

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 1-14100

**IMPAC MORTGAGE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**33-0675505**  
(I.R.S. Employer  
Identification No.)

**1950 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  No

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  No

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

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

There were 7,925,383 shares of common stock outstanding as of November 9, 2012.

**IMPAC MORTGAGE HOLDINGS, INC.**

**FORM 10-Q QUARTERLY REPORT  
TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**  
Consolidated Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011

<a href="#">ITEM 2.</a>	<a href="#"><b>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</b></a>	
	<a href="#">Forward-Looking Statements</a>	25
	<a href="#">The Mortgage Industry and Discussion of Relevant Fiscal Periods</a>	25
	<a href="#">Market Update</a>	25
	<a href="#">Selected Financial Results for the Three Months Ended September 30, 2012</a>	26
	<a href="#">Selected Financial Results for the Nine Months Ended September 30, 2012</a>	27
	<a href="#">Status of Operations, Liquidity and Capital Resources</a>	27
	<a href="#">Critical Accounting Policies</a>	33
	<a href="#">Financial Condition and Results of Operations</a>	34
<a href="#">ITEM 3.</a>	<a href="#"><b>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</b></a>	52
<a href="#">ITEM 4.</a>	<a href="#"><b>CONTROLS AND PROCEDURES</b></a>	53
	<a href="#"><b>PART II. OTHER INFORMATION</b></a>	
<a href="#">ITEM 1.</a>	<a href="#"><b>LEGAL PROCEEDINGS</b></a>	53
<a href="#">ITEM 1A.</a>	<a href="#"><b>RISK FACTORS</b></a>	54
<a href="#">ITEM 2.</a>	<a href="#"><b>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</b></a>	55
<a href="#">ITEM 3.</a>	<a href="#"><b>DEFAULTS UPON SENIOR SECURITIES</b></a>	55
<a href="#">ITEM 4.</a>	<a href="#"><b>MINE SAFETY DISCLOSURES</b></a>	55
<a href="#">ITEM 5.</a>	<a href="#"><b>OTHER INFORMATION</b></a>	55
<a href="#">ITEM 6.</a>	<a href="#"><b>EXHIBITS</b></a>	55
	<a href="#"><b>SIGNATURES</b></a>	56
	<a href="#"><b>CERTIFICATIONS</b></a>	

[Table of Contents](#)

**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

	<u>September 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,031	\$ 7,653
Restricted cash	2,601	5,019
Trust assets		
Investment securities available-for-sale	112	688
Securitized mortgage collateral	5,738,150	5,449,001
Derivative assets	37	37
Real estate owned	26,502	56,467
Total trust assets	<u>5,764,801</u>	<u>5,506,193</u>
Mortgage loans held-for-sale	145,346	61,718
Mortgage servicing rights	9,317	4,141
Assets of discontinued operations	125	264
Other assets	36,853	27,052
Total assets	<u>\$ 5,967,074</u>	<u>\$ 5,612,040</u>
<b>LIABILITIES</b>		
Trust liabilities		
Securitized mortgage borrowings	\$ 5,725,469	\$ 5,454,901
Derivative liabilities	19,112	24,786
Total trust liabilities	<u>5,744,581</u>	<u>5,479,687</u>

Warehouse borrowings	131,690	58,691
Long-term debt	12,274	11,561
Notes payable	4,507	5,182
Liabilities of discontinued operations	19,264	9,932
Other liabilities	26,009	15,890
Total liabilities	5,938,325	5,580,943

Commitments and contingencies

#### STOCKHOLDERS' EQUITY

Series A 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 September 30, 2012 and December 31, 2011, 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 September 30, 2012 and December 31, 2011, respectively	14	14
Common stock, \$0.01 par value; 200,000,000 shares authorized; 7,898,162 and 7,814,946 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	79	78
Additional paid-in capital	1,077,666	1,076,723
Net accumulated deficit:	—	—
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(227,191)	(224,334)
Net accumulated deficit	(1,049,711)	(1,046,854)
Total Impac Mortgage Holdings, Inc. stockholders' equity	28,055	29,968
Noncontrolling interests	694	1,129
Total equity	28,749	31,097
Total liabilities and stockholders' equity	\$ 5,967,074	\$ 5,612,040

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>INTEREST INCOME</b>	\$ 115,091	\$ 172,779	\$ 384,792	\$ 592,962
<b>INTEREST EXPENSE</b>	114,794	172,497	382,918	590,117
Net interest income	297	282	1,874	2,845
<b>NON-INTEREST INCOME:</b>				
Change in fair value of net trust assets, excluding REO	(5,998)	10,297	5,562	17,596
Gains (losses) from REO	3,548	(6,867)	(9,761)	(11,855)
Non-interest (loss) income - net trust assets	(2,450)	3,430	(4,199)	5,741
Mortgage lending gains and fees, net	24,324	4,574	48,587	7,670
Real estate services fees, net	5,776	13,272	16,815	36,820
Gain on sale of Experience 1, Inc.	—	1,780	—	1,780
Other	617	1,159	1,353	1,527
Total non-interest income	28,267	24,215	62,556	53,538
<b>NON-INTEREST EXPENSE:</b>				
Personnel expense	16,664	13,599	39,469	36,659
General, administrative and other	4,938	5,505	13,689	15,089
Total non-interest expense	21,602	19,104	53,158	51,748
Earnings from continuing operations before income taxes	6,962	5,393	11,272	4,635
Income tax expense from continuing operations	8	957	44	978
Earnings from continuing operations	6,954	4,436	11,228	3,657
Loss from discontinued operations, net of tax	(9,021)	(1,490)	(13,402)	(1,832)
Net (loss) earnings	(2,067)	2,946	(2,174)	1,825
Net (earnings) loss attributable to noncontrolling interests	(212)	156	(683)	651
Net (loss) earnings attributable to IMH	\$ (2,279)	\$ 3,102	\$ (2,857)	\$ 2,476
Earnings (loss) per common share - basic:				
Earnings from continuing operations attributable to IMH	\$ 0.86	\$ 0.59	\$ 1.35	\$ 0.55

Loss from discontinued operations	(1.15)	(0.19)	(1.71)	(0.23)
Net (loss) earnings per share available to common stockholders	\$ (0.29)	\$ 0.40	\$ (0.36)	\$ 0.32
Earnings (loss) per common share - diluted:				
Earnings from continuing operations attributable to IMH	\$ 0.86	\$ 0.55	\$ 1.35	\$ 0.52
Loss from discontinued operations	(1.15)	(0.18)	(1.71)	(0.22)
Net (loss) earnings per share available to common stockholders	\$ (0.29)	\$ 0.37	\$ (0.36)	\$ 0.30

See accompanying notes to consolidated financial statements

[Table of Contents](#)

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

	For the Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) earnings	\$ (2,174)	\$ 1,825
Losses from REO	9,761	11,855
Extinguishment of debt	423	338
Change in fair value of mortgage servicing rights	869	(106)
Gain on sale of loans	(39,088)	(6,312)
Change in fair value of mortgage loans held-for-sale	(7,048)	(1,272)
Provision for repurchases	1,179	350
Origination of mortgage loans held-for-sale	(1,568,847)	(525,106)
Sale and principal reduction on mortgage loans held-for-sale	1,521,098	486,235
Change in fair value of net trust assets, excluding REO	(14,032)	(61,693)
Change in fair value of long-term debt	(872)	(2,102)
Accretion of interest income and expense	200,194	251,040
Change in REO impairment reserve	(20,620)	(22,248)
Stock-based compensation	201	222
Impairment of deferred charge	—	949
Gain on sale of Experience 1, Inc.	—	(1,780)
Net change in restricted cash	2,418	(3,420)
Amortization of discount on note payable	89	985
Net cash provided by (used in) operating activities of discontinued operations	9,502	(2,685)
Net change in other assets and liabilities	3,286	3,439
Net cash provided by operating activities	<u>96,339</u>	<u>130,514</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in securitized mortgage collateral	494,552	530,949
Net change in mortgages held-for-investment	6	(61)
Purchase of premises and equipment	(144)	(612)
Net principal change on investment securities available-for-sale	167	161
Sale of Experience 1, Inc.	—	512
Proceeds from the sale of real estate owned	80,120	117,265
Net cash provided by investing activities	<u>574,701</u>	<u>648,214</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of warehouse borrowings	(1,464,471)	(474,848)
Borrowings under warehouse agreement	1,537,470	517,739
Repayment of line of credit	(14,750)	(1,850)
Borrowings under line of credit	14,750	3,850
Repayment of securitized mortgage borrowings	(742,270)	(825,447)
Issuance of note payable	7,500	8,815
Principal payments on notes payable	(8,687)	(9,688)
Principal payments on capital lease	(239)	(201)
Proceeds from exercise of stock options	66	14
Net cash used in financing activities	<u>(670,631)</u>	<u>(781,616)</u>
Net change in cash and cash equivalents	409	(2,888)
Cash and cash equivalents at beginning of year	7,665	11,620
Cash and cash equivalents at end of period - continuing operations	8,031	8,716
Cash and cash equivalents at end of period - discontinued operations	43	16
Cash and cash equivalents at end of period	<u>\$ 8,074</u>	<u>\$ 8,732</u>

**NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):**

Transfer of securitized mortgage collateral to real estate owned	\$	39,296	\$	75,419
Acquisition of equipment purchased through capital leases		199		587
Increase in ownership of AmeriHome		677		—
Notes received upon sale of Experience 1, Inc.		—		200

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

**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, Market Conditions, 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.

**Market Update and Liquidity –**

The U.S. economy expanded at a 2.0% annual rate during the third quarter of 2012 as compared to 1.3% in the second quarter of 2012 primarily as a result of government and consumer spending. While the economy added jobs in the third quarter of 2012, the pace of new job creation continues to be slower than needed to meaningfully reduce unemployment. U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., although improving slightly, continue to remain high at 7.8% in September 2012. Despite the trend toward improving U.S. data, significant downside risk factors remain in place, at least through mid-2013. Downside risk associated with global macroeconomic conditions, particularly in Europe and Asia, remains significant. Also, the combination of federal tax increases and spending cuts known as the “Fiscal Cliff” is scheduled to take effect in early 2013 unless the U.S. Congress acts to change current laws. According to studies done by the Congressional budget office, if nothing is done to address the Fiscal Cliff, the U.S. economy may be pushed back into a recession in 2013. As a result, there continues to be significant uncertainty as to how pronounced the economic recovery will be and whether it can be sustained.

Real estate activity showed some encouraging signs as the nationwide average of home prices have appeared to hit a bottom and are starting to recover, although home prices continued to decline in many parts of the U.S. during the first nine months of 2012. Some positive news indicates that construction of new homes continued to grow in the third quarter, although at a slow rate. However, foreclosures remain one of the biggest risks to the housing market recovery. As the industry-wide compliance issues associated with foreclosures are resolved, an increase in foreclosures is anticipated which is expected to result in downward pressure and uncertainty in the housing market.

As a result of the current conditions of the U.S. economy, in September 2012, the Federal Reserve announced a new quantitative easing program including agency mortgage-backed securities purchases, known as QE3. In addition to QE3, the Federal Reserve announced its intention to keep the federal funds rate near zero through mid-2015. The combination of these actions may increase equity prices and has decreased mortgage interest rates. Although the benefits of these actions are difficult to assess, the expectation is that they will add to the current moderate pace of consumer spending and to the improving pace of new and existing home purchases for the remainder of 2012 and into 2013.

In late October, hurricane Sandy impacted the Mid-Atlantic and Northeast coasts of the U.S. Given the severe magnitude and recent occurrence of this event, the ongoing dislocation within the affected region and lack of data available, the effect of hurricane Sandy on the economy cannot yet be fully assessed.

The Company believes that current cash balances, cash flows from its mortgage lending activities, real estate and loss mitigation services fees generated from the long-term mortgage portfolio, and residual interest cash flows from the long-term mortgage portfolio are adequate for current operating needs. However, the Company believes the mortgage lending and real estate services markets will continue to be highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which have offices in the Company’s market area as well as operations throughout the U.S. The Company competes for loans principally on the basis of the interest rates and loan fees charged, the types of loans originated and the quality of services provided to borrowers. Additionally, competition for real estate recovery services, loss mitigation servicing, loan modification services and other portfolio services has increased due to the unprecedented difficult mortgage environment and severe credit tightening, coupled with the stagnant economy. The Company’s competitors in its real estate service operations include large mortgage servicers, established special servicers, and newer entrants to the specialty servicing and recovery collections business. It is more difficult for the Company than its competitors to promote its ability to provide loss mitigation, special servicing and real estate services for others because the Company has not historically provided such services to unrelated third parties, and the Company is not a rated primary or special servicer of residential mortgage loans as designated by a rating agency.

[Table of Contents](#)

The Company has experienced recent success in expanding its mortgage lending business, primarily due to its origination of mortgages eligible for sale to government agencies on a service retained basis. However, retaining servicing is a use of capital and the Company must carefully manage the size of its servicing portfolio, including selling servicing rights on a selective basis, to stay within capital constraints. The Company is currently exploring opportunities to obtain additional capital to support the growth of the mortgage servicing portfolio and expansion of its origination platform and volumes. Without additional capital, the Company's mortgage lending business may not grow at the same pace as recently experienced. Additionally, performance of the long-term mortgage portfolio is affected by the ongoing slow recoveries of both the real estate market and the general economy as a whole. Cash flows from the residual interests in securitizations can be volatile and difficult to predict, because they are sensitive to delinquencies, defaults and credit losses associated with the securitized loans and interest rates associated with the securitized bonds. Losses in excess of current estimates will reduce the residual interest cash receipts from the long-term mortgage portfolio. To the extent the related multifamily portion of the long-term mortgage portfolio experiences higher than expected credit losses, the Company, as the master servicer, may need to make advances on the multifamily portion.

### 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 nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011, 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 year 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, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt, mortgage servicing rights and mortgage loans held-for-sale. Actual results could differ from those estimates and assumptions.

### Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, *Testing Goodwill for Impairment*. Under this new standard, entities testing goodwill for impairment now have an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. This ASU was effective beginning January 1, 2012 with early adoption permitted under certain conditions. The adoption of this standard did not have a material impact on the Company's consolidated results of operations or financial condition.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends guidance listed under ASC Topic 820, "Fair Value Measurement," and represents the converged guidance of the FASB and the International Accounting Standards Board on fair value measurement. This Update also permits entities to measure fair value on a net basis for financial instruments that are managed based on net exposure to market risks and/or counterparty credit risk. ASU 2011-04 requires new disclosures for financial instruments classified as Level 3, including: 1) quantitative information about unobservable inputs used in measuring fair value; 2) qualitative discussion of the sensitivity of fair value measurements to changes in unobservable inputs; and 3) a description of valuation processes used. This update also requires disclosure of fair value levels for financial instruments that are not recorded at fair value but for which fair value is required to be disclosed. ASU 2011-04 became effective prospectively for interim and annual periods beginning after December 15, 2011. The Company has conformed to the new disclosures required in ASU 2011-04 during the first quarter of 2012.

### [Table of Contents](#)

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment*, which updated guidance on the periodic testing of indefinite-lived intangible assets, other than goodwill, for impairment. This guidance will allow companies to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset, other than goodwill, is impaired in order to determine whether it is necessary to perform a quantitative impairment test. ASU 2012-02 will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not plan to early adopt ASU 2012-02; therefore, the ASU 2012-02 is effective for the Company beginning with the first quarter of fiscal year 2013. The Company does not anticipate the adoption of ASU 2012-02 to have a material impact on its results of operations, financial condition or cash flows.

### Note 2.—Fair Value of Financial Instruments

The use of fair value to measure the Company's financial instruments is fundamental to its consolidated financial statements and is a critical accounting estimate because a substantial portion of its assets and liabilities are recorded at estimated fair value.

The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	September 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 8,031	\$ 8,031	\$ 7,653	\$ 7,653
Restricted cash	2,601	2,601	5,019	5,019

Investment securities available-for-sale	112	112	688	688
Securitized mortgage collateral	5,738,150	5,738,150	5,449,001	5,449,001
Derivative assets, securitized trusts	37	37	37	37
Derivative assets, lending	9,409	9,409	1,179	1,179
Mortgage servicing rights	9,317	9,317	4,141	4,141
Mortgage loans held-for-sale	145,346	145,346	61,718	61,718
Call option	73	73	253	253
<b>Liabilities</b>				
Securitized mortgage borrowings	5,725,469	5,725,469	5,454,901	5,454,901
Derivative liabilities, securitized trusts	19,112	19,112	24,786	24,786
Derivative liabilities, lending	3,786	3,786	624	624
Long-term debt	12,274	12,274	11,561	11,561
Warehouse borrowings	131,690	131,690	58,691	58,691
Notes payable	4,507	4,909	5,182	5,941
Line of credit	4,000	4,000	4,000	4,000
Put option	9	9	—	—

The fair value amounts above have been estimated by management using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop the estimates of fair value in both inactive and orderly markets. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

For securitized mortgage collateral and securitized mortgage borrowings, the underlying 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.

## [Table of Contents](#)

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, loans held-for-sale, and call and put options.

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

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

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

Notes payable includes notes with maturities ranging from less than a year to three years. Notes payable is recorded at amortized cost, net of any discounts. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

### **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 are 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, mortgage servicing rights, and call and put options as Level 3 fair value measurements. Level 3 assets and liabilities were 97% and 100% and 99% and 100%, respectively, of total assets and total liabilities measured at estimated fair value at September 30, 2012 and December 31, 2011.

## Recurring Fair Value Measurements

We assess our 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 nine months ended September 30, 2012.

9

### Table of Contents

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at September 30, 2012 and December 31, 2011, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	September 30, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Investment securities available-for-sale	\$ —	\$ —	\$ 112	\$ —	\$ —	\$ 688
Mortgage loans held-for-sale	—	145,346	—	—	61,718	—
Derivative assets, net, lending (1)	—	5,623	—	—	555	—
Mortgage servicing rights	—	—	9,317	—	—	4,141
Call option (2)	—	—	73	—	—	253
Securitized mortgage collateral	—	—	5,738,150	—	—	5,449,001
Total assets at fair value	\$ —	\$ 150,969	\$ 5,747,652	\$ —	\$ 62,273	\$ 5,454,083
<b>Liabilities</b>						
Securitized mortgage borrowings	\$ —	\$ —	\$ 5,725,469	\$ —	\$ —	\$ 5,454,901
Derivative liabilities, net, securitized trusts (3)	—	—	19,075	—	—	24,749
Long-term debt	—	—	12,274	—	—	11,561
Put option (4)	—	—	9	—	—	—
Total liabilities at fair value	\$ —	\$ —	\$ 5,756,827	\$ —	\$ —	\$ 5,491,211

- (1) At September 30, 2012, derivative assets, net, lending, included \$9.4 million in interest rate lock commitments (IRLCs) and \$3.8 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) Included in other assets in the accompanying consolidated balance sheets.
- (3) At September 30, 2012, derivative liabilities, net—securitized trusts, included \$37 thousand in derivative assets and \$19.1 million in derivative liabilities, included within trust assets and trust liabilities, respectively. At December 31, 2011, derivative liabilities, net—securitized trusts, included \$37 thousand in derivative assets and \$24.8 million in derivative liabilities, included within trust assets and trust liabilities, respectively.
- (4) Included in other liabilities in the accompanying consolidated balance sheets.

The following tables present a reconciliation for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2012 and 2011:

	Level 3 Recurring Fair Value Measurements							
	For the three months ended September 30, 2012							
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Put option	Long-term debt
Fair value, June 30, 2012	\$ 140	\$ 5,430,443	\$ (5,426,042)	\$ (20,402)	\$ 7,090	\$ 73	\$ (9)	\$ (11,952)
Total gains (losses) included in earnings:								
Interest income (1)	7	32,452	—	—	—	—	—	—
Interest expense (1)	—	—	(95,316)	—	—	—	—	(512)
Change in fair value	15	467,423	(472,583)	(853)	(494)	—	—	190
Total (losses) gains included in earnings	22	499,875	(567,899)	(853)	(494)	—	—	(322)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements								
Purchases	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	4,621	—	—	—
Settlements	(50)	(192,168)	268,472	2,180	(1,900)	—	—	—
Fair value, September 30, 2012	\$ 112	\$ 5,738,150	\$ (5,725,469)	\$ (19,075)	\$ 9,317	\$ 73	\$ (9)	\$ (12,274)
Unrealized gains (losses) still held (2)	\$ 40	\$ (2,992,344)	\$ 5,026,505	\$ (18,342)	\$ —	\$ —	\$ —	\$ 58,489

- (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 \$1.8 million for the three months ended September 30, 2012. 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 September 30, 2012.

10

### Table of Contents



**Level 3 Recurring Fair Value Measurements**

**For the three months ended September 30, 2011**

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Put option	Long-term debt
Fair value, June 30, 2011	\$ 447	\$ 5,641,957	\$ (5,651,842)	\$ (38,104)	\$ 1,405	\$ 454	\$ (23)	\$ (12,148)
Total gains (losses) included in earnings:								
Interest income (1)	30	73,164	—	—	—	—	—	—
Interest expense (1)	—	—	(152,229)	—	—	—	—	(644)
Change in fair value	17	(92,459)	106,771	(4,032)	140	(202)	8	1,459
Total gains (losses) included in earnings	47	(19,295)	(45,458)	(4,032)	140	(202)	8	815
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements								
Purchases	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	645	—	—	—
Settlements	(50)	(181,072)	251,270	11,111	—	—	—	—
Fair value, September 30, 2011	\$ 444	\$ 5,441,590	\$ (5,446,030)	\$ (31,025)	\$ 2,190	\$ 252	\$ (15)	\$ (11,333)
Unrealized gains (losses) still held (2)	\$ 279	\$ (4,333,232)	\$ 6,294,503	\$ (30,665)	\$ —	\$ —	\$ —	\$ 59,430

- (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 \$2.0 million for the three months ended September 30, 2011. 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 September 30, 2011.

**Level 3 Recurring Fair Value Measurements**

**For the nine months ended September 30, 2012**

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Put option	Long-term debt
Fair value, December 31, 2011	\$ 688	\$ 5,449,001	\$ (5,454,901)	\$ (24,749)	\$ 4,141	\$ 253	\$ —	\$ (11,561)
Total gains (losses) included in earnings:								
Interest income (1)	30	124,292	—	—	—	—	—	—
Interest expense (1)	—	—	(322,931)	—	—	—	—	(1,585)
Change in fair value	(439)	698,704	(689,979)	(2,724)	(869)	(180)	(9)	872
Total (losses) gains included in earnings	(409)	822,996	(1,012,910)	(2,724)	(869)	(180)	(9)	(713)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements								
Purchases	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	10,257	—	—	—
Settlements	(167)	(533,847)	742,342	8,398	(4,212)	—	—	—
Fair value, September 30, 2012	\$ 112	\$ 5,738,150	\$ (5,725,469)	\$ (19,075)	\$ 9,317	\$ 73	\$ (9)	\$ (12,274)
Unrealized gains (losses) still held (2)	\$ 40	\$ (2,992,344)	\$ 5,026,505	\$ (18,342)	\$ —	\$ —	\$ —	\$ 58,489

- (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 \$6.2 million for the nine months ended September 30, 2012. 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 September 30, 2012.

[Table of Contents](#)

**Level 3 Recurring Fair Value Measurements**

**For the nine months ended September 30, 2011**

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Put option	Long-term debt
Fair value, December 31, 2010	\$ 645	\$ 6,011,675	\$ (6,012,745)	\$ (65,876)	\$ 1,439	\$ 706	\$ (61)	\$ (11,728)
Total gains (losses) included in earnings:								
Interest income (1)	88	276,009	—	—	—	—	—	—
Interest expense (1)	—	—	(525,430)	—	—	—	—	(1,707)
Change in fair value	(128)	(239,727)	265,754	(8,303)	106	(454)	46	2,102
Total (losses) gains included in earnings	(40)	36,282	(259,676)	(8,303)	106	(454)	46	395
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements								
Purchases	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	645	—	—	—
Settlements	(161)	(606,367)	826,391	43,154	—	—	—	—
Fair value, September 30, 2011	\$ 444	\$ 5,441,590	\$ (5,446,030)	\$ (31,025)	\$ 2,190	\$ 252	\$ (15)	\$ (11,333)
Unrealized gains (losses) still held (2)	\$ 279	\$ (4,333,232)	\$ 6,294,503	\$ (30,665)	\$ —	\$ —	\$ —	\$ 59,430

- (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 \$7.5 million for the nine months ended September 30, 2011. 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 September 30, 2011.

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 September 30, 2012.

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs
<b>Assets and liabilities backed by real estate</b>				
Investment securities available-for-sale,	\$ 112	DCF	Discount rates	3.72 - 30.0%
Securitized mortgage collateral, and	5,738,150		Prepayment rates	0.82 - 10.6%
Securitized mortgage borrowings	(5,725,469)		Default rates	0.79 - 10.2%
			Loss severities	12.7 - 62.8%
<b>Other assets and liabilities</b>				
Mortgage servicing rights	\$ 9,317	DCF	Discount rate	12.0%
			Prepayment rates	4.09 - 15.4%
Derivative liabilities, net, securitized trusts	(19,075)	DCF	1M forward LIBOR	0.21 - 3.52%
Long-term debt	(12,274)	DCF	Discount rate	25.0%
Lease liability	(1,841)	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.

[Table of Contents](#)

The table below illustrates hypothetical fair values of MSRs, caused by assumed immediate changes to key assumptions that are used to determine fair value.

Mortgage Servicing Rights Sensitivity Analysis	September 30, 2012
Fair value of MSRs	\$ 9,317
<b>Prepayment Speed:</b>	
Decrease in fair value from 25 basis points (bps) adverse change	(168)
Decrease in fair value from 50 bps adverse change	(333)
<b>Discount Rate:</b>	
Decrease in fair value from 25 bps adverse change	(16)
Decrease in fair value from 50 bps adverse change	(37)
<b>Default Rate:</b>	
Decrease in fair value from 25 bps adverse change	(461)
Decrease in fair value from 50 bps adverse change	(1,535)

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.

