-conforming mortgage operations.



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| | For the Six Months Ended June 30, | | Increase | % |
|---|---|---|---|---|

| | | 2014 | | 2013 | | (Decrease) | Change |
|---|---|---|---|---|---|---|---|
| Provision for repurchases | $ | (231) | $ | (1,312) | $ | 1,081 | 82% |
| General, administrative and other | | (715) | | (462) | | (253) | (55) |
| Net loss after income taxes | $ | (946) | $ | (1,774) | $ | 828 | 47% |

We recorded approximately $231 thousand in provision for repurchases during the six months ended June 30, 2014 as compared to $1.3 million for the comparable 2013 period. During the six months ended June 30, 2014, we paid approximately $3.5 million to settle previous repurchase claims related to our previously discontinued operations and such amount was charged against the reserve on our consolidated balance sheets.

For the six months ended June 30, 2014, general, administrative and other expense increased to $715 thousand as compared to $462 thousand for the comparable 2013 period. During 2014, we incurred approximately $1.3 million in legal expenses and $288 thousand in occupancy expense for various matters pertaining to the discontinued non-conforming mortgage operations. Offsetting the legal expenses was a $950 thousand recovery from a settlement associated with previous litigation settlements.

## 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 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 of that date, 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 June 30, 2014, 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

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. At June 30, 2014, the Company has a $1.9 million accrued liability recorded for such estimated loss exposure as explained below.

Based on the Company's current understanding of these pending legal actions and proceedings, management cannot ascertain whether the 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.

Updates to legal matters for the period ended June 30, 2014 are as follows:

On April 30, 2012 a purported class action was filed entitled Marentes v. Impac Mortgage Holdings, Inc., alleging that certain loan modification activities of the Company constitute an unfair business practice, false advertising and marketing, and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and prejudgment interest. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant and on October 2, 2012, the plaintiff dismissed Impac Mortgage Holdings, Inc., without prejudice. On December 27, 2012, the court granted IFC's motion to dismiss and on May 23, 2014, the court of appeals reversed the dismissal and the Company will file an appropriate response.

On January 30, 2012, a Summons with Notice was filed entitled Deutsche Zentral-Genossenschaftsbank AG New York Branch, dba DZ Bank AG, New York Branch v. JPMorgan Chase & Co., et al. Named as a defendant in that action is ISAC. On August 3, 2012, a Consolidated Complaint was filed in which the above matter was consolidated with two other cases by the same plaintiff and DG Holding Trust. The Consolidated Complaint alleges misrepresentations in connection with the marketing and sale of mortgage backed securities issued by ISAC that the plaintiff purchased and seeks rescission, damages, prejudgment interest, punitive damages, and attorney's fees in an amount to be proven at trial. Subsequent to the end of the quarter, on July 23, 2014, the parties entered into a settlement agreement whereby ISAC agreed to pay $120,000, which is payable in installments.

We are a party to other litigation and claims which are normal in the course of our 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 above 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, 2013 and subsequent Form 10-Q filings for a description of litigation and claims.

## ITEM 1A: RISK FACTORS

Our Annual Report on Form 10-K for the year ended December 31, 2013, includes a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in that Form 10-K.

**New mortgage products that we may offer may expose us to liability.**

We originate and acquire various types of residential mortgage products to consumers and our customers. We have begun to offer non-Qualified Mortgage loan products being marketed as AltQM, which, unlike Qualified Mortgages, do not benefit from a presumption that the borrower has the ability to repay the loan. We understand that these types of products are new in today's marketplace and while we have taken great steps to try and mitigate any exposure and insure that we have made a reasonable determination that the borrowers will have the ability to repay the loan, this type of product does have increased risk and exposure to litigation and claims of borrowers. If, however, we were to make a loan as to which we did not satisfy the regulatory standards for ascertaining the borrower's ability to repay the loan, the consequences could include giving the borrower a defense to repayment of the loan, which may prevent us from collecting interest and principal on that loan.

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

Recent Sale of Unregistered Securities

On May 7, 2014, the Company issued 150,000 shares of common stock pursuant to the terms of a Settlement and Release Agreement dated March 11, 2014 with Deutsche Bank National Trust Company, which was approved by the court on April 14, 2014. The issuance was made in reliance upon the exemption from registration under Section 3(a)(10) of the Securities Act of 1933, as amended. Pursuant to the Settlement and Release Agreement, the Company agreed to pay Deutsche Bank an aggregate of $1.65 million in installments by December 31, 2014, which can be paid in shares of common stock or cash at the Company's discretion, and the Company may be required to true-up proceeds from the sales of shares with the issuance of additional shares.





On May 7, 2014, the Company issued an additional 10,000 shares of common stock pursuant to the terms of a Settlement and Release Agreement dated January 10, 2014 with Wilmington Trust Company. The issuance was made in reliance upon the exemption from registration under Section 3(a)(10) of the Securities Act of 1933, as amended. Pursuant to the Settlement and Release Agreement, the Company agreed to pay Wilmington an aggregate of $1.05 million in installments, which can be paid in shares of common stock or cash at the Company's discretion, and the Company may be required to true-up proceeds from the sales of shares with the issuance of additional shares. As previously reported in the Company's Form 10-Q for the period ended March 31, 2014, the Company initially issued to Wilmington 85,000 shares of common stock on March 27, 2014.

## ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4: MINE SAFETY DISCLOSURES

None.

## ITEM 5: OTHER INFORMATION

On June 20, 2014, the Company entered into an amendment to the Master Repurchase Agreement with Customers Bank extending the maturity to June 19, 2015, and increasing the borrowing capacity to $100.0 million.

On June 25, 2014, the warehouse facility under the Master Repurchase Agreement with Everbank was amended extending the expiration date to September 23, 2014.

In June 2014, the maturity date of the Master Purchase Agreement with Alliance Bank was extended to May 2015.

On May 13, 2014, a wholly-owned subsidiary of the Company, entered into a Credit Agreement with Wells Fargo Bank, which replaces and supersedes the previous credit agreement, as amended, dated April 1, 2011, effectively terminating that agreement. The terms of the new Credit Agreement with Wells Fargo are materially the same as the 2011 credit agreement, including the $4.0 million line of credit. The Credit Agreement also includes certain financial covenants. On June 1, 2014, the parties entered into a First Amendment to the Credit Agreement extending the maturity date to June 1, 2015.

The information set forth above is included herewith for the purpose of providing the disclosure required under “Item 1.01- Entry into a Material Definitive Agreement,” “Item 1.02 — Termination of a Material Definitive Agreement” and/or “Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant” of Form 8-K.



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**ITEM 6: EXHIBITS**

| | |
|---|---|
| (a) | Exhibits: |
| 10.1 | Amendment dated June 27, 2014 to Master Repurchase Agreement with Alliance Bank. |
| 10.2 | Ninth Amendment dated June 25, 2014 to Master Repurchase Agreement with Everbank. |
| 10.3 | Tenth Amendment dated July 15, 2014 to Master Repurchase Agreement with Everbank. |
| 10.4 | Eighth Amendment dated September 3, 2013 to Master Repurchase Agreement with Customers Bank |
| 10.5 | Ninth Amendment dated November 14, 2013 to Master Repurchase Agreement with Customers Bank |
| 10.6 | Tenth Amendment dated March 4, 2014 to Master Repurchase Agreement with Customers Bank |
| 10.7 | Eleventh Amendment dated June 20, 2014 to Master Repurchase Agreement with Customers Bank |
| 10.8 | Credit Agreement executed May 13, 2014 and First Amendment with Promissory Note dated June 1, 2014 with Wells Fargo Bank |
| 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 June 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Cash Flows, and (4) Notes to Consolidated Financial Statements, tagged as blocks of text. |

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* 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.



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**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/ TODD R. TAYLOR
Todd R. Taylor
*Chief Financial Officer*
*(authorized officer of registrant and principal financial officer)*

August 12, 2014

**Exhibit 10.1**

Agreement of Amendment

dated as of

June 27, 2014

In accordance with Section 11.02 of the Master Repurchase Agreement (the "MR Agreement") dated as of March 30, 2011, between IMPAC Mortgage Corp., a California corporation as the Seller and Western Alliance Bank, an Arizona corporation as the Buyer, the following amendments to the MR Agreement shall take effect upon execution of this Agreement of Amendment by both the Seller and the Buyer (the "Amendment").

Section 1. Amendments.

(a) Article II, Section 2.01, DEFINITIONS, is hereby amended by inserting the following definition:

""Non-Qualified Mortgage Loan" means a Mortgage Loan that is not a Qualified Mortgage Loan as determined by the Consumer Financial Protection Bureau."

(b) The Pricing Schedule, Schedule 3, is hereby amended by deleting the Pricing Schedule with the Effective Date of 3/19/14 and any previous pricing schedules in their entirety and inserting the attached Amended Pricing Schedule, Schedule 3, with the Effective Date of 6/27/14.

Section 2. Waiver/No Default.

On the effective date of this Amendment, no Default or Event of Default shall have occurred and be continuing under the MR Agreement and each of the representations and warranties of Seller made in the MR Agreement shall be true and correct.

Section 3. Limited Effect.

Except as expressly amended, waived and modified by this Amendment, the MR Agreement shall continue to be, and shall remain, in full force and effect in accordance with its terms. The execution of this Amendment by the Buyer shall not operate as a waiver of any of its rights, powers or privileges under the MR Agreement or any related document.

Section 4. Counterparts.

This Amendment may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart signature page to this Amendment in Portable Document Format (PDF) or by facsimile transmission shall be as effective as delivery of a manually executed original counterpart thereof.

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Section 5. GOVERNING LAW.

THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF ARIZONA.

**SELLER**

IMPAC Mortgage Corp., a California corporation

By:
/s/ William Ashmore
Name: William Ashmore
Title: President
Date:

**BUYER**

Western Alliance Bank, an Arizona corporation

By:
/s/ Albert Thuma
Name: Albert Thuma
Title: Vice President
Date:

**SELLER**

IMPAC Mortgage Corp., a California corporation

By:
/s/ Todd Taylor
Name: Todd Taylor
Title: Secretary
Date:

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Schedule 3
TO
MASTER REPURCHASE AGREEMENT
BETWEEN
IMPAC Mortgage, Corp., a California corporation

AND
Western Alliance Bank, an Arizona corporation

PRICING SCHEDULE
Effective Date 6/27/2014

1) Transaction Fees. With respect to this Agreement, the Seller shall pay to the Buyer each of the following amounts ("Transaction Fees"):

a) Repurchase Facility Origination Fee: $0.00

b) Loan Purchase Fee: $50.00 for each Purchased Loan other than an Aged Loan.

c) Non-Qualified Mortgage Loan Purchase Fee: $100.00 for each Purchased Non-Qualified Mortgage Loan.

d) Aged Loan Purchase Fee: $100.00 for each Purchased Aged Loan.

e) $50.00 a day will be assessed on any Purchased Loan with respect to which Buyer is not in receipt of the original Mortgage Note evidencing such Purchased Loan within five (5) Business Days of the Purchase Date. This fee will be assessed daily until the original Mortgage Note evidencing such Purchased Loan is received by Buyer.

