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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Impac Mortgage Holdings Year-End 2019 Earnings Conference Call. (Operator Instructions)

I would now like to turn the conference over to your host, Mr. Justin Moisio. You may begin.

Justin Moisio - *Impac Mortgage Holdings, Inc. - Chief Administrative Officer*

Thank you, and good morning, everyone. Thank you for joining Impac Mortgage Holdings Year-End 2019 Earnings Conference Call. During this call, we will make projections or other forward-looking statements in regards to, but not limited to, GAAP and taxable earnings, cash flows, interest rate risk and market risk exposure, mortgage production and general market conditions. I would like to refer you to the business risk factors in our most recently filed Form 10-K under the Securities and Exchange Act of 1934. These documents contain and identify important factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements.

This presentation, including any outlook or any guidance, is effective as of the date given, and we expressly disclaim any duty to update the information herein. I would like to get started by introducing George Mangiaracina, Chairman and CEO of Impac Mortgage Holdings.

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

Thank you, Justin. Good morning, and thank you for joining the Impac Mortgage Holdings 2019 Year-End Earnings Call. With me this morning are Brian Kuelbs, our CFO; Justin Moisio, our Chief Administrative Officer and Nima Vahdat, General Counsel.

We are cognizant of the extraordinary state of the markets over the last several weeks. Heightened by the uncertainty of concerns related to the COVID-19, and so we appreciate your time and focus this morning. Impac is both an operating company and an active asset management company. Impac is not a REIT. Impac is not a passive investor in assets. As such, we are the sum of our human capital.

So before we discuss the financial and operating results for 2019, we note first and foremost, our commitment to the health and well-being of our employees, their families and our community. In an attempt to proactively address the possible impact of COVID-19, over the last 2 months, we have developed a network of support for our employees as part of our broader continuity of operations plan.

Elements of this plan include, access to a 24-hour hotline for medical health-related questions, access to a Life Assistance Program for behavioral and emotional health issues, access to local urgent care facilities, on-site presentations directed by medical professionals to discuss COVID-19 and adoption of best practices to prevent the spread of communicable disease, work from home contingency options and frequent updates as circumstances evolve from our corporate communications department.

Fears are rational. Fear can become self-fulfilling prophecy as we tend to feel the most what we know the least about. Education and communication are critical components to our continuity plan.

We now direct the focus of this earnings call to the potential impact that a sustained pandemic outbreak could have on global and financial markets and how that outbreak could adversely impact or cause disruptions to the company's operations and financial results. We have outlined our concerns related to these issues in the Risk Factors section of our 10-K, which will be released later today.

In events of that filing, I would like to turn the discussion over to our General Counsel, Nima Vahdat, who will speak to these items. Nima?

Nima J. Vahdat - *Impac Mortgage Holdings, Inc. - General Counsel & Chief Compliance Officer*

Thank you, George. But I will now cover our service for risk factor language included in our 10-K. Please refer to the risk factor in its entirety for all relevant detail. The outbreak of the novel coronavirus or COVID-19 could adversely impact or cause disruption to the company's operations. Further, the spread of the outbreak could cause severe disruptions in the U.S. economy, may further disrupt financial markets that could potentially create widespread business continuity issues.

The potential impact and duration of global events, such as a pandemic, could have repercussions across regional and global economies and financial markets. The outbreak of COVID-19 in many countries, continues to adversely impact global activity and has contributed significant volatility and negative pressure in financial markets.

The global impact of the outbreak has been rapidly evolving and as cases of the virus have continued to be identified in additional countries, many countries have reacted by instituting quarantines and restrictions on travel. Such actions are creating disruption in global supply chains and adversely impacting a number of industries. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The ultimate adverse impact of COVID-19 on global and financial market -- markets and the effect on our ability to successfully operate could be adversely impacted due to, but not limited to: one, an availability of skilled personnel due to health reasons; two, an ability to monetize the value of our locked and our funded loan portfolio; three, disruption in the capital in our global financial markets; and four, concerns around business continuity.

First, to the extent our management or personnel are impacted in significant numbers by the outbreak of pandemic or epidemic disease and are not available to conduct work for health-related reasons, our business and operating results may be negatively impacted.

As George highlighted above, it is for that reason that the company places such an emphasis on the health and well-being of its workforce. Second, it is critical that our personnel remain productive in order to effectively monetize the value of our portfolio from the time a loan is locked, until the ultimate disposition of the loan. To the extent our management or personnel are adversely impacted while operating at peak capacity, our business and operating results may be negatively impacted.