The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three and nine months ended September 30, 2012 and 2011:

	Recurring Fair Value Measurements						Total
	Change in Fair Value Included in Net Earnings						
	For the three months ended September 30, 2012						
	Interest Income (1)	Interest Expense (1)	Change in Fair Value of		Other Non-interest Income	Mortgage lending gains and fees, net	
		Net Trust Assets	Long-term Debt				
Investment securities available-for-sale	\$ 7	\$ —	\$ 15	\$ —	\$ —	\$ —	\$ 22
Securitized mortgage collateral	32,452	—	467,423	—	—	—	499,875
Securitized mortgage borrowings	—	(95,316)	(472,583)	—	—	—	(567,899)
Mortgage servicing rights	—	—	—	—	(494)	—	(494)
Call option	—	—	—	—	—	—	—
Put option	—	—	—	—	—	—	—
Derivative liabilities, net	—	—	(853)(2)	—	—	—	(853)
Long-term debt	—	(512)	—	190	—	—	(322)
Mortgage loans held-for-sale	—	—	—	—	—	4,220	4,220
Derivative assets - IRLCs	—	—	—	—	—	4,950	4,950
Derivative liabilities - Hedging Instruments	—	—	—	—	—	(2,234)	(2,234)
<b>Total</b>	<b>\$ 32,459</b>	<b>\$ (95,828)</b>	<b>\$ (5,998)</b>	<b>\$ 190</b>	<b>\$ (494)</b>	<b>\$ 6,936</b>	<b>\$ (62,735)</b>

(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 \$1.3 million in change in the fair value of derivative instruments, offset by \$2.2 million in cash payments from the securitization trusts for the three months ended September 30, 2012.

Recurring Fair Value Measurements					
Change in Fair Value Included in Net Loss					
For the three months ended September 30, 2011					
Interest	Interest	Change in Fair Value of		Other Non-interest	Mortgage lending

	Income (1)	Expense (1)	Net Trust Assets	Long-term Debt	Income	gains and fees, net	Total
Investment securities available-for-sale	\$ 30	\$ —	\$ 17	\$ —	\$ —	\$ —	\$ 47
Securitized mortgage collateral	73,164	—	(92,459)	—	—	—	(19,295)
Securitized mortgage borrowings	—	(152,229)	106,771	—	—	—	(45,458)
Mortgage servicing rights	—	—	—	—	140	—	140
Call option	—	—	—	—	(202)	—	(202)
Put option	—	—	—	—	8	—	8
Derivative liabilities, net	—	—	(4,032)	—	—	—	(4,032)
Long-term debt	—	(644)	—	1,459	—	—	815
Mortgage loans held-for-sale	—	—	—	—	—	457	457
Derivative assets - IRLCs	—	—	—	—	—	1,064	1,064
Derivative liabilities - Hedging Instruments	—	—	—	—	—	(796)	(796)
<b>Total</b>	<b>\$ 73,194</b>	<b>\$ (152,873)</b>	<b>\$ 10,297</b>	<b>\$ 1,459</b>	<b>\$ (54)</b>	<b>\$ 725</b>	<b>\$ (67,252)</b>

- (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 \$7.4 million in changes in the fair value of derivative instruments, offset by \$11.4 million in cash payments from the securitization trusts for the three months ended September 30, 2011.

13

[Table of Contents](#)

Recurring Fair Value Measurements							
Changes in Fair Value Included in Net Earnings							
For the nine months ended September 30, 2012							
	Interest Income (1)	Interest Expense (1)	Change in Fair Value of		Other Non-interest Income	Mortgage lending gains and fees, net	Total
			Net Trust Assets	Long-term Debt			
Investment securities available-for-sale	\$ 30	\$ —	\$ (439)	\$ —	\$ —	\$ —	\$ (409)
Securitized mortgage collateral	124,292	—	698,704	—	—	—	822,996
Securitized mortgage borrowings	—	(322,931)	(689,979)	—	—	—	(1,012,910)
Mortgage servicing rights	—	—	—	—	(869)	—	(869)
Call option	—	—	—	—	(180)	—	(180)
Put option	—	—	—	—	(9)	—	(9)
Derivative liabilities, net	—	—	(2,724)	—	—	—	(2,724)
Long-term debt	—	(1,585)	—	872	—	—	(713)
Mortgage loans held-for-sale	—	—	—	—	—	7,048	7,048
Derivative assets - IRLCs	—	—	—	—	—	8,231	8,231
Derivative liabilities - Hedging Instruments	—	—	—	—	—	(3,163)	(3,163)
<b>Total</b>	<b>\$ 124,322</b>	<b>\$ (324,516)</b>	<b>\$ 5,562<sup>(3)</sup></b>	<b>\$ 872</b>	<b>\$ (1,058)</b>	<b>\$ 12,116</b>	<b>\$ (182,702)</b>

- (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 \$5.8 million in change in the fair value of derivative instruments, offset by \$8.5 million in cash payments from the securitization trusts for the nine months ended September 30, 2012.  
(3) For the nine months ended September 30, 2012, change in the fair value of trust assets, excluding REO was \$5.6 million. Excluded from the \$14.1 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$8.5 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 nine months ended September 30, 2011							
	Interest Income (1)	Interest Expense (1)	Change in Fair Value of		Other Non-interest Income	Mortgage lending gains and fees, net	Total
			Net Trust Assets	Long-term Debt			
Investment securities available-for-sale	\$ 88	\$ —	\$ (128)	\$ —	\$ —	\$ —	\$ (40)
Securitized mortgage collateral	276,009	—	(239,727)	—	—	—	36,282
Securitized mortgage borrowings	—	(525,430)	265,754	—	—	—	(259,676)
Mortgage servicing rights	—	—	—	—	106	—	106
Call option	—	—	—	—	(454)	—	(454)
Put option	—	—	—	—	46	—	46
Derivative liabilities, net	—	—	(8,303)	—	—	—	(8,303)
Long-term debt	—	(1,707)	—	2,102	—	—	395
Mortgage loans held-for-sale	—	—	—	—	—	1,272	1,272
Derivative assets - IRLCs	—	—	—	—	—	1,358	1,358
Derivative liabilities - Hedging Instruments	—	—	—	—	—	(923)	(923)
<b>Total</b>	<b>\$ 276,097</b>	<b>\$ (527,137)</b>	<b>\$ 17,596<sup>(3)</sup></b>	<b>\$ 2,102</b>	<b>\$ (302)</b>	<b>\$ 1,707</b>	<b>\$ (229,937)</b>

- (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 \$35.8 million in changes in the fair value of derivative instruments, offset by \$44.1 million in cash payments from the securitization trusts for the nine months ended September 30, 2011.  
(3) For the nine months ended September 30, 2011, change in the fair value of trust assets, excluding REO was \$17.6 million. Excluded from the \$61.7 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$44.1 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 market disruption and lack of observable market data as of September 30, 2012 and December 31, 2011, 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 are considered a Level 3 measurement at September 30, 2012.

14

[Table of Contents](#)

**Mortgage servicing rights**—The Company elected to carry all of its mortgage servicing rights arising from its mortgage loan operations at fair value. The fair value of mortgage servicing rights is based upon market prices for similar instruments and an internal discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at September 30, 2012.

**Mortgage loans held-for-sale**—The Company elected to carry its mortgage loans held-for-sale originated or acquired from its mortgage lending operation at 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 conforming

mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at September 30, 2012.

*Call option*—As part of the acquisition of AmeriHome as more fully discussed in Note 21.—*Business Combinations* of our Annual Report on Form 10-K for the year ended December 31, 2011, the purchase agreement included a call option to purchase an additional 39% of AmeriHome. In June 2012, the Company and the noncontrolling interest holder entered into an agreement to transfer an additional 27.5% ownership 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. As of September 30, 2012, the Company owns 78.5% of AmeriHome, and accordingly retains an option to purchase 11.5% of AmeriHome. The estimated fair value is based on a model incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. The call option is considered a Level 3 measurement at September 30, 2012.

*Put option*—As part of the acquisition of AmeriHome, the purchase agreement included 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 discussed above. In June 2012, the Company and the noncontrolling interest holder entered into an agreement to transfer 27.5% ownership of AmeriHome to the Company in exchange for the settlement of balances owed from the noncontrolling interest holder related to capital contributions made by the Company to AmeriHome and indemnification provisions included in the purchase agreement. As of September 30, 2012, the noncontrolling interest holder owns 21.5% of AmeriHome, and accordingly retains an option to sell the 21.5% interest to the Company. The estimated fair value is based on a model incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. The put option is considered a Level 3 measurement at September 30, 2012.

*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 September 30, 2012, securitized mortgage collateral had an unpaid principal balance of \$8.7 billion, compared to an estimated fair value of \$5.7 billion. The aggregate unpaid principal balance exceeds the fair value by \$3.0 billion at September 30, 2012. As of September 30, 2012, the unpaid principal balance of loans 90 days or more past due was \$1.7 billion compared to an estimated fair value of \$0.6 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by \$1.1 billion at September 30, 2012. Securitized mortgage collateral is considered a Level 3 measurement at September 30, 2012.

*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 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. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of September 30, 2012, securitized mortgage borrowings had an outstanding principal balance of \$8.7 billion compared to an estimated fair value of \$5.7 billion. The aggregate outstanding principal balance exceeds the fair value by \$3.0 billion at September 30, 2012. Securitized mortgage borrowings is considered a Level 3 measurement at September 30, 2012.

*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 September 30, 2012, long-term debt had an unpaid principal balance of \$70.5 million compared to an estimated fair value of \$12.3 million. The aggregate unpaid principal balance exceeds the fair value by \$58.2 million at September 30, 2012. The long-term debt is considered a Level 3 measurement at September 30, 2012.

[Table of Contents](#)

*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 September 30, 2012, the notional balance of derivative assets and liabilities, securitized trusts was \$911.7 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 September 30, 2012.

*Derivative assets and liabilities, Lending*—The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivative assets are IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. The derivative liabilities are hedging instruments (typically TBA securities) used to hedge the risk of 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 of the loan sale. The estimated fair value is based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities, lending as a Level 2 measurement at September 30, 2012.

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

	Notional Balance September 30, 2012	Total Gains (Losses)	
		For the Three Months Ended September 30, 2012 (1)	For the Nine Months Ended September 30, 2012 (1)
Derivative assets - IRLC's	\$ 383,776	\$ 4,950	\$ 8,231

(1) Amounts included in mortgage lending gains and fees, net within the accompanying consolidated statements of operations.

### 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 September 30, 2012 and 2011, respectively:

	Nonrecurring Fair Value Measurements			Total Gains (Losses)	
	September 30, 2012			For the Three Months Ended September 30, 2012 (3)	For the Nine Months Ended September 30, 2012 (3)
	Level 1	Level 2	Level 3		
REO (1)	\$ —	\$ 19,524	\$ —	\$ 3,548	\$ (9,761)
Lease liability (2)	—	—	(1,841)	113	(168)

- (1) Balance represents REO at September 30, 2012 which have been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three months ended September 30, 2012, the \$3.5 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. For the nine months ended September 30, 2012, the \$9.8 million loss represents additional impairment write-downs attributable to higher expected loss severities on properties held during the period which resulted in a decrease to NRV.
- (2) Amounts are included in discontinued operations. For the three and nine months ended September 30, 2012, the Company recorded a gain of \$113 thousand and a loss of \$168 thousand, respectively, 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.

16

### Table of Contents

	Non-recurring Fair Value Measurements			Total Gains (Losses)	
	September 30, 2011			For the Three Months Ended September 30, 2011 (4)	For the Nine Months Ended September 30, 2011 (4)
	Level 1	Level 2	Level 3		
REO (1)	\$ —	\$ 8,993	\$ —	\$ (7,006)	\$ (11,992)
Lease liability (2)	—	—	(2,244)	(223)	(525)
Deferred charge (3)	—	—	12,195	(949)	(949)

- (1) Balance represents REO at September 30, 2011 which have been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three and nine months ended September 30, 2011, the \$7.0 million and \$12.0 million loss, respectively, represent additional impairment write-downs during the period which resulted in a decrease to NRV.
- (2) Amounts are included in discontinued operations. For the three and nine months ended September 30, 2011, the Company recorded \$223 thousand and \$525 thousand in losses, respectively, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.
- (3) Amounts are included in continuing operations. For the three and nine months ended September 30, 2011, the Company recorded \$949 thousand in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.
- (4) Total losses reflect gains and losses from all nonrecurring measurements during the period.

**Real estate owned**—REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is recorded at 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 adjusted to the lower of carrying value or estimated fair value less costs to sell. REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and included in the nonrecurring fair value measurements tables. Estimated fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at September 30, 2012.

**Lease liability**—In connection with the discontinuation of our non-conforming mortgage, warehouse 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. The Company has recorded a liability, included within discontinued operations, 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 September 30, 2012.

### Note 3.—Stock Options

During the third quarter of 2012, the shareholders voted on and approved the amendment to the 2010 Omnibus Incentive Plan to increase the shares subject to the plan by 250,000 shares.

There were no options granted during the nine months ended September 30, 2012 or 2011, respectively.

The following table summarizes activity, pricing and other information for the Company's stock options for the nine months ended September 30, 2012:

	Number of Shares	Weighted- Average Exercise Price
Options outstanding at beginning of period	1,241,808	\$ 3.64
Options granted	—	—
Options exercised	(83,216)	0.83
Options forfeited / cancelled	(55,442)	12.96
Options outstanding at end of period	<u>1,103,150</u>	<u>\$ 3.38</u>
Options exercisable at end of period	<u>889,489</u>	<u>\$ 3.53</u>

As of September 30, 2012, there was approximately \$353 thousand 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 1.13 years.

17

## [Table of Contents](#)

The following table summarizes activity, pricing and other information for the Company's restricted stock units (RSU's), also referred to as deferred stock units as the issuance of the stock is deferred until termination of service, for the nine months ended September 30, 2012:

	Number of Shares	Weighted- Average Grant Date Fair Value
RSU's outstanding at beginning of period	24,000	\$ 2.73
RSU's granted	—	—
RSU's exercised	—	—
RSU's forfeited / cancelled	—	—
RSU's outstanding at end of period	<u>24,000</u>	<u>\$ 2.73</u>

As of September 30, 2012, there was approximately \$26 thousand of total unrecognized compensation cost related to the RSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 1.18 years.

## Note 4.—Reconciliation of Earnings (Loss) Per Share

The following table presents the computation of basic and diluted earnings (loss) per common share, including the dilutive effect of stock options and redeemable preferred stock outstanding for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Numerator for basic earnings (loss) per share:</b>				
Earnings from continuing operations	\$ 6,954	\$ 4,436	\$ 11,228	\$ 3,657
Net (earnings) loss attributable to noncontrolling interest	(212)	156	(683)	651
Earnings from continuing operations attributable to IMH	6,742	4,592	10,545	4,308
Loss from discontinued operations	(9,021)	(1,490)	(13,402)	(1,832)
Net (loss) earnings available to IMH common stockholders	<u>\$ (2,279)</u>	<u>\$ 3,102</u>	<u>\$ (2,857)</u>	<u>\$ 2,476</u>
<b>Denominator for basic earnings (loss) per share (1):</b>				
Basic weighted average common shares outstanding during the year	<u>7,855</u>	<u>7,812</u>	<u>7,840</u>	<u>7,798</u>
<b>Denominator for diluted earnings (loss) per share (1):</b>				
Basic weighted average common shares outstanding during the year	7,855	7,812	7,840	7,798
Net effect of dilutive stock options and RSU's	—	533	—	557
Diluted weighted average common shares	<u>7,855</u>	<u>8,345</u>	<u>7,840</u>	<u>8,355</u>
<b>Earnings (loss) per common share - basic:</b>				
Earnings from continuing operations attributable to IMH	\$ 0.86	\$ 0.59	\$ 1.35	\$ 0.55
Loss from discontinued operations	(1.15)	(0.19)	(1.71)	(0.23)
Net (loss) earnings per share available to common stockholders	<u>\$ (0.29)</u>	<u>\$ 0.40</u>	<u>\$ (0.36)</u>	<u>\$ 0.32</u>
<b>Earnings (loss) per common share - diluted:</b>				
Earnings from continuing operations attributable to IMH	\$ 0.86	\$ 0.55	\$ 1.35	\$ 0.52
Loss from discontinued operations	(1.15)	(0.18)	(1.71)	(0.22)
Net (loss) earnings per share available to common stockholders	<u>\$ (0.29)</u>	<u>\$ 0.37</u>	<u>\$ (0.36)</u>	<u>\$ 0.30</u>

(1) Number of shares presented in thousands.

For the three and nine months ended September 30, 2012, stock options to purchase 1.1 million shares were outstanding but not included in the above weighted average share calculations because they were anti-dilutive.

18

[Table of Contents](#)

For the three and nine months ended September 30, 2011, stock options to purchase 552 thousand shares were outstanding but not included in the above weighted average share calculations because they were anti-dilutive.

**Note 5.—Segment Reporting**

The Company has four reporting segments, consisting of the long-term mortgage portfolio, mortgage lending, real estate services and discontinued operations. The following tables present the selected financial data and operating results by reporting segment for the periods indicated:

	Long-term Portfolio	Mortgage Lending	Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
<b>Statement of Operations Items for the three months ended September 30, 2012:</b>						
Net interest income (expense)	\$ 455	\$ (164)	\$ 6	\$ 7	\$ (7)	\$ 297
Non-interest (loss) income- net trust assets	(2,450)	—	—	—	—	(2,450)
Mortgage lending gains and fees, net	—	24,324	—	—	—	24,324
Real estate services fees, net	—	—	5,776	—	—	5,776
Other non-interest income (expense)	704	(87)	—	(1,767)	1,767	617
Non-interest expense and income taxes	(3,496)	(15,917)	(2,197)	(7,261)	7,261	(21,610)
(Loss) earnings from continuing operations	<u>\$ (4,787)</u>	<u>\$ 8,156</u>	<u>\$ 3,585</u>			6,954
Loss from discontinued operations, net of tax				<u>\$ (9,021)</u>		(9,021)
Net loss						<u>\$ (2,067)</u>

<b>Statement of Operations Items for the nine months ended September 30, 2012:</b>						
Net interest income (expense)	\$ 2,108	\$ (256)	\$ 22	\$ 7	\$ (7)	\$ 1,874
Non-interest (loss) income- net trust assets	(4,199)	—	—	—	—	(4,199)
Mortgage lending gains and fees, net	—	48,587	—	—	—	48,587
Real estate services fees, net	—	—	16,815	—	—	16,815
Other non-interest income (expense)	1,668	(315)	—	(4,647)	4,647	1,353
Non-interest expense and income taxes	(11,191)	(35,736)	(6,275)	(8,762)	8,762	(53,202)
(Loss) earnings from continuing operations	<u>\$ (11,614)</u>	<u>\$ 12,280</u>	<u>\$ 10,562</u>			11,228
Loss from discontinued operations, net of tax				<u>\$ (13,402)</u>		(13,402)
Net loss						<u>\$ (2,174)</u>

<b>Total Assets at September 30, 2012</b>	<u>\$ 5,790,182</u>	<u>\$ 162,779</u>	<u>\$ 13,988</u>	<u>\$ 125</u>	<u>\$ —</u>	<u>\$ 5,967,074</u>
<b>Total Assets at December 31, 2011</b>	<u>\$ 5,528,998</u>	<u>\$ 67,818</u>	<u>\$ 14,992</u>	<u>\$ 264</u>	<u>\$ (32)</u>	<u>\$ 5,612,040</u>

	Long-term Portfolio	Mortgage Lending	Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
<b>Statement of Operations Items for the three months ended September 30, 2011:</b>						
Net interest income (expense)	\$ 350	\$ (72)	\$ 4	\$ —	\$ —	\$ 282
Non-interest income- net trust assets	3,430	—	—	—	—	3,430
Mortgage lending gains and fees, net	—	4,574	—	—	—	4,574
Real estate services fees, net	—	—	13,272	—	—	13,272
Other non-interest income (expense)	1,353	(194)	1,780	(989)	989	2,939
Non-interest expense and income taxes	(4,970)	(7,333)	(7,758)	(501)	501	(20,061)
Earnings (loss) from continuing operations	<u>\$ 163</u>	<u>\$ (3,025)</u>	<u>\$ 7,298</u>			4,436
Loss from discontinued operations, net of tax				<u>\$ (1,490)</u>		(1,490)
Net earnings						<u>\$ 2,946</u>

<b>Statement of Operations Items for the nine months ended September 30, 2011:</b>						
Net interest income (expense)	\$ 2,863	\$ (30)	\$ 12	\$ —	\$ —	\$ 2,845
Non-interest income- net trust assets	5,741	—	—	—	—	5,741
Mortgage lending gains and fees, net	—	7,670	—	—	—	7,670
Real estate services fees, net	—	—	36,820	—	—	36,820
Other non-interest income (expense)	1,922	(395)	1,780	(774)	774	3,307
Non-interest expense and income taxes	(13,163)	(16,513)	(23,050)	(1,058)	1,058	(52,726)
(Loss) earnings from continuing operations	<u>\$ (2,637)</u>	<u>\$ (9,268)</u>	<u>\$ 15,562</u>			3,657
Loss from discontinued operations, net of tax				<u>\$ (1,832)</u>		(1,832)
Net earnings						<u>\$ 1,825</u>

(1) Amounts represent reclassifications of activity in the discontinued operations segment into loss from discontinued operations, net of tax as presented in the accompanying consolidated statements of operations.

[Table of Contents](#)**Note 6.—Warehouse Borrowings**

The Company, through its subsidiaries, enters into 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.

In September 2012, the Company, through its subsidiaries, entered into a Master Repurchase Agreement with a new lender providing a \$40 million warehouse facility (Repurchase Agreement 5). The interest rate relating to this agreement is one-month LIBOR plus 3.50 % and expires September 2013. Under the terms of this warehouse facility, the Company is required to maintain various financial and other covenants.

At September 30, 2012, the Company was in compliance with all financial covenants.

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

	Maximum Borrowing Capacity	Balance Outstanding At	
		September 30, 2012	December 31, 2011
<b>Short-term borrowings:</b>			
Repurchase agreement 1 (1)	\$ 40,000	\$ 35,612	\$ 20,163
Repurchase agreement 2 (2)	30,000	27,436	24,769
Repurchase agreement 3 (3)	50,000	50,137	13,759
Repurchase agreement 4	25,000	6,003	—
Repurchase agreement 5	40,000	12,502	—
Total short-term borrowings	\$ 185,000	\$ 131,690	\$ 58,691

(1) In October 2012, the maximum borrowing capacity increased from \$40.0 million to \$47.5 million.

(2) In August 2012, the maturity was extended to July 2013.

(3) In August 2012, the maturity was extended to November 2012, and is expected to be renewed again at that time. The amount over the maximum borrowing capacity is due to accrued interest.

**Note 7.—Notes Payable***Note payable—Debt Agreement*

In February 2012, the Company entered into a \$7.5 million structured debt agreement using eight of the Company's residual interests (net trust assets) as collateral. The Company used a portion of the proceeds to pay off the \$408 thousand balance owed on the previous debt agreement. The Company received proceeds of \$7.0 million, net of the aforementioned payoff and transaction costs of approximately \$50 thousand.

The structured debt agreement is evidenced by an Indenture with Deutsche Bank National Trust Company, as trustee. It bears interest at a fixed rate of 25% per annum and is amortized in equal principal payments over 18 months with all distributions from the underlying residual interests being used to make the monthly payments, and was recorded as a note payable in the accompanying consolidated balance sheets. Any excess cash flows from the residual interests are included in a reserve account, which is available to cover future shortfalls, and is recorded on the consolidated balance sheets as restricted cash. If the cumulative cash flows received, including the reserve account balance, from the collateralized residual interests are not sufficient to pay the required monthly principal and interest, the Company would be required to pay the difference to avoid the transfer of the residual interests and the rights to the associated future cash flows to the note holder. To the extent there is excess cash flows after the reserve account reaches a balance of \$1.5 million, the Company will receive 70% of the excess cash flows to a monthly maximum of \$300 thousand. If the amount of restricted cash in the reserve account becomes sufficient to satisfy the remaining scheduled payments the residuals listed as security can be released.

Through September 30, 2012, the Company received \$1.5 million in excess cash flows from the residual interests collateralizing the note payable. The \$1.5 million in excess cash flows is included in restricted cash on the consolidated balance sheets. The carrying value of the debt agreement at September 30, 2012 was \$4.5 million, and the Company was current as to principal and interest payments.

[Table of Contents](#)**Note 8.—Line of Credit Agreement**

In April 2012, 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%. The amendment extends the expiration to April 2013. Under the terms of the agreement the Company and its subsidiaries are required to maintain various financial and other covenants. There was \$4.0 million outstanding balance on the working capital line of credit as of September 30, 2012. At September 30, 2012, the Company was in compliance with all covenants.

**Note 9.—Commitments and Contingencies***Legal Proceedings*

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such



legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any case, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure. At September 30, 2012, the Company has a \$6.1 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 September 30, 2012 are as follows:

On October 16, 2012, a matter was filed in the Superior Court of the State of California, Orange County entitled Deutsche Bank National Trust Company, in its individual capacity, and as Indenture Trustee of Impac Secured Assets CMB Trust Series 1998-1, Impac CMB Trust Series 1999-2, 2000-2, 2001-4, 2002-1, and 2003-5, and Impac Real Estate Asset Trust Series 2006-SD1 v. Impac Mortgage Holdings, Inc. and Impac Funding Corporation. The action alleges the defendants owe the plaintiff indemnification for settlements that the plaintiff allegedly entered into in connection with the Gilmor, et al. v. Preferred Credit Corp., et al. matter, which is described under Item 3, Part 1 in the Company's Form 10-K for the year ended December 31, 2011. The plaintiff seeks declaratory and injunctive relief and unspecified damages.