2) Pricing Rates: With respect to any Purchased Loan, the following Pricing Rates shall apply:

a) Purchased Loans repurchased by Seller within 60 days of its Purchase Date: Prime Rate plus 0.00%. Purchased Loans that are Conforming Mortgage Loans repurchased by Seller within 75 days of its Purchase Date: Prime Rate plus 0.00%. Purchased Non-Qualified Mortgage Loans repurchased by Seller within 60 days of its Purchase Date: Prime Rate plus 0.50%.

b) Purchased Loans repurchased by Seller within 61-90 days of its Purchase Date: Prime Rate plus 0.75%. Purchased Loans that are Conforming Mortgage Loans repurchased by Seller within 76 - 90 days of its Purchase Date: Prime Rate plus 0.75%. Purchased Non-Qualified Mortgage Loans repurchased by Seller within 61 - 90 days of its Purchase Date: Prime Rate plus 1.25%.

c) Purchased Loans not repurchased by Seller within 91 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) Prime Rate plus 5.00%. Purchased Loans that are Conforming Mortgage Loans repurchased by Seller within 91 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) Prime Rate plus 5.00%. Purchased Non-Qualified Mortgage Loans repurchased by Seller within 91 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) Prime Rate plus 5.50%.

d) Purchased Loans that are Eligible Mortgage Aged Loans not sold or purchased by Seller within 364 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) Prime Rate plus 1.75%, unless an Eligible Mortgage Aged Loan has not been sold or purchased by 365 days of its Purchase Date, the Pricing Rates for c) through d) above shall apply.

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3) Minimum Pricing Rates: With respect to any Purchased Loan the following are the Minimum Pricing Rates:

a) Purchased Loans repurchased by Seller within 60 days of its Purchase Date: 3.25%. Purchased Loans that are Conforming Mortgage Loans repurchased by Seller within 75 days of its Purchase Date: 3.25%. Purchased Non-Qualified Mortgage Loans repurchased by Seller within 60 days of its Purchase Date: 3.75%.

b) Purchased Loans repurchased by Seller within 61-90 days of its Purchase Date: 4.00%. Purchased Loans that are Conforming Mortgage Loans repurchased by Seller within 76- 90 days of its Purchase Date: 4.00%. Purchased Non-Qualified Mortgage Loans repurchased by Seller within 61 - 90 days of its Purchase Date: 4.50%.

c) Purchased Loans, inclusive of Conforming Mortgage Loans, not repurchased by Seller within 91 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) 8.25%. Purchased Non-Qualified Mortgage Loans repurchased by Seller within 91 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) 8.75%.

d) Purchased Loans that are Eligible Mortgage Aged Loans not sold or purchased by Seller within 364 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) 5.00%, unless an Eligible Mortgage Aged Loan has not been sold or purchased by 365 days of its Purchase Date, the Pricing Rates or Minimum Pricing Rates for c) through d) above shall apply.

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4) Sublimits, Purchase Price Percentage, Repurchase Date for Eligible Mortgage Loans:

| **Eligible Mortgage Loans** | **Definition** | **Repurchase Facility Sublimit** | **Purchase Price Percentage** | **Repurchase Date** |
|---|---|---|---|---|
| Conforming Mortgage Loans* | Conforming mortgage loans are conventional one-to-four family residential, first lien mortgages that fully conform to all underwriting and documentation requirements of FNMA, FHLMC, or FHA/VA. | 100% / No Limit | 98% | 75 Days from the applicable Purchase Date. |
| Conforming Non-Owner Occupied | Conforming mortgage loans on a property other than the mortgagor's primary residence that conforms to all | 30% | 98% | 75 Days from the applicable Purchase Date. |

| | | | | |
|---|---|---|---|---|
| | underwriting and documentation requirements of FNMA and FHLMC. | | | |
| Eligible Jumbo & Super Jumbo | Non-Conforming mortgage loans are standard mortgage loans secured by a one-to-four family residential, first lien mortgage but have a loan balance greater than $417,000; $625,500 in California.<br><br>An approved investor commitment will be required before these loans are funded. The underlying loan can be no greater than $2MM and must have a minimum FICO of 700**.** | 30% | 98% | 60 Days from the applicable Purchase Date. |
| Non-Qualified Mortgage Loans | Non-Qualified Mortgage Loans are standard mortgage loans secured by a one-to-four family residential, first lien mortgage that do not qualify as Qualified Mortgage Loan as determined by the Consumer Financial Protection Bureau.<br><br>An approved investor non-delegated commitment will be required before these loans are funded. The underlying loan must have minimum FICO of 680 and LTV ≤ 80%, or > 80% with full mortgage insurance coverage, with maximum allowable DTI of 50%. | 20% | 95% | 60 days from the applicable Purchase Date. |
| FNMA / Freddie Mac HARP Loans | Maximum LTV on underlying loan of 125% for FNMA Seller Servicer. Loans must be underwritten by automated DU system or have approved investor commitment. Maximum DTI of 45%, Minimum FICO of 680. Primary and Second Homes only. | 20% | 98% | 60 days from the applicable Purchase Date. |
| FHA Loans / GNMA Securitization | Maximum LTV of 100% on underlying loan. Loans must be underwritten by automated Loan Prospector system or have approved investor commitment. | 100% / No Limit | 98% | 60 days from the applicable Purchase Date. |
| Aged Loans | Performing Eligible Mortgage Loan without a current Take-Out Commitment. Requires pre-approval of Buyer before Funding. | $2,000,000.00 | 80% | 364 days from the applicable Purchase Date. |

Borrowers Initial: ___________

WAB Initial: ___________

**Exhibit 10.2**

June 25, 2014

IMPAC Mortgage Corp.
19500 Jamboree Road
Irvine, CA 92162

Integrated Real Estate Service Corporation
19500 Jamboree Road
Irvine, CA 92162

Re: Ninth Amendment to Master Repurchase Agreement and Pricing Letter ("Ninth Amendment").

This Ninth Amendment is made this 25th day of June, 2014 (the "Amendment Effective Date"), to that certain Master Repurchase Agreement, dated August 31, 2011, as amended (the "Repurchase Agreement") and the Pricing Letter, dated August 31, 2011, as amended (the "Pricing Letter"), in each case by and among IMPAC Mortgage Corp., formerly Excel Mortgage Servicing, Inc. ("Seller"), and EverBank ("Buyer"). The Repurchase Agreement, the Pricing Letter and all amendments are sometimes hereinafter collectively referred to as the "Agreement."

WHEREAS, Seller and Integrated Real Estate Service Corporation ("Guarantor") requested that Buyer amend the Agreement; and

WHEREAS, Seller, Guarantor and Buyer have agreed to amend the Agreement as set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree to amend the Agreement as follows:

SECTION 1. Amendments.

The following definition contained in Section 1 of the Pricing Letter is hereby amended and restated in its entirety as follows:

"Termination Date" shall mean September 23, 2014, or such earlier date as determined by Buyer pursuant to its rights and remedies under the Agreement.

SECTION 2. Defined Terms. Any terms capitalized but not otherwise defined herein should have the respective meanings set forth in the Agreement.

---

SECTION 3. Limited Effect. Except as amended hereby, the Agreement shall continue in full force and effect in accordance with its terms. Reference to this Ninth Amendment need not be made in the Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Agreement, any reference in any of such items to the Agreement being sufficient to refer to the Agreement as amended hereby.

SECTION 4. Representations. In order to induce Buyer to execute and deliver this Ninth Amendment, each Seller hereby represents to Buyer that as of the date hereof, except as otherwise expressly waived by Buyer in writing, such Seller is in full compliance with all of the terms and conditions of the Agreement including without limitation, all of the representations and warranties and all of the affirmative and negative covenants, and no Default or Event of Default has occurred and is continuing under the Agreement.

SECTION 5. Governing Law. This Ninth Amendment and any claim, controversy or dispute arising under or related to or in connection with this Ninth Amendment, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties will be governed by the laws of the State of New York without regard to any conflicts of law principles other than Sections 5-1401 and 5-1402 of the New York General Obligations Law which shall govern.

SECTION 6. Counterparts. This Ninth Amendment may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute but one and the same agreement. This Ninth Amendment, to the extent signed and delivered by facsimile or other electronic means, shall be treated in all manner and respects as an original agreement and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. No signatory to this Ninth Amendment shall raise the use of a facsimile machine or other electronic means to deliver a signature or the fact that any signature or agreement was transmitted or communicated through the use of a facsimile machine or other electronic means as a defense to the formation or enforceability of a contract and each such Person forever waives any such defense.

SECTION 7. Guarantor. Guarantor acknowledges and agrees that nothing contained herein, and Guarantor's signature hereon, shall not be deemed an acknowledgement, a course of conduct, a waiver or an amendment of the provisions of the Facility Guaranty, which continue in full force and effect and do not require any Guarantor's consent to the actions taken hereunder.

IN WITNESS WHEREOF, Seller, Guarantor and Buyer have caused this Ninth Amendment to be executed and delivered as of the Amendment Effective Date.

| IMPAC Mortgage Corp., as Seller | | EVERBANK, as Buyer | |
|---|---|---|---|
| By: | /s/ Todd R. Taylor | By: | /s/ Sean R. Delaney |
| Its: | Todd R. Taylor | Its: | Sean R. Delaney |
| Title: | EVP/CFO | Title: | Vice President |

INTEGRATED REAL ESTATE

SERVICE CORPORATION, as Guarantor

| | |
|---|---|
| By: | /s/ Todd R. Taylor |
| Its: | Todd R. Taylor |
| Title: | EVP/CFO |

---

EXHIBIT A

**COMPLIANCE CERTIFICATE**

**[PLEASE REVIEW CAREFULLY]**

| | |
|---|---|
| SELLER: | IMPAC Mortgage Corp. |
| GUARANTORS: | INTEGRATED REAL ESTATE SERVICE CORPORATION |
| BUYER: | EVERBANK |
| TODAY'S DATE: | / /201 |
| REPORTING PERIOD ENDED: | month(s) ended / /20 |

This certificate is delivered to Buyer under the Master Repurchase Agreement dated as of August 31, 2011, between Seller and Buyer (as amended from time to time, the "Agreement"), all the defined terms of which have the same meanings when used herein.