Third, given the severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions that could emerge difficulty accessing debt and equity capital on attractive terms or at all, which may cause us to reduce the volume of loans we originate and/or fund, adversely affect the valuation of financial assets and liabilities, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Finally, the company's ability to ensure business continuity in the face of an outbreak would be critical to its continued productivity. In the event, our continuity of operations plan is not effective or improperly implemented or deployed during a disruption, the company's ability to operate could be adversely impacted, which may cause our business and operating results to decline or impact the company's ability to comply with regulatory obligations, leading to reputational harm, regulatory issues or fines.

To proactively address these potential risks, the company's executive management has implemented a rapid response team tasked with managing and preparing for a possible outbreak. The work streams that this group is managing address areas such as the health and well-being of the company's workforce, production and pipeline management, business continuity, risk mitigation and internal and external communications.

Among the most immediate needs is expanding the ability of the company's workforce to work remotely. To that end, the company is looking to increase its remote workforce capacity to 50% in the immediate near term, covering essential personnel responsible for treasury, capital market and low fulfillment functions.

This will require obtaining additional remote access licenses, distributing equipment, such as computers, telephones, et cetera, and assessing those employees with a need to work remotely, depending on a 30, 60 or 90-day time horizon. The company feels confident that its rapid response team and efforts on expanding remote access, in particular, can allow the company to continue to effectively originate, fund and sell loan, even in a situation where the company has prevented from working out of its home office. All that said, the rapid development and fluidity of the situation precludes any prediction as to the ultimate adverse impact of COVID-19. For that reason, the coronavirus, a COVID-19, present material uncertainty and risks with respect to our performance, financial condition, results of operations and cash flows.

Now I'll turn the discussion back over to George to go over the company's operating results.

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

Thank you, Nima. For 2019, the company reported a GAAP loss of approximately $8 million and core earnings of approximately $15.8 million. 2019 GAAP loss of $8 million contrast to 2019 -- 2018 GAAP losses of $145 million. $137 million favorable delta or approximately $6.50 a share. 2019 core earnings of $15.8 million contrast to 2018 core losses of $35 million, a $51 million favorable delta or approximately $2.40 per share. Core earnings are an alternative measure results that senior management utilizes to gauge the company's performance. Core earnings isolates results from recurring business activities by adjusting for certain nonrecurring items, such as changes in fair value of long-term debt and trust assets, impairment and intangible assets, including goodwill, changes in contingent consideration, gain or loss on mortgage servicing rights and other nonrecurring legacy matters. We introduced this concept beginning in 2019 and provide a table within our earnings release to enable variation analysis between prior periods. In our view, the $51 million favorable delta in core earnings, is a more accurate measure than traditional GAAP metrics and reflects the effectiveness of the initiatives we executed over the last year to reposition the company. During the second quarter of 2019 earnings calls, we noted that the story of 2019 was without question shaping up to be interest rates, more specifically, would appear to be an inexorable March to a 0 negative rate environment in United States. In August of 2019, the 10-year stood at a level of 1.5%. Earlier this week, the 10-year briefly hit 31 basis points. The Fed remains accommodative, traditionally on a reflexive recurring basis and more recently on an emergency basis as well. If you recall January of 2001, when the Fed embarked on a series of rate cuts that initiated a multiyear refinance wave. Origination volume, which was $1.1 trillion in 2000, doubled in 2001. By 2003 it almost quadrupled to $3.8 trillion, the volume remained at just 3x to 2,000 baseline until 2008. The Mortgage Bankers Association recently revised our origination forecast of 2020 to exceed $2.5 trillion, the highest volume since $2.3 trillion in 2007.

Conventional wisdom would indicate that this should be a good sign for mortgage originators, increased demand, supporting wider margins and scale achieved to cover fixed costs. In the short term, however, the industry will be challenged from a capacity and a liquidity perspective to fully monetize this opportunity. The unprecedented interest rate shocks continue to drive excess consumer demand with concurrent stresses on hedge activities, labor force and distribution exits. These are supply side challenges to the industry's fulfillment and distribution capabilities, which should -- which could create liquidity challenges in the industry's lock to fund to settle timelines extend significantly.