On April 30, 2012 a matter was filed in the Superior Court of the State of California, Orange County entitled Rene Marentes and Martha Marentes v. Impac Mortgage Holdings, Inc. The complaint is a putative class action matter contending that certain loan modification activities of the company constitute an unfair business practice, that they constitute false advertising and marketing and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and pre-judgment interest. On August 1, 2012, the court entered an order granting, without prejudice, the motion of Impac Mortgage Holdings, Inc. for judgment on the pleadings. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant. On October 2, 2012, the plaintiff filed a request to dismiss Impac Mortgage Holdings, Inc., without prejudice.

On January 30, 2012, a Summons with Notice was filed in the Supreme Court of the State of New York as case No. 650293/2012 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 Impac Secured Assets Corp. On August 3, 2012, a Consolidated Complaint was filed in which the above matter was consolidated with two other cases filed by the same plaintiff and DG Holding Trust. The Company first received a copy of the Complaint during the third quarter of 2012. The Consolidated Complaint alleges misrepresentations in connection with the marketing and sale of mortgage backed securities issued by ISAC that the plaintiff purchased. The complaint seeks rescission, damages, prejudgment interest, punitive damages, and attorney's fees in an amount to be proven at trial.

## [Table of Contents](#)

As previously reported in the Company's Form 10-K for the year ended December 31, 2011, on December 7, 2011 an action was filed in the Circuit Court for Baltimore City entitled Curtis J. Timm, on behalf of himself and all persons similarly situated v. Impac Mortgage Holdings, Inc., et al as Case No. 24-c-11-008391. The complaint alleges on behalf of Preferred B and C shareholders who did not tender their stock previously that Impac failed to achieve the required consent of the Preferred stock classes, the consents to amend the Preferred stock was not effective because it was given on unissued stock (after redemption), it tied the tender offer with a consent requirement which constitutes an improper "vote buying" scheme, and that the tender offer was a breach of a fiduciary duty. The action seeks two quarterly payments of dividends for the Preferred holders, a declaratory judgment to unwind the consents and reinstate the cumulative dividend on the Preferred stock and to set a date for the election of two directors by the Preferred holders. The action also seeks punitive damages and legal expenses. A motion to dismiss was filed by the defendants and that matter is still pending.

As previously reported in the Company's Form 10-K for the year ended December 31, 2011, on May 26, 2011, a matter was filed in the United States District Court, Central District of California as Case No. CV11-4514 DSF entitled Citigroup Global Markets, Inc. (Citigroup) v. Impac Secured Assets Corp., Impac Funding Corporation and Impac Mortgage Holdings, Inc. The action alleges a violation of Section 18 and Section 20 of the Securities and Act of 1933 and negligent misrepresentation, all involved in the issuance and sale of bonds from a securitization trust. The plaintiff alleges they relied on certain documents filed with the Securities and Exchange Commission that were subsequently the subject of an amended filing. The matter seeks unspecified damages, interest, legal fees and litigation expenses.

In 2010, the Company became aware of an error in the Pooling and Servicing Agreement (PSA) that was filed with the Securities and Exchange Commission (SEC) as it was not the correct document that was used by the parties in closing the transaction and did not contain same language as in the prospectus supplement. At this time, the Company did not believe that a probable loss had occurred. Before the document was correctly amended six weeks later, an investor purchased a bond from this securitization in the market. In January 2012, the Company received a demand to settle this matter but the plaintiff would not identify how the figure was reached. Although the investor was aware of the discrepancy, in May 2012, the court granted a partial summary judgment indicating, despite the investor's knowledge of the discrepancy, the investor could rely on only the one incorrect document. The Company and counsel believed the decision was incorrect, and thus the Company attempted to appeal the ruling. In addition, throughout the period since the investor filed the complaint against the Company, the plaintiff's damages were still at issue and subject to substantial dispute and the Company believed it would be able to prevail on related complaints.

In June 2012, the Company attempted to resolve the matter through mediation with Citigroup. Mediation was unsuccessful as the plaintiff demanded a higher amount in damages, and the Company did not agree to their disputed demand. In late August 2012, with respect to a pending lawsuit filed by Citigroup, the Company received the plaintiff's motion for summary judgment for damages in an amount of \$4.0 million plus interest and legal fees. After reviewing with counsel, in early September 2012, management continued to believe that Citigroup's actual realized damages were incalculable and it was confident that it could prevail on cross complaints with other parties. However, considering the risk of ongoing legal costs to defend this matter, the time and

distraction of management and the fact that Citigroup agreed to accept payments over time, management believed a settlement was in the best interest of the Company. In September 2012, the parties tentatively agreed to a settlement with Citigroup for \$3.1 million which is currently being documented and is subject to court approval. The Company determined the estimated loss from this matter was probable and reasonably estimated in the third quarter 2012, and thus, the Company recorded a legal settlement charge of \$3.1 million for this matter in the third quarter of 2012.

As previously reported in the Company's Form 10-K for the year ended December 31, 2011, *Gilmor, et al. v. Preferred Credit Corp., et. al.*, Case No. 4:10-CV-00189 (*Gilmor*), currently pending in the United States District Court for the Western District of Missouri, is a putative class action against Preferred Credit and others charging violations of Missouri's Second Mortgage Loan Act. In a Sixth Amended Complaint (Complaint), plaintiffs Michael P. and Shellie Gilmor and others brought suit against Preferred Credit, as the originator of various second mortgage loans in Missouri, and against the following Impac entities: Impac Funding Corporation; Impac Mortgage Holdings; Impac Secured Assets; Impac Secured Assets CMB Trust Series 1998-1 Collateralized Asset-Backed Notes, Series 1998-1; IMH Assets Corp; Impac CMB Trust Series 1999-1; Impac CMB Trust Series 1999-2; Impac CMB Trust Series 2000-1; Impac CMB Trust Series 2000-2; Impac CMB Trust Series 2001-4; Impac CMB Trust Series 2002-1; Impac CMB Trust Series 2003-5, (collectively, the "Impac Defendants"), among numerous others, as alleged holders of notes associated with second mortgage loans originated by Preferred Credit. Plaintiffs complain that at closing Preferred Credit charged them fees and costs in violation of Missouri's Second Mortgage Loan Act. Additionally, plaintiffs obtained certification of a class of all persons similarly situated. The plaintiffs allege that the Impac Defendants were liable to plaintiffs and members of the putative class as alleged holders of notes associated with second mortgage loans originated by Preferred Credit. The plaintiffs were seeking on behalf of themselves and the members of the putative class, among other things, disgorgement or restitution of all improperly collected charges, the right to rescind all affected loan transactions, the right to offset any finance charges, closing costs, points or other loan fees paid against the principal amounts due on the loans if rescinded, actual and punitive damages, and attorneys' fees. The plaintiffs filed a motion for class certification, which was granted.

---

## [Table of Contents](#)

This matter dated back 12 years, and related to purported class action claim in Missouri over origination related fees paid by borrowers on second mortgage loans that were not allowed under Missouri lending laws. The Company did not originate the loans, but purchased the loans from a third party seller. The Company briefly held the loans on its balance sheet prior to selling them through securitization. The Company initially concluded that its exposure was very minimal, if any, (since it did not originate the loans and only held them for a short period). Furthermore, similar cases had been filed against the Company in other states, but the Company prevailed on motions to dismiss in all the other states. Thus, the Company did not consider this contingency to be probable, but disclosed the matter in the notes to its financial statements.

In late 2011, another lender that performed more direct origination services for the borrower than the Company did, received a very unfavorable jury decision resulting in significant damages. Early in the third quarter of 2012, the Company received from the plaintiffs for the first time a demand for \$30 million. At this point in time, the Company still could not estimate an amount with any reasonable accuracy that it would consider probable. In connection with handling the lawsuit, the Company had incurred approximately \$475,000 in legal costs, which it believes would have continued at that level unless a settlement was achieved. In September 2012, given the risk of ongoing legal costs to defend this matter and the time and distraction of management, the Company agreed to settle the matter for a total of \$3.0 million. On October 31, 2012, the IMPAC Defendants entered into a settlement agreement with the plaintiffs on a class-wide basis. The settlement provides total payments to the plaintiffs of \$3.0 million over time and is subject to court approval. The Company determined the estimated loss from this matter was probable and reasonably estimated in the third quarter 2012, and thus, the Company recorded a legal settlement charge of \$3.0 million in the third quarter of 2012.

Management believes it was and is in the best interest of the shareholders to settle these matters rather than be faced with the uncertainty of any court rulings, the exorbitant cost in terms of legal fees, the time involved and the distractions these matters would create in defending them. Also, the terms of the intended settlements have been structured in a manner to minimize the impact to operational cash flows. In the third quarter 2012, the Company recorded a legal settlement charge of \$6.1 million relating to the estimated losses from the two legal matters discussed above.

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, 2011 and Forms 10-Q for the quarters ended June 30, 2012 and March, 31, 2012 for a description of litigation and claims.

### *Repurchase Reserve—Discontinued Operations*

In previous years when our discontinued operations sold loans to investors, we were required to make normal and customary representations and warranties on the loans sold to investors. Our whole loan sale agreements generally required us to repurchase loans if we breached a representation or warranty given to the loan purchaser. In addition, we also could be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale. The repurchase reserve is an estimate of losses from expected repurchases.

Although the number of repurchase requests are decreasing, the Company still continues to receive new repurchase requests while successfully disputing and resolving others. In the third quarter of 2012, an additional \$1.8 million provision was recorded both for specific requests that remain outstanding as well as a general reserve for unknown exposure since 2008. The Company has received repurchase requests from other parties which have been resolved. The requests from Fannie Mae remain outstanding, but throughout and since the financial downturn in 2007, the Company has maintained a good relationship with Fannie Mae, and considers them a key partner in expanding the mortgage lending business. The Company's goal is to reach a mutually agreeable resolution on any and all legacy requests with Fannie Mae to minimize any future exposure. At September 30, 2012, the repurchase reserve within discontinued operations was \$8.0 million as compared to \$5.2 million at December 31, 2011.

**Note 10.—Noncontrolling Interest**

In June 2012, the Company and the noncontrolling interest holder entered into an agreement to transfer 27.5% ownership of AmeriHome to the Company in exchange for the settlement of balances owed from the noncontrolling interest holder related to capital contributions made by the Company to AmeriHome and indemnification provisions included in the purchase agreement. As of September 30, 2012, the Company owns 78.5% of AmeriHome, and accordingly retains an option to purchase 11.5% of AmeriHome. As of September 30, 2012, the noncontrolling interest holder owns 21.5% of AmeriHome, and accordingly retains an option to sell the 21.5% interest to the Company.

**Note 11.—Subsequent Events**

In October 2012, Repurchase agreement 1 was amended to increase the maximum borrowing capacity from \$40.0 million to \$47.5 million.

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,” “appears,” “should,” “could,” “seem to,” “anticipate,” 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: the ongoing volatility in the mortgage industry; our ability to manage successfully through the current market environment; our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions; our ability to meet liquidity needs from current cash flows or generate new sources of revenue; management’s ability to manage successfully and grow the Company’s mortgage and real estate business activities including the mortgage lending operations; the ability to make interest payments; increases in default rates or loss severities and mortgage related losses; our ability to obtain additional financing and the terms of any financing that we do obtain; inability to effectively liquidate properties to mitigate losses; increase in loan repurchase requests and ability to adequately settle repurchase obligations; the competition, structure and court approval of proposed legal settlements; and the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies.

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, 2011, and other reports we file under the Securities and 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 new government agencies, including the Consumer Financial Protection Board (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.

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 expanded at a 2.0% annual rate during the third quarter of 2012 as compared to 1.3% in the second quarter of 2012 primarily as a result of government and consumer spending. While the economy added jobs in the third quarter of 2012, the pace of new job creation continues to be slower than needed to meaningfully reduce unemployment. U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., although improving slightly, continue to remain high at 7.8% in September 2012. Despite the trend toward improving U.S. data, significant downside risk factors remain in place, at least through mid-2013. Downside risk associated with global macroeconomic conditions, particularly in Europe and Asia, remains significant. Also, the combination of federal tax increases and spending cuts known as the “Fiscal Cliff” is scheduled to take effect in early 2013 unless the U.S. Congress acts to change current laws. According to studies done by the Congressional budget office, if nothing is done to address the Fiscal Cliff, the U.S. economy may be pushed back into a recession in 2013. As a result, there continues to be significant uncertainty as to how pronounced the economic recovery will be and whether it can be sustained.

[Table of Contents](#)

Real estate activity showed some encouraging signs as the nationwide average of home prices have appeared to hit a bottom and are starting to recover, although home prices continued to decline in many parts of the U.S. during the first nine months of 2012. Some positive news indicates that construction of new homes continued to grow in the third quarter, although at a slow rate. However, foreclosures remain one of the biggest risks to the housing market recovery. As the industry-wide compliance issues associated with foreclosures are resolved, an increase in foreclosures is anticipated which is expected to result in downward pressure and uncertainty in the housing market.

As a result of the current conditions of the U.S. economy, in September 2012, the Federal Reserve announced a new quantitative easing program including agency mortgage-backed securities purchases, known as QE3. In addition to QE3, the Federal Reserve announced its intention to keep the federal funds rate near zero through mid-2015. The combination of these actions may increase equity prices and has decreased mortgage interest rates. Although the benefits of these actions are difficult to assess, the expectation is that they will add to the current moderate pace of consumer spending and to the improving pace of new and existing home purchases for the remainder of 2012 and into 2013.

In late October, hurricane Sandy impacted the Mid-Atlantic and Northeast coasts of the U.S. Given the severe magnitude and recent occurrence of this event, the ongoing dislocation within the affected region and lack of data available, the effect of hurricane Sandy on the economy cannot yet be fully assessed.

**Selected Financial Results for the Three Months Ended September 30, 2012**

	Q3 2012 Net earnings (loss)	Q2 2012 Net earnings (loss)	Q3 2011 Net earnings (loss)	YTD 2012 Net earnings (loss)	YTD 2011 Net earnings (loss)
Long-term Portfolio	\$ (4,787)	\$ (252)	\$ 163	\$ (11,614)	\$ (2,637)
Mortgage Lending	8,156	3,800	(3,025)	12,280	(9,268)
Real Estate Services	3,585	4,012	7,298	10,562	15,562
Continuing operations	\$ 6,954	\$ 7,560	\$ 4,436	\$ 11,228	\$ 3,657
Discontinued operations	(9,021)	(3,113)	(1,490)	(13,402)	(1,832)
Noncontrolling interests	(212)	(235)	156	(683)	651
Net (loss) earnings attributable to IMH	\$ (2,279)	\$ 4,212	\$ 3,102	\$ (2,857)	\$ 2,476

*Continuing Operations*

- Earnings from continuing operations increased to \$7.0 million for the three months ended September 30, 2012, compared to earnings of \$4.4 million for the comparable 2011 period primarily due to an increase in earnings from mortgage lending, partially offset by a decline in earnings from real estate services and a decline in earnings from the long-term mortgage portfolio.
- Earnings from the long-term portfolio segment decreased to a loss of \$4.8 million for the three months ended September 30, 2012, compared to earnings of \$163 thousand for the comparable period in 2011 primarily due to the decrease in change in fair value of net trust assets.
- Earnings from the mortgage lending segment increased to \$8.2 million for the three months ended September 30, 2012, compared to a loss of \$3.0 million for the comparable period in 2011 primarily due to the increase in origination volumes and increase in service retained sales. The mortgage lending segment originated \$709.8 million and sold \$661.6 million of loans during the three months ended September 30, 2012 as compared to \$256.6 million and \$250.3 million of loans originated and sold, respectively, for the comparable 2011 period. The increase in mortgage lending activities produced revenues of \$24.3 million for the three months ended September 30, 2012, compared to \$4.6 million for the comparable period in 2011.
- Earnings from the real estate services segment decreased to \$3.6 million in the third quarter of 2012, compared to earnings of \$7.3 million for the comparable period in 2011 due to the sale of the title insurance company in 2011 and a decrease in real estate service fees associated with a decline in the long-term mortgage portfolio.

[Table of Contents](#)
*Discontinued Operations*

- Loss from discontinued operations, net of tax, was \$9.0 million for the three months ended September 30, 2012, compared to a loss of \$1.5 million for the comparable 2011 period primarily due to the \$6.1 million legal settlement charge recorded for the intended settlement of two of the Company's remaining legacy lawsuits and a \$1.8 million increase in the repurchase provision related to the discontinued mortgage operations conducted by IFC.

**Selected Financial Results for the Nine Months Ended September 30, 2012**
*Continuing Operations*

- Earnings from continuing operations increased to \$11.2 million for the nine months ended September 30, 2012, compared to earnings of \$3.7 million for the comparable 2011 period primarily due to an increase in earnings from mortgage lending, partially offset by a decline in earnings from real estate services and a decline in earnings from the long-term mortgage portfolio.
- Loss from the long-term portfolio segment increased to \$11.6 million for the nine months ended September 30, 2012, compared to a loss of \$2.6 million for the comparable period in 2011 primarily due to the decrease in change in fair value of net trust assets.

- Earnings from the mortgage lending segment increased to \$12.3 million for the nine months ended September 30, 2012, compared to a loss of \$9.3 million for the comparable period in 2011 primarily due to the increase in origination volumes and increase in service retained sales. The mortgage lending segment originated \$1.6 billion and sold \$1.5 billion of loans during the nine months ended September 30, 2012 as compared to \$538.1 million and \$485.5 million of loans originated and sold, respectively, for the comparable 2011 period. The increase in lending activities produced mortgage lending revenues of \$48.6 million for the nine months ended September 30, 2012, respectively, compared to \$7.7 million for the comparable period in 2011.
- Earnings from the real estate services segment decreased to \$10.6 million for the nine months ended September 30, 2012, compared to earnings of \$15.6 million for the comparable period in 2011 due to the sale of the title insurance company in 2011 and a decrease in real estate service fees associated with a decline in the long-term mortgage portfolio.

#### Discontinued Operations

- Loss from discontinued operations, net of tax, was \$13.4 million for the nine months ended September 30, 2012, compared to a loss of \$1.8 million for the comparable 2011 period due to the \$6.1 million legal settlement charge recorded for the intended settlement of two of the Company's remaining legacy lawsuits and a \$1.8 million increase in the repurchase provision related to the discontinued mortgage operations conducted by IFC.

### Status of Operations, Liquidity and Capital Resources

#### Mortgage Lending

In the third quarter of 2012, the Company continues to focus on originating Fannie Mae, Freddie Mac, and government loans as it believes that its ability to sell loans direct to Fannie Mae, Freddie Mac, and issue Ginnie Mae securities makes it more competitive in the overall mortgage origination market with regard to products, pricing, operational efficiencies and overall recruitment of higher quality loan originators. The following table depicts the Company's loan sales for the periods indicated:

	Q3 2012	YTD 2012
Fannie Mae	\$ 425,395	\$ 976,181
Ginnie Mae	190,530	393,973
Freddie Mac	29,067	61,051
Total servicing retained sales	\$ 644,992	\$ 1,431,205
Other (servicing released)	16,599	60,567
Total loan sales	<u>\$ 661,591</u>	<u>\$ 1,491,772</u>

Key strategies for the Company include having direct access to agencies allowing the Company not only to be more competitive, but also have the ability to build a servicing portfolio of high quality, low interest rate loans. Also, the Company seeks to expand its purchase money channel to serve the real estate community with financing products to help the Company maintain origination volumes should interest rates rise which is expected to result in decreased refinance volumes.

#### [Table of Contents](#)

The Company has increased the mortgage servicing portfolio to \$1.7 billion in unpaid principal balance at September 30, 2012 as compared to \$1.1 billion at June 30, 2012 and \$605.4 million at December 31, 2011. The Company believes having a portfolio of agency loans during this period of low interest rates along with credit quality focus is a good investment for the Company. Management seeks to continue to grow the servicing portfolio but do so in a manner to manage to the amount of needed capital as compared to the amount of available capital. During the nine months ending September 30, 2012, the Company sold \$582.5 million in mortgage servicing rights as part of that plan. Building a servicing portfolio will provide an asset that generates net servicing fees which management believes creates a more sustainable mortgage lending operation.

The Company continues to expand its purchase money channel capabilities by leveraging proprietary technology to increase its realtor relationships. As of September 30, 2012, the Company has over 1,000 realtors using our technology. Our goal is to use our technology to facilitate relationships between our retail loan officers and realtors to drive more purchase money lending volume. In the third quarter of 2012, the Company's volume mix was 26% purchase money as compared 74% refinance mortgages. The Company has three main origination channels - retail (consumer direct), wholesale (through approved loan brokers) and correspondent (through approved mortgage bankers). The combination of these channels along with our focus on purchase money transactions is expected to produce what the Company believes is a more stable and diverse origination strategy. Management's plan is to mitigate any drop in refinance volume due to increased interest rates through an expanded purchase money channel in conjunction with an expanded product offering including 203K mortgages, reverse mortgages and jumbo mortgages.

As of September 30, 2012, the Company increased its warehouse borrowings capacity to \$185.0 million from \$87.5 million at December 31, 2011. In September 2012, the Company, through its subsidiaries, entered into a Master Repurchase Agreement with a new lender providing a \$40.0 million warehouse facility bringing the total warehouse borrowings facilities to \$185.0 million. In addition, in October 2012, the Company amended one of its repurchase agreements which increased its borrowing capacity by \$7.5 million bringing the total warehouse borrowings facilities to \$192.5 million.

#### Real Estate Services

The Company provides portfolio loss mitigation and real estate services including REO surveillance and disposition services, default surveillance and loss recovery services, short sale and real estate brokerage services, portfolio monitoring and reporting services.

For the three and nine months ended September 30, 2012 and 2011, mortgage and real estate services fees were as follows:

For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
2012	2011	2012	2011

- (1) Includes revenues of \$4.9 million and \$13.9 million for the three and nine months ended September 30, 2011, respectively, from the title insurance company which was sold in 2011.

The decrease in real estate services fees, net is primarily due to a decline in the long-term mortgage portfolio and the associated real estate and recovery activities as well as the sale of the title insurance company in 2011. As expected, the real estate service activities and revenues declined as lending activities and revenues increased from the recent expansion of the mortgage lending business.

Although the Company seeks to expand its portfolio loss mitigation and real estate services to more third parties in the marketplace, the revenues from these business activities have historically been generated from the Company's long-term mortgage portfolio. Furthermore, as the distressed mortgage and real estate markets remain unstable and uncertain due to the number of foreclosure properties that need to be sold, there remains uncertainty about the ongoing need and delivery of these services in the future.

#### *Discontinued Operations*

In the third quarter 2012, the Company recorded a legal settlement charge of \$6.1 million relating to the estimated losses from two legal matters as described below.

#### [Table of Contents](#)

*Citigroup Global Markets, Inc.* — In May 2011, Citigroup Global Markets, Inc. (Citigroup) v. Impac Secured Assets Corp., Impac Funding Corporation and Impac Mortgage Holdings, Inc. was filed alleging a violation of Section 18 and Section 20 of the Securities and Act of 1933 and negligent misrepresentation, all involved in the issuance and sale of bonds from a securitization trust. The plaintiff alleges they relied on certain documents filed with the Securities and Exchange Commission that were subsequently the subject of an amended filing. The matter seeks unspecified damages, interest, legal fees and litigation expenses.

In 2010, the Company became aware of an error in the Pooling and Servicing Agreement (PSA) that was filed with the Securities and Exchange Commission (SEC) as it was not the correct document that was used by the parties in closing the transaction and did not contain same language as in the prospectus supplement. Before the document was correctly amended six weeks later, an investor purchased a bond from this securitization in the market. In January 2012, the Company received a demand to settle this matter but the plaintiff would not identify how the amount of the claim was reached. Although the investor was aware of the discrepancy, in May 2012, the court granted a partial summary judgment indicating, despite the investor's knowledge of the discrepancy, the investor could rely on only the one incorrect document. The Company and counsel believed the decision was incorrect, and thus the Company attempted to appeal the ruling. In addition, throughout the period since the investor filed the complaint against the Company, the plaintiff's damages were still at issue and subject to substantial dispute and the Company believed it would be able to prevail on related complaints.

In June 2012, the Company attempted to resolve the matter through mediation with Citigroup. Mediation was unsuccessful as the plaintiff demanded a higher amount in damages, and the Company did not agree to their disputed demand. In late August 2012, with respect to the pending lawsuit filed by Citigroup, the Company received the plaintiff's motion for summary judgment for damages in an amount of \$4.0 million plus interest and legal fees. After reviewing the motion with Company's counsel, in early September 2012, management continued to believe that Citigroup's actual realized damages were incalculable and it was confident that it could prevail on cross complaints with other parties. However, considering the risk of ongoing legal costs to defend this matter, the time and distraction of management and the fact that Citigroup agreed to accept payments over time, management believed a settlement was in the best interest of the Company. In September 2012, the parties tentatively agreed to a settlement with Citigroup for \$3.1 million which is currently being documented and is subject to court approval. The Company determined the estimated loss from this matter was probable and reasonably estimated in the third quarter 2012, and thus, the Company recorded a legal settlement charge of \$3.1 million for this matter in the third quarter of 2012.

*Gilmor* — This matter dated back 12 years, and related to purported class action claim in Missouri over origination related fees paid by borrowers on second mortgage loans that were not allowed under Missouri lending laws. The Company did not originate the loans, but purchased the loans from a third party seller. The Company briefly held the loans on its balance sheet prior to selling them through securitization. The Company initially concluded that its exposure was very minimal, if any, (since it did not originate the loans and only held them for a short period). Furthermore, similar cases had been filed against the Company in other states, but the Company prevailed on motions to dismiss in all the other states. Thus, the Company did not consider this contingency to be probable, but disclosed the matter in the notes to its financial statements.

In late 2011, another lender that performed more direct origination services for the borrower than the Company did, received a very unfavorable jury decision resulting in significant damages. Early in the third quarter of 2012, the Company received from the plaintiffs for the first time a demand for \$30 million. At this point in time, the Company still could not estimate an amount with any reasonable accuracy that it would consider probable. In connection with handling the lawsuit, the Company had incurred approximately \$475,000 in legal costs, which it believes would have continued at that level unless a settlement was achieved. In September 2012, given the risk of ongoing legal costs to defend this matter and the time and distraction of management, the Company agreed to settle the matter for a total of \$3.0 million. On October 31, 2012, the Impac corporate defendants entered into a settlement agreement with the plaintiffs on a class-wide basis. The settlement provides total payments to the plaintiffs of \$3.0 million over time and is subject to court approval. The Company determined the estimated loss from this matter was probable and reasonably estimated in the third quarter 2012, and thus, the Company recorded a legal settlement charge of \$3.0 million in the third quarter of 2012.