I hereby certify that: (a) I am, and at all times mentioned herein have been, the duly elected, qualified, and acting officer of Seller designated below; (b) to the best of my knowledge, the Financial Statements of Seller from the period shown about (the "Reporting Period") and which accompany this certificate were prepared in accordance with GAAP and present fairly the financial condition of the Financial Reporting Party as of the end of the Reporting Period and the results of its operations for Reporting Period; (c) a review of the Agreement and of the activities of Seller during the Reporting Period has been made under my supervision with a view to determining Seller's compliance with the covenants, requirements, terms, and conditions of the Agreement, and such review has not disclosed the existence during or at the end of the Reporting Period (and I have no knowledge of the existence as of the date hereof) of any Default or Event of Default, except as disclosed herein (which specifies the nature of existence of each Default or Event of Default, if any, and what action Seller has taken, is taking, and proposes to take with respect to each); (d) all information set forth on the attachment to this Compliance Certificate is true, correct, and complete, and the calculations set forth therein evidence that Seller is in compliance with the requirements of the Agreement at the end of the Reporting Period (or if Seller is not in compliance, showing the extent of non-compliance and specifying the period of non-compliance and what actions Seller proposes to take with respect thereto); and (e) Seller was, as of the end of the Reporting Period, in compliance and good standing with applicable Fannie Mae, Ginnie Mae, Freddie Mac, and HUD net worth requirements.

By: ________________________
Name:
Title:

---

| | |
|---|---|
| SELLER: | IMPAC Mortgage Corp. |
| REPORTING PERIOD ENDED: | / /20 |

All financial calculations set forth herein are as of the end of the Reporting Period.

**1. ADJUSTED TANGIBLE NET WORTH**

| | | |
|---|---|---|
| The Adjusted Tangible Net Worth of Seller is: | | |
| GAAP Net Worth: | $ | |
| Minus: Intangible Assets (excluding capitalized Servicing Rights) | $ | |
| Minus: Due from Shareholders or Related Parties | $ | |
| Minus: Capitalized Servicing Rights | $ | |
| Minus: Assets pledged to secure liabilities not included in Indebtedness: | $ | |
| Minus: Any other HUD non-acceptable assets: | $ | |
| Minus: Investments in Affiliates: | $ | |
| Plus: Lesser of (a) most recent MSR Appraised Value, and (b) capitalized Servicing Rights (per above): | $ | |
| Plus: Subordinated Debt: | $ | |
| **ADJUSTED TANGIBLE NET WORTH:** | **$** | |
| ***SELLER REQUIRED MINIMUM*** | $ | 17,000,000 |
| ***GUARANTOR REQUIRED MINIMUM*** | $ | 17,000,000 |
| **In compliance?** | o Yes | o No |

**2. INDEBTEDNESS OF SELLER**

| | | |
|---|---|---|
| **INDEBTEDNESS:** | **$** | |

### 3. LEVERAGE: ADJUSTED INDEBTEDNESS TO ADJUSTED TANGIBLE NET WORTH

| | |
|---|---|
| Indebtedness (from 2, above) | $ |
| Minus: Subordinated Debt (from 1, above) | $ |
| **ADJUSTED INDEBTEDNESS** | $ |
| Adjusted Tangible Net Worth (from 1, above) | $ |
| **RATIO OF ADJUSTED INDEBTEDNESS /ADJUSTED TANGIBLE NET WORTH:** | **:1** |
| ***Maximum permitted*** | ***15:1*** |
| **In compliance?** | o Yes o No |

### 4. LIQUIDITY

| | |
|---|---|
| Cash | $ |
| Less: Restricted Cash | $ |
| Plus: Cash Equivalents | $ |
| **LIQUIDITY** | $ |
| ***Minimum required*** | $ 7,000,000 |
| **In compliance?** | o Yes o No |

### 5. PROFITABILITY RATIO

| | |
|---|---|
| Net Income (prior three (3) fiscal quarters) | $ |
| Net Income (fiscal quarter just ended) | $ |
| Total Net Income (prior four (4) fiscal quarters) | $ |
| ***Minimum required (trailing 12 months calculated quarterly)*** | $ 1.00 or more |
| **In compliance?** | o Yes o No |

### 6. FACILITIES (Please list all credit facilities including off balance sheet facilities)

| Institution | Total Commitment | Outstanding |
|---|---|---|
| EverBank Warehouse Lending | $ | $ |
| | $ | $ |
| | $ | $ |
| | $ | $ |
| | $ | $ |
| | $ | $ |
| | $ | $ |
| | $ | $ |
| **TOTALS** | **$** | **$** |

---

### 7. REPURCHASES / INDEMNIFICATIONS (R&I)

| Repurchases | UPB | # of Loans | Actual or Estimated Loss | How were they recorded on the financials? |
|---|---|---|---|---|
| Beginning Open R&I's | **$** | | **$** | |
| New R&I's received this month | **$** | | **$** | |
| R&I's rescinded this month | **$** | | **$** | n/a |
| R&I's settled this month | **$** | | **$** | |
| Ending Open R&I's | **$** | | **$** | |

* **If you have a detailed schedule of loans subject to repurchases that includes the investor requesting, reason for repurchases, origination date, loan characteristics such as LTV, lien position, occupancy etc., and valuation method if you have estimated your loss exposure, please attach it with this table.**

### 8. LOAN LOSS RESERVE

| | Current Month | Year-to-Date |
|---|---|---|
| Beginning loan loss reserve | $ | $ |
| Additional loss provision | $ | $ |
| Actual charge off | $ | $ |
| Ending Loan Loss Reserve | $ | $ |

### 9. LITIGATION

| | Current Month | Year-to-Date |
|---|---|---|
| Pending litigations (Unit) | | |
| Expected losses on litigation | $ | $ |

### 10. THIRD PARTY REPORTS

All reports received from third parties (such as the SEC, Fannie Mae, Ginnie Mae, Freddie Mac) subsequent to the last reporting period are attached hereto. These reports include the following (if none, write "None"): [ ]

---

**11. DEFAULTS OR EVENTS OF DEFAULT**

Disclose nature and period of existence and action being taken in connection therewith; if none, write "None": [ ]

**12. OTHER REPORTS REQUIRED (Please attach if applicable)**

a. Indemnification & Repurchase Report for the prior year and current YTD.

b. Hedge Reports (including: position summary report, MBS & whole loan trade detail, loan level detail report with weighted average take out price).

c. Summary of year-to-date production, broken out by product type.

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**Exhibit 10.3**

IMPAC Mortgage Corp.
19500 Jamboree Road
Irvine, CA 92162

Integrated Real Estate Service Corporation
19500 Jamboree Road
Irvine, CA 92162

Re: Tenth Amendment to Master Repurchase Agreement and Pricing Letter ("Tenth Amendment").

This Tenth Amendment is made this 15th day of July, 2014 (the "Amendment Effective Date"), to that certain Master Repurchase Agreement, dated August 31, 2011, as amended (the "Repurchase Agreement") and the Pricing Letter, dated August 31, 2011, as amended (the "Pricing Letter") in each case by and among Excel Mortgage Servicing, Inc. and AmeriHome Mortgage Corporation (each a "Seller" and, collectively, "Sellers"), and EverBank ("Buyer"). The Repurchase Agreement, the Pricing Letter and all Amendments are sometimes hereinafter collectively referred to as the "Agreement."

WHEREAS, Sellers and Integrated Real Estate Service Corporation ("Guarantor") requested that Buyer amend the Agreement; and

WHEREAS, Sellers, Guarantor and Buyer have agreed to amend the Agreement as set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree to amend the Agreement as follows:

---

SECTION 1. Amendments.

(a) The following definition contained in Section 1 of the Pricing Letter is hereby amended and restated in its entirety as follows:

"Concentration Limit" as of any date of determination, with respect to the Eligible Mortgage Loans included in any Concentration Category, the applicable amount which the aggregate Purchase Price for such Eligible Mortgage Loans may not at any time exceed, as set forth in the below table.

| Concentration Category | Concentration Limit (percentages based on Maximum Purchase Amount) |
|---|---|
| Aged Loans | 5% |
| Wet Mortgage Loans | 40% |
| Jumbo Loans | 10% |
| Eligible Correspondent Mortgage Loans | 50% |
| High LTV VA Refinance Loans | 10% |
| DU Refi Plus Loans | 10% |

SECTION 2. Defined Terms. Any terms capitalized but not otherwise defined herein should have the respective meanings set forth in the Agreement.

SECTION 3. Limited Effect. Except as amended hereby, the Agreement shall continue in full force and effect in accordance with its terms. Reference to this Tenth Amendment need not be made in the Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Agreement, any reference in any of such items to the Agreement being sufficient to refer to the Agreement as amended hereby.

SECTION 4. Representations. In order to induce Buyer to execute and deliver this Tenth Amendment, each Seller hereby represents to Buyer that as of the date hereof, except as otherwise expressly waived by Buyer in writing, such Seller is in full compliance with all of the terms and conditions of the Agreement including without limitation, all of the representations and warranties and all of the affirmative and negative covenants, and no Default or Event of Default has occurred and is continuing under the Agreement.

SECTION 5. Governing Law. This Tenth Amendment and any claim, controversy or dispute arising under or related to or in connection with this Tenth Amendment, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties will be governed by the laws of the State of New York without regard to any conflicts of law principles other than Sections 5-1401 and 5-1402 of the New York General Obligations Law which shall govern.

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SECTION 6. Counterparts. This Tenth Amendment may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute but one and the same agreement. This Tenth Amendment, to the extent signed and delivered by facsimile or other electronic means, shall be treated in all manner and respects as an original agreement and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. No signatory to this Tenth Amendment shall raise the use of a facsimile machine or other electronic means to deliver a signature or the fact that any signature or agreement was transmitted or communicated through the use of a facsimile machine or other electronic means as a defense to the formation or enforceability of a contract and each such Person forever waives any such defense.

SECTION 7. Guarantor. Guarantor acknowledges and agrees that nothing contained herein, and Guarantor's signature hereon, shall not be deemed an acknowledgement, a course of conduct a waiver or an amendment of the provisions of the Facility Guaranty, which continue in full force and effect and do not require any Guarantor's consent to the actions taken hereunder.

[Signature Page Follows]

IN WITNESS WHEREOF, Sellers, Guarantor and Buyer have caused this Tenth Amendment to be executed and delivered as of the Amendment Effective Date.