In previous earnings calls, we discussed the company's ability over market cycles to contract or scale our consumer direct call center and to calibrate the changing market conditions. We continue to increase our focus, attention and resources to our NonQM franchise, creating approximately $4 billion of NonQM loans since we led the industry's reemergence of that segment in 2015. 2019 was the second consecutive year of the company posting in excess of $1 billion in NonQM originations. We've also remained committed to our mandate to maintain optionality within the call center, quickly capitalize on GSE origination during low rate environments. The company nearly doubled all volume in the call center from 2018 to 2019 from $1.8 billion to $3.5 billion. This serves to validate our investment in the call center and our continued commitment to maintaining a diversified product and channel offering. The company's GSE-driven call center and NonQM-driven third-party businesses are complementary. Call center is scalable, providing high-volume at reasonable margins in a refinance environment of third-party channels through our NonQM offerings provide interest rate inelastic volume at superior margins. Justin Moisio will now discuss some forms of the investment we are making in production, detailing our growth initiatives around the build-out of TPO correspondent, geographic expansion and product evolution. Justin?

Justin Moisio - *Impac Mortgage Holdings, Inc. - Chief Administrative Officer*

Thanks, George. As mentioned, a favorable rate environment, combined with the flexibility of our retail call center platform allowed us to quickly adjust models to add capacity, department level infrastructure to provide support for the large influx of volume. We have completed the build-out of the additional physical space we have leased in our existing building and remain focused on hiring experienced staff, while also recognizing talent inside the organization. Along with adding new loan agents through our internal training program, we have also added a number of seasoned originators and specialty originators to help strengthen our specialty teams, such as VA and NonQM to create a singular focus around each product to enhance production. During the fourth quarter, we saw the impact of creating a NonQM speciality team within the call center as NonQM production within the call center rose $57 million, a 50% increase compared to the third quarter. We've seen this trend continue into the first quarter of 2020, with our current monthly run rate increasing to approximately $25 million per month within the call center.

The prepayment speeds of our borrowers in California tend to be higher than the national average, but are consistent with California prepayment speeds because of our typical loan attributes of high FICO and low LTV borrowers. To better manage these prepayment speeds, we maintained our new management team's revised business model within the call center to further ensure that our prepay speeds are responsibly managed through a salaried retention team that adheres to restrict retention policy.

Our third-party origination channel comprised of wholesale and correspondent production have been focused exclusively on NonQM production during 2019. We've invested significant resources in operational improvements and technology aimed at increasing volume and counterparty experience as well as recent non-California account executive hires that will continue to boost business in previously underserved regions. During the fourth quarter, NonQM production within our third-party origination channel increased more than 20% as compared to the third quarter. To date, in the first quarter, our submissions have increased approximately 15% in the TPO channel, with March on track for being our strongest NonQM submission month ever. Within the correspondent channel, we continue to see diversity in our competitors' NonQM offerings around product and pricing. While some originators are embracing lower credit tiers, it is important that we maintain a competitive offering without compromising our credit philosophy. During the fourth quarter, our NonQM originations across all channels had an average FICO of 736 and a weighted average LTV of 70%, supporting the company's commitment to encourage responsible lending. There has been significant credit expansion in the market surrounding NonQM products, driving competition and volume, while Impac remained focused on NonQM as a core product throughout 2019, we did not surpass our $2 billion goal. We remain competitive in the space and maintain strong investor relationships as a result of our high credit quality and loan performance. Loosening credit standards and paying significant bonuses and guarantees to attract unproven talent that certainly drive value. However, we're committed to originating responsibly and deviating to compete in a nonprime market while sacrificing profitability would not yield stable long-term growth for the company. During 2019, we decreased our marketing spend to $9.3 million as compared to $26.9 million for 2018, a $17.6 million decrease year-over-year. The primary driver for the decrease in marketing spend in 2019 was a result of the shift in consumer direct marketing strategy we made at the end of 2018.

Moving away from traditional broad-based television and radio advertising to more a digital campaign. The shift in strategy allows for a more cost-effective approach increasing the ability to be more price and product competitive to more specific targeted geographies. I would like to now turn the call back over to George.

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

Thanks, Justin. While we do not provide forward guidance on financial results, we will note an increase in year-over-year January and February originations. Most notably, we produced $600 million in the call center in February 2020 as compared to less than $90 million in February of 2019. Within 8 weeks, we will be back presenting the financial results for the first quarter of 2020. That earnings calls will provide results that reflect the company's performance during these extraordinarily volatile times. Expanding further on current market volatility, we'll now discuss some overarching themes related to the company's positioning to manage interest rate risk and liquidity risk.