Management believes it was and is in the best interest of the shareholders to settle these matters rather than be faced with the uncertainty of any court rulings, the exorbitant cost in terms of legal fees, the time involved and the distractions these matters would create in defending them. Also, the terms of the intended settlements have been structured in a manner to minimize the impact to operational cash flows.

In addition, the discontinued operation's net loss in the quarter also includes approximately \$1.8 million in repurchase provision associated with loans originated and sold to Fannie Mae more than five years ago by the discontinued mortgage operations. Although the number of repurchase requests are decreasing, the Company still continues to receive new repurchase requests while successfully disputing and resolving others. In the third quarter of 2012, an additional \$1.8 million provision was recorded both for specific requests that remain outstanding as well as a general reserve for unknown exposure since 2008. The Company has received repurchase requests from other parties which have been resolved. The requests from Fannie Mae remain outstanding, but throughout and since the financial downturn in 2007, the Company has maintained a good relationship with Fannie Mae, and considers them a key partner in expanding the mortgage lending business. The Company's goal is to reach a mutually agreeable resolution on any and all legacy requests with Fannie Mae to minimize any future exposure. At September 30, 2012, the repurchase reserve within discontinued operations was \$8.0 million as compared to \$5.2 million at December 31, 2011.

### Long-Term Mortgage Portfolio

Although there has been some stabilization in the long-term mortgage portfolio, the portfolio continues to suffer losses, which may continue for the foreseeable future until the real estate market becomes more stable, home prices improve across the United States, and there is a significant decline in the number of foreclosure properties in the market.

At September 30, 2012, the Company's residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) decreased to \$20.2 million, compared to \$26.5 million at December 31, 2011. The decrease in residual fair value for the nine months ended September 30, 2012 was primarily due to \$7.9 million in cash received partially offset by an increase in fair value due to a decrease in expected forward LIBOR interest rates and a reduction in the residual interest discount rate for some of the Company's earlier vintage securitizations.

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. The Company employs 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 input into the valuation model for each securitization trust. The Company hires third-party experts 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.

The Company uses 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 overcollateralized, the Company 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, the Company gathers information from the bond pricing services and other market participants regarding estimated investor required yields. Based on that information, the collateral type and vintage, the Company determines an acceptable range of expected yields an investor would require including an appropriate risk premium. The Company uses 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 discussed in previous quarters, during the third quarter of 2012, based on the trend of improving bond prices and declining yields, the Company adjusted the acceptable range of expected yields for some of its earlier vintage securitizations.

### [Table of Contents](#)

The following table presents changes in the Company's trust assets and trust liabilities for the nine months ended September 30, 2012:

	TRUST ASSETS					TRUST LIABILITIES				Net trust assets
	Level 3 Recurring Fair Value Measurements			NRV (2)		Level 3 Recurring Fair Value Measurements				
	Investment securities available-for-sale	Securitized mortgage collateral	Derivative assets	Real estate owned	Total trust assets	Securitized mortgage borrowings	Derivative liabilities	Total trust liabilities		
<b>Recorded book value at December 31, 2011</b>	<b>688</b>	<b>5,449,001</b>	<b>37</b>	<b>56,467</b>	<b>5,506,193</b>	<b>(5,454,901)</b>	<b>(24,786)</b>	<b>(5,479,687)</b>	<b>26,506</b>	
Total gains/(losses) included in earnings:										
Interest income	30	124,292	—	—	84,040	—	—	—	124,322	
Interest expense	—	—	—	—	—	(322,931)	—	(322,931)	(322,931)	
Change in FV of net trust assets, excluding REO	(439)	698,704	—	—	738,548(1)	(689,979)	(2,724)	(692,703)(1)	5,562	
Change in FV of long-term debt	—	—	—	—	—	—	—	—	—	
Losses from REO - not at FV but at NRV	—	—	—	(9,761)	(9,761)(1)	—	—	—	(9,761)	
Total gains (losses) included in earnings	(409)	822,997	—	(9,761)	812,826	(1,012,910)	(2,724)	(1,015,634)	(202,808)	
Transfers in and/or out of level 3										
Purchases, issuances and settlements	(167)	(533,847)	—	(20,204)	(554,219)	742,342	8,398	750,740	196,522	
<b>Recorded book value at September 30, 2012</b>	<b>\$ 112</b>	<b>\$ 5,738,150</b>	<b>\$ 37</b>	<b>\$ 26,502</b>	<b>\$ 5,764,801</b>	<b>\$ (5,725,469)</b>	<b>\$ (19,112)</b>	<b>\$ (5,744,581)</b>	<b>\$ 20,220</b>	

(1) Represents non-interest income-net trust assets on the Company's consolidated statements of operations for the nine months ended September 30, 2012.

(2) Accounted for at net realizable value.

Inclusive of losses from REO, total trust assets above reflect a net gain of \$688.5 million as a result of an increase in fair value of securitized mortgage collateral of \$698.3 million, losses from REO of \$9.8 million and losses from other trust assets of \$439 thousand. Net losses on trust liabilities were \$692.7 million as a result of \$690.0 million in losses from the increase in fair value of securitized mortgage borrowings and losses from derivative liabilities of \$2.7 million. As a result, non-interest income—net trust assets totaled a loss of \$4.2 million for the nine months ended September 30, 2012.

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

	September 30, 2012	December 31, 2011
<b>Net trust assets</b>	\$ 20,220	\$ 26,506
<b>Total trust assets</b>	5,764,801	5,506,193
<b>Net trust assets as a percentage of total trust assets</b>	0.351%	0.481%

For the nine months ended September 30, 2012, the estimated fair value of the net trust assets declined as a percentage of total trust assets. The decrease was primarily due to the combination of both cash received from residual interests (net trust assets) and an increase in the fair value of total trust assets due to improved market conditions and bond prices resulting in a change in assumptions. During the third quarter of 2012, based on the trend of improving bond prices and declining yields, the Company adjusted the acceptable range of expected yields for some of its earlier vintage securitizations. As a result, total trust assets increased in value from December 31, 2011 causing a decline in the percentage of net trust assets to total trust assets.

#### *Liquidity and capital resources*

During the first nine months of 2012, the Company funded its operations primarily from mortgage lending revenues and real estate services fees which includes gains on sale of loans and other mortgage related income, portfolio loss mitigation and real estate services fees primarily generated from its long-term mortgage portfolio, and cash flows from our residual interests in securitizations. Furthermore, the Company has utilized the proceeds from notes payable and the line of credit as additional sources of liquidity. In addition, the Company funded mortgage loan production using warehouse facilities which are repaid once the loan is sold.

The Company believes that current cash balances, cash flows from its mortgage lending activities, real estate and loss mitigation services fees generated from the long-term mortgage portfolio, and residual interest cash flows from the long-term mortgage portfolio are adequate for current operating needs. However, the Company believes the mortgage lending and real estate services markets will continue to be unstable, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which have offices in the Company's market area as well as operations throughout the United States. The Company competes for loans principally on the basis of the interest rates and loan fees charged, the types of loans originated and the quality of services provided to borrowers. Additionally, competition for real estate recovery services, loss mitigation servicing, loan modification services and other portfolio services has increased due to the unprecedented difficult mortgage environment and severe credit tightening, coupled with the stagnant

#### [Table of Contents](#)

economy. The Company's competitors include large mortgage servicers, established special servicers, and newer entrants to the specialty servicing and recovery collections business. It is more difficult for the Company than its competitors to promote its ability to provide loss mitigation, special servicing and real estate services for others because the Company has not historically provided such services to unrelated third parties, and the Company is not a rated primary or special servicer of residential mortgage loans as designated by a rating agency.

The Company has experienced recent success in expanding its mortgage lending business, primarily due to its origination of mortgages eligible for sale to government agencies on a service retained basis. However, retaining servicing is a use of capital and the Company must carefully manage the size of its servicing portfolio to stay within capital constraints. The Company is currently exploring opportunities to obtain additional capital to support the growth of the mortgage servicing portfolio and expansion of its origination platform and volumes. Without additional capital, the Company's mortgage lending business may not grow at the same pace as recently experienced. Additionally, performance of the long-term mortgage portfolio is subject to the continued volatility in the real estate market and current economic conditions. Cash flows from the residual interests in securitizations can be volatile and difficult to predict, because they are sensitive to delinquencies, defaults and credit losses associated with the securitized loans and interest rates associated with the securitized bonds. To the extent the related multifamily portion of the long-term mortgage portfolio experiences higher than expected credit losses, the Company may need to make advances on the multifamily portion. With regards to the residential loans the Company does have an obligation to make advances if the long-term mortgage portfolio experiences higher than expected credit losses, however that obligation is assumed by the subservicers for each securitization.

At September 30, 2012 and December 31, 2011, the condensed components of stockholders' equity were comprised of the following significant assets and liabilities:

	Condensed Components of Stockholders' Equity	
	September 30, 2012	December 31, 2011
Cash	\$ 8,074	\$ 7,665
Restricted cash	2,601	5,019
Residual interests in securitizations	20,220	26,506
Loans held-for-sale	145,346	61,718
Warehouse borrowings	(131,690)	(58,691)
Mortgage servicing rights	9,317	4,141
Line of credit	(4,000)	(4,000)
Notes payable	(4,507)	(5,182)
Long-term debt (\$71,120 par)	(12,274)	(11,561)
Repurchase reserve (1)	(9,805)	(5,816)
Lease liability (2)	(1,841)	(2,131)
Deferred charge	11,974	11,974
Net other assets (liabilities)	(4,666)	1,455
<b>Stockholders' equity</b>	<b>\$ 28,749</b>	<b>\$ 31,097</b>

(1) \$8.0 million and \$5.2 million included within discontinued operations at September 30, 2012 and December 31, 2011, respectively.

(2) Included within discontinued operations and guaranteed by IMH.



At September 30, 2012, cash increased to \$8.1 million from \$7.7 million at December 31, 2011. The primary sources of cash between periods were \$45.1 million in fees generated from the mortgage and real estate services (net of non-cash fair value adjustments), \$6.4 million from residual interests in securitizations (net of the \$1.5 million restricted excess cash in the reserve account) and \$7.0 million from the issuance of the note payable. Offsetting the sources of cash were continuing operating expenses totaling \$53.2 million, payments on the notes payable of \$9.1 million (including \$3.9 million which came from reserve accounts) and settlements of repurchase requests associated with loans sold by the discontinued non-conforming mortgage operations of approximately \$1.8 million.

Since the Company's consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted to present the Company's 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 net derivative liabilities. The Company receives cash flows from its 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 \$20.2 million at September 30, 2012, compared to \$26.5 million at December 31, 2011.

[Table of Contents](#)

At September 30, 2012, notes payable was \$4.5 million as compared to \$5.2 million at December 31, 2011. During 2012, the Company entered into a new \$7.5 million structured debt agreement using eight of the Company's residual interests (net trust assets) as collateral. The Company used a portion of the proceeds to pay off the \$408 thousand balance (net of the reserve account) on the previous debt agreement. The Company received proceeds of \$7.0 million, net of the aforementioned payoff and transaction costs of approximately \$50 thousand. The note payable bears interest at a fixed rate of 25% per annum, is amortized in equal principal payments over 18 months and matures in July 2013.

At September 30, 2012, the balance of deferred charge was \$12.0 million. For the nine months ended September 30, 2012, the Company was not required to record income tax expense resulting from deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral. The deferred charge arose as a result of the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years (when IMH was a REIT). This balance is recorded as required by GAAP and does not have any realizable cash value.

During the third quarter of 2012, the Company recorded a litigation settlement expense of \$6.1 million within discontinued operations, as a result of its intent to settle two of its remaining legacy lawsuits. At September 30, 2012, accrued liabilities for the legal settlements is included within net other assets (liabilities).

In previous years when our discontinued operations sold loans to investors, we were required to make normal and customary representations and warranties on the loans sold to investors. Our whole loan sale agreements generally required us to repurchase loans if we breached a representation or warranty given to the loan purchaser. In addition, we also could be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale. The repurchase reserve is an estimate of losses from expected repurchases. During the nine months ended September 30, 2012, the Company paid approximately \$1.8 million to settle previous repurchase claims related to our prior discontinued operations. The Company's discontinued operations continue to receive repurchase requests from Fannie Mae resulting in increases in estimated repurchase obligations. At September 30, 2012, the repurchase reserve within discontinued operations was \$8.0 million as compared to \$5.2 million at December 31, 2011. Additionally, the Company has approximately \$1.8 million in repurchase reserves related to the loans sold by the continuing mortgage lending operations since early 2011.

In connection with the discontinuation of our non-conforming mortgage, warehouse 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. At September 30, 2012, the Company had a liability of \$1.8 million included within discontinued operations, 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.

**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, 2011. Such policies have not changed during 2012.

[Table of Contents](#)

**Financial Condition and Results of Operations**

**Financial Condition**

Condensed Balance Sheet Data

	September 30, 2012	December 31, 2011	Increase (Decrease)	% Change
Securitized mortgage collateral	\$ 5,738,150	\$ 5,449,001	\$ 289,149	5%

Other trust assets	26,651	57,192	(30,541)	(53)
Total trust assets	5,764,801	5,506,193	258,608	5
Mortgage loans held-for-sale	145,346	61,718	83,628	136
Assets of discontinued operations	125	264	(139)	(53)
Other assets	56,802	43,865	12,937	29
<b>Total assets</b>	<b>\$ 5,967,074</b>	<b>\$ 5,612,040</b>	<b>\$ 355,034</b>	<b>6%</b>
Securitized mortgage borrowings	\$ 5,725,469	\$ 5,454,901	\$ 270,568	5%
Other trust liabilities	19,112	24,786	(5,674)	(23)
Total trust liabilities	5,744,581	5,479,687	264,894	5
Warehouse borrowings	131,690	58,691	72,999	124
Liabilities of discontinued operations	19,264	9,932	9,332	94
Other liabilities	42,790	32,633	10,157	31
Total liabilities	5,938,325	5,580,943	357,382	6
Total IMH stockholders' equity	28,055	29,968	(1,913)	(6)
Noncontrolling interest	694	1,129	(435)	(39)
Total equity	28,749	31,097	(2,348)	(8)
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,967,074</b>	<b>\$ 5,612,040</b>	<b>\$ 355,034</b>	<b>6%</b>

Total assets and total liabilities were \$6.0 billion and \$5.9 billion, respectively, at September 30, 2012 as compared to \$5.6 billion at December 31, 2011. The changes in total assets and liabilities are primarily attributable to increases in the Company's trust assets and trust liabilities as summarized below.

The Company updates its collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, the Company updates the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. As discussed in previous quarters, at September 30, 2012, the Company 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 assumptions on securitized mortgage collateral and securitized mortgage borrowings resulted in an increase in the value of these trust assets and liabilities.

- Securitized mortgage collateral increased \$289.1 million during the nine months ended September 30, 2012, primarily due to an increase in fair value due to a reduction in investor yield requirements, partially offset by increase in loss assumptions, reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral. Additionally, other trust assets declined \$30.5 million during the nine months ended September 30, 2012 primarily due to REO liquidations of \$59.5 million and additional impairment write-downs of \$9.8 million. Partially offsetting the decrease from liquidations were increases in REO from foreclosures of \$39.3 million.
- Securitized mortgage borrowings increased \$270.6 million during the nine months ended September 30, 2012, primarily due to an increase in fair value due to a reduction in investor yield requirements, partially offset by an increase in loss assumptions and reductions in principal balances from principal payments during the period for single-family and multi-family collateral. The \$5.7 million dollar reduction in other trust liabilities during the nine months ended September 30, 2012 was primarily due to \$8.4 million in derivative cash payments from the securitization trusts, partially offset by a \$2.7 million increase in derivative fair value resulting from changes in forward LIBOR interest rates.

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, 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 multifamily (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities.

## [Table of Contents](#)

The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at September 30, 2012:

Origination Year		Estimated Fair Value of Residual Interests by Vintage Year		
		SF	MF	Total
2002-2003	(1)	\$ 13,447	\$ 3,861	\$ 17,308
2004		679	2,133	2,812
2005	(2)	—	99	99
2006	(2)	—	1	1
2007	(2)	—	—	—
<b>Total</b>		<b>\$ 14,126</b>	<b>\$ 6,094</b>	<b>\$ 20,220</b>
Weighted avg. prepayment rate		2%	8%	3%
Weighted avg. discount rate		25%	20%	24%

- 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.
- 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.

The Company utilizes 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). The Company uses 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, the Company uses different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions. The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	9%	1%	7%	9%
2004	17%	3%	7%	6%
2005	32%	8%	8%	7%
2006	50%	13%	10%	8%
2007	38%	5%	11%	5%

- (1) Estimated future losses derived by dividing future projected losses by unpaid principal balances at September 30, 2012.
- (2) Investor yield requirements represent the Company's 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.

Although home prices continued to decline in many parts of the U.S. during the first nine months of 2012, prices have begun to show signs of a rebound during the second and third quarters of 2012 as evidenced below by the Standard & Poor's Case-Shiller 10-City Composite Home Price Index for August 2012.

[Table of Contents](#)



Although the pace of new foreclosures has fallen from its peak, in part due to industry-wide compliance issues, further declines in home prices may be necessary before substantial progress in reducing the inventory of homes occurs. Elevated unemployment could cause continued downward pressure and uncertainty in the housing market. Reported unemployment rates in nine states are at or above 9.0%. California and Florida, which represent the states with the highest concentration in our long-term mortgage portfolio, have unemployment rates at 10.2% and 8.7%, respectively.

As illustrated in S&P's Case Shiller 10-City Composite Home Price Index, from 2002 through 2006, home price appreciation escalated to historic levels. During 2005 through 2007, the Company originated or acquired mortgages supported by these elevated real estate values. Beginning in 2007, deterioration in the economy resulting in high unemployment and a dramatic drop in home prices resulted in significant negative equity for borrowers. These factors have led to significant increases in loss severities resulting from deterioration in the credit quality of borrowers, as well as strategic defaults, whereby borrowers with the ability to pay are defaulting on their mortgages based on the belief that home prices will not recover in a reasonable amount of time. Home prices have deteriorated back to October 2003 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.

The mortgage lending operations are affected by the following market and operational risks:

- interest rate risk,
- liquidity risk; and
- compliance risk.

*Interest Rate Risk—Mortgage Lending.* The Company is exposed to interest rate risks relating to its ongoing mortgage lending operations. The Company uses derivative instruments to manage some of its interest rate risk. However, the Company does not attempt to hedge interest rate risk completely.

The Company enters into interest rate lock commitments and commitments to sell mortgages to help mitigate some of the exposure to the effect of changing interest rates on mortgage lending cash flows.

Interest rate lock commitments expose the Company to interest rate risk. The mortgage lending operations currently utilizes forward sold Fannie Mae and Ginnie Mae mortgage backed securities to hedge the fair value changes associated with changes in interest rates relating to its mortgage loan origination operations for the period from commitment until the mortgage is sold.

---

[Table of Contents](#)

*Liquidity risk.* The Company is exposed to liquidity risks relating to its ongoing mortgage lending operations. We primarily fund our mortgage lending originations through warehouse facilities with third party lenders. We primarily use facilities with regional banks. The warehouse facilities are secured by and used to fund single-family residential mortgage loans. In order to mitigate the liquidity risk associated with warehouse borrowings, we attempt to sell our mortgage loans within 10-15 days from acquisition or origination.

*Compliance risk.* As a mortgage lender and servicer, the Company is exposed to various compliance related market and operational risks.

The Company is licensed to originate mortgage loans in several states and licensed to originate loans guaranteed by the government, including Federal Housing Authority (FHA) and Veteran's Administration (VA) loans, as well as approved to sell Fannie Mae and Freddie Mac loans and issue Ginnie Mae securities. The Company is also approved to service Fannie Mae, Freddie Mac and Ginnie Mae loans. The Company currently sells a significant portion of its loan production volume to Fannie Mae and Ginnie Mae and holds Fannie Mae, Freddie Mac and Ginnie Mae servicing. If the Company fails to maintain required seller/servicer requirements of Fannie Mae, Freddie Mac and Ginnie Mae, submit certain financial and operational information or maintain required licensing and compliance standards along with required FHA guidelines, the Company may be exposed to the risk of:

- losing its ability to originate loans within a state, as well as originate, sell and service loans for Fannie Mae, Freddie Mac and issue Ginnie Mae securities and service Ginnie Mae loans,
- repurchase exposure if loans that are sold to Fannie Mae or Freddie Mac or included in a Ginnie Mae security issuance are later determined to have compliance or underwriting deficiencies, and
- any losses from funding a loan ineligible to be sold to an approved secondary marketing investor (government agency, private investor) that ultimately is sold at a loss.

To mitigate these risks, the Company has established certain procedures to monitor the requirements of these government agencies. In addition, the Company has:

- (i) established procedures and controls on implementing new products and the approval of associated underwriting guidelines for the new products,
- (ii) performs both pre-funding and post-funding quality control procedures on originated loans,
- (iii) has established a process for management to review the quality control findings in implementing process improvements,
- (iv) reviews all funded loans that dwell on the warehouse lines for an unexpected period of time, and
- (v) reviews the performance of the servicing portfolio including any early payment defaults and compliance with agency servicing guidelines.

As part of the Dodd Frank Act signed into law in 2010, the Consumer Finance Protection Bureau (CFPB) was established to provide greater supervision of financial institutions by regulatory agencies and to provide a greater focus on consumer protection issues. The CFPB has broad supervisory, regulatory and enforcement powers over providers of consumer financial products that the Company offers. The Dodd Frank Act also provides for the establishment of rules describing specified acts and practices as being "unfair", "deceptive" or "abusive" and for the CFPB to have the power to enforce such provisions through regulatory proceedings. The CFPB has the authority to examine and regulate entities such as subsidiaries of the Company which can be expensive and interruptive to the business operations. The Company intends to mitigate any distraction or any other impact from an examination by the CFPB by expanding its internal compliance group to establish certain policies and procedures to maintain compliance with new requirements such as the *Bank Secrecy Act — Anti-Money Laundering / Suspicious Activity Reporting* requirements. The compliance group is establishing procedures to maintain needed documents that may be requested by the CFPB in preparation of a possible examination.

Cash flows from the Company's long-term mortgage portfolio are affected by the following market and operational risks:

- interest rate risk;
- credit risk; and
- prepayment risk.

*Interest Rate Risk—Securitized Trusts, Long-term Debt.* The Company's earnings from the long-term mortgage portfolio depend largely on our interest rate spread, represented by the relationship between the yield on our interest-earning assets (primarily investment securities available-for-sale and securitized mortgage collateral) and the cost of our interest-bearing liabilities (primarily securitized mortgage borrowings and long-term debt). The interest rate spread is impacted by several factors, including general economic factors, forward interest rates and the credit quality of mortgage loans in the long-term mortgage portfolio.

---

[Table of Contents](#)

The residual interests in the long-term mortgage portfolio are sensitive to changes in interest rates on securitized mortgage collateral and the related securitized mortgage borrowings. Changes in interest rates can significantly affect the cash flows and fair values of the Company's assets and liabilities, as well as the Company's earnings and stockholders' equity.

The Company uses derivative instruments to manage some of its interest rate risk in its long-term mortgage portfolio. However, the Company does not attempt to hedge interest rate risk completely. To help mitigate some of the exposure to the effect of changing interest rates on cash flows on securitized mortgage borrowings, the Company utilized derivative instruments primarily in the form of interest rate swap agreements (swaps) and, to a lesser extent, interest rate cap agreements (caps) and interest rate floor agreements (floors). These derivative instruments are recorded at fair value in the consolidated balance sheets. 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.

At September 30, 2012, derivative liabilities, net, were \$19.1 million and reflect the securitization trust's liability to pay third-party counterparties based on the estimated value to settle the derivative instruments. Cash payments on these derivative instruments are based on notional amounts that are decreasing over time. Excluding the effects of other factors such as portfolio delinquency and loss severities within the securitization trusts, as the notional amount of these derivative instruments decrease over time, payments to counterparties in the current interest rate environment are reduced, thereby potentially increasing cash flows on the residual interests in securitizations. Conversely, increases in interest rates from current levels could potentially reduce overall cash flows on the residual interests in securitizations. Since the Company's consolidated and unconsolidated securitization trusts are nonrecourse to the Company, the Company's economic risk is limited to the residual interests in these securitization trusts.

The Company is also subject to interest rate risk on its long-term debt (consisting of trust preferred securities and junior subordinated notes). These interest bearing liabilities include adjustable rate periods based on three-month LIBOR (trust preferred securities and junior subordinated notes). The Company does not currently hedge its exposure to the effect of changing interest rates related to these interest-bearing liabilities. Significant fluctuations in interest rates could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

*Credit Risk-Securitized Trusts.* The Company manages credit risk by actively managing delinquencies and defaults through its servicers. Starting with the second half of 2007, the Company has not retained any additional Alt-A mortgages in the long-term mortgage portfolio. Securitized mortgage collateral primarily consists of Alt-A mortgages which when originated were generally within typical Fannie Mae and Freddie Mac guidelines but had loan characteristics, which may have included higher loan balances, higher loan-to-value ratios or lower documentation requirements (including stated-income loans), that made them non-conforming under those guidelines.

Using historical losses, current portfolio statistics and market conditions and available market data, the Company has estimated future loan losses on the long-term mortgage portfolio, which are included in the fair value adjustment to our securitized mortgage collateral. While the credit performance for the loans has been clearly far worse than the Company's initial expectations when the loans were originated, the ultimate level of realized losses will largely be influenced by events that will likely unfold over the next several years, including the severity of housing price declines and overall strength of the economy. If market conditions continue to deteriorate in excess of management's expectations, the Company may need to recognize additional fair value reductions to the securitized mortgage collateral, which may also affect the value of the related securitized mortgage borrowings and residual interests.