IMPAC Mortgage Corp., as Seller

By: /s/ Todd R. Taylor
Its: Todd R. Taylor
Title: EVP/CFO

EVERBANK, as Buyer

By: /s/ Sean R. Delaney
Its: Sean R. Delaney
Title: Vice President

INTEGRATED REAL ESTATE SERVICE CORPORATION, as Guarantor

By: /s/ Todd R. Taylor
Its: Todd R. Taylor
Title: EVP/CFO

# EIGHTH AMENDMENT
# TO
# MASTER REPURCHASE AGREEMENT

EIGHTH AMENDMENT, dated as of September 3, 2013 (the "Amendment"), to the Master Repurchase Agreement dated as of December 3, 2010, as amended by that certain First Amendment to Master Repurchase Agreement dated as of April 8, 2011, as further amended by that certain Second Amendment to Master Repurchase Agreement dated as of June 30, 2011, as further amended by that certain Third Amendment to Master Repurchase Agreement dated as of April 13, 2012, as further amended by that certain letter dated April 27, 2012, as further amended by that certain Fourth Amendment to Master Repurchase Agreement dated as of June 29, 2012, as further amended by that certain Fifth Amendment to Master Repurchase Agreement dated as of October 26, 2012, as further amended by that certain Sixth Amendment to Master Repurchase Agreement dated as of February 8, 2013, and as further amended by that certain Seventh Amendment to Master Repurchase Agreement dated as of June 21, 2013 (the "Existing Master Repurchase Agreement"), by and among EXCEL MORTGAGE SERVICING, INC., a California corporation, with an address at 19500 Jamboree Road #400, Irvine, California 92612, as a seller ("Excel"), AMERIHOME MORTGAGE CORPORATION, a Michigan corporation, with an address at 2141 W. Bristol Road, Flint, Michigan 48507, as a seller ("AmeriHome") (Excel and AmeriHome are individually and collectively referred to herein as "Seller"), and CUSTOMERS BANK, a Pennsylvania state-chartered bank, with an address at 99 Bridge Street, Phoenixville, Pennsylvania 19460 (the "Buyer").

## RECITALS

The Seller has requested the Buyer to agree to amend the Existing Master Repurchase Agreement as set forth in this Amendment. The Buyer is willing to agree to such amendment, but only on the terms and subject to the conditions set forth in this Amendment.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Seller and the Buyer hereby agree as follows:

## ARTICLE I
## DEFINITIONS

Definitions. Unless otherwise indicated, capitalized terms that are used but not defined herein shall have the meanings ascribed to them in the Existing Master Repurchase Agreement.

## ARTICLE II
## AMENDMENT

1. The following definitions contained in Section 1 (Definitions) of the Existing Master Repurchase Agreement are hereby deleted and replaced in their entirety by the following:

"Pricing Rate" for all Mortgage Loans except High LTV Mortgage Loans, Aged Mortgage Loans, Restructured Mortgage Loans and GNMA Repurchased Mortgage Loans, means LIBOR plus:

(1) 3.5% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.5% with respect to Transactions from the forty-fifth (45$^{th}$) day to the seventy-fourth (74$^{th}$) day from the Purchase Date;

(3) 5.5% with respect to Transactions from the seventy-fifth (75$^{th}$) day from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all High LTV Mortgage Loans means LIBOR plus:

(1) 3.75% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.75% with respect to Transactions from the forty-fifth (45$^{th}$) day from the Purchase Date and thereafter;

(3) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Aged Mortgage Loans means LIBOR plus:

(1) 4.25% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 5.25% with respect to Transactions from forty-fifth (45$^{th}$) day to the seventy-fourth (74$^{th}$) day from the Purchase Date;

(3) 6.25% with respect to Transactions from the seventy-fifth (75$^{th}$) day from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all GNMA Repurchased Mortgage Loans, means LIBOR plus:

(1) 3.75% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.75% with respect to Transactions from the forty-fifth ($45^{th}$) day to the seventy-fourth ($74^{th}$) day from the Purchase Date;

(3) 5.75% with respect to Transactions from the seventy-fifth ($75^{th}$) from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Restructured Mortgage Loans means LIBOR plus:

(1) 3.5% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.5% with respect to Transactions from the forty-fifth ($45^{th}$) day from the Purchase Date and thereafter.

(3) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

The Pricing Rate shall change in accordance with LIBOR.

"Repurchase Date" means the date on which Seller is to repurchase the Mortgage Loans from Buyer provided that in no event shall the Repurchase Date be in excess of, for all Mortgage Loans except High LTV Mortgage Loans and Restructured Mortgage Loans, ninety (90) days after the Purchase Date; and for High LTV Mortgage Loans and Restructured Mortgage Loans, sixty (60) days after the Purchase Date.

2. The following new definition is hereby added to Section 1 (Definitions) of the Existing Master Repurchase Agreement:

"Restructured Mortgage Loan" means an FHA refinance mortgage loan originated pursuant to and in compliance with the Making Home Affordable Program and as further set forth in HUD's Mortgage Letter 2010-23.

3. A new Section 5(b)(13) is hereby added to the Existing Master Repurchase Agreement as follows:

(13) The total outstanding principal balance of all Restructured Mortgage Loans owned by Buyer after such purchase shall not exceed ten percent (10%) of the Maximum Aggregate Purchase Price.



4. A new Section 5(b)(14) is hereby added to the Existing Master Repurchase Agreement as follows:

(14) For Restructured Mortgage Loans, such loan must have a minimum FICO score of five hundred forty (540) and must be eligible for securitization as collateral for a Ginnie Mae guaranteed mortgage backed security.

## ARTICLE III
## REPRESENTATIONS AND WARRANTIES

All representations and warranties contained in the Existing Master Repurchase Agreement are true and correct as of the date of this Amendment (except to the extent that any of such representations and warranties expressly relate to an earlier date).

## ARTICLE IV
## MISCELLANEOUS

1. Ratification. Except as expressly affected by the provisions hereof, the Existing Master Repurchase Agreement, as amended, shall remain in full force and effect in accordance with its terms and ratified and confirmed by the parties hereto. On and after the date hereof, each reference in the Existing Master Repurchase Agreement to "the Agreement", "hereunder", "herein" or words of like import shall mean and be a reference to the Agreement as amended by this Amendment.

2. Limited Scope. This Amendment is specific to the circumstances described above and does not imply any future amendment or waiver of rights of the Buyer and the Seller under the Existing Master Repurchase Agreement.

3. Severability. Any provisions of this Amendment which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4. Caption. The captions in the Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and such counterparts shall constitute but one and the same instrument.

6. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

| ATTEST: | | CUSTOMERS BANK | |
|---|---|---|---|
| By: | /s/ J. Christopher Black | By: | /s/ Glenn Hedde |
| Name: | J. Christopher Black | Name: | Glenn Hedde |
| Title: | Senior Vice President | Title: | President, Warehouse Lending |
| ATTEST: | | EXCEL MORTGAGE SERVICING, INC. | |
| By: | /s/ Ron Morrison | By: | /s/ Todd Taylor |
| Name: | Ron Morrison | Name: | Todd Taylor |
| Title: | Executive Vice President & General Counsel | Title: | Chief Financial Officer |
| ATTEST: | | AMERIHOME MORTGAGE CORPORATION | |
| By: | /s/ Ron Morrison | By: | /s/ Todd Taylor |
| Name: | Ron Morrison | Name: | Todd Taylor |
| Title: | Executive Vice President & General Counsel | Title: | Chief Financial Officer |

*Signature Page to Eighth Amendment to Master Repurchase Agreement*

# NINTH AMENDMENT
# TO
# MASTER REPURCHASE AGREEMENT

NINTH AMENDMENT, dated as of November 14, 2013 (the "Amendment"), to the Master Repurchase Agreement dated as of December 3, 2010, as amended by that certain First Amendment to Master Repurchase Agreement dated as of April 8, 2011, as further amended by that certain Second Amendment to Master Repurchase Agreement dated as of June 30, 2011, as further amended by that certain Third Amendment to Master Repurchase Agreement dated as of April 13, 2012, as further amended by that certain letter dated April 27, 2012, as further amended by that certain Fourth Amendment to Master Repurchase Agreement dated as of June 29, 2012, as further amended by that certain Fifth Amendment to Master Repurchase Agreement dated as of October 26, 2012, as further amended by that certain Sixth Amendment to Master Repurchase Agreement dated as of February 8, 2013, as further amended by that certain Seventh Amendment to Master Repurchase Agreement dated as of June 21, 2013, and as further amended by that certain Eighth Amendment to Master Repurchase Agreement dated as of September 3, 2013 (the "Existing Master Repurchase Agreement"), by and among EXCEL MORTGAGE SERVICING, INC., a California corporation, with an address at 19500 Jamboree Road #400, Irvine, California 92612, as a seller ("Excel"), AMERIHOME MORTGAGE CORPORATION, a Michigan corporation, with an address at 2141 W. Bristol Road, Flint, Michigan 48507, as a seller ("AmeriHome") (Excel and AmeriHome are individually and collectively referred to herein as "Seller"), and CUSTOMERS BANK, a Pennsylvania state-chartered bank, with an address at 99 Bridge Street, Phoenixville, Pennsylvania 19460 (the "Buyer").

## RECITALS

The Seller has requested the Buyer to agree to amend the Existing Master Repurchase Agreement as set forth in this Amendment. The Buyer is willing to agree to such amendment, but only on the terms and subject to the conditions set forth in this Amendment.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Seller and the Buyer hereby agree as follows:

## ARTICLE I
## DEFINITIONS

Definitions. Unless otherwise indicated, capitalized terms that are used but not defined herein shall have the meanings ascribed to them in the Existing Master Repurchase Agreement.

---

## ARTICLE II
## AMENDMENT

1. The following new definition is hereby added to Section 1 (Definitions) of the Existing Master Repurchase Agreement:

> "Reverse Mortgage Loan" means a Mortgage Loan that provides for the loan of money to a borrower based on the home equity in the Mortgaged Property and the borrower's obligation to repay the loan is deferred until the owner dies, sells the Mortgaged Property or the owner vacates the Mortgaged Property.

2. Section 2(b)(12) of the Existing Master Repurchase Agreement is hereby deleted and replaced by the following:

> (12) Full Disbursement of Proceeds. Other than the obligation to make additional disbursements pursuant to the terms of a Reverse Mortgage Loan, the proceeds of the Mortgage Loan have been fully disbursed and there is no further requirement for future advances thereunder, and any and all requirements as to completion of any on-site or off-site improvement and as to disbursements of any escrow funds therefor have been complied with. All costs, fees and expenses incurred in making or closing the Mortgage Loan and the recording of the Mortgage were paid, and the Mortgagor is not entitled to any refund of any amounts paid or due under the Note or Mortgage. Other than the initial disbursement of funds on the Reverse Mortgage Loan from the Purchase Price, no additional disbursements are required to be made on the Reverse Mortgage Loan before the Repurchase Date.