Mortgage servicing rights or MSRs. MSRs are under significant downward pressure from mark-to-market valuation and paid in fulls from portfolio runoff. In our prior year-end call for 2018, we had indicated that we just finished the year long repositioning of the company with specific emphasis on liquidity management. Reducing our MSR portfolio from $18 billion to $6 billion, which we believe was critical level set to rightsize that interest-only exposure to our tangible book value. Prior to the repositioning at the end of the third quarter of 2018, the MSRs stood at $16.8 billion UPB and were valued at $181 million or 2.8x common tangible book value.

In the fourth quarter of 2018, we sold $10.5 billion UPB of mortgage servicing rights. And by the end of 2018, the MSRs of $6.2 billion in UPB were valued at $65 million or 1.1x tangible book value. We believed at that time that the appropriate balance for the company going forward was to carry an MSR portfolio of no more than 50% of common tangible book value. In 2019, we executed our whole loan sales on a servicing released basis and did not acquire any servicing for both bids.

For the foreseeable future, we believe the strategy to monetize newly originated MSRs to be prudent, and we have continued to execute on a service-released basis through the first quarter of 2020. As of the end of 2019, our MSR portfolio stood at $4.9 billion UPB, valued $41 million or 80% of common tangible book value. We have a financing facility arranged to borrow against the value of the remaining MSRs. As of the end of 2019, the company had no outstanding borrowings against this facility and had $24 million of available capacity to be drawn down against the facility. As the mark-to-market on the MSRs decline, the capacity available to be drawn down will also be reduced proportionally. The company does not hedge our remaining MSRs. We believe the most effective hedge to be a combination of selling the MSRs and focusing on recapturing portfolio runoff through our salary only retention team.

Historically, we've been successful in recapturing approximately 2/3 of loans that would refinance elsewhere. Interest rate risk. The company hedges its GSE locked and funded loan pipeline with TBAs and other forward sale agreements. In a declining rate environment, the mark-to-market gain on our loan pipeline, reflected as gain on sale on our financial statements is partially offset by hedge losses associated with our TBA short position. A mismatch in the timing of cash flows is created as margin calls on the short TBA position need to be satisfied immediately prior to the cash being released on our locked and funded loans to our whole loan settlements.

In a normalized market, with normalized fulfillment and distribution timelines, this process can take 30 to 60 days from lock to settlement. We use various derivative financial instruments to provide a level of protection against interest rate risk in our mortgage lending operations, but no hedging strategy can protect us completely. The unprecedented volatility in today's markets might lead to a reduction in our hedge effectiveness, which could affect our margins in a positive or negative fashion. Brian Kuelbs will now discuss operating results in more detail for 2019, financial condition of the company at the end of the year, with a focus on hedging and liquidity. Brian?

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

Thank you, George. I'll now provide a brief review of the results for year-end, starting with the revenue. Total revenue for 2019 was $91 million compared to $105 million for 2018. The decline was primarily due to the change in fair value of $25 million for the MSR asset, resulting from changes in market interest rates as well as voluntary and scheduled prepayments. We do not explicitly hedge the MSR portfolio, and as of December 31, 2019, the value of the MSR was $41 million. The MSR declined approximately 31% for 100 basis point decline in market interest rates and the value increase is approximately 25% for a 100 basis point increase in market rates.

The recapture rates for the servicing portfolio from August through to December 2019, are 55% in units, 67% in UPB and 53% in net and gain on sale value. There's a time differential between the point in time the MSR portfolio declines in value and loan originations are recaptured. As of December 31, 2019, average days from application to funding, for conventional loans is 30 days, which approximate the timing differential between the MSR decline in value and recapture of the servicing asset.

For the year-end December 31, 2019, gain on sale of loans totaled $99 million compared to $67 million in the comparable 2018 period. The overall increase in gain on sale of loans was due to an increase in margins as well as mortgage loans originated and sold during 2019. For the year ended 2019, our origination volumes increased 18% to $4.5 billion as compared to $3.8 billion in 2018. Of the $4.5 billion in total originations, approximately $3.5 billion or 77% was originated to the retail channel.

In contrast, during 2018, our retail originations contributed 48% of total origination volume. For the year-end December 31, 2019, margins increased to approximately 217 basis points as compared to 174 basis points for the same period in 2018. The primary driver of margin expansion was due to the increase in our consumer direct originations.