The Company monitors its servicers to attempt to ensure that they perform loss mitigation, foreclosure and collection functions according to their servicing practices and each securitization trust's pooling and servicing agreement. The Company has met with the management of the servicers to assess IMH's borrowers' current ability to pay their mortgages and to make arrangements with selected delinquent borrowers which will result in the best interest of the trust and borrower, in an effort to minimize the number of mortgages which become seriously delinquent. When resolving delinquent mortgages, servicers are required to take timely action. The servicer is required to determine payment collection under various circumstances, which will result in the maximum financial benefit. This is accomplished by either working with the borrower to bring the mortgage current by modifying the loan with terms that will maximize the recovery or by foreclosing and liquidating the property. At a foreclosure sale, the trusts consolidated on our balance sheet generally acquire title to the property.

[Table of Contents](#)

The Company uses the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. The Company measures delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days late or greater, foreclosures and delinquent bankruptcies were \$2.0 billion or 22.6% of the long-term mortgage portfolio as of September 30, 2012.

The following table summarizes the unpaid principal balances of loans in the Company's mortgage portfolio, included in securitized mortgage collateral, mortgage loans held-for-investment and mortgage loans held-for-sale for continuing and discontinued operations combined, that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

	September 30, 2012	Total Collateral %	December 31, 2011	Total Collateral %
<b><u>Mortgage loans held-for-sale and investment</u></b>				
60 - 89 days delinquent	\$ —	*	\$ —	*
90 or more days delinquent	529	*	529	*
Foreclosures (1)	1,127	*	1,127	*
Total 60+ days delinquent mortgage loans held-for-sale and investment (2)	1,656	*	1,656	*
<b><u>Securitized mortgage collateral</u></b>				
60 - 89 days delinquent	\$ 181,489	2.0%	\$ 209,963	2.1%
90 or more days delinquent	611,433	6.8%	711,716	7.2%
Foreclosures (1)	855,799	9.5%	829,817	8.4%
Delinquent bankruptcies (3)	380,562	4.2%	380,133	3.8%
Total 60+ days delinquent long-term mortgage portfolio	2,029,284	22.5%	2,131,629	21.5%
Total 60 or more days delinquent	\$ 2,030,940	22.6%	\$ 2,133,285	21.6%
Total collateral		100%		100%

\* Less than 0.1%

- (1) Represents properties in the process of foreclosure.
- (2) Represents legacy mortgage loans held-for-sale included in discontinued operations in the consolidated balance sheets.
- (3) Represents bankruptcies that are 30 days or more delinquent.

The following table summarizes securitized mortgage collateral, mortgage loans held-for-investment, mortgage loans held-for-sale and real estate owned, that were non-performing for continuing and discontinued operations combined as of the dates indicated (excludes 60-89 days delinquent):

	September 30, 2012	Total Collateral %	December 31, 2011	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 1,849,450	20.6%	\$ 1,923,322	19.4%
Real estate owned	26,502	0.3%	56,467	0.6%
<b>Total non-performing assets</b>	<b>\$ 1,875,952</b>	<b>20.9%</b>	<b>\$ 1,979,789</b>	<b>20.0%</b>

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 non-accrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of September 30, 2012, 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 20.9%. At December 31, 2011, non-performing assets to total collateral was 20.0%. Although non-performing assets decreased by approximately \$103.8 million at September 30, 2012 as compared to December 31, 2011, the increase in non-performing assets as a percentage of total collateral is the result of a greater decline in the overall collateral balance. At September 30, 2012, 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 \$589.7 million or 9.9% of total assets. At December 31, 2011, the estimated fair value of non-performing assets was \$528.0 million or 9.4% of total assets.

## [Table of Contents](#)

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 the Company's 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 September 30, 2012 decreased \$30.0 million or 53% from December 31, 2011, as a result of liquidations and a decrease in foreclosures associated with foreclosure delays.

The Company realized losses on the sale of REO in the amount \$5 thousand and gains of \$31 thousand for the three and nine months ended September 30, 2012, respectively, compared to losses of \$13 thousand and \$23 thousand for the comparable 2011 periods. Additionally, for the three and nine months ended September 30, 2012, the Company recorded a recovery of and write-down of the net realizable value of the REO in the amount of \$3.5 million (income) and \$9.8 million (loss), respectively, compared to write-downs of \$7.0 million and \$12.0 million for the comparable 2011 periods. The recovery of the net realizable value represents the improvement on state specific severities whereas the write-downs of the net realizable value reflect declines in value of the REO subsequent to foreclosure date.

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

	September 30, 2012	December 31, 2011
REO	\$ 34,561	\$ 75,418
Impairment (1)	(8,059)	(18,951)
<b>Ending balance (2)</b>	<b>\$ 26,502</b>	<b>\$ 56,467</b>

- (1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.
- (2) REO balances included in trust assets.

In calculating the cash flows to assess the fair value of the securitized mortgage collateral, the Company estimates the future losses embedded in its 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. The Company's 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. The Company believes that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the future loan losses.

Management recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring losses in the loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower's ability to pay, changes in value of collateral, political factors, employment and market conditions, competitor's performance, market perception, historical losses, and industry statistics. The assessment for losses, is based on delinquency trends and prior loss experience and management's judgment and assumptions regarding various matters, including

general economic conditions and loan portfolio composition. Management continually evaluates these assumptions and various relevant factors affecting credit quality and inherent losses.

*Prepayment Risk.* The Company historically used prepayment penalties as a method of partially mitigating prepayment risk for those borrowers that have the ability to refinance. The recent economic downturn, lack of available credit and declines in property values have limited borrowers' ability to refinance. These factors have significantly reduced prepayment risk within our long-term mortgage portfolio. With the seasoning of the long-term mortgage portfolio, a significant portion of prepayment penalties terms have expired, thereby further reducing prepayment penalty income.

40

[Table of Contents](#)

**Results of Operations**

*For the Three and Nine Months Ended September 30, 2012 compared to the Three and Nine Months Ended September 30, 2011*

	<b>For the Three Months Ended September 30,</b>			
	<b>2012</b>	<b>2011</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Interest income	\$ 115,091	\$ 172,779	\$ (57,688)	(33)%
Interest expense	114,794	172,497	(57,703)	(33)
Net interest income	297	282	15	5
Total non-interest income	28,267	24,215	4,052	17
Total non-interest expense	(21,602)	(19,104)	(2,498)	(13)
Income tax expense	(8)	(957)	949	99
Net earnings from continuing operations	6,954	4,436	2,518	57
Loss from discontinued operations, net	(9,021)	(1,490)	(7,531)	505
Net (loss) earnings	(2,067)	2,946	(5,013)	(170)
Net (earnings) loss attributable to noncontrolling interest (1)	(212)	156	(368)	(236)
Net (loss) earnings attributable to IMH	<u>\$ (2,279)</u>	<u>\$ 3,102</u>	<u>\$ (5,381)</u>	<u>(173)</u>
(Loss) earnings per share available to common stockholders - basic	<u>\$ (0.29)</u>	<u>\$ 0.40</u>	<u>\$ (0.69)</u>	<u>(173)%</u>
(Loss) earnings per share available to common stockholders - diluted	<u>\$ (0.29)</u>	<u>\$ 0.37</u>	<u>\$ (0.66)</u>	<u>(178)%</u>

(1) For the three months ended September 30, 2012, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome Mortgage Corporation (a subsidiary of IRES) that the Company does not wholly-own. For the three months ended September 30, 2011, net loss attributable to noncontrolling interest represents the portion of the losses of Experience 1, Inc. and AmeriHome Mortgage Corporation (both subsidiaries of IRES) that the Company does not wholly-own.

41

[Table of Contents](#)

	<b>For the Nine Months Ended September 30,</b>			
	<b>2012</b>	<b>2011</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Interest income	\$ 384,792	\$ 592,962	\$ (208,170)	(35)%
Interest expense	382,918	590,117	(207,199)	(35)
Net interest income	1,874	2,845	(971)	(34)
Total non-interest income	62,556	53,538	9,018	17
Total non-interest expense	(53,158)	(51,748)	(1,410)	(3)
Income tax expense	(44)	(978)	934	96
Net earnings from continuing operations	11,228	3,657	7,571	(207)
Loss from discontinued operations, net	(13,402)	(1,832)	(11,570)	(632)
Net (loss) earnings	(2,174)	1,825	(3,999)	219
Net (earnings) loss attributable to noncontrolling interest (1)	(683)	651	(1,334)	(205)
Net (loss) earnings attributable to IMH	<u>\$ (2,857)</u>	<u>\$ 2,476</u>	<u>\$ (5,333)</u>	<u>215%</u>
(Loss) earnings per share available to common stockholders - basic	<u>\$ (0.36)</u>	<u>\$ 0.32</u>	<u>\$ (0.68)</u>	<u>215%</u>
(Loss) earnings per share available to common stockholders - diluted	<u>\$ (0.36)</u>	<u>\$ 0.30</u>	<u>\$ (0.66)</u>	<u>223%</u>

(1) For the nine months ended September 30, 2012, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome Mortgage Corporation (a subsidiary of IRES) that the Company does not wholly-own. For the nine months ended September 30, 2011, net loss attributable to noncontrolling interest represents the portion of the losses of Experience 1, Inc. and AmeriHome Mortgage Corporation (both subsidiaries of IRES) that the Company does not wholly-own.

The Company earns 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 to a lesser extent, interest expense paid on long-term debt and notes payable, warehouse borrowings 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 mortgage assets and borrowings, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to the 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.

42

[Table of Contents](#)

	For the Three Months Ended September 30,					
	2012			2011		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<b>ASSETS</b>						
Securitized mortgage collateral	5,584,297	114,285	8.19%	5,541,774	172,364	12.44%
Loans held-for-sale	91,805	789	3.44%	38,243	376	3.93%
Other	763	17	8.91%	490	39	31.84%
Total interest-earning assets	<u>\$ 5,676,865</u>	<u>\$ 115,091</u>	8.11%	<u>\$ 5,580,507</u>	<u>\$ 172,779</u>	12.38%
<b>LIABILITIES</b>						
Securitized mortgage borrowings	\$ 5,575,755	\$ 112,564	8.08%	\$ 5,548,936	\$ 170,395	12.28%
Long-term debt	12,113	915	30.22%	11,740	1,044	35.57%
Note payable	5,686	387	27.22%	7,448	614	32.98%
Warehouse borrowings	88,512	928	4.19%	35,137	444	5.05%
Total interest-bearing liabilities	<u>\$ 5,682,066</u>	<u>\$ 114,794</u>	8.08%	<u>\$ 5,603,261</u>	<u>\$ 172,497</u>	12.31%
<b>Net Interest Spread (1)</b>		\$ 297	0.03%		\$ 282	0.07%
<b>Net Interest Margin (2)</b>			0.02%			0.02%

- (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 income spread increased \$15 thousand for the three months ended September 30, 2012 primarily attributable to decreases in interest expense on the note payable and long-term debt for the three months ended September 30, 2012, partially offset by a decrease in net interest spread on the long-term 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 portfolio. Additionally, the negative interest carry between the warehouse borrowings and loans held-for-sale is causing further reductions on the net interest spread. Net interest margin remained flat at 0.02% for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011.

During the three months ended September 30, 2012, the yield on interest-earning assets decreased to 8.11% from 12.38% in the comparable 2011 period. The yield on interest-bearing liabilities decreased to 8.08% for the three months ended September 30, 2012 from 12.31% for the comparable 2011 period. In connection with the fair value accounting for investment securities available-for-sale and securitized mortgage collateral and borrowings, 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.

43

[Table of Contents](#)

	For the Nine Months Ended September 30,					
	2012			2011		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<b>ASSETS</b>						
Securitized mortgage collateral	5,547,740	382,802	9.20%	5,787,247	591,774	13.63%
Loans held-for-sale	70,523	1,930	3.65%	30,227	1,079	4.76%
Other	955	60	8.38%	526	109	27.63%
Total interest-earning assets	<u>\$ 5,619,218</u>	<u>\$ 384,792</u>	9.13%	<u>\$ 5,818,000</u>	<u>\$ 592,962</u>	13.59%
<b>LIABILITIES</b>						
Securitized mortgage borrowings	\$ 5,546,481	\$ 376,670	9.05%	\$ 5,791,798	\$ 584,319	13.45%
Long-term debt	11,987	2,796	31.10%	11,810	2,905	32.80%
Note payable	5,940	1,309	29.38%	6,691	1,793	35.73%
Warehouse borrowings	68,324	2,143	4.18%	27,741	1,100	5.29%



Total interest-bearing liabilities	\$ 5,632,732	\$ 382,918	9.06%	\$ 5,838,040	\$ 590,117	13.48%
<b>Net Interest Spread (1)</b>		\$ 1,874	0.07%		\$ 2,845	0.11%
<b>Net Interest Margin (2)</b>			0.04%			0.07%

- (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 income spread decreased \$971 thousand for the nine months ended September 30, 2012 primarily attributable to a decrease in net interest spread on the long-term 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 portfolio, partially offset by a decrease in interest expense on the note payable for the nine months ended September 30, 2012. Additionally, the negative interest carry between the warehouse borrowings and loans held-for-sale is causing further reductions on the net interest spread. As a result, net interest margin decreased from 0.07% for the nine months ended September 30, 2011 to 0.04% for the nine months ended September 30, 2012.

During the nine months ended September 30, 2012, the yield on interest-earning assets decreased to 9.13% from 13.59% in the comparable 2011 period. The yield on interest-bearing liabilities decreased to 9.06% for the nine months ended September 30, 2012 from 13.48% for the comparable 2011 period. In connection with the fair value accounting for investment securities available-for-sale and securitized mortgage collateral and borrowings, 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.

[Table of Contents](#)

*Non-Interest Income*

Changes in Non-Interest Income

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Change in fair value of net trust assets, excluding REO	\$ (5,998)	\$ 10,297	\$ (16,295)	(158)%
Gains (losses) from REO	3,548	(6,867)	10,415	152
Non-interest (loss) income - net trust assets	(2,450)	3,430	(5,880)	(171)
Mortgage lending gains and fees, net	24,324	4,574	19,750	432
Real estate services fees, net	5,776	13,272	(7,496)	(56)
Gain on sale of Experience 1, Inc.	—	1,780	(1,780)	(100)
Other	617	1,159	(542)	(47)
Total non-interest income	\$ 28,267	\$ 24,215	\$ 4,052	17%

*Non-interest (loss) income—net trust assets.* Since the Company's consolidated and unconsolidated securitization trusts are nonrecourse to the Company, the Company's economic risk is limited to the residual interests in these securitization trusts. To understand the economics on the residual interests in securitizations better, it is necessary to consider the net effect of changes in fair value of net trust assets and losses from REO. All estimated future losses are included in the estimate of the fair value of securitized mortgage collateral, REO and securitized mortgage borrowings. Losses on REO are reported separately in the consolidated statement of operations as REO is a nonfinancial asset which is the only component of trust assets and liabilities that is not recorded at fair value. Therefore, REO value at the time of sale or losses from further write-downs are recorded separately in the Company's consolidated statement of operations. The net effect of changes in value related to the Company's investment in all trust assets and liabilities is shown as non-interest income—net trust assets, which includes losses from REO. Non-interest income (loss) related to the net trust assets (residual interests in securitizations) was a loss of \$2.5 million for the three months ended September 30, 2012, compared to a gain of \$3.4 million in the comparable 2011 period. The individual components of the non-interest income from net trust assets are discussed below:

*Change in fair value of net trust assets, excluding REO.* For the three months ended September 30, 2012, the Company recognized a \$6.0 million loss from the change in fair value of net trust assets, excluding REO. The net loss recognized during the period was comprised of losses resulting from the increase in fair value of securitized mortgage borrowings and net derivative liabilities of \$472.6 million and \$853 thousand, respectively. Partially offsetting these losses were gains resulting from increases in the fair value of securitized mortgage collateral and investment securities available-for-sale of \$467.4 million and \$15 thousand, respectively.

For the three months ended September 30, 2011, the Company recognized a \$10.3 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the decrease in fair value of securitized mortgage borrowings and increase in fair value of investment securities available-for-sale of \$106.8 million and \$17 thousand, respectively. Partially offsetting these gains were losses resulting from decreases in the fair value of securitized mortgage collateral and an increase in fair value of net derivative liabilities of \$92.5 million and \$4.0 million, respectively.

*Gains (losses) from REO.* Gains from REO were \$3.5 million for the three months ended September 30, 2012. This gain was comprised of \$3.5 million in recovery of net realizable value during the period and a \$5 thousand loss on sale of REO. During the three months ended September 30, 2012, the recovery of net realizable value represents lower expected loss severities on properties held during the period which resulted in an increase to NRV.

Losses from REO were \$6.9 million for the three months ended September 30, 2011. This loss was comprised of \$6.9 million in additional impairment write-downs during the period and a \$1 thousand loss on sale of REO. During the three months ended September 30, 2011, additional impairment write-downs were attributable to higher expected loss severities on properties held during the period as compared to amounts previously reserved.

*Mortgage lending gains and fees, net.* For the three months ended September 30, 2012, mortgage lending gains and fees, net were \$24.3 million compared to \$4.6 million in the comparable 2011 period. The \$19.8 million increase in mortgage lending gains and fees, net was the result of \$709.8 million and \$661.6 million of loans originated and sold, respectively, during the three months ended September 30, 2012, as compared to \$256.6 million and \$250.3 million of loans originated and sold, respectively, for the comparable 2011 period.

[Table of Contents](#)

*Real estate services fees, net.* For the three months ended September 30, 2012, real estate services fees, net were \$5.8 million compared to \$13.3 million in the comparable 2011 period. The \$5.8 million in net fees were primarily comprised of \$2.6 million in real estate services and recovery fees, \$1.6 million in loss mitigation fees and \$1.6 million in portfolio service fees for the three months ended September 30, 2012. The \$7.5 million decrease in real estate services fees, net was the result of a decrease of \$4.9 million in title and escrow fees, \$2.6 million in real estate services and recovery fees and \$208 thousand in recovery and loss mitigation fees. The reduction in title and escrow fees is a result of the sale of our interest in Experience 1, Inc., the parent of the title insurance company, during the third quarter of 2011. Offsetting these decreases was an increase in portfolio service fees of \$210 thousand.

*Gain on sale of Experience 1, Inc.* During the three months ended September 30, 2011, the \$1.8 million gain is the result of the sale of the title insurance company. In September 2011, the Company sold 7,000 of its 8,000 shares of common stock of its majority-owned subsidiary Experience 1, Inc., for \$3.36 million, recording a gain of \$1.78 million and subsequently sold the remaining 1,000 shares in October 2011 for \$360 thousand recording a gain of \$160 thousand in the fourth quarter of 2011.

	For the Nine Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Change in fair value of net trust assets, excluding REO	\$ 5,562	\$ 17,596	\$ (12,034)	(68)%
Gains (losses) from REO	(9,761)	(11,855)	2,094	18
Non-interest (loss) income - net trust assets	(4,199)	5,741	(9,940)	(173)
Mortgage lending gains and fees, net	48,587	7,670	40,917	533
Real estate services fees, net	16,815	36,820	(20,005)	(54)
Gain on sale of Experience 1, Inc.	—	1,780	(1,780)	(100)
Other	1,353	1,527	(174)	(11)
Total non-interest income	<u>\$ 62,556</u>	<u>\$ 53,538</u>	<u>\$ 9,018</u>	17%

*Non-interest (loss) income—net trust assets.* Since the Company's consolidated and unconsolidated securitization trusts are nonrecourse to the Company, the Company's economic risk is limited to the residual interests in these securitization trusts. To understand the economics on the residual interests in securitizations better, it is necessary to consider the net effect of changes in fair value of net trust assets and losses from REO. All estimated future losses are included in the estimate of the fair value of securitized mortgage collateral, REO and securitized mortgage borrowings. Losses on REO are reported separately in the consolidated statement of operations as REO is a nonfinancial asset which is the only component of trust assets and liabilities that is not recorded at fair value. Therefore, REO value at the time of sale or losses from further write-downs are recorded separately in the Company's consolidated statement of operations. The net effect of changes in value related to the investment in all trust assets and liabilities is shown as non-interest income—net trust assets, which includes losses from REO. Non-interest income (loss) related to our net trust assets (residual interests in securitizations) was a gain of \$5.6 million for the nine months ended September 30, 2012, compared to a gain of \$17.6 million in the comparable 2011 period. The individual components of the non-interest income from net trust assets are discussed below:

*Change in fair value of net trust assets, excluding REO.* For the nine months ended September 30, 2012, the Company recognized a \$5.6 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the increase in fair value of securitized mortgage collateral of \$698.7 million. Partially offsetting these gains were losses resulting from increases in the fair value of securitized mortgage borrowings and net derivative liabilities, and a decrease in fair value of investment securities available-for-sale of \$690.0 million, \$2.7 million and \$439 thousand, respectively.

For the nine months ended September 30, 2011, the Company recognized a \$17.6 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the decrease in fair value of securitized mortgage borrowings of \$265.8 million. Partially offsetting these gains were losses resulting from decreases in the fair value of securitized mortgage collateral and investment securities available-for-sale and an increase in fair value of net derivative liabilities of \$239.7 million, \$128 thousand and \$8.3 million, respectively.

*Losses from REO.* Losses from REO were \$9.8 million for the nine months ended September 30, 2012. This loss was comprised of \$9.8 million in additional impairment write-downs during the period and a \$31 thousand gain on sale of REO. The \$3.5 million recovery during the third quarter reduced the overall additional impairment write-downs to \$9.8 million for the nine months ended September 30, 2012. The additional impairment write-downs were attributable to higher expected loss severities on properties held during the period which resulted in a decrease to NRV.

[Table of Contents](#)

Losses from REO were \$11.9 million for the nine months ended September 30, 2011. This loss was comprised of \$11.9 million in additional impairment write-downs during the period and \$12 thousand in loss on sale of REO. During the nine months ended September 30, 2011, additional impairment write-downs were attributable to higher expected loss severities on properties held during the period as compared to previously reserved.

**Mortgage lending gains and fees, net.** For the nine months ended September 30, 2012, mortgage lending gains and fees, net were \$48.6 million compared to \$7.7 million in the comparable 2011 period. The \$40.9 million increase in mortgage lending gains and fees, net was the result of \$1.6 billion and \$1.5 billion of loans originated and sold, respectively, during the nine months ended September 30, 2012, as compared to \$538.1 million and \$485.5 million of loans originated and sold, respectively, during the same period in 2011.

**Real estate services fees, net.** For the nine months ended September 30, 2012, real estate services fees, net were \$16.8 million compared to \$36.8 million in the comparable 2011 period. The \$16.8 million was primarily comprised of \$7.7 million in real estate services and recovery fees, \$4.6 million in loss mitigation fees and \$4.5 million in portfolio service fees for the nine months ended September 30, 2012. The \$20.0 million decrease in real estate services fees, net was the result of a decrease of \$13.9 million in title and escrow fees, \$6.0 million in real estate services and \$428 thousand in recovery fees and loss mitigation fees. The reduction in title and escrow fees is a result of the sale of our interest in Experience 1, Inc., the parent of the title insurance company, during the third quarter of 2011. Partially offsetting these decreases were increases in portfolio service fees of approximately \$357 thousand.

**Gain on sale of Experience 1, Inc.** During the nine months ended September 30, 2011, the \$1.8 million gain is the result of the sale of the title insurance company. In September 2011, the Company sold 7,000 of its 8,000 shares of common stock of its majority-owned subsidiary Experience 1, Inc., for \$3.36 million, recording a gain of \$1.78 million and subsequently sold the remaining 1,000 shares in October 2011 for \$360 thousand recording a gain of \$160 thousand in the fourth quarter of 2011.

#### Non-Interest Expense

##### Changes in Non-Interest Expense

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Personnel expense	\$ 16,664	\$ 13,599	\$ 3,065	23%
General, administrative and other	4,938	5,505	(567)	(10)
Total non-interest expense	\$ 21,602	\$ 19,104	\$ 2,498	13%

Total non-interest expense was \$21.6 million for the three months ended September 30, 2012, compared to \$19.1 million for the comparable period of 2011. The \$2.5 million increase in non-interest expense was primarily attributable an increase in personnel and related costs associated with the growth of the Company's mortgage lending platform, partially offset by an decrease in general and administrative costs.

	For the Nine Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Personnel expense	\$ 39,469	\$ 36,659	\$ 2,810	8%
General, administrative and other	13,689	15,089	(1,400)	(9)
Total non-interest expense	\$ 53,158	\$ 51,748	\$ 1,410	3%

Total non-interest expense was \$53.2 million for the nine months ended September 30, 2012, compared to \$51.7 million for the comparable period of 2011. The \$1.4 million increase in non-interest expense was primarily attributable to an increase in personnel and related costs associated with the growth of the Company's mortgage lending platform, partially offset by an decrease in general and administrative costs.

#### [Table of Contents](#)

#### Income Taxes

The Company recorded income tax expense of \$8 thousand and \$44 thousand for the three and nine months ended September 30, 2012, respectively. The Company recorded income tax expense of \$957 thousand and \$978 thousand for the three and nine months ended September 30, 2011, respectively. The income tax expense for 2012 is the result of state income taxes primarily from states where the Company does not have net operating loss carryforwards. The income tax expense for 2011 is the result of deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral as well as state income taxes primarily from states where the Company does not have net operating loss carryforwards. Alternative minimum taxes (AMT) have been treated as a prepayment of tax.

As of December 31, 2011, the Company had estimated federal and California net operating loss carryforwards of approximately \$504.9 million and \$426.1 million, respectively, of which approximately \$279.6 million (federal) relate to discontinued operations. During the years ended December 31, 2011 and 2010, estimated net operating loss carryforwards were reduced as a result of the Company generating taxable income from cancellation of debt in the amount of approximately \$39.2 million and \$426.2 million, respectively, of securitized mortgage borrowings. Federal and state net operating loss carryforwards begin to expire in 2020 and 2017, respectively.