3. A new Section 5(b)(15) is hereby added to the Existing Master Repurchase Agreement as follows:

> (15) The total outstanding principal balance of all Reverse Mortgage Loans owned by Buyer after such purchase shall not exceed twenty percent (20%) of the Maximum Aggregate Purchase Price.

## ARTICLE III
## REPRESENTATIONS AND WARRANTIES

All representations and warranties contained in the Existing Master Repurchase Agreement are true and correct as of the date of this Amendment (except to the extent that any of such representations and warranties expressly relate to an earlier date).

## ARTICLE IV
## MISCELLANEOUS

1. Ratification. Except as expressly affected by the provisions hereof, the Existing Master Repurchase Agreement, as amended, shall remain in full force and effect in accordance with its terms and ratified and confirmed by the parties hereto. On and after the date hereof, each reference in the Existing Master Repurchase Agreement to "the Agreement", "hereunder", "herein" or words of like import shall mean and be a reference to the Agreement as amended by this Amendment.

2. Limited Scope. This Amendment is specific to the circumstances described above and does not imply any future amendment or waiver of rights of the Buyer and the Seller under the Existing Master Repurchase Agreement.

3. Severability. Any provisions of this Amendment which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4. Caption. The captions in the Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and such counterparts shall constitute but one and the same instrument.

6. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.



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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

| ATTEST: | CUSTOMERS BANK |
|---|---|
| By: /s/ J. Christopher Black | By: /s/ Glenn Hedde |
| Name: J. Christopher Black | Name: Glenn Hedde |
| Title: Senior Vice President | Title: President, Warehouse Lending |

| ATTEST: | EXCEL MORTGAGE SERVICING, INC. |
|---|---|
| By: /s/ Ron Morrison | By: /s/ Todd Taylor |
| Name: Ron Morrison | Name: Todd Taylor |
| Title: Executive Vice President & General Counsel | Title: Chief Financial Officer |

| ATTEST: | AMERIHOME MORTGAGE CORPORATION |
|---|---|
| By: /s/ Ron Morrison | By: /s/ Todd Taylor |
| Name: Ron Morrison | Name: Todd Taylor |
| Title: Executive Vice President & General Counsel | Title: Chief Financial Officer |



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STATE OF CALIFORNIA

COUNTY OF

On this, the day of November, 2013, before me, the undersigned officer, personally appeared Todd Taylor and Ron Morrison, who acknowledged themselves to be the Chief Financial Officer and Executive Vice President & General Counsel, respectively, of Excel Mortgage Servicing, Inc., a corporation; and Chief Financial Officer and Executive Vice President & General Counsel, respectively, of Amerihome Mortgage Corporation, a corporation, and that they as Chief Financial Officer and Executive Vice President & General Counsel, being authorized to do so, executed the foregoing agreement for the purposes therein contained such.

In witness whereof, I hereunto set my hand official seal.

______________________________

Notary Public

Printed Name: ______________________

My Commission Expires:

# TENTH AMENDMENT
# TO
# MASTER REPURCHASE AGREEMENT

TENTH AMENDMENT, dated as of March 4, 2014 (the "Amendment"), to the Master Repurchase Agreement dated as of December 3, 2010, as amended by that certain First Amendment to Master Repurchase Agreement dated as of April 8, 2011, as further amended by that certain Second Amendment to Master Repurchase Agreement dated as of June 30, 2011, as further amended by that certain Third Amendment to Master Repurchase Agreement dated as of April 13, 2012, as further amended by that certain letter dated April 27, 2012, as further amended by that certain Fourth Amendment to Master Repurchase Agreement dated as of June 29, 2012, as further amended by that certain Fifth Amendment to Master Repurchase Agreement dated as of October 26, 2012, as further amended by that certain Sixth Amendment to Master Repurchase Agreement dated as of February 8, 2013, as further amended by that certain Seventh Amendment to Master Repurchase Agreement dated as of June 21, 2013, as further amended by that certain Eighth Amendment to Master Repurchase Agreement dated as of September 3, 2013, and as further amended by that certain Ninth Amendment to Master Repurchase Agreement dated as of November 14, 2013 (the "Existing Master Repurchase Agreement"), between IMPAC MORTGAGE CORP., a California corporation, with an address at 19500 Jamboree Road #400, Irvine, California 92612 (the "Seller"), and CUSTOMERS BANK, a Pennsylvania state-chartered bank, with an address at 99 Bridge Street, Phoenixville, Pennsylvania 19460 (the "Buyer").

## RECITALS

The Seller has requested the Buyer to agree to amend the Existing Master Repurchase Agreement as set forth in this Amendment. The Buyer is willing to agree to such amendment, but only on the terms and subject to the conditions set forth in this Amendment.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Seller and the Buyer hereby agree as follows:

## ARTICLE I
## DEFINITIONS

Definitions. Unless otherwise indicated, capitalized terms that are used but not defined herein shall have the meanings ascribed to them in the Existing Master Repurchase Agreement.

## ARTICLE II
## NAME CHANGE AND PARTIES TO THE AGREEMENT

Buyer and Seller hereby agree that AmeriHome Mortgage Corporation is removed as a party to the Existing Master Repurchase Agreement. Buyer hereby consents to the change of Seller's name from Excel Mortgage Servicing, Inc. to IMPAC Mortgage Corp.

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## ARTICLE III
## AMENDMENT

1. The following definitions contained in Section 1 (Definitions) of the Existing Master Repurchase Agreement are hereby deleted and replaced in their entirety by the following:

"Pricing Rate" for all Mortgage Loans except High LTV Mortgage Loans, Aged Mortgage Loans, Restructured Mortgage Loans and Repurchased Mortgage Loans, means LIBOR plus:

(1) 3.5% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.5% with respect to Transactions from the forty-fifth ($45^{th}$) day to the seventy-fourth ($74^{th}$) day from the Purchase Date;

(3) 5.5% with respect to Transactions from the seventy-fifth ($75^{th}$) day from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all High LTV Mortgage Loans means LIBOR plus:

(1) 3.75% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.75% with respect to Transactions from the forty-fifth ($45^{th}$) day from the Purchase Date and thereafter;

(3) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Aged Mortgage Loans means LIBOR plus:

(1) 4.25% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 5.25% with respect to Transactions from forty-fifth ($45^{th}$) day to the seventy-fourth ($74^{th}$) day from the Purchase Date;

(3) 6.25% with respect to Transactions from the seventy-fifth ($75^{th}$) day from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Repurchased Mortgage Loans, means LIBOR plus:

(1) 3.75% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.75% with respect to Transactions from the forty-fifth (45$^{th}$) day to the seventy-fourth (74$^{th}$) day from the Purchase Date;

(3) 5.75% with respect to Transactions from the seventy-fifth (75$^{th}$) from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Restructured Mortgage Loans means LIBOR plus:

(1) 3.5% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.5% with respect to Transactions from the forty-fifth (45$^{th}$) day from the Purchase Date and thereafter.

(3) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

The Pricing Rate shall change in accordance with LIBOR.

"Purchase Price Percentage" means, with respect to each Mortgage Loan except High LTV Mortgage Loans, Repurchased Mortgage Loans and Aged Mortgage Loans, ninety-eight percent (98%); for High LTV Mortgage Loans, ninety-six (96%); for Aged Mortgage Loans, ninety-five percent (95%); and for Repurchased Mortgage Loans, eighty percent (80%).

"Repurchase Date" means the date on which Seller is to repurchase the Mortgage Loans from Buyer provided that in no event shall the Repurchase Date be in excess of, for all Mortgage Loans except High LTV Mortgage Loans, Repurchased Mortgage Loans and Restructured Mortgage Loans, ninety (90) days after the Purchase Date; for High LTV Mortgage Loans and Restructured Mortgage Loans, sixty (60) days after the Purchase Date; and for Repurchased Mortgage Loans, one hundred eighty (180) days after the Purchase Date.



2. The definition of GNMA Repurchase Mortgage Loan in Section 1 (Definitions) of the Existing Master Repurchase Agreement is hereby deleted in its entirety.

3. The following new definition is hereby added to Section 1 (Definitions) of the Existing Master Repurchase Agreement:

"Repurchased Mortgage Loan" means a Mortgage Loan being modified or refinanced by Seller after it has been repurchased by Seller from (1) a pool of mortgage loans securing a GNMA guaranteed mortgage-backed security, (2) Fannie Mae (performing Mortgage Loans only), or (3) other investors acceptable to Buyer in its sole discretion (performed Mortgage Loans only).

4. Section 3(p) of the Existing Master Repurchase Agreement is hereby deleted and replaced in its entirety by the following:

(p) In the event the Repurchase Date does not occur within forty-five (45) days of the Purchase Date for any Mortgage Loan except Repurchased Mortgage Loans, Seller must immediately pay Buyer an amount equal to not less than ten percent (10%) of the Repurchase Price. In the event the Repurchase Date does not occur within sixty (60) days of the Purchase Date, Seller must immediately pay Buyer an additional amount equal to not less than ten percent (10%) of the Repurchase Price. In the event the Repurchase Date does not occur within seventy-five (75) days of the Purchase Date, Seller must immediately pay Buyer an additional amount equal to not less than ten percent (10%) of the Repurchase Price. In the event the Repurchase Date does not occur within ninety (90) days of the Purchase Date, Seller must immediately pay Buyer the amount necessary to reduce the Repurchase Price to One Hundred and 00/100 Dollars. This Section 3(p) shall not apply to Repurchased Mortgage Loans.

5. Section 5(b)(12) of the Existing Master Repurchase Agreement is hereby deleted and replaced in its entirety by the following:

(12) The total outstanding principal balance of all Repurchased Mortgage Loans owned by Buyer after such purchase shall not exceed Two Million Five Hundred Thousand and 00/100 Dollars ($2,500,000.00).

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

All representations and warranties contained in the Existing Master Repurchase Agreement are true and correct as of the date of this Amendment (except to the extent that any of such representations and warranties expressly relate to an earlier date).

ARTICLE V
MISCELLANEOUS

1. Ratification. Except as expressly affected by the provisions hereof, the Existing Master Repurchase Agreement, as amended, shall remain in full force and effect in accordance with its terms and ratified and confirmed by the parties hereto. On and after the date hereof, each reference in the Existing Master Repurchase Agreement to "the Agreement", "hereunder", "herein" or words of like import shall mean and be a reference to the Agreement as amended by this Amendment.

2. Limited Scope. This Amendment is specific to the circumstances described above and does not imply any future amendment or waiver of rights of the Buyer and the Seller under the Existing Master Repurchase Agreement.

3. Severability. Any provisions of this Amendment which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4. Caption. The captions in the Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and such counterparts shall constitute but one and the same instrument.

6. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.