I'll turn to liquidity now. At the end of 2019, we increased -- by the end of 2019, we increased our total borrowing capacity to $1.7 billion as compared to $900 million at the end of 2018 to support our growth in loan origination volume. The available MSR financing capacity as of December 31, 2019 was $24 million and with the additional $800 million in warehouse financing, substantial liquidity for the company has been provided for. We continue to evaluate competitive warehouse and MSR financing proposals to improve our liquidity and cost of funds. I'll just briefly touch on expenses.

Excluding goodwill and intangible asset impairment, total expenses decreased $30 million or 23% for the year-end 2019. Key cost savings include business promotion decrease of $18 million to $9 million for year-end 2019. Mortgage rates declining facilitated a reduction in more expensive TV media spend while still keeping capacity full with high quality leads.

General and administrative and other expenses decreased $13 million to $22 million for 2019. The decrease was partially related to an $8 million reduction in legal and professional fees. This concludes the financial results and prepared remarks. We'll now open the call to questions.

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

Actually, before we do that, I just want to -- in closing, to note that historically, near-term challenge presents long-term opportunity. As a company, believe it positions itself to manage the challenges of today's markets and to benefit from opportunities that present themselves once markets normalize. The momentum we've created in 2019 should accelerate in the future as we continue to invest in our origination channels. These are extraordinary times with unprecedented interest rate shocks in global market dislocation. So any enthusiasm for future prospects should be properly balanced and tempered by potential supply and distribution constraints and attendant liquidity risks associated with current macroeconomic conditions. That concludes our prepared remarks. In closing, we'll open up the call for questions if there are any.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we have a question on the line from Trevor Cranston with JMP Global.

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

I guess, the first question, you guys talked about the capacity constraints within the industry and some of the near term issues. And also, there's obviously a lot of demand from borrowers to refi loans. Can you provide a little more detail around, sort of, how much capacity you guys are looking to add within Impac? And sort of how quickly that'll be able to come online? And how you guys are thinking about the volume you'll be able to potentially process, say, heading into the spring versus where you guys have been running at in 2019?

Justin Moisio - *Impac Mortgage Holdings, Inc. - Chief Administrative Officer*

Trevor, it's Justin. So as we noted, the build-out of this building that took place last year was very timely because the pipeline continues to grow. So from a capacity standpoint, we're currently comfortable kind of an all-in number across all channels, around kind of $1.3 billion, $1.4 billion a month in terms of capacity right now. And we continue to add talent throughout the organization. And if there's any silver lining around the scare in the industry right now with the virus is the ability of potentially allowing employees to work remotely. So it gives us significant flexibility there.

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

Okay. That's helpful. And then in terms of how we should think about margins, primary mortgage rates have obviously not come down nearly as much as treasury rates. But you guys were also talking about sort of the difficulty with hedge effect dividends and things like that, given all the market volatility. Can you give us any sense in terms of how gain on sale margins are looking as you see things today versus, say, where they were in the fourth quarter?

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

Yes. This is Brian Kuelbs. We're seeing margin improvements across our product set on a unit basis through this volatile time in the market due to price adjustments we've made proactively, sometimes on a daily basis, even multiple times per day. However, those pricing adjustments are partially offset by our investors that are also widening their pricing for the assets that they are acquiring from investors or sellers, I should say, like Impac. So net of the investor moves, we're still seeing margin improvement, but it's somewhat muted by what's going on in the investor community.

Justin Moisio - *Impac Mortgage Holdings, Inc. - Chief Administrative Officer*

And the -- this is George. And the volatility in the markets -- you put your head down on the pillow and the 10 years at 100 basis points, and you get up at 1 in the morning, it's a 30 basis points, and it's back at 70. I mean, some of the volatility creates lock and fall out activity around the pipeline many times overnight, and we got to come in and hedge that first thing in the morning. So it's -- when the lock loans, certainly, we're building in a comfortable margin. But to Brian's point, hedge effectiveness is challenged by the volatility and our investors adjusting pricing as well.

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

Okay, got it. I guess, to follow-up on that. On the NonQM business, it sounds like you guys are making -- continuing to make nice progress there. I'm curious, over the last couple of weeks, especially as the markets have become extremely volatile, are you seeing anything from investors on the NonQM side in terms of like is there any decreased willingness to acquire loans? Or are they just sort of adjusting their pricing to account for the volatility or any color you could provide around that would be useful?