The Company files numerous tax returns in various jurisdictions. While the Company is subject to examination by various taxing authorities, the Company believes there are no unresolved issues or claims likely to be material to its financial position. A subsidiary of the Company has been examined by the IRS for tax years 2006 and 2008. The subsidiary filed a consent to extend the statute of limitations for year 2008 until December 31, 2013. As of September 30, 2012, the Company has no material uncertain tax positions.

#### Results of Operations by Business Segment

##### Long-term Portfolio

##### Condensed Statements of Operations Data

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change

Net interest income	\$	455	\$	350	\$	105	30%
Change in fair value of net trust assets, excluding REO		(5,998)		10,297		(16,295)	(158)
Gains (losses) from real estate owned		3,548		(6,867)		10,415	152
Non-interest (loss) income- net trust assets		(2,450)		3,430		(5,880)	(171)
Other non-interest income		704		1,353		(649)	(48)
Total non-interest income		(1,746)		4,783		(6,529)	(137)
Personnel expense		(1,063)		(1,459)		396	27
Non-interest expense and income taxes		(2,433)		(3,511)		1,078	31
Net (loss) earnings	\$	(4,787)	\$	163	\$	(4,950)	(3037)%

Net interest income increased \$105 thousand for the three months ended September 30, 2012 primarily attributable to a decrease in interest expense on long-term debt and note payable. Partially offsetting the decrease in interest expense was 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 portfolio.

For the three months ended September 30, 2012, the Company recognized a \$6.0 million loss from the change in fair value of net trust assets, excluding REO. The net loss recognized during the period was comprised of losses resulting from the increase in fair value of securitized mortgage borrowings and net derivative liabilities of \$472.6 million and \$853 thousand, respectively. Partially offsetting these losses were gains resulting from increases in the fair value of securitized mortgage collateral and investment securities available-for-sale of \$467.4 million and \$15 thousand, respectively. Gains from REO were \$3.5 million for the three months ended September 30, 2012. This gain was comprised of \$3.5 million in recovery of net realizable value during the period and a \$5 thousand

[Table of Contents](#)

loss on sale of REO. During the three months ended September 30, 2012, the recovery of net realizable value represents lower expected loss severities on properties held during the period which resulted in an increase to NRV.

	For the Nine Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Net interest income	\$ 2,108	\$ 2,863	\$ (755)	(26)%
Change in fair value of net trust assets, excluding REO	5,562	17,596	(12,034)	(68)
Losses from real estate owned	(9,761)	(11,855)	2,094	18
Non-interest (loss) income- net trust assets	(4,199)	5,741	(9,940)	(173)
Other non-interest income	1,668	1,922	(254)	(13)
Total non-interest income	(2,531)	7,663	(10,194)	(133)
Personnel expense	(3,690)	(4,594)	904	20
Non-interest expense and income taxes	(7,501)	(8,569)	1,068	12
Net loss	\$ (11,614)	\$ (2,637)	\$ (8,977)	(340)%

Net interest income decreased \$755 thousand for the nine months ended September 30, 2012 primarily attributable to a decrease in net interest spread on the long-term 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 portfolio. Partially offsetting these reductions was a decrease in interest expense on the note payable for the nine months ended September 30, 2012.

For the nine months ended September 30, 2012, the Company recognized a \$5.6 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the increase in fair value of securitized mortgage collateral of \$698.7 million. Partially offsetting these gains were losses resulting from increases in the fair value of securitized mortgage borrowings and net derivative liabilities, and a decrease in fair value of investment securities available-for-sale of \$690.0 million, \$2.7 million and \$439 thousand, respectively. Losses from REO were \$9.8 million for the nine months ended September 30, 2012. This loss was comprised of \$9.8 million in additional impairment write-downs during the period and a \$31 thousand gain on sale of REO. The \$3.5 million recovery during the third quarter reduced the overall additional impairment write-downs to \$9.8 million for the nine months ended September 30, 2012. The additional impairment write-downs were attributable to higher expected loss severities on properties held during the period which resulted in a decrease to NRV.

**Mortgage Lending**

Condensed Statements of Operations Data

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Net interest expense	\$ (164)	\$ (72)	\$ (92)	(128)%
Mortgage lending gains and fees, net	24,324	4,574	19,750	432
Other non-interest income	(87)	(194)	107	55
Total non-interest income	24,237	4,380	19,857	453
Personnel expense	(13,700)	(6,122)	(7,578)	(124)
Non-interest expense and income taxes	(2,217)	(1,211)	(1,006)	(83)
Net earnings (loss)	\$ 8,156	\$ (3,025)	\$ 11,181	370%

For the three months ended September 30, 2012, mortgage lending gains and fees, net were \$24.3 million compared to \$4.6 million for the comparable 2011 period. The \$19.8 million increase in mortgage lending gains and fees, net was the result of \$709.8 million and \$661.6 million of loans originated and sold, respectively, during the three months ended September 30, 2012, as compared to \$256.6 million and \$250.3 million of loans originated and sold, respectively, for the comparable 2011 period.

[Table of Contents](#)

For the three months ended September 30, 2012, gain on sale of loans was \$25.6 million as compared to \$4.8 million in the third quarter of 2011. Provision for repurchases increased to \$596 thousand for the three months ended September 30, 2012 as compared to \$128 thousand for the same period in 2011.

The increase in personnel and non-interest expense and income taxes was primarily attributable to personnel and related costs associated with the growth of the Company's mortgage lending platform.

	For the Nine Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Net interest expense	\$ (256)	\$ (30)	\$ (226)	(753)%
Mortgage lending gains and fees, net	48,587	7,670	40,917	533
Other non-interest income	(315)	(395)	80	20
Total non-interest income	48,272	7,275	40,997	564
Personnel expense	(30,436)	(13,648)	(16,788)	(123)
Non-interest expense and income taxes	(5,300)	(2,865)	(2,435)	(85)
Net earnings (loss)	<u>\$ 12,280</u>	<u>\$ (9,268)</u>	<u>\$ 21,548</u>	232%

For the nine months ended September 30, 2012, mortgage lending gains and fees, net were \$48.6 million compared to \$7.7 million in the comparable 2011 period. The \$40.9 million increase in mortgage lending gains and fees, net was the result of \$1.6 billion and \$1.5 billion of loans originated and sold, respectively, during the nine months ended September 30, 2012, as compared to \$538.1 million and \$485.5 million of loans originated and sold, respectively, during the same period in 2011.

The \$40.9 million increase in mortgage lending during the nine months ended September 30, 2012 was primarily the result of an increase in net gain on sale of loans slightly offset by an increase in provision for repurchases as compared to the same period in 2011. For the nine months ended September 30, 2012, net gain on sale of loans was \$50.0 million as compared to \$7.7 million in the first nine months of 2011. Provision for repurchases increased to \$1.2 million for the nine months ended September 30, 2012 as compared to \$350 thousand for the same period in 2011.

The increase in personnel and non-interest expense and income taxes was primarily attributable to personnel and related costs associated with the growth of the Company's mortgage lending platform.

**Real Estate Services**

Condensed Statements of Operations Data

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Net interest income	\$ 6	\$ 4	\$ 2	50%
Real estate services fees, net	5,776	13,272	(7,496)	(56)
Gain on sale of Experience 1, Inc.	—	1,780	(1,780)	N/A
Total non-interest income	5,776	15,052	(9,276)	(62)
Personnel expense	(1,902)	(6,017)	4,115	68
Non-interest expense and income taxes	(295)	(1,741)	1,446	83
Net earnings	<u>\$ 3,585</u>	<u>\$ 7,298</u>	<u>\$ (3,713)</u>	(51)%

[Table of Contents](#)

For the three months ended September 30, 2012, real estate services fees, net were \$5.8 million compared to \$13.3 million in the comparable 2011 period. The \$7.5 million decrease in real estate services fees, net was the result of a decrease of \$4.9 million in title and escrow fees, \$2.6 million in real estate services and recovery fees and \$208 thousand in recovery and loss mitigation fees. The reduction in title and escrow fees is a result of the sale of our interest in Experience 1, Inc., the parent of the title insurance company, during the third quarter of 2011. Partially offsetting these decreases was an increase in portfolio service fees of \$210 thousand.

During the three months ended September 30, 2011, the \$1.8 million gain is the result of the sale of the title insurance company. In September 2011, the Company sold 7,000 of its 8,000 shares of common stock of its majority-owned subsidiary Experience 1, Inc., for \$3.36 million, recording a gain of \$1.78 million and subsequently sold the remaining 1,000 shares in October 2011 for \$360 thousand recording a gain of \$160 thousand in the fourth quarter of 2011.

The decrease in personnel and non-interest expense and income taxes was primarily attributable to both a decrease in personnel and related costs associated with the sale of Experience 1, Inc. in the third quarter of 2011.

	For the Nine Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Net interest income	\$ 22	\$ 12	\$ 10	83%
Real estate services fees, net	16,815	36,820	(20,005)	(54)
Gain on sale of Experience 1, Inc.	—	1,780	(1,780)	N/A
Total non-interest income	16,815	38,600	(21,785)	(56)
Personnel expense	(5,344)	(18,417)	13,073	71
Non-interest expense and income taxes	(931)	(4,633)	3,702	80
Net earnings	\$ 10,562	\$ 15,562	\$ (5,000)	(32)%

For the nine months ended September 30, 2012, real estate services fees, net were \$16.8 million compared to \$36.8 million in the comparable 2011 period. The \$20.0 million decrease in real estate services fees, net was the result of a decrease of \$13.9 million in title and escrow fees, \$6.0 million in real estate services and \$428 thousand in recovery fees and loss mitigation fees. The reduction in title and escrow fees is a result of the sale of our interest in Experience 1, Inc., the parent of the title insurance company, during the third quarter of 2011. Partially offsetting these decreases were increases in portfolio service fees of approximately \$357 thousand.

During the nine months ended September 30, 2011, the \$1.8 million gain is the result of the sale of the title insurance company. In September 2011, the Company sold 7,000 of its 8,000 shares of common stock of its majority-owned subsidiary Experience 1, Inc., for \$3.36 million, recording a gain of \$1.78 million and subsequently sold the remaining 1,000 shares in October 2011 for \$360 thousand recording a gain of \$160 thousand in the fourth quarter of 2011.

The decrease in personnel and non-interest expense and income taxes was primarily attributable to both a decrease in personnel and related costs associated with the sale of Experience 1, Inc. in the third quarter of 2011.

[Table of Contents](#)

**Discontinued Operations**

Condensed Statements of Operations Data

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Net interest income	\$ 7	\$ —	\$ 7	N/A%
Provision for repurchases	(1,769)	(1,140)	(629)	(55)%
Other non-interest income	2	151	(149)	(99)
Total non-interest income	(1,767)	(989)	(778)	(79)
Legal settlement	(6,100)	—	(6,100)	N/A
Non-interest expense and income taxes	(1,161)	(501)	(660)	(132)
Net loss	\$ (9,021)	\$ (1,490)	\$ (7,531)	505%

Provision for repurchases increased \$629 thousand to a provision of \$1.8 million for the three months ended September 30, 2012, compared to a provision of \$1.1 million for the same period in 2011. The \$629 thousand increase is the result of increases in estimated repurchase losses during the three months ended September 30, 2012 related to additional repurchase claims received from Fannie Mae. Additionally, during the three months ended September 30, 2012, the Company paid approximately \$800 thousand to settle previous repurchase claims related to our previously discontinued operations.

The Company recorded a litigation settlement expense of \$6.1 million within discontinued operations, as a result of its intent to settle two of its remaining legacy lawsuits.

Non-interest expense and income taxes increased \$660 thousand between periods primarily due to an increase in legal and professional expenses.

	For the Nine Months Ended September 30,			
	2012	2011	Increase (Decrease)	% Change
Net interest income	\$ 7	\$ —	\$ 7	N/A
Provision for repurchases	(4,569)	(2,133)	(2,436)	(114)%
Other non-interest income	(78)	1,359	(1,437)	(106)
Total non-interest income	(4,647)	(774)	(3,873)	(500)
Legal settlement	(6,100)	—	(6,100)	N/A
Non-interest expense and income taxes	(2,662)	(1,058)	(1,604)	(152)
Net loss	\$ (13,402)	\$ (1,832)	\$ (11,570)	(632)%

Provision for repurchases increased \$2.4 million to a provision of \$4.6 million for the nine months ended September 30, 2012, compared to a provision of \$2.1 million for the same period in 2011. The \$2.4 million increase is the result of increases in estimated repurchase losses during the nine

months ended September 30, 2012 related to additional repurchase claims received from Fannie Mae. Additionally, during the nine months ended September 30, 2012, the Company paid approximately \$1.8 million to settle previous repurchase claims related to our previously discontinued operations.

The Company recorded a litigation settlement expense of \$6.1 million within discontinued operations, as a result of its intent to settle two of its remaining legacy lawsuits.

Non-interest expense and income taxes increased \$1.6 million between periods primarily due to an increase in legal and professional expenses.

### **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.

52

---

#### [Table of Contents](#)

### **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 September 30, 2012, 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**

On October 16, 2012, a matter was filed in the Superior Court of the State of California, Orange County entitled Deutsche Bank National Trust Company, in its individual capacity, and as Indenture Trustee of Impac Secured Assets CMB Trust Series 1998-1, Impac CMB Trust Series 1999-2, 2000-2, 2001-4, 2002-1, and 2003-5, and Impac Real Estate Asset Trust Series 2006-SD1 v. Impac Mortgage Holdings, Inc. and Impac Funding Corporation. The action alleges the defendants owe the plaintiff indemnification for settlements that the plaintiff allegedly entered into in connection with the Gilmor, et al. v. Preferred Credit Corp., et al. matter, which is described under Item 3, Part 1 in the Company's Form 10-K for the year ended December 31, 2011. The plaintiff seeks declaratory and injunctive relief and unspecified damages.

On April 30, 2012 a matter was filed in the Superior Court of the State of California, Orange County entitled Rene Marentes and Martha Marentes v. Impac Mortgage Holdings, Inc. The complaint is a putative class action matter contending that certain loan modification activities of the company constitute an unfair business practice, that they constitute false advertising and marketing and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and pre-judgment interest. On August 1, 2012, the court entered an order granting, without prejudice, the motion of Impac Mortgage Holdings, Inc. for judgment on the pleadings. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant. On October 2, 2012, the plaintiff filed a request to dismiss Impac Mortgage Holdings, Inc., without prejudice.

On January 30, 2012, a Summons with Notice was filed in the Supreme Court of the State of New York as case No. 650293/2012 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 Impac Secured Assets Corp. On August 3, 2012, a Consolidated Complaint was filed in which the above matter was consolidated with two other cases filed by the same plaintiff and DG Holding Trust. The Company first received a copy of the complaint during the third quarter of 2012. The Consolidated Complaint alleges misrepresentations in connection with the marketing and sale of mortgage backed securities issued by ISAC that the plaintiff purchased. The complaint seeks rescission, damages, prejudgment interest, punitive damages, and attorney's fees in an amount to be proven at trial.

As previously reported in the Company's Form 10-K for the year ended December 31, 2011, on December 7, 2011 an action was filed in the Circuit Court for Baltimore City entitled Curtis J. Timm, on behalf of himself and all persons similarly situated v. Impac Mortgage Holdings, Inc., et al as Case No. 24-c-11-008391. The complaint alleges on behalf of Preferred B and C shareholders who did not tender their stock previously that Impac failed to achieve the required consent of the Preferred stock classes, the consents to amend the Preferred stock was not effective because it was given on unissued stock (after redemption), it tied the tender offer with a consent requirement which constitutes an improper "vote buying" scheme, and that the tender offer was a breach of a fiduciary duty. The action seeks two quarterly payments of dividends for the Preferred holders, a declaratory judgment to unwind the consents and reinstate the cumulative dividend on the Preferred stock and to set a date for the election of two directors by the Preferred holders. The action also seeks punitive damages and legal expenses. A motion to dismiss was filed by the defendants and that motion is still pending.

As previously reported in the Company's Form 10-K for the year ended December 31, 2011, on May 26, 2011, a matter was filed in the United States District Court, Central District of California as Case No. CV11-4514 DSF entitled Citigroup Global Markets, Inc. (Citigroup) v. Impac Secured Assets Corp., Impac Funding Corporation and Impac Mortgage Holdings, Inc. The action alleges a violation of Section 18 and Section 20 of the Securities and Act of 1933 and negligent misrepresentation, all involved in the issuance and sale of bonds from a securitization trust. The plaintiff alleges they relied on certain

documents filed with the Securities and Exchange Commission that were subsequently the subject of an amended filing. The matter seeks unspecified damages, interest, legal fees and litigation expenses. In September 2012, the parties tentatively agreed to a settlement with Citigroup for \$3.1 million which is currently being documented and is subject to court approval. In the third quarter of 2012, the Company recorded a legal settlement charge of \$3.1 million relating to the estimated loss from this matter.

---

[Table of Contents](#)

As previously reported in the Company's Form 10-K for the year ended December 31, 2011, *Gilmor, et al. v. Preferred Credit Corp., et. al.*, Case No. 4:10-CV-00189 (Gilmor), currently pending in the United States District Court for the Western District of Missouri, is a putative class action against Preferred Credit and others charging violations of Missouri's Second Mortgage Loan Act. In a Sixth Amended Complaint (Complaint), plaintiffs Michael P. and Shellie Gilmor and others brought suit against Preferred Credit, as the originator of various second mortgage loans in Missouri, and against the following Impac entities: Impac Funding Corporation; Impac Mortgage Holdings; Impac Secured Assets; Impac Secured Assets CMB Trust Series 1998-1 Collateralized Asset-Backed Notes, Series 1998-1; IMH Assets Corp; Impac CMB Trust Series 1999-1; Impac CMB Trust Series 1999-2; Impac CMB Trust Series 2000-1; Impac CMB Trust Series 2000-2; Impac CMB Trust Series 2001-4; Impac CMB Trust Series 2002-1; Impac CMB Trust Series 2003-5, (collectively, the "Impac Defendants"), among numerous others, as alleged holders of notes associated with second mortgage loans originated by Preferred Credit. Plaintiffs complain that at closing Preferred Credit charged them fees and costs in violation of Missouri's Second Mortgage Loan Act. Additionally, plaintiffs obtained certification of a class of all persons similarly situated. The plaintiffs allege that the Impac Defendants were liable to plaintiffs and members of the putative class as alleged holders of notes associated with second mortgage loans originated by Preferred Credit. The plaintiffs were seeking on behalf of themselves and the members of the putative class, among other things, disgorgement or restitution of all improperly collected charges, the right to rescind all affected loan transactions, the right to offset any finance charges, closing costs, points or other loan fees paid against the principal amounts due on the loans if rescinded, actual and punitive damages, and attorneys' fees. The plaintiffs filed a motion for class certification, which was granted. On October 31, 2012, the Impac Defendants entered into a settlement agreement with the plaintiffs on a class-wide basis. The settlement provides total payments to the plaintiffs of \$3.0 million over time and is subject to court approval. In the third quarter of 2012, the Company recorded a legal settlement charge of \$3.0 million relating to the estimated loss from this matter.

Management believes it was and is in the best interest of the shareholders to settle these matters rather than be faced with the uncertainty of any court rulings, the exorbitant cost in terms of legal fees, the time involved and the distractions these matters would create in defending them. Also, the terms of the intended settlements have been structured in a manner to minimize the impact to operational cash flows.

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, 2011 and Forms 10-Q for the quarters ended June 30, 2012 and March 31, 2012 for a description of litigation and claims.

#### **ITEM 1A: RISK FACTORS**

Our Annual Report on Form 10-K for the year ended December 31, 2011 and our quarterly report on Form 10-Q for the period ended March 31, 2012, include 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.

##### **Hurricane Sandy**

On October 29 and 30, 2012, the Northeast region of the United States experienced unprecedented damage due to Hurricane Sandy. Although the extent of the damage and its effect on the Company cannot be determined at this time, the storm may impair the ability of some borrowers to repay their loans and also could adversely affect collateral values. As a result, the Company may experience increased levels of non-performing loans and loan losses which may negatively affect earnings.

---

[Table of Contents](#)

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

None

#### **ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

None.

#### **ITEM 4: MINE SAFETY DISCLOSURES**

None.

#### **ITEM 5: OTHER INFORMATION**



On August 28, 2012, the warehouse facility under the Master Repurchase Agreement with EverBank was amended extending the expiration to November 26, 2013.

On August 20, 2012, the warehouse facility under the Master Repurchase Agreement with Alliance Bank was amended extending the expiration to July 1, 2013.

On September 21, 2012, the Company, through its subsidiaries, entered into a Master Repurchase Agreement with Credit suisse providing a \$40 million warehouse facility. The interest rate relating to this agreement is one-month LIBOR plus 3.50 % and expires September 2013. Under the terms of this warehouse facility, the Companies are required to maintain various financial and other covenants.

On October 26, 2012, Repurchase agreement 1 was amended to increase the maximum borrowing capacity increased from \$40.0 million to \$47.5 million.

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" and "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.

On July 24, 2012, the Company's stockholders approved an amendment to the Company's 2010 Omnibus Incentive Plan ("Plan") increasing the number of shares available under the Plan by 250,000 shares. The stockholder voting results and the approval of the amendment to the Plan increasing the available shares were previously reported in a Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2012. 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. A copy of the Plan is filed as an exhibit to this report and is incorporated herein by reference in its entirety. The description of the Plan contained herein is qualified in its entirety by reference to the full text of the Plan. The information above is included for the purposes of providing the disclosure required under "Item 5.02(e) - Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers" of Form 8-K.

## ITEM 6: EXHIBITS

- (a) Exhibits:
- 10.1 Third amendment dated August 28, 2012 to Master Repurchase Agreement with EverBank.
  - 10.2 Amendment dated August 20, 2012 to Master Repurchase Agreement with Alliance Bank.
  - 10.3 Master Repurchase Agreement and Side Letter each dated as of September 21, 2012 between Credit Suisse, and Excel Mortgage Servicing, and Integrated Real Estate Service Corp and Impac Mortgage Holdings, Inc as guarantors.
  - 10.4 Impac Mortgage Holdings, Inc. Omnibus Incentive Plan (as amended) (incorporated by reference to Appendix A of the Company's proxy statement on Schedule 14A filed with the Securities and Exchange Commission on April 30, 2012.
  - 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 101\* The following materials from Impac Mortgage Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, 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.

\* 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.

[Table of Contents](#)

## 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)

November 13, 2012



August 28, 2012

Excel Mortgage Servicing, Inc.  
19500 Jamboree Road  
Irvine, CA 92162

AmeriHome Mortgage Corporation  
19500 Jamboree Road  
Irvine, CA 92162

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

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

This Third Amendment is made this 28th day of August, 2012, by and among, Excel Mortgage Servicing, Inc. and AmeriHome Mortgage Corporation (each a "Seller" and collectively the "Sellers"), Integrated Real Estate Service Corporation (the "Guarantor") and EverBank ("Buyer"), to the Master Repurchase Agreement dated August 31, 2011, (the "Repurchase Agreement"), the Pricing Letter dated August 31, 2011 (the "Pricing Letter"), the First Amendment to Master Repurchase Agreement and Pricing Letter dated May 1, 2012, (the "First Amendment") and the Second Amendment to Master Repurchase Agreement and Pricing Letter dated June 21, 2012 (the "Second Amendment"). The Repurchase Agreement, Pricing Letter, First Amendment and Second Amendment are collectively referred to as the "Agreement."

WHEREAS, Seller and 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 hereby agree to amend the Agreement as follows:

SECTION 1. Amendments. The following Amendments are made to the Agreement.

1. "Termination Date" shall mean November 26, 2012 or such 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 Third 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 Third Amendment, Seller hereby represents to Buyer that as of the date hereof, except as otherwise expressly waived by Buyer in writing, 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 Third Amendment and any claim, controversy or dispute arising under or related to or in connection with this Third 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 Third 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 Third 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 Third 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.

IN WITNESS WHEREOF, Seller, Guarantors and Buyer have caused this Third Amendment to be executed and delivered by their duly authorized officers as of the Amendment Effective Date.

(This space intentionally left blank. Signature page to follow.)

---

Excel Mortgage Servicing, Inc.

Name: /s/ Todd R. Taylor

Title: EVP/CFO

Seller

---

AmeriHome Mortgage Corporation

Name: /s/ Todd R. Taylor

---

Title: EVP/CFO

---

Seller

Integrated Real Estate Service Corporation

Name: /s/ Todd R. Taylor

---

Title: EVP/CFO

---

Guarantor

EverBank

Name: /s/ Paul Chmielinski

---

Title: Vice President

---

Buyer



Agreement of Amendmentdated as ofAugust 20, 2012

In accordance with Section 11.02 of the Master Repurchase Agreement (the "MR Agreement") dated as of March 30, 2011, between Excel Mortgage Servicing, Inc. as the Seller and Alliance Bank of Arizona, a Division of Western Alliance Bank 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.

(c) The Pricing Schedule, Schedule 3, is hereby amended by deleting the Pricing Schedule with the Effective Date of 9/22/11 in its entirety and inserting the attached Amended Pricing Schedule, Schedule 3, with the Effective Date of 8/20/12.

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.

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**

Excel Mortgage Servicing, Inc.

By: \_\_\_\_\_  
 Name: Todd Taylor  
 Title: CFO  
 Date: \_\_\_\_\_

**BUYER**

ALLIANCE BANK OF ARIZONA, A DIVISION OF WESTERN ALLIANCE BANK

By: \_\_\_\_\_  
 Name: Stephen R. Curley  
 Title: Senior Vice President  
 Date: \_\_\_\_\_

**SELLER**

Excel Mortgage Servicing, Inc.