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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

| | |
|---|---|
| ATTEST: | CUSTOMERS BANK |
| By: /s/ J. Christopher Black | By: /s/ Glenn Hedde |
| Name: J. Christopher Black | Name: Glenn Hedde |
| Title: Senior Vice President | Title: President, Warehouse Lending |
| ATTEST: | IMPAC MORTGAGE CORP. |
| By: /s/Ron Morrison | By: /s/ Todd Taylor |
| Name: Ron Morrison | Name: Todd Taylor |
| Title: Executive Vice President & General Counsel | Title: Chief Financial Officer |

STATE OF CALIFORNIA

COUNTY OF

On this, the day of March, 2014, before me, the undersigned officer, personally appeared Todd Taylor and Ron Morrison, who acknowledged themselves to be the Chief Financial Officer and Executive Vice President & General Counsel, respectively, of IMPAC Mortgage Corp., a corporation, and that they as Chief Financial Officer and Executive Vice President & General Counsel, being authorized to do so, executed the foregoing agreement for the purposes therein contained.

In witness whereof, I hereunto set my hand official seal.

______________________________

Notary Public

Printed Name: ____________________

My Commission Expires:

______________________________

*Signature Page to Tenth Amendment to Master Repurchase Agreement*

**ELEVENTH AMENDMENT**
**TO**
**MASTER REPURCHASE AGREEMENT**

ELEVENTH AMENDMENT, dated as of June 20, 2014 (the "Amendment"), to the Master Repurchase Agreement dated as of December 3, 2010, as amended by that certain First Amendment to Master Repurchase Agreement dated as of April 8, 2011, as further amended by that certain Second Amendment to Master Repurchase Agreement dated as of June 30, 2011, as further amended by that certain Third Amendment to Master Repurchase Agreement dated as of April 13, 2012, as further amended by that certain letter dated April 27, 2012, as further amended by that certain Fourth Amendment to Master Repurchase Agreement dated as of June 29, 2012, as further amended by that certain Fifth Amendment to Master Repurchase Agreement dated as of October 26, 2012, as further amended by that certain Sixth Amendment to Master Repurchase Agreement dated as of February 8, 2013, as further amended by that certain Seventh Amendment to Master Repurchase Agreement dated as of June 21, 2013, as further amended by that certain Eighth Amendment to Master Repurchase Agreement dated as of September 3, 2013, as further amended by that certain Ninth Amendment to Master Repurchase Agreement dated as of November 14, 2013, as further amended by that certain letter dated February 28, 2014, and as further amended by that certain Tenth Amendment to Master Repurchase Agreement dated as of March 4, 2014 (the "Existing Master Repurchase Agreement"), between IMPAC MORTGAGE CORP., a California corporation, with an address at 19500 Jamboree Road #400, Irvine, California 92612 (the "Seller"), and CUSTOMERS BANK, a Pennsylvania state-chartered bank, with an address at 99 Bridge Street, Phoenixville, Pennsylvania 19460 (the "Buyer").

RECITALS

The Seller has requested the Buyer to agree to amend the Existing Master Repurchase Agreement as set forth in this Amendment. The Buyer is willing to agree to such amendment, but only on the terms and subject to the conditions set forth in this Amendment.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Seller and the Buyer hereby agree as follows:

ARTICLE I
DEFINITIONS

Definitions. Unless otherwise indicated, capitalized terms that are used but not defined herein shall have the meanings ascribed to them in the Existing Master Repurchase Agreement.

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ARTICLE II
AMENDMENT

1. The following definitions contained in Section 1 (Definitions) of the Existing Master Repurchase Agreement are hereby deleted and replaced in their entirety by the following:

"Maximum Aggregate Purchase Price" means One Hundred Million and 00/100 Dollars ($100,000,000.00).

"Pricing Rate" for all Mortgage Loans except High LTV Mortgage Loans, Aged Mortgage Loans, Non QM Mortgage Loans, Restructured Mortgage Loans and Repurchased Mortgage Loans, means LIBOR plus:

(1) 3.375% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.375% with respect to Transactions from the forty-fifth ($45^{th}$) day to the seventy-fourth ($74^{th}$) day from the Purchase Date;

(3) 5.375% with respect to Transactions from the seventy-fifth ($75^{th}$) day from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all High LTV Mortgage Loans means LIBOR plus:

(1) 3.625% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.625% with respect to Transactions from the forty-fifth ($45^{th}$) day from the Purchase Date and thereafter;

(3) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Aged Mortgage Loans means LIBOR plus:

(1) 4.125% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 5.125% with respect to Transactions from forty-fifth ($45^{th}$) day to the seventy-fourth ($74^{th}$) day from the Purchase Date;

(3) 6.125% with respect to Transactions from the seventy-fifth ($75^{th}$) day from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Non QM Mortgage Loans means LIBOR plus:

(1) 3.875% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.875% with respect to Transactions from forty-fifth ($45^{th}$) day from the Purchase Date and thereafter;

(3) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Repurchased Mortgage Loans, means LIBOR plus:

(1) 3.625% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.625% with respect to Transactions from the forty-fifth ($45^{th}$) day to the seventy-fourth ($74^{th}$) day from the Purchase Date;

(3) 5.625% with respect to Transactions from the seventy-fifth ($75^{th}$) from the Purchase Date and thereafter;

(4) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

"Pricing Rate" for all Restructured Mortgage Loans means LIBOR plus:

(1) 3.375% with respect to Transactions from the Purchase Date to forty-four (44) days from the Purchase Date;

(2) 4.375% with respect to Transactions from the forty-fifth ($45^{th}$) day from the Purchase Date and thereafter.

(3) the rate determined in the sole discretion of Buyer with respect to any other Transactions so identified by Buyer in agreeing to enter into such Transaction.

The Pricing Rate shall change in accordance with LIBOR.

"Purchase Price Percentage" means, with respect to each Mortgage Loan except High LTV Mortgage Loans, Non QM Mortgage Loans, Repurchased Mortgage Loans and Aged Mortgage Loans, ninety-eight percent (98%); for High LTV Mortgage Loans and Non QM Mortgage Loans, ninety-six (96%); for Aged Mortgage Loans, ninety-five percent (95%); and for Repurchased Mortgage Loans, eighty percent (80%).



"Repurchase Date" means the date on which Seller is to repurchase the Mortgage Loans from Buyer provided that in no event shall the Repurchase Date be in excess of, for all Mortgage Loans except High LTV Mortgage Loans, Non QM Mortgage Loans and Repurchased Mortgage Loans, ninety (90) days after the Purchase Date; for High LTV Mortgage Loans and Non QM Mortgage Loans, sixty (60) days after the Purchase Date; and for Repurchased Mortgage Loans, one hundred eighty (180) days after the Purchase Date.

"Termination Date" means June 19, 2015, or such earlier date on which this Agreement shall terminate in accordance with the provisions hereof or by operation of law.

2. The following new definition is hereby added to Section 1 (Definitions) of the Existing Master Repurchase Agreement:

"Non QM Mortgage Loan" means a Mortgage Loan that meets all the requirements of this Agreement except it does not meet the definition of "Qualified Mortgage" as that term is defined in the final rule titled "Ability to Repay and Qualified Mortgage Standards Under Truth-in-Lending Act" effective January 10, 2014.

3. Section 2(b)(7) of the Existing Master Repurchase Agreement is hereby deleted and replaced in its entirety by the following:

(7) Compliance with Applicable Laws. Any and all requirements of any federal, state or local law including, without limitation, usury, truth-in-lending, all applicable predatory and abusive lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, national security/anti-terror, qualified mortgage/ability to repay (except Non QM Mortgage Loans) or disclosure laws applicable to the origination and servicing of such Mortgage Loan have been complied with, the consummation of the transactions contemplated hereby will not involve the violation of any such laws or regulations, and Seller shall maintain or shall cause its agent to maintain in its possession, available for the inspection of Buyer, and shall deliver to Buyer, upon five (5) Business Days' prior request, evidence of compliance with all such requirements.

4. Section 3(a) of the Existing Master Repurchase Agreement is hereby deleted and replaced in its entirety by the following:

(a) Seller shall request a Transaction by submitting to Buyer via Electronic Transmission a Purchase Request by 4:00 p.m. Eastern Time on the Purchase Date. Seller may, by paying Twenty Five and 00/100 Dollars ($25.00) (the "Same Day Funding Fee"), deliver to Buyer via Electronic Transmission a Purchase Request after 4:00 p.m. Eastern Time on the Purchase Date. Buyer will use reasonable efforts to accommodate any such request but shall have no liability if it is unable to complete the Transaction on such day. The Same Day Funding Fee shall only be payable if Buyer completes the Transaction on such day. Buyer shall have the obligation to enter into Transactions up to the Maximum Aggregate Purchase Price.

In addition, Seller shall provide Buyer with credit information on the Mortgage Loan Obligor sufficient to enable Buyer to perform an independent credit analysis on Obligor, if Buyer decides to perform an independent credit analysis. If Seller submits a substantial quantity of Transactions, Buyer may use sampling techniques to independently verify credit information of the Obligor.

If Buyer agrees to purchase such Mortgage Loan, then no later than the Purchase Date Buyer shall reflect on its computer system the Mortgage Loan as purchased (the "Confirmation").

The Buyer shall provide Seller with limited on-line access to Buyer's computer system for the purpose of Seller submitting Purchase Requests and viewing Confirmations. Buyer shall provide Seller with instructions on how to access the computer system.

In the event Seller disagrees with any terms of the Confirmation, Seller shall immediately notify Buyer of such disagreement. An objection by Seller must state specifically that it is an objection, must specify the provision(s) being objected to by Seller, must set forth such provision(s) in the manner that Seller believes they should be stated, and must be received by Buyer no more than one (1) Business Day after the Confirmation was received by Seller.

In connection with the sale of the Mortgage Loan to a Take-Out Investor, the Seller shall request the Buyer deliver to such Take-Out Investor the original Mortgage Note, and, in some cases, other documents contained in the Mortgage Loan file, along with a bailee letter instructing the Take-Out Investor to hold the original Mortgage Note and any other documents as bailee for the Buyer. Prior to such delivery, Seller shall provide Buyer with a copy of the sale agreement, trade confirmation or similar document with such Take-Out Investor or letter of good standing from the Take-Out Investor. As long as Seller meets the requirements contained in the prior two sentences, Buyer shall deliver such documents to the Take-Out Investor within one (1) Business Day of such request by Seller. The bailee letter shall instruct the Take-Out Investor to send the sale proceeds to the Buyer's collection account. The Seller shall provide Buyer with a copy of the purchase advice from the Take-Out Investor and the Buyer shall match the purchase advice against the Repurchase Price due from Seller related to such Mortgage Loan. Any excess proceeds shall be transferred to the Seller's maintenance account at the Buyer and any shortfall shall be transferred from the Seller's maintenance account to the Buyer's collection account. Upon receipt of the entire Repurchase Price, the Buyer's interest in such Mortgage Loan shall be released. The bailee letter shall provide, in the event the Take-Out Investor does not purchase a Mortgage Loan within thirty (30) Business Days of receipt of the original Mortgage Note, the Take-Out Investor shall immediately return to the Buyer such Mortgage Note and other documents it received related to such Mortgage Loan.