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

Yes. I'd say it's fluid. We've had -- there were deals, I believe, last week and this week, new issue that were delayed. I don't know if those will get done this week or early next week. So there's some supply that's building in the market. We had that experience sometime, I think, at the end of 2018, when new issues shut down for a period of time, and we saw that product come through in the first quarter of 2019. As we -- with respect to our pipeline, we take down committed forward trades around rate locks. And so we have 75- to 90-day forwards for our production. So I think we're fairly properly hedged on NonQM without basis risk. We're actually delivering the NonQM asset into the instrument -- forward instrument we created. But I would say, in general, around the NonQM space that probably investors, and we are thinking about the underlying consumer and many of the bank statement borrowers are part of the gig economy. They're tied into industries, their income is tied into industries that have been affected by the global shutdown or slowdown around transport, hospitality, restaurants, food services, industry. And so just overarching theme, maybe delinquencies, which is kind of thinking forward here, right? Maybe delinquencies pick up. If those consumers and borrowers have the challenge around income and then maybe prepay slowed down on NonQM that's been created. But it's early to tell the lasting effects of current conditions on that market.

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

Okay. That's very helpful. And on the MSR side, is there any way you can give us a sense in terms of the magnitude? And the -- for the likely market value change of the MSR in light of all the movement that we've seen in rates in the first quarter? And I guess, related to that, I was just curious how quickly you expect the remaining MSR to pay off if we just sort of assume rates are relatively stable at this level?

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

Yes. We can provide you some of the numbers around the MSRs as of the close yesterday, maybe we'll get a sense of that. But just in terms of where we were, I mean, when we liquidated the $10 billion, the GSE servicing that we settled on in December of 2018, we traded that at about 100 and -- close to 120 basis points, Trevor. And we -- I think we have our GSE portfolio. The remaining GSE portfolio today marked at closer to 50 basis points. And so there's the mark tied to assumptions and current rates, and then there's also the paid in fulls. And so Brian, we -- again, we don't provide forward guidance, but we can provide some quick info on the remaining servicing book, and it's approaching 50% of tangible book, which is our goal. So where are we as of the most recent market? $24 million?

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

Well, yes, we'll be at about $24 million currently, in terms of fair market value, given all the market activity that's taking place. So...

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

And we had -- and at the end of the year was marked at -- we had at $41 million...

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

$41 million.

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

$41 million, right. So that will give you a sense of the downward shock in valuation on that. And some of that is -- some of that number includes paid in fulls, right?

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

Yes it does.

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

Where the entire servicing runs off. And some of that move and mark and paid in full, some of the action around the MSR valuation from the end of the year to the mark we just gave you is encaptured in our gain on sale, right? To the extent we captured 2/3 of the UPB that's run off in the first quarter.

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

It'll flow through back.

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

That flows into gain on sale.

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

Yes. Got you. Okay, that's very helpful. Then I guess the last question for me. The funding side. Can you guys either just discuss anything you guys have seen in terms of funding for your loan warehouse? Has there been any change in the sense of haircuts or the level of rates that your lenders are looking for? Any color you can provide around that would be useful.

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

Yes, this is Brian. We're in daily contact with our lenders. There's more capacity available if we need it. And we -- we're in a pretty good position currently, but to be proactive we're talking to our counterparties in the event that we need increases going forward. And if certainly these market conditions persist as they are, that's a pretty likely result for us. And haircuts have remained constant across our lender portfolio group. 1 or 2 have indicated that given the demand for additional funding, they may charge higher cost of funds or increases in capacity. But they're reasonable amounts, they're not material, I think, in the scheme of things financially. So I think for now, additional capacity looks readily available in the marketplace without a material change in price or terms.

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

Yes, our warehouse -- our existing warehouse lenders have been steadfast in support of the company, they've been accommodative. And in many cases, proactive, Trevor, and reaching out and asking us to provide them guidance just to how much more liquidity we might need in the near term. I would say that it's more difficult to add a new warehouse provider in -- at this moment, right? It appears that the banks are more willing to extend for credits they know and then they've had history and comfort with then to add new counterparty credit risk. And so that -- we've been planning on expanding -- our balance sheet has expanded and our origination capabilities are expanding. We're going to look to add several other warehouse providers. But some of those initiatives have been put on hold for the time being.

Operator

And I'm showing no further questions at this time. So I'd now like to turn the conference back over to the speakers.

Justin Moisio - *Impac Mortgage Holdings, Inc. - Chief Administrative Officer*

Thank you, everyone, for joining us this morning. We'll be back in the early part of May for the first quarter earnings call. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day. You may all disconnect.