By: \_\_\_\_\_  
 Name: William Ashmore  
 Title: President  
 Date: \_\_\_\_\_

Schedule 3  
 TO  
 MASTER REPURCHASE AGREEMENT  
 BETWEEN  
Excel Mortgage Servicing, Inc.  
 AND  
Alliance Bank of Arizona, A Division of Western Alliance Bank

PRICING SCHEDULE  
 Effective Date 8/20/2012

- 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: \$75.00 for each Purchased Loan
  - c) \$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 30 days of its Purchase Date: Prime Rate plus 1.00%
  - b) Purchased Loans repurchased by Seller within 31-59 days of its Purchase Date: Prime Rate plus 1.75%
  - c) Purchased Loans repurchased by Seller within 60-90 days of its Purchase Date: Prime Rate plus 4.00 %
  - d) 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 6.00%
  - e) 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 6.00%

- 3) **Minimum Pricing Rates:** With respect to any Purchased Loan the following are the Minimum Pricing Rates:
- a) Purchased Loans repurchased by Seller within 30 days of its Purchase Date: 4.25%
  - b) Purchased Loans repurchased by Seller within 31-59 days of its Purchase Date: 5.00%
  - c) Purchased Loans repurchased by Seller within 59-90 days of its Purchase Date: 7.25%
  - d) Purchased Loans not repurchased by Seller within 91 days of its Purchase Date: the lesser of (i) the Maximum Rate or (ii) 8.75%
  - e) 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 9.25%
- 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%	30 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 underwriting and documentation requirements of FNMA and FHLMC.	20%	97%	30 Days from the applicable Purchase Date.
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; \$729,750 in California.  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.	25%	97%	30 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	25%	95%	45 days from the applicable Purchase Date.

	approved investor commitment. Maximum DTI of 45%, Minimum FICO of 680. Primary and Second Homes only.			
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%	45 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.	\$1,000,000.00	80%	364 days from the applicable Purchase Date.

Borrowers Initial: \_\_\_\_\_

Alliance Bank Initial: \_\_\_\_\_



## MASTER REPURCHASE AGREEMENT

CREDIT SUISSE FIRST BOSTON MORTGAGE CAPITAL LLC, as buyer  
 (“Buyer”), and

EXCEL MORTGAGE SERVICING, INC., as seller (“Seller”), and

INTEGRATED REAL ESTATE SERVICE CORP. and IMPAC MORTGAGE HOLDINGS, INC, as guarantors (each a “Guarantor” and collectively, the  
 “Guarantors”)

Dated September 21, 2012

## TABLE OF CONTENTS

	<u>Page</u>
1. Applicability	1
2. Definitions	1
3. Program; Initiation of Transactions	17
4. Repurchase	18
5. Price Differential.	19
6. Margin Maintenance	20
7. Income Payments	20
8. Security Interest	21
9. Payment and Transfer	22
10. Conditions Precedent	22
11. Program; Costs	25
12. Servicing	25
13. Representations and Warranties	26
14. Covenants	32
15. Events of Default	38
16. Remedies Upon Default	40
17. Reports	42
18. Repurchase Transactions	45
19. Single Agreement	45
20. Notices and Other Communications	46
21. Entire Agreement; Severability	47
22. Non assignability	48
23. Set-off	48

24. Binding Effect; Governing Law; Jurisdiction	48
25. No Waivers, Etc.	49

26.	Intent	49
27.	Disclosure Relating to Certain Federal Protections	50
28.	Power of Attorney	50
29.	Buyer May Act Through Affiliates	51
30.	Indemnification; Obligations	51
31.	Counterparts	52
32.	Confidentiality	52
33.	Recording of Communications	54
34.	Periodic Due Diligence Review	54
35.	Authorizations	55
36.	Acknowledgement Of Anti-Predatory Lending Policies	55
37.	Documents Mutually Drafted	55
38.	General Interpretive Principles	55
39.	Conflicts	56

## SCHEDULES

Schedule 1 —	Representations and Warranties with Respect to Purchased Mortgage Loans
Schedule 2 —	Authorized Representatives

## EXHIBITS

Exhibit A —	Form of Purchase Confirmation for Exception Mortgage Loans
Exhibit B —	Reserved
Exhibit C —	Reserved
Exhibit D —	Form of Power of Attorney
Exhibit E —	Form of Opinion of Seller's and Guarantors' Counsel

Exhibit F —	Officer's Certificate of the Seller and Corporate Resolutions of Seller
Exhibit G —	Seller's and Guarantors' Tax Identification Number
Exhibit H —	Existing Indebtedness
Exhibit I —	Escrow Instruction Letter
Exhibit J —	Form of Servicer Notice

### 1. Applicability

From time to time the parties hereto may enter into transactions in which Seller agrees to transfer to Buyer Mortgage Loans (as hereinafter defined) on a servicing released basis against the transfer of funds by Buyer, with a simultaneous agreement by Buyer to transfer to Seller such Mortgage Loans on a servicing released basis at a date certain or on demand, against the transfer of funds by Seller. Each such transaction shall be referred to herein as a "Transaction" and, unless otherwise agreed in writing, shall be governed by this Agreement, including any supplemental terms or conditions contained in any annexes identified herein, as applicable hereunder.

### 2. Definitions



Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

“Acceptable State” means any state acceptable pursuant to Seller’s Underwriting Guidelines.

“Accepted Servicing Practices” means, with respect to any Mortgage Loan, those mortgage servicing practices of prudent mortgage lending institutions which service mortgage loans of the same type as such Mortgage Loan in the jurisdiction where the related Mortgaged Property is located in accordance with applicable law.

“Act of Insolvency” means, with respect to any Person, (a) the filing of a petition, commencing, or authorizing the commencement of any case or proceeding, or the voluntary joining of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar law relating to the protection of creditors, or suffering any such petition or proceeding to be commenced by another which is consented to, not timely contested or results in entry of an order for relief; (b) the seeking of the appointment of a receiver, trustee, custodian or similar official for such party or any substantial part of its property; (c) the appointment of a receiver, conservator, or manager for such party by any governmental agency or authority having the jurisdiction to do so; (d) the making or offering by such party of a composition with its creditors or a general assignment for the benefit of creditors; (e) the admission by such party of its inability to pay its debts or discharge its obligations as they become due or mature; or (f) that any governmental authority or agency or any person, agency or entity acting or purporting to act under governmental authority shall have taken any action to condemn, seize or appropriate, or to assume custody or control of, all or any substantial part of the property of such party, or shall have taken any action to displace the management of such party or to curtail its authority in the conduct of its business of such party.

“Adjusted Tangible Net Worth” has the meaning set forth in the Pricing Side Letter.

“Affiliate” means, with respect to any Person, any “affiliate” of such Person, as such term is defined in the Bankruptcy Code.

“Aged Loan” has the meaning assigned to such term in the Pricing Side Letter.

1

---

“Agency” means Freddie Mac, Fannie Mae or GNMA, as applicable.

“Agency Approvals” has the meaning set forth in Section 14.w hereof.

“Agency Security” means a mortgage-backed security issued by an Agency.

“Aging Limit” has the meaning assigned to such term in the Pricing Side Letter.

“Agreement” means this Master Repurchase Agreement, as it may be amended, supplemented or otherwise modified from time to time.

“Appraised Value” means the value set forth in an appraisal made in connection with the origination of the related Mortgage Loan as the value of the Mortgaged Property.

“Asset Value” has the meaning assigned to such term in the Pricing Side Letter.

“Assignment of Mortgage” means an assignment of the Mortgage, notice of transfer or equivalent instrument in recordable form, sufficient under the laws of the jurisdiction wherein the related Mortgaged Property is located to reflect the sale of the Mortgage to Buyer.

“Bailee Letter” has the meaning assigned to such term in the Custodial Agreement.

“Bankruptcy Code” means the United States Bankruptcy Code of 1978, as amended from time to time.

“Bid” has the meaning set forth in Section 4.c hereof.

“Business Day” means any day other than (i) a Saturday or Sunday; (ii) a day on which the New York Stock Exchange, the Federal Reserve Bank of New York or the Custodian is authorized or obligated by law or executive order to be closed or (iii) a public or bank holiday in New York City or California.

“Buydown Amount” has the meaning set forth in Section 5.c hereof.

“Buyer” means Credit Suisse First Boston Mortgage Capital LLC, and any successor or assign hereunder.

“Capital Lease Obligations” means, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) Property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

“Cash Equivalents” means (a) securities with maturities of 90 days or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof, (b) certificates of deposit and eurodollar time deposits with maturities of 90

2

---

days or less from the date of acquisition and overnight bank deposits of Buyer or of any commercial bank having capital and surplus in excess of \$500,000,000, (c) repurchase obligations of Buyer or of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not

more than seven days with respect to securities issued or fully guaranteed or insured by the United States Government, (d) commercial paper of a domestic issuer rated at least A-1 or the equivalent thereof by S&P or P-1 or the equivalent thereof by Moody's and in either case maturing within 90 days after the day of acquisition, (e) securities with maturities of 90 days or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's, (f) securities with maturities of 90 days or less from the date of acquisition backed by standby letters of credit issued by Buyer or any commercial bank satisfying the requirements of clause (b) of this definition or (g) shares of money market mutual or similar funds which invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition.

"Change in Control" means:

- (a) any transaction or event as a result of which IRES ceases to own, beneficially or of record, 100% of the stock of Seller;
- (b) any transaction or event as a result of which Impac ceases to own, beneficially or of record, 100% of the stock of IRES;
- (c) the sale, transfer, or other disposition of all or substantially all of Seller's or any Guarantor's assets (excluding any such action taken in connection with any securitization transaction); or
- (d) the consummation of a merger or consolidation of Seller or any Guarantor with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's stock outstanding immediately after such merger, consolidation or such other reorganization is owned by Persons who were not stockholders of Seller or either Guarantor immediately prior to such merger, consolidation or other reorganization.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committed Mortgage Loan" means a Mortgage Loan which is the subject of a Take-out Commitment with a Take-out Investor.

"Conforming High LTV Loan" means a Conforming Mortgage Loan with an LTV of 105% or higher but not to exceed 125%.

"Conforming Mortgage Loan" means a first lien Mortgage Loan originated in accordance with the criteria of an Agency for purchase of Mortgage Loans, including, without limitation, conventional Mortgage Loans, as determined by Buyer in its sole discretion.

3

---

"CSCOF" means, in the Buyer's sole discretion, which may be confirmed by notice to the Seller (which may be electronic), for each day, the rate of interest (calculated on a per annum basis) determined by Buyer (which such determination shall be dispositive absent manifest error), equal to the overnight interest expense reasonably available to Buyer for borrowing funds. Such interest expense shall be calculated in substantially the same manner for all of Buyer's residential mortgage loan repurchase agreement customers.

"Custodial Agreement" means the custodial agreement, dated as of the date hereof, among Seller, Buyer and Custodian, as it may be amended, supplemented or otherwise modified from time to time.

"Custodial Mortgage Loan Schedule" has the meaning assigned to such term in the Custodial Agreement.

"Custodian" means Deutsche Bank National Trust Company or such other party specified by Buyer and agreed to by Seller, which approval shall not be unreasonably withheld.

"DE Compare Ratio" has the meaning set forth in the DE Compare Report.

"DE Compare Report" means with respect to the Seller, the top of the three rows of the report entitled "*Neighborhood Watch Early Warning System — Single Lender — Direct Endorsement Lender*" and found at <https://entp.hud.gov/sfnw/public/>. Such report shall be generated using the following criteria: Mortgagee Selections: "Direct Endorsement Lender;" Delinquent Choices: "Seriously Delinquent;" and 2 Year Performance Period: "Data as of [END OF MOST RECENT PRIOR MONTH]."

"Default" means an Event of Default or an event that with notice or lapse of time or both would become an Event of Default.

"Dollars" and "\$" means dollars in lawful currency of the United States of America.

"Due Date" means the day of the month on which the Monthly Payment is due on a Mortgage Loan, exclusive of any days of grace.

"Effective Date" means the date upon which the conditions precedent set forth in Section 10 shall have been satisfied.

"Electronic Tracking Agreement" means an Electronic Tracking Agreement among Buyer, Seller, MERS and MERSCORP Holdings, Inc., to the extent applicable as the same may be amended from time to time.

"Encumbered Mortgage Servicing Rights" means any mortgage servicing rights that are subject to any pledge, claim or restriction that limits in any way the ability to dispose of or transfer such asset whether or not such pledge, claim or restriction relates to any outstanding debt.

4

---

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any corporation or trade or business that, together with Seller or Guarantors is treated as a single employer under Section 414(b) or (c) of the Code or solely for purposes of Section 302 of ERISA and Section 412 of the Code is treated as single employer described in Section 414 of the Code.

“Escrow Instruction Letter” means the Escrow Instruction Letter from Seller to the Settlement Agent, in the form of Exhibit I hereto, as the same may be modified, supplemented and in effect from time to time.

“Escrow Payments” means, with respect to any Mortgage Loan, the amounts constituting ground rents, taxes, assessments, water rates, sewer rents, municipal charges, mortgage insurance premiums, fire and hazard insurance premiums, condominium charges, and any other payments required to be escrowed by the Mortgagor with the mortgagee pursuant to the Mortgage or any other document.

“Event of Default” has the meaning specified in Section 15 hereof.

“Event of Termination” means with respect to Seller or Guarantors (a) with respect to any Plan, a reportable event, as defined in Section 4043 of ERISA, as to which the PBGC has not by regulation waived the requirement of Section 4043(a) of ERISA that it be notified with 30 days of the occurrence of such event, or (b) the withdrawal of Seller, Guarantors or any ERISA Affiliate thereof from a Plan during a plan year in which it is a substantial employer, as defined in Section 4001(a)(2) of ERISA, or (c) the failure by Seller, Guarantors or any ERISA Affiliate thereof to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA with respect to any Plan, including, without limitation, the failure to make on or before its due date a required installment under Section 412(m) of the Code (or Section 430(j) of the Code as amended by the Pension Protection Act) or Section 302(e) of ERISA (or Section 303(j) of ERISA, as amended by the Pension Protection Act), or (d) the distribution under Section 4041 of ERISA of a notice of intent to terminate any Plan or any action taken by Seller, Guarantors or any ERISA Affiliate thereof to terminate any plan, or (e) the failure to meet requirements of Section 436 of the Code resulting in the loss of qualified status under Section 401(a)(29) of the Code, or (f) the institution by the PBGC of proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or (g) the receipt by Seller, Guarantors or any ERISA Affiliate thereof of a notice from a Multiemployer Plan that action of the type described in the previous clause (f) has been taken by the PBGC with respect to such Multiemployer Plan, or (h) any event or circumstance exists which may reasonably be expected to constitute grounds for Seller, Guarantors or any ERISA Affiliate thereof to incur liability under Title IV of ERISA or under Sections 412(b) or 430(k) of the Code with respect to any Plan.

“Exception Mortgage Loan” means any Mortgage Loan which is otherwise ineligible for purchase hereunder, or which otherwise becomes ineligible for purchase hereunder and which is approved by Buyer in its sole discretion; provided, however, that Seller shall pay to Buyer a fee of \$25 with respect to any such approval of an Exception Mortgage Loan other than

5

---

a Wet-Ink Mortgage Loan and \$10 with respect to any such approval of an Exception Mortgage Loan which is a Wet-Ink Mortgage Loan; and provided further, that upon 30 days’ notice to the Seller, Buyer may change such Exception Mortgage Loan approval fee. Buyer’s approval of a Mortgage Loan as an Exception Mortgage Loan shall expire on the earlier of (a) the date set forth by the Buyer in the written notice that such Mortgage Loan is approved as an Exception Mortgage Loan (an “Exception Notice”) or (b) the occurrence of any additional event, other than that set forth in the Exception Notice, which would cause the Mortgage Loan to become ineligible for purchase hereunder. The Pricing Rate, Market Value, Purchase Price and Asset Value with respect to Exception Mortgage Loans shall be set in the sole discretion of Buyer. Buyer may at any time, and in its sole discretion, no longer consider a Mortgage Loan an Exception Mortgage Loan, in which case such Mortgage Loan shall have an Asset Value of zero.

“Existing Indebtedness” has the meaning specified in Section 13.a(23) hereof.

“Fannie Mae” means the Federal National Mortgage Association or any successor thereto.

“FHA” means the Federal Housing Administration, an agency within the United States Department of Housing and Urban Development, or any successor thereto, and including the Federal Housing Commissioner and the Secretary of Housing and Urban Development where appropriate under the FHA Regulations.

“FHA 203(k) Loan” means an FHA Loan that is eligible for FHA’s 203(k) loan program.

“FHA Approved Mortgagee” means a corporation or institution approved as a mortgagee by the FHA under the National Housing Act, as amended from time to time, and applicable FHA Regulations, and eligible to own and service mortgage loans such as the FHA Loans.

“FHA Loan” means a Mortgage Loan which is the subject of an FHA Mortgage Insurance Contract.

“FHA Mortgage Insurance” means, mortgage insurance authorized under the National Housing Act, as amended from time to time, and provided by the FHA.

“FHA Mortgage Insurance Contract” means the contractual obligation of the FHA respecting the insurance of a Mortgage Loan.

“FHA Regulations” means the regulations promulgated by the Department of Housing and Urban Development under the National Housing Act, as amended from time to time and codified in 24 Code of Federal Regulations, and other Department of Housing and Urban Development issuances relating to FHA Loans, including the related handbooks, circulars, notices and mortgagee letters.

“FICO” means Fair Isaac & Co., or any successor thereto.

6

---

“Fidelity Insurance” shall mean insurance coverage with respect to employee errors, omissions, dishonesty, forgery, theft, disappearance and destruction, robbery and safe burglary, property (other than money and securities) and computer fraud in an aggregate amount acceptable to Seller’s

regulators.

“Freddie Mac” means the Federal Home Loan Mortgage Corporation or any successor thereto.

“GAAP” means generally accepted accounting principles in effect from time to time in the United States of America and applied on a consistent basis.

“GNMA” means the Government National Mortgage Association and any successor thereto.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, or any entity exercising executive, legislative, judicial, regulatory or administrative functions over Seller, Guarantors or Buyer, as applicable.

“Gross Margin” means, with respect to each adjustable rate Mortgage Loan, the fixed percentage amount set forth in the related Mortgage Note.

“Guarantee” means, as to any Person, any obligation of such Person directly or indirectly guaranteeing any Indebtedness of any other Person or in any manner providing for the payment of any Indebtedness of any other Person or otherwise protecting the holder of such Indebtedness against loss (whether by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, or to take-or-pay or otherwise); provided that the term “Guarantee” shall not include (a) endorsements for collection or deposit in the ordinary course of business, or (b) obligations to make servicing advances in respect of a Mortgage Loan or Mortgaged Property. The amount of any Guarantee of a Person shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith. The terms “Guarantee” and “Guaranteed” used as verbs shall have correlative meanings.

“Guarantor” means IRES and Impac each in its capacity as guarantor under the Guaranty.

“Guaranty” means the guaranty of the Guarantors, dated as of the date hereof, as the same may be amended from time to time, pursuant to which each Guarantor fully and unconditionally guarantees the obligations of the Seller hereunder.

“High Cost Mortgage Loan” means a Mortgage Loan (a) classified as a “high cost” loan under the Home Ownership and Equity Protection Act of 1994; (b) classified as a “high cost,” “threshold,” “covered,” or “predatory” loan under any other applicable state, federal or local law (or a similarly classified loan using different terminology under a law, regulation or ordinance imposing heightened regulatory scrutiny or additional legal liability for residential mortgage loans having high interest rates, points and/or fees) or (c) having a percentage listed under the Indicative Loss Severity Column (the column that appears in the S&P Anti-Predatory Lending Law Update Table, included in the then-current S&P’s LEVELS® Glossary of Terms on Appendix E).

7

---

“Impac” means Impac Mortgage Holdings, Inc. and any successor or assign permitted under the Guaranty.

“Income” means, with respect to any Purchased Mortgage Loan at any time until repurchased by the Seller, any principal and all interest received thereon or in respect thereof.

“Indebtedness” means, for any Person: at any time, and only to the extent outstanding at such time: (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business, so long as such trade accounts payable are payable within 90 days after the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective Indebtedness so secured has been assumed by such Person; (d) obligations (contingent or otherwise) of such Person in respect of letters of credit or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; (e) Capital Lease Obligations of such Person; (f) obligations of such Person under repurchase agreements, sale/buy-back agreements or like arrangements, including, without limitation, any Indebtedness arising hereunder; (g) Indebtedness of others Guaranteed by such Person; (h) all obligations of such Person incurred in connection with the acquisition or carrying of fixed assets by such Person; (i) Indebtedness of general partnerships of which such Person is a general partner and (j) with respect to clauses (a)-(i) above both on and off balance sheet.

“Index” means, with respect to any adjustable rate Mortgage Loan, the index identified on the Mortgage Loan Schedule and set forth in the related Mortgage Note for the purpose of calculating the applicable Mortgage Interest Rate.

“Interest Only Adjustment Date” means, with respect to each Interest Only Loan, the date, specified in the related Mortgage Note on which the Monthly Payment will be adjusted to include principal as well as interest.

“Interest Only Loan” means a Mortgage Loan which only requires payments of interest for a period of time specified in the related Mortgage Note.

“Interest Rate Adjustment Date” means the date on which an adjustment to the Mortgage Interest Rate with respect to each Mortgage Loan becomes effective.

“Interest Rate Protection Agreement” means, with respect to any or all of the Purchased Mortgage Loans, any short sale of a US Treasury Security, or futures contract, or mortgage related security, or Eurodollar futures contract, or options related contract, or interest rate swap, cap or collar agreement or Take-out Commitment, or similar arrangement providing for protection against fluctuations in interest rates or the exchange of nominal interest obligations, either generally or under specific contingencies, entered into by Seller.

8

“IRES” means Integrated Real Estate Service Corp. and any successor or assign permitted under the Guaranty.

“Lender Insurance Authority” means the permission granted to certain FHA-approved lenders to process single family mortgage applications without first submitting documentation to United States Department of Housing and Urban Development as set forth in 12 U.S.C. §1715z-21 and the regulations enacted thereunder set forth in 24 CFR §203.6.

“Lien” means any mortgage, lien, pledge, charge, security interest or similar encumbrance.

“Loan to Value Ratio” or “LTV” means with respect to any Mortgage Loan, the ratio of the original outstanding principal amount of such Mortgage Loan to the lesser of (a) the Appraised Value of the Mortgaged Property at origination or (b) if the Mortgaged Property was purchased within 12 months of the origination of such Mortgage Loan, the purchase price of the Mortgaged Property.

“Margin Call” has the meaning specified in Section 6.a hereof.

“Margin Deadline” has the meaning specified in Section 6.b hereof.

“Margin Deficit” has the meaning specified in Section 6.a hereof.

“Market Value” has the meaning assigned to such term in the Pricing Side Letter.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of Seller, any Guarantor or any Affiliate that is a party to any Program Agreement taken as a whole; (b) a material impairment of the ability of Seller, any Guarantor or any Affiliate that is a party to any Program Agreement to perform under any Program Agreement and to avoid any Event of Default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability of any Program Agreement against Seller, any Guarantor or any Affiliate that is a party to any Program Agreement, in each case as determined by the Buyer in its sole good faith discretion.

“Maximum Aggregate Purchase Price” has the meaning assigned to such term in the Pricing Side Letter.

“MERS” means Mortgage Electronic Registration Systems, Inc., a corporation organized and existing under the laws of the State of Delaware, or any successor thereto.

“MERS System” means the system of recording transfers of mortgages electronically maintained by MERS.

“Monthly Payment” means the scheduled monthly payment of principal and/or interest on a Mortgage Loan.

“Moody’s” means Moody’s Investors Service, Inc. or any successors thereto.

“Mortgage” means each mortgage, assignment of rents, security agreement and fixture filing, or deed of trust, assignment of rents, security agreement and fixture filing, deed to secure debt, assignment of rents, security agreement and fixture filing, or similar instrument creating and evidencing a lien on real property and other property and rights incidental thereto.

“Mortgage File” means, with respect to a Mortgage Loan, the documents and instruments relating to such Mortgage Loan and set forth in an exhibit to the Custodial Agreement.

“Mortgage Interest Rate” means the rate of interest borne on a Mortgage Loan from time to time in accordance with the terms of the related Mortgage Note.

“Mortgage Interest Rate Cap” means, with respect to an adjustable rate Mortgage Loan, the limit on each Mortgage Interest Rate adjustment as set forth in the related Mortgage Note.

“Mortgage Loan” means any first lien closed Conforming Mortgage Loan, Conforming High LTV Loan, FHA Loan, VA Loan or FHA 203(k) Loan which is a fixed or floating-rate, one-to-four-family residential mortgage or home equity loan evidenced by a promissory note and secured by a first lien mortgage, which satisfies the requirements set forth in the Underwriting Guidelines and Section 13.b hereof; provided, however, that, except with respect to Conforming High LTV Loans and as expressly approved in writing by Buyer, Mortgage Loans shall not include any “high-LTV” loans (i.e., a mortgage loan having a loan-to-value ratio in excess of (a) with respect to FHA Loans or VA Loans, 97% (other than VA High LTV Loans), (b) with respect to Conforming Mortgage Loans (other than Conforming High LTV Loans), up to but not including 105% (provided that Conforming Mortgage Loans, other than Conforming High LTV Loans, with an LTV of 80% or higher must be covered by primary mortgage insurance) or (c) such lower percentage set forth in the Underwriting Guidelines) or any High Cost Mortgage Loans and; provided, further, that the related Purchase Date is no more than thirty (30) days following the origination date.

“Mortgage Loan Documents” means the documents in the related Mortgage File to be delivered to the Custodian.

“Mortgage Loan Schedule” means, with respect to any Transaction as of any date, a mortgage loan schedule in the form of a computer tape or other electronic medium generated by Seller, and delivered to Buyer and Custodian, which provides information required by Buyer to enter into Transactions relating to the Purchased Mortgage Loans in a format acceptable to Buyer.

“Mortgage Note” means the promissory note or other evidence of the indebtedness of a Mortgagor secured by a Mortgage.

“Mortgaged Property” means the real property securing repayment of the debt evidenced by a Mortgage Note.

“Mortgagor” means the obligor or obligors on a Mortgage Note, including any person who has assumed or guaranteed the obligations of the obligor thereunder.

“MSR Valuation” shall mean the lesser of (i) the value of the mortgage servicing rights owned by the Seller as set forth in the Seller’s most recent balance sheet as determined by the Seller as of such date in accordance with generally accepted accounting principles, (ii) the Buyer’s valuation of such mortgage servicing rights as determined by the Buyer in its good faith discretion, or (iii) a Third Party Evaluator’s valuation of such mortgage servicing rights as determined by such Third Party Evaluator.