5. Section 3(p) of the Existing Master Repurchase Agreement is hereby deleted and replaced in its entirety by the following:

(p)(1) For any Mortgage Loan except Repurchased Mortgage Loans, High LTV Mortgage Loans and Non QM Mortgage Loans, in the event the Repurchase Date does not occur within forty-five (45) days of the Purchase Date, Seller must immediately pay Buyer an amount equal to not less than ten percent (10%) of the Repurchase Price. In the event the Repurchase Date does not occur within sixty (60) days of the Purchase Date, Seller must immediately pay Buyer an additional amount equal to not less than ten percent (10%) of the Repurchase Price. In the event the Repurchase Date does not occur within seventy-five (75) days of the Purchase Date, Seller must immediately pay Buyer an additional amount equal to not less than ten percent (10%) of the Repurchase Price. In the event the Repurchase Date does not occur within ninety (90) days of the Purchase Date, Seller must immediately pay Buyer the amount necessary to reduce the Repurchase Price to One Hundred and 00/100 Dollars.

(p)(2) For Non QM Mortgage Loans, in the event the Repurchase Date does not occur within thirty (30) days of the Purchase Date, Seller must immediately pay Buyer an amount equal to not less than twenty percent (20%) of the Repurchase Price. In the event the Repurchase Date does not occur within sixty (60) days of the Purchase Date, Seller must immediately pay Buyer the amount necessary to reduce the Repurchase Price to One Hundred and 00/100 Dollars.

(p)(3) For High LTV Mortgages Loans, in the event the Repurchase Date does not occur within thirty (30) days of the Purchase Date, Seller must immediately pay Buyer an amount equal to not less than ten percent (10%) of the Repurchase Price. In the event the Repurchase Date does not occur within forty-five (45) days of the Purchase Date, Seller must immediately pay Buyer an additional amount equal to not less than fifteen percent (15%) of the Repurchase Price. In the event the Repurchase Date does not occur within sixty (60) days of the Purchase Date, Seller must immediately pay Buyer the amount necessary to reduce the Repurchase Price to One Hundred and 00/100 Dollars.

This Section 3(p) shall not apply to Repurchased Mortgage Loans.

6. Section 3(r) of the Existing Master Repurchase Agreement is hereby deleted and replaced in its entirety by the following:

(r) On a monthly basis the Buyer shall determine the Average Outstanding Balance during the preceding month. If the Average Outstanding Balance is greater than Twenty Million and 00/100 Dollars ($20,000,000) but less than or equal to Thirty Million and 00/100 Dollars ($30,000,000), Buyer shall pay Seller a Price Differential rebate equal to the product of (i) such Average



Outstanding Balance, times (ii) 25 basis points (0.25%), divided by (iii) twelve (12). If the Average Outstanding Balance is greater than Thirty Million and 00/100 Dollars ($30,000,000) but less than or equal to Fifty Five Million and 00/100 Dollars ($55,000,000), Buyer shall pay Seller a Price Differential rebate equal to the product of (i) such Average Outstanding Balance, times (ii) 37.5 basis points (0.375%), divided by (iii) twelve (12). If the Average Outstanding Balance is greater than Fifty Five Million and 00/100 Dollars ($55,000,000 but less than or equal to Seventy

Million and 00/100 Dollars ($70,000,000.00), Buyer shall pay Seller a Price Differential rebate equal to the product of (i) such Average Outstanding Balance, times (ii) 50 basis points (0.50%), divided by (iii) twelve (12). If the Average Outstanding Balance is greater than Seventy Million and 00/100 ($70,000,000.00), Buyer shall pay Seller a Price Differential rebate equal to the product of (i) such Average Outstanding Balance, times (ii) 62.5 basis points (0.625%), divided by (iii) twelve (12). Such rebate shall be paid by Buyer to Seller by the twentieth (20th) day of the month of such calculation.

7. A new Section 5(b)(15) is hereby added to the Existing Master Repurchase Agreement as follows:

(15) The total outstanding principal balance of all Non-QM Mortgage Loans owned by Buyer after such purchase shall not exceed fifteen percent (15%) of the Maximum Aggregate Principal Balance.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

All representations and warranties contained in the Existing Master Repurchase Agreement are true and correct as of the date of this Amendment (except to the extent that any of such representations and warranties expressly relate to an earlier date).

ARTICLE IV
MISCELLANEOUS

1. Ratification. Except as expressly affected by the provisions hereof, the Existing Master Repurchase Agreement, as amended, shall remain in full force and effect in accordance with its terms and ratified and confirmed by the parties hereto. On and after the date hereof, each reference in the Existing Master Repurchase Agreement to “the Agreement”, “hereunder”, “herein” or words of like import shall mean and be a reference to the Agreement as amended by this Amendment.

2. Limited Scope. This Amendment is specific to the circumstances described above and does not imply any future amendment or waiver of rights of the Buyer and the Seller under the Existing Master Repurchase Agreement.

3. Severability. Any provisions of this Amendment which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.



4. Caption. The captions in the Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and such counterparts shall constitute but one and the same instrument.

6. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.



IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

| | | | |
|---|---|---|---|
| ATTEST: | | CUSTOMERS BANK | |
| By: | /s/ J. Christopher Black | By: | /s/ Glenn Hedde |
| Name: | J. Christopher Black | Name: | Glenn Hedde |
| Title: | Senior Vice President | Title: | President, Warehouse Lending |
| ATTEST: | | IMPAC MORTGAGE CORP. | |
| By: | /s/ Ron Morrison | By: | /s/ Todd Taylor |
| Name: | Ron Morrison | Name: | Todd Taylor |
| Title: | Executive Vice President & General Counsel | Title: | Chief Financial Officer |

STATE OF CALIFORNIA

COUNTY OF

On this, the day of May, 2014, before me, the undersigned officer, personally appeared Todd Taylor and Ron Morrison, who acknowledged themselves to be the Chief Financial Officer and Executive Vice President & General Counsel, respectively, of IMPAC Mortgage Corp., a corporation, and that they as

Chief Financial Officer and Executive Vice President & General Counsel, being authorized to do so, executed the foregoing agreement for the purposes therein contained.

In witness whereof, I hereunto set my hand official seal.

______________________________________________

Notary Public

Printed Name: ________________________________

My Commission Expires:

______________________________________________

Exhibit 10.8

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") is entered into as of March 26, 2014, by and between IMPAC Mortgage Corp., a California corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including June 1, 2014, not to exceed at any time the aggregate principal amount of Four Million Dollars ($4,000,000.00) ("Line of Credit"), the proceeds of which shall be used to finance Borrower's working capital requirements. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of March 26, 2014 ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 1.2. INTEREST/FEES.

(a) Interest. The outstanding principal balance of each credit subject hereto shall bear interest at the rate of interest set forth in each promissory note or other instrument or document executed in connection therewith.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

SECTION 1.3. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under each credit subject hereto by debiting Borrower's deposit account number 4121758262 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.



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SECTION 1.4. GUARANTIES. The payment and performance of all indebtedness and other obligations of Borrower to Bank shall be guaranteed jointly and severally by Integrated Real Estate Service Corp. ("Integrated"), and Impac Mortgage Holdings, Inc. ("Impac"), as evidenced by and subject to the terms of guaranties in form and substance satisfactory to Bank.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of California, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

SECTION 2.2. AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5. CORRECTNESS OF FINANCIAL STATEMENT. The annual financial statement of Borrower dated December 31, 2013, and all interim financial statements delivered to Bank since said date, true copies of which have been delivered by Borrower to Bank prior to the date hereof, (a) are complete and correct and present fairly the financial condition of Borrower, (b) disclose all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) have been prepared in accordance with generally accepted accounting principles consistently applied. Since the dates of such financial statements there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.



SECTION 2.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 2.12. COMPLIANCE WITH FINANCE LAWS. Borrower is in compliance, in all material respects, with all laws regulations and directives with respect to credit and finance, including the California Unruh Act, California Civil code Sections 1799.90 <u>et seq</u>., the Federal Truth in Lending Act and the Federal Equal Credit Act, all as may be amended from time to time.



## <u>ARTICLE III</u><br><u>CONDITIONS</u>

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) <u>Approval of Bank Counsel</u>. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) <u>Documentation</u>. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

(i) This Agreement and each promissory note or other instrument or document required hereby.
(ii) Certificate of Incumbency (3).
(iii) Corporate Resolution: Continuing Guaranty (2).
(iv) Corporate Resolution: Borrowing.
(v) Continuing Guaranty from each guarantor listed in Section 1.4 hereof.
(vi) Such other documents as Bank may require under any other Section of this Agreement.

(c) <u>Financial Condition</u>. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower or any guarantor hereunder, if any, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower or any such guarantor, if any.

(d) <u>Insurance</u>. Borrower shall have delivered to Bank evidence of insurance coverage, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with lender loss payable endorsements in favor of Bank.

(e) <u>Compliance Certificate</u>. Borrower's chief financial officer shall have delivered to Bank such compliance certificate as Bank may require.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.



(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

## ARTICLE IV
## AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

SECTION 4.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, an audited financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include balance sheet, income statement and statement of cash flow, and within 30 days after filing, but in no event later than each November 15, copies of Borrower's filed federal income tax returns for such year;

(b) not later than 45 days after and as of the end of each fiscal quarter, a financial statement of Borrower, prepared by Borrower, to include balance sheet, income statement and statement of cash flow;

(c) within 30 days after filing, but in no event later than each November 15, copies of each such guarantor's filed federal income tax returns for such year;

(d) not later than 15 days after the end of each fiscal quarter, copies of Integrated and its subsidiaries' current deposit, brokerage and other account statements for accounts containing Unencumbered Liquid Assets (as defined below), together with such information as Bank may require to determine Borrower's and Integrated and its subsidiaries' compliance with the terms of this Agreement.

(e) from time to time such other information as Bank may reasonably.

SECTION 4.4. COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.



SECTION 4.5. INSURANCE. Maintain and keep in force, for each business in which Borrower is engaged, insurance of the types and in amounts customarily carried in similar lines of business, including but not limited to fire, extended coverage, public liability, flood, and, if required, seismic property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect, together with a lender's loss payee endorsement for all such insurance naming Bank as a lender loss payee.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of $500,000.00.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein and except for the fact that, for the purposes of this Section 4.9, Borrower's financial condition shall not be consolidated with Integrated, Impac or any other entity):

(a) Net income after taxes not less than $1.00 on an annual basis, determined as of each fiscal year end, and pre-tax profit not less than $1.00 on a quarterly basis, determined as of each fiscal quarter end.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property.



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SECTION 4.11. GUARANTOR OR OTHER THIRD PARTY LIQUIDITY. Cause Integrated and its wholly-owned subsidiaries to maintain, on a combined basis, measured quarterly, Unencumbered Liquid Assets with Bank and/or an affiliate of Bank with an aggregate fair market value not at any time less than Five Million Five Hundred Eighty-Five Thousand Dollars ($5,585,000.00). As used herein, "Unencumbered Liquid Assets" shall mean cash, cash equivalents and/or publicly traded/quoted marketable securities acceptable to Bank in its sole discretion, free of any lien or other encumbrance. Retirement account assets may not be included in the determination of the amount of Unencumbered Liquid Assets.

SECTION 4.12. FINANCE REGULATIONS. Comply, in all material respects, with all laws, regulations and directives with respect to finance, including the California Unruh Act, California Civil Code Sections 1799.90 et seq., the Federal Trust in Lending Act of the Federal Equal Credit Act, all may be amended from time to time.

## ARTICLE V
## NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2. CAPITAL EXPENDITURES. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of $1,500,000.00.

SECTION 5.3. LEASE EXPENDITURES. Incur operating lease expense in any fiscal year in excess of an aggregate of $3,000,000.00.

SECTION 5.4. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof and (c) borrowing hereafter by Borrower from Alliance Bank, Customers Bank, Everbank, and Credit Suisse (collectively, the "Existing Mortgage lenders") under the mortgage — warehouse lines which are in place between Borrower and each of the Existing Mortgage Lenders as of the date hereof (the "Mortgage Credit Lines").

SECTION 5.5. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's business as conducted as of the date hereof; acquire all or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

SECTION 5.6. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.



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SECTION 5.7. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, except (a) any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof, and (b) loans made hereafter by Borrower to its affiliates in the ordinary course of business, so long as the outstanding principal balance of loans made by Borrower to its affiliates does not exceed $7,000,000.00 in the aggregate at any time.

SECTION 5.8. DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding.

SECTION 5.9. PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof, including without limitation the security interests granted by Borrower to the Existing Mortgage Lenders to secure the Mortgage Credit Lines. Nothing herein is intended to obligate Bank to (i) subordinate any right of Bank to any rights of any of the Existing Mortgage Lenders with respect to any deposit account or other type of account maintained by Borrower with Bank, or (ii) enter into any control agreement with any of the Existing Mortgage Lenders with respect to any such account.

## ARTICLE VI
## EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those specifically described as an "Event of Default" in this section 6.1), and with respect to any such default that by its nature can be cured, such default shall continue for a period of twenty (20) days from its occurrence.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract, instrument or document (other than any of the Loan Documents) pursuant to which Borrower, any guarantor hereunder or any general partner or joint venturer in Borrower if a partnership or joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") has incurred any debt or other liability to any person or entity, including Bank.



(e) Borrower or any Third Party Obligor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any Third Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or Borrower or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any Third Party Obligor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(f) The filing of a notice of judgment lien against Borrower or any Third Party Obligor; or the recording of any abstract of judgment against Borrower or any Third Party Obligor in any county in which Borrower or such Third Party Obligor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any Third Party Obligor; or the entry of a judgment against Borrower or any Third Party Obligor; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any Third Party Obligor.

(g) There shall exist or occur any event or condition that Bank in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower, any Third Party Obligor, or the general partner of either if such entity is a partnership, of its obligations under any of the Loan Documents.

(h) The death or incapacity of Borrower or any Third Party Obligor if an individual. The dissolution or liquidation of Borrower or any Third Party Obligor if a corporation, partnership, joint venture or other type of entity; or Borrower or any such Third Party Obligor, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower or such Third Party Obligor.

(i) Any change in control of Borrower or any entity or combination of entities that directly or indirectly control Borrower, with "control" defined as ownership of an aggregate of twenty-five percent (25%) or more of the common stock, members' equity or other ownership interest (other than a limited partnership interest).

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly



waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

## ARTICLE VII
## MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: IMPAC Mortgage Corp.
19500 Jamboree Road
Irvine, CA 92612

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
MAC E2231-090
2030 Main Street, Suite 900
Irvine, CA 92614

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.



SECTION 7.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interests or rights hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, any guarantor hereunder or the business of such guarantor, if any, or any collateral required hereunder.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. INDEMNITY. In addition to the payment of costs and expenses pursuant to Section 7.3 above, Borrower hereby agrees to indemnify and hold harmless Bank and the directors, officers, employees and agents of and counsel to Bank (collectively "Indemnitees" and individually "Indemnitee") from and against any liabilities, obligations, losses, damages, penalties, actions, causes of action, judgments, suits, claims, costs and expenses of any kind of nature whatsoever, including without limitation the reasonable fees, costs and expense of counsel to Indemnitees (including without limitation allocated fees, costs and expenses of in-house counsel of Bank), in connection with any administrative, investigative or judicial proceeding, irrespective of whether such Indemnitee shall be designated a party thereto, which may be imposed on, incurred by or asserted against such Indemnitee, in any manner relating to or arising out of this Agreement, any borrowings hereunder, the use of intended use of the proceeds of any borrowings hereunder or Borrower's lending activities (collectively, "Indemnified Liabilities"); provided, however, that Borrower's obligations to Indemnitees under this paragraph shall not extend to any losses, damages, liabilities, actions or claims against any Indemnitee arising as a result of the gross negligence of willful misconduct of such Indemnitee. Borrower shall make all payments required to be made under this Section 7.9 promptly upon demand by Bank. The obligations of Borrower under this Section 7.9 shall survive the termination of this Agreement and the discharge of Borrower's other obligations hereunder.



SECTION 7.10. NON-LIABILITY OF BANK. The relationship between Borrower and Bank is, and shall at all times remain, solely that of Borrower and lender. Bank shall not under any circumstance be construed to be a partner or joint venture of Borrower. Bank shall not under any circumstance be deemed to be in a fiduciary relationship with Borrower or to owe any fiduciary duty to Borrower. Bank does not undertake or assume any responsibility or duty to Borrower to review, inspect supervise, pass judgment upon or inform Borrower of any matter in connection with Borrower's loan agreements with its customers, Borrower's other property or the operations of Borrower. Any review, inspection, supervision, exercise of judgment or supply of information undertaken by Bank in connection with any such matter is solely for the protection of Bank, and Borrower is not entitles to rely thereon. Nothing contained herein shall be deemed an assumption by Bank of any obligations of Borrower to any of its customers.

SECTION 7.11. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.12. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.13. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise in any way arising out of or relating to (i) any credit subject hereto, or any of the Loan Documents, and their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least $1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms



and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is $5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than $5,000,000.00. Any dispute in which the amount in controversy exceeds $5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed any Loan Document, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.



(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

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| IMPAC MORTGAGE CORP. | WELLS FARGO BANK, NATIONAL ASSOCIATION |
| By: /s/ Todd R. Taylor<br>TODD R. TAYLOR,<br>EVP, CFO, SECRETARY, TREASURER | By: /s/ Erin K. Boyle<br>ERIN K. BOYL,<br>VICE PRESIDENT |



FIRST AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of June 1, 2014, by and between IMPAC MORTGAGE CORP., a California corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of March 26, 2014, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.1. (a) is hereby amended by deleting "June 1, 2014" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "June 1, 2015," with such change to be effective upon the execution and delivery to Bank of a promissory note dated as of June 1, 2014 (which promissory note shall replace and be deemed the Line of Credit Note defined in and made pursuant to the Credit Agreement) and all other contracts, instruments and documents required by Bank to evidence such change.

2. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

3. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

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| IMPAC MORTGAGE CORP. | WELLS FARGO BANK, NATIONAL ASSOCIATION |
| By: /s/ Todd R. Taylor<br>TODD R. TAYLOR,<br>EVP, CFO, SECRETARY, TREASURER | By: /s/ Erin K. Boyle<br>ERIN K. BOYL,<br>VICE PRESIDENT |



REVOLVING LINE OF CREDIT NOTE

$4,000,000.00

Irvine, California
June 1, 2014

FOR VALUE RECEIVED, the undersigned IMPAC MORTGAGE CORP. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at MAC E2231-090, 2030 Main Street, Suite 900, Irvine, California 92614, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Four Million Dollars ($4,000,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Daily One Month LIBOR" means, for any day, the rate of interest equal to LIBOR then in effect for delivery for a one (1) month period.

(b) "LIBOR" means the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery of funds for one (1) month as reported on Reuters Screen LIBOR01 page (or any successor page) at approximately 11:00 a.m., London time, or, for any day not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by Bank from another recognized source or interbank quotation).

(c) "London Business Day" means any day that is a day for trading by and between banks in Dollar deposits in the London interbank market.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined by Bank to be three and one half percent (3.50%) above Daily One Month LIBOR in effect from time to time. Bank Is hereby authorized to note the date and interest rate applicable to this Note and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) costs, expenses and liabilities arising from or in connection with reserve percentages prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), assessment rates imposed by the Federal Deposit insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or



resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(c) Payment of Interest. interest accrued on this Note shall be payable on the last day of each month, commencing June 30, 2014.

(d) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, or at Bank's option upon the occurrence, and during the continuance of an Event of Default, the outstanding principal balance of this Note shall bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT;

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on June 1, 2015.

(b) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) TODD R. TAYLOR, KATHY HANCOCK or LINDA KALOCSAY, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of March 26, 2014, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.



MISCELLANEOUS;

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare ail sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

IMPAC MORTGAGE CORP.

By: /s/ Todd R. Taylor
TODD R. TAYLOR,
EVP, CFO, SECRETARY & TREASURER

**Exhibit 31.1**

**CERTIFICATION**

I, Joseph R. Tomkinson, 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/ JOSEPH R. TOMKINSON

Joseph R. Tomkinson
*Chief Executive Officer*
August 12, 2014

**Exhibit 31.2**

# CERTIFICATION

I, Todd R. Taylor, 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/ TODD R. TAYLOR
Todd R. Taylor
*Chief Financial Officer*
August 12, 2014

**Exhibit 32.1**

**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 June 30, 2014 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/ JOSEPH R. TOMKINSON
Joseph R. Tomkinson
*Chief Executive Officer*
August 12, 2014

/s/ TODD R. TAYLOR
Todd R. Taylor
*Chief Financial Officer*
August 12, 2014