“Multiemployer Plan” means a multiemployer plan defined as such in Section 3(37) of ERISA to which contributions have been or are required to be made by Seller or any ERISA Affiliate and that is covered by Title IV of ERISA.

“Net Income” means, for any period and any Person, the net income of such Person for such period as determined in accordance with GAAP.

“Net Worth” means, with respect to any Person, an amount equal to, on a consolidated basis, such Person’s stockholder equity (determined in accordance with GAAP).

“1934 Act” means the Securities Exchange Act of 1934, as amended from time to time.

“Non-Performing Mortgage Loan” means (a) any Mortgage Loan for which any payment of principal or interest is more than twenty-nine (29) days past the Due Date, (b) any Mortgage Loan with respect to which the related Mortgagor is in bankruptcy or (c) any Mortgage Loan with respect to which the related Mortgaged Property is in foreclosure.

“Non-Utilization Fee” has the meaning assigned to such term in the Pricing Side Letter.

“Obligations” means (a) all of Seller’s indebtedness, obligations to pay the Repurchase Price on the Repurchase Date, the Price Differential on each Price Differential Payment Date, and other obligations and liabilities, to Buyer or Custodian arising under the Program Agreements, whether now existing or hereafter arising; (b) any and all sums paid by Buyer or on behalf of Buyer in order to preserve any Purchased Mortgage Loan or its interest therein; (c) in the event of any proceeding for the collection or enforcement of any of Seller’s indebtedness, obligations or liabilities referred to in clause (a), the reasonable expenses of retaking, holding, collecting, preparing for sale, selling or otherwise disposing of or realizing on any Purchased Mortgage Loan, or of any exercise by Buyer of its rights under the Program Agreements, including, without limitation, attorneys’ fees and disbursements and court costs; and (d) all of Seller’s indemnity obligations to Buyer or Custodian or both pursuant to the Program Agreements.

“OFAC” has the meaning set forth in Section 13.a(27) hereof.

“Officer’s Compliance Certificate” has the meaning assigned to such term in the Pricing Side Letter.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Pension Protection Act” means the Pension Protection Act of 2006.

“Person” means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

“Plan” means an employee benefit or other plan established or maintained by Seller or any ERISA Affiliate and covered by Title IV of ERISA, other than a Multiemployer Plan.

“Post Default Rate” has the meaning assigned to such term in the Pricing Side Letter.

“Power of Attorney” means a Power of Attorney substantially in the form of Exhibit D hereto.

“Price Differential” means with respect to any Transaction as of any date of determination, an amount equal to the product of (a) the Pricing Rate for such Transaction and (b) the Purchase Price for such Transaction, calculated daily on the basis of a 360-day year for the actual number of days during the period commencing on (and including) the Purchase Date for such Transaction and ending on (but excluding) the Repurchase Date adjusted as provided by Section 5.c hereof.

“Price Differential Payment Date” means, with respect to a Purchased Mortgage Loan, the 5th day of the month following the related Purchase Date and each succeeding 5th day of the month thereafter; provided, that, with respect to such Purchased Mortgage Loan, the final Price Differential Payment Date shall be the related Repurchase Date; and provided, further, that if any such day is not a Business Day, the Price Differential Payment Date shall be the next succeeding Business Day.

“Pricing Rate” has the meaning assigned to such term in the Pricing Side Letter.

“Pricing Side Letter” means, the letter agreement dated as of the date hereof, among Buyer, Seller and the Guarantors, as the same may be amended from time to time.

“Program Agreements” means, collectively, this Agreement, the Guaranty, the Custodial Agreement, the Pricing Side Letter, the Electronic Tracking Agreement, the Power of Attorney, the Servicing Agreement, if any, the Servicer Notice, if entered into and, with respect to each Exception Mortgage Loan, a Purchase Confirmation.

“Prohibited Person” has the meaning set forth in Section 13.a(27) hereof.

12

---

“Property” means any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

“Purchase Confirmation” means, with respect to an Exception Mortgage Loan, a confirmation of a Transaction, in the form attached as Exhibit A hereto.

“Purchase Date” means the date on which Purchased Mortgage Loans are to be transferred by Seller to Buyer.

“Purchase Price” means the price at which each Purchased Mortgage Loan is transferred by Seller to Buyer, which shall equal:

(a) on the Purchase Date, in the case of all Purchased Mortgage Loans, the applicable Purchase Price Percentage multiplied by the lesser of either: (x) the Market Value of such Purchased Mortgage Loan or (y) the outstanding principal amount thereof as set forth on the related Mortgage Loan Schedule;

(b) on any day after the Purchase Date, except where Buyer and the Seller agree otherwise, the amount determined under the immediately preceding clause (a) decreased by the amount of any cash transferred by the Seller to Buyer pursuant to Section 6 hereof or applied to reduce the Seller’s obligations under Section 4(b) or Section 4.c(ii) hereof.

“Purchase Price Percentage” has the meaning assigned to such term in the Pricing Side Letter.

“Purchased Mortgage Loans” means the collective reference to Mortgage Loans together with the Repurchase Assets related to such Mortgage Loans transferred by Seller to Buyer in a Transaction hereunder, listed on the related Mortgage Loan Schedule attached to the related Transaction Request, which such Mortgage Loans the Custodian has been instructed to hold pursuant to the Custodial Agreement and which Mortgage Loan has not been repurchased by Seller in accordance with the terms thereof.

“Qualified Insurer” means an insurance company duly authorized and licensed where required by law to transact insurance business and approved as an insurer by Fannie Mae or Freddie Mac.

“Qualified Originator” means an originator of Mortgage Loans which is acceptable under the Underwriting Guidelines.

“Records” means all instruments, agreements and other books, records, and reports and data generated by other media for the storage of information maintained by Seller, Servicer or any other person or entity with respect to a Purchased Mortgage Loan. Records shall include the Mortgage Notes, any Mortgages, the Mortgage Files, the credit files related to the Purchased Mortgage Loan and any other instruments necessary to document or service a Mortgage Loan.

“REO Property” means real property acquired by Seller, including a Mortgaged Property acquired through foreclosure of a Mortgage Loan or by deed in lieu of such foreclosure.

13

---

“Reporting Date” means the 15<sup>th</sup> day of each month or, if such day is not a Business Day, the next succeeding Business Day.

“Repurchase Assets” has the meaning assigned thereto in Section 8 hereof.

“Repurchase Date” means the earlier of (a) the Termination Date, (b) the date requested pursuant to Section 4(a), (c) the date set forth in the applicable Purchase Confirmation with respect to an Exception Mortgage Loan or (d) the date determined by application of Section 16 hereof.

“Repurchase Price” means the price at which Purchased Mortgage Loans are to be transferred from Buyer to Seller upon termination of a Transaction, which will be determined in each case (including Transactions terminable upon demand) as the sum of the Purchase Price and the accrued but unpaid Price Differential as of the date of such determination.

“Request for Certification” means a notice sent to the Custodian reflecting the sale of one or more Purchased Mortgage Loans to Buyer hereunder.

“Requirement of Law” means, with respect to any Person, any law, treaty, rule or regulation or determination of an arbitrator, a court or other governmental authority, applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Responsible Officer” means as to any Person, the chief executive officer or, with respect to financial matters, the chief financial officer of such Person.

“S&P” means Standard & Poor’s Ratings Services, or any successor thereto.

“SEC” means the Securities and Exchange Commission, or any successor thereto.

“Seller” means Excel Mortgage Servicing, Inc. or its permitted successors and assigns.

“Servicer” means any servicer approved by Buyer in its sole discretion, which may be LoanCare or Seller.

“Servicer Notice” means the notice acknowledged by a third party Servicer substantially in the form of Exhibit J hereto.

“Servicing Agreement” means any servicing agreement entered into among Seller and a third party Servicer as the same may be amended from time to time.

“Servicing Rights” means rights of any Person to administer, service or subservice, the Purchased Mortgage Loans or to possess related Records.

“Settlement Agent” means, with respect to any Transaction the subject of which is a Wet-Ink Mortgage Loan, the entity approved by Buyer, in its sole good-faith discretion, which may be a title company, escrow company or attorney in accordance with local law and practice in the jurisdiction where the related Wet-Ink Mortgage Loan is being originated. A Settlement Agent is deemed approved unless Buyer notifies Seller otherwise at any time electronically or in writing.

14

---

“SIPA” means the Securities Investor Protection Act of 1970, as amended from time to time.

“Subordinated Debt” means, Indebtedness of Seller which is (a) unsecured, (b) no part of the principal of such Indebtedness is required to be paid (whether by way of mandatory sinking fund, mandatory redemption, mandatory prepayment or otherwise) prior to the date which is one year following the Termination Date and (c) the payment of the principal of and interest on such Indebtedness and other obligations of Seller in respect of such Indebtedness are subordinated to the prior payment in full of the principal of and interest (including post-petition obligations) on the Transactions and all other obligations and liabilities of Seller to Buyer hereunder on terms and conditions approved in writing by Buyer and all other terms and conditions of which are satisfactory in form and substance to Buyer.

“Subsidiary” means, with respect to any Person, any corporation, partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person.

“Take-out Commitment” means a commitment of Seller to either (a) sell one or more identified Mortgage Loans to a Take-out Investor or (b) (i) swap one or more identified Mortgage Loans with a Take-out Investor that is an Agency for an Agency Security, and (ii) sell the related Agency Security to a Take-out Investor, and in each case, the corresponding Take-out Investor’s commitment back to Seller to effectuate any of the foregoing, as applicable. With respect to any Take-out Commitment with an Agency, the applicable agency documents list Buyer as sole subscriber.

“Take-out Investor” means (a) an Agency or (b) other institution which has made a Take-out Commitment and has been approved by Buyer.

“Termination Date” has the meaning assigned to such term in the Pricing Side Letter.

“Test Period” has the meaning assigned to such term in the Pricing Side Letter.

“Third Party Evaluator” shall mean an appraiser approved by Buyer in its sole good faith discretion.

“Transaction” has the meaning set forth in Section 1 hereof.

15

---

“Transaction Request” means a request via email from Seller to Buyer notifying Buyer that Seller wishes to enter into a Transaction hereunder that indicates that it is a Transaction Request under this Agreement.

“Trust Receipt” means, with respect to any Transaction as of any date, a receipt in the form attached as an exhibit to the Custodial Agreement.

“Underwriting Guidelines” means the standards, procedures and guidelines of the Seller for underwriting and acquiring Mortgage Loans, which are set forth in the written policies and procedures of the Seller, a copy of which have been provided to Buyer and such other guidelines as are identified to and approved in writing by Buyer.

“Unencumbered Mortgage Servicing Rights” means any mortgage servicing rights that are not Encumbered Mortgage Servicing Rights.

“Uniform Commercial Code” means the Uniform Commercial Code as in effect on the date hereof in the State of New York or the Uniform Commercial Code as in effect in the applicable jurisdiction.

“VA” means the U.S. Department of Veterans Affairs, an agency of the United States of America, or any successor thereto including the Secretary of Veterans Affairs.

“VA Approved Lender” means a lender which is approved by the VA to act as a lender in connection with the origination of VA Loans.



“VA High LTV Loan” means a VA Loan with an LTV of 98% or higher but not to exceed 115%.

“VA Loan” means a Mortgage Loan which is subject of a VA Loan Guaranty Agreement as evidenced by a loan guaranty certificate, or a Mortgage Loan which is a vender loan sold by the VA.

“VA Loan Guaranty Agreement” means the obligation of the United States to pay a specific percentage of a Mortgage Loan (subject to a maximum amount) upon default of the Mortgagor pursuant to the Servicemen’s Readjustment Act, as amended.

“Violation Deadline” has the meaning assigned thereto in Section 4.c hereof.

“Wet-Ink Delivery Date” has the meaning assigned to such term in the Pricing Side Letter.

“Wet-Ink Documents” means, with respect to any Wet-Ink Mortgage Loan, the (a) Transaction Request and (b) the Mortgage Loan Schedule.

“Wet-Ink Mortgage Loan” means a Mortgage Loan which Seller is selling to Buyer simultaneously with the origination thereof.

### 3. Program; Initiation of Transactions

a. From time to time, in the sole discretion of Buyer, Buyer may purchase from Seller certain Mortgage Loans that have been either originated by Seller or purchased by Seller from other originators. **This Agreement is not a commitment by Buyer to enter into Transactions with Seller but rather sets forth the procedures to be used in connection with periodic requests for Buyer to enter into Transactions with Seller. Seller hereby acknowledges that Buyer is under no obligation to agree to enter into, or to enter into, any Transaction pursuant to this Agreement.** All Purchased Mortgage Loans shall exceed or meet the Underwriting Guidelines, and shall be serviced by Seller or Servicer, as applicable. The aggregate Purchase Price of Purchased Mortgage Loans subject to outstanding Transactions shall not exceed the Maximum Aggregate Purchase Price.

b. Seller shall request that Buyer enter into a Transaction by delivering (i) to Buyer, a Transaction Request (A) one (1) Business Day prior to the proposed Purchase Date for Mortgage Loans that are not Wet-Ink Mortgage Loans or (B) by 3:30 p.m. (New York City time) on the proposed Purchase Date for Wet-Ink Mortgage Loans and (ii) to Buyer and Custodian a Mortgage Loan Schedule, in accordance with the Custodial Agreement. In the event the Mortgage Loan Schedule provided by Seller contains erroneous computer data, is not formatted properly or the computer fields are otherwise improperly aligned, Buyer shall provide written or electronic notice to Seller describing such error and Seller shall correct the computer data, reformat or properly align the computer fields itself and resubmit the Mortgage Loan Schedule as required herein.

c. With respect to each Exception Mortgage Loan, upon receipt of the Transaction Request, Buyer shall, consistent with this Agreement, specify the terms for such proposed Transaction, including the Purchase Price, the Pricing Rate, the Asset Value and the Repurchase Date in respect of such Transaction. The terms thereof shall be set forth in the Purchase Confirmation to be delivered to Seller on or prior to the Purchase Date.

d. With respect to each Exception Mortgage Loan, the Purchase Confirmation, together with this Agreement, shall constitute conclusive evidence of the terms agreed between Buyer and Seller with respect to the Transaction to which the Purchase Confirmation relates, and Seller’s acceptance of the related proceeds shall constitute Seller’s agreement to the terms of such Purchase Confirmation. It is the intention of the parties that, with respect to each Exception Mortgage Loan, each Purchase Confirmation shall not be separate from this Agreement but shall be made a part of this Agreement. In the event of any conflict between this Agreement and, with respect to each Exception Mortgage Loan, a Purchase Confirmation, the terms of the Purchase Confirmation shall control with respect to the related Transaction.

e. Upon the satisfaction of the applicable conditions precedent set forth in Section 10 hereof, all of Seller’s interest in the Repurchase Assets shall pass to Buyer on the Purchase Date, against the transfer of the Purchase Price to Seller. Upon transfer of the Mortgage Loans to Buyer as set forth in this Section and until termination of any

related Transactions as set forth in Sections 4 or 16 of this Agreement, ownership of each Mortgage Loan, including each document in the related Mortgage File and Records, is vested in Buyer; provided that, prior to the recordation by the Custodian as provided for in the Custodial Agreement record title in the name of Seller to each Mortgage shall be retained by Seller in trust, for the benefit of Buyer, for the sole purpose of facilitating the servicing and the supervision of the servicing of the Mortgage Loans.

f. With respect to each Wet-Ink Mortgage Loan, by no later than the Wet-Ink Delivery Date, Seller shall cause the related Settlement Agent to deliver to the Custodian the remaining documents in the Mortgage File, as more particularly set forth in the Custodial Agreement.

### 4. Repurchase

a. Seller shall repurchase the related Purchased Mortgage Loans from Buyer on each related Repurchase Date. In addition, Seller may repurchase Purchased Mortgage Loans without penalty or premium on any date. If Seller intends to make such a repurchase, Seller shall give one (1) Business Day’s prior written notice to Buyer, designating the Purchased Mortgage Loans to be repurchased. Such obligation to repurchase exists without regard to any prior or intervening liquidation or foreclosure with respect to any Purchased Mortgage Loan (but liquidation or foreclosure proceeds received by Buyer shall be applied to reduce the Repurchase Price for such Purchased Mortgage Loan on each Price Differential Payment Date except as otherwise provided herein). Seller is obligated to repurchase and take physical possession of the Purchased Mortgage Loans from Buyer or its designee (including the Custodian) at Seller’s expense on the related Repurchase Date.

b. Provided that no Default shall have occurred and is continuing, and Buyer has received the related Repurchase Price upon repurchase of the Purchased Mortgage Loans, Buyer hereby releases its ownership interest hereunder in the Purchased Mortgage Loans (including, the Repurchase Assets related thereto). The Purchased Mortgage Loans (including the Repurchase Assets related thereto) shall be delivered to Seller free and clear of any lien, encumbrance or claim. With respect to payments in full by the related Mortgagor of a Purchased Mortgage Loan, Seller agrees to promptly remit but in no event later than two (2) Business Days (or cause to be remitted) to Buyer the Repurchase Price with respect to such Purchased Mortgage Loan. Buyer agrees to release its ownership interest in Purchased Mortgage Loans which have been prepaid in full after receipt of evidence of compliance with the immediately preceding sentence.

c. In the event that at any time any Purchased Mortgage Loan violates the applicable sublimit set forth in the definition of Asset Value, Buyer may, in its sole discretion but with prior written notice to Seller, redesignate such Mortgage Loan as an Exception Mortgage Loan. If Buyer does not redesignate such Mortgage Loan as an Exception Mortgage Loan, and if Seller fails to notify Buyer within five (5) Business Days following notice of such violation that Seller does not want to receive a bid for such Mortgage Loan as described below, Buyer or an Affiliate of Buyer may offer to terminate Seller's right and obligation to repurchase such Mortgage Loan by paying Seller a price to

18

---

be set by Buyer in its sole discretion (a "Bid"). Seller, within five (5) Business Days after receipt of Buyer's bid (the "Violation Deadline") may, in its sole discretion, either (i) accept Buyer's bid, terminating Seller's right and obligation to repurchase such Mortgage Loan under this Agreement or (ii) immediately repurchase the Mortgage Loan at the Repurchase Price in accordance with this Section 4. Any amount paid by Buyer or its Affiliate to terminate Seller's right and obligation to repurchase a Purchased Mortgage Loan if a Bid is accepted pursuant to this Section shall be applied by Buyer toward the outstanding Repurchase Price for the applicable Transaction.

## 5. Price Differential.

a. On each Business Day that a Transaction is outstanding, the Pricing Rate shall be reset and, unless otherwise agreed, the accrued and unpaid Price Differential shall be settled in cash on each related Price Differential Payment Date. Two Business Days prior to the Price Differential Payment Date, Buyer shall give Seller written or electronic notice of the amount of the Price Differential due on such Price Differential Payment Date. On the Price Differential Payment Date, Seller shall pay to Buyer the Price Differential for such Price Differential Payment Date (along with any other amounts to be paid pursuant to Sections 7 hereof and Section 3 of the Pricing Side Letter), by wire transfer in immediately available funds.

b. If Seller fails to pay all or part of the Price Differential by 3:00 p.m. (New York City time) on the related Price Differential Payment Date, with respect to any Purchased Mortgage Loan, Seller shall be obligated to pay to Buyer (in addition to, and together with, the amount of such Price Differential) interest on the unpaid Repurchase Price at a rate per annum equal to the Post Default Rate until the Price Differential is received in full by Buyer.

c. Seller may remit to Buyer funds in an amount up to the outstanding Purchase Price of the Purchased Mortgage Loans, to be held as unsegregated cash margin and collateral for all Obligations under this Agreement (such amount, to the extent not applied to Obligations under this Agreement, the "Buydown Amount"). The Buydown Amount shall be used by Buyer in order to calculate the aggregate Price Differential, which will accrue on the aggregate Purchase Price then outstanding minus the Buydown Amount, applied to Transactions involving the lowest Pricing Rate. The Seller shall be entitled to request a drawdown of the Buydown Amount or remit additional funds to be added to the Buydown Amount no more than one time per week. Without limiting the generality of the foregoing, in the event that a Margin Call or an Event of Default has occurred and is continuing, the Buyer shall be entitled to use any or all of the Buydown Amount to cure such circumstance or otherwise exercise remedies available to the Buyer without prior notice to, or consent from, the Seller. Within two (2) Business Days' after receipt of written request from Seller, and provided no Margin Call is outstanding and no Event of Default has occurred and is continuing, Buyer shall remit any portion of such Buydown Amount back to Seller.

19

---

## 6. Margin Maintenance

a. If at any time the outstanding Purchase Price of any Purchased Mortgage Loan subject to a Transaction is greater than the Asset Value of such Purchased Mortgage Loan subject to a Transaction (a "Margin Deficit"), then Buyer may by notice to Seller require Seller to transfer to Buyer cash in an amount at least equal to the Margin Deficit (such requirement, a "Margin Call").

b. Notice delivered pursuant to Section 6.a above may be given by any written or electronic means. Any notice given before 1:00 p.m. (New York City time) on a Business Day shall be met, and the related Margin Call satisfied, no later than 5:00 p.m. (New York City time) on such Business Day; notice given after 1:00 p.m. (New York City time) on a Business Day shall be met, and the related Margin Call satisfied, no later than 1:00 p.m. (New York City time) on the following Business Day (the foregoing time requirements for satisfaction of a Margin Call are referred to as the "Margin Deadlines"). The failure of Buyer, on any one or more occasions, to exercise its rights hereunder, shall not change or alter the terms and conditions to which this Agreement is subject or limit the right of Buyer to do so at a later date. Seller and Buyer each agree that a failure or delay by Buyer to exercise its rights hereunder shall not limit or waive Buyer's rights under this Agreement or otherwise existing by law or in any way create additional rights for Seller.

c. In the event that a Margin Deficit exists with respect to any Purchased Mortgage Loan, Buyer may retain any funds received by it to which the Seller would otherwise be entitled hereunder, which funds (i) shall be held by Buyer against the related Margin Deficit and (ii) may be applied by Buyer against the Repurchase Price of any Purchased Mortgage Loan for which the related Margin Deficit remains otherwise unsatisfied. Notwithstanding the foregoing, the Buyer retains the right, in its sole discretion, to make a Margin Call in accordance with the provisions of this Section 6.

## 7. Income Payments

a. If Income is paid in respect of any Purchased Mortgage Loan during the term of a Transaction, such Income shall be the property of Buyer. Upon the occurrence and continuance of an Event of Default, Seller shall and shall cause Servicer to deposit all Income to the account set forth in Section 9, upon receipt thereof, in accordance with Section 12.c hereof.

b. Provided no Event of Default has occurred and is continuing, on each Price Differential Payment Date, Seller shall remit to Buyer an amount equal to the Price Differential out of the interest portion of the Income paid in respect to the Purchased Mortgage Loans for the preceding month in accordance with Section 5 of this Agreement.

c. Notwithstanding any provision to the contrary in this Section 7, promptly but in no event later than two (2) Business Days after receipt by Seller of any prepayment of principal in full, with respect to a Purchased Mortgage Loan, Seller shall remit such amount to Buyer and Buyer shall immediately apply any such amount received by Buyer to reduce the amount of the Repurchase Price due upon termination of the related Transaction.

20

---

## 8. Security Interest

a. On each Purchase Date, Seller hereby sells, assigns and conveys all rights and interests in the Purchased Mortgage Loans identified on the related Mortgage Loan Schedule and the Repurchase Assets. Although the parties intend that all Transactions hereunder be sales and purchases and not loans, in the event any such Transactions are deemed to be loans, and in any event, Seller hereby pledges to Buyer as security for the performance by Seller of its Obligations and hereby grants, assigns and pledges to Buyer a perfected security interest in all of Seller's right, title and interest in and to the Purchased Mortgage Loans, any Agency Security or right to receive such Agency Security when issued to the extent backed by any of the Purchased Mortgage Loans, the Records, and all related Servicing Rights, the Program Agreements (to the extent such Program Agreements and Seller's right thereunder relate to the Purchased Mortgage Loans), any related Take-out Commitments, any Property relating to the Purchased Mortgage Loans, all insurance policies and insurance proceeds relating to any Purchased Mortgage Loan or the related Mortgaged Property, including, but not limited to, any payments or proceeds under any related primary insurance, hazard insurance and FHA Mortgage Insurance Contracts and VA Loan Guaranty Agreements (if any), Income, the Buydown Amount and any account to which such amount is deposited, Interest Rate Protection Agreements, accounts (including any interest of Seller in escrow accounts) and any other contract rights, instruments, accounts, payments, rights to payment (including payments of interest or finance charges), general intangibles and other assets relating to the Purchased Mortgage Loans (including, without limitation, any other accounts) or any interest in the Purchased Mortgage Loans, and any proceeds (including the related securitization proceeds) and distributions with respect to any of the foregoing and any other property, rights, title or interests as are specified on a Transaction Request and/or Trust Receipt, in all instances, whether now owned or hereafter acquired, now existing or hereafter created (collectively, the "Repurchase Assets").

b. The Seller and Guarantors each acknowledge that Seller has no rights to service the Purchased Mortgage Loans but only has rights as a party to the current Servicing Agreement. Without limiting the generality of the foregoing and in the event that the Seller is deemed to retain any residual Servicing Rights, and for the avoidance of doubt, Seller grants, assigns and pledges to Buyer a security interest in the Servicing Rights and proceeds related thereto and in all instances, whether now owned or hereafter acquired, now existing or hereafter created. The foregoing provision is intended to constitute a security agreement or other arrangement or other credit enhancement related to this Agreement and Transactions hereunder as defined under Sections 101(47)(A)(v) and 741(7)(A)(xi) of the Bankruptcy Code.

c. Seller agrees to execute, deliver and/or file such documents and perform such acts as may be reasonably necessary to fully perfect Buyer's security interest created hereby. Furthermore, the Seller hereby authorizes the Buyer to file financing statements relating to the Repurchase Assets, as the Buyer, at its option, may deem appropriate. The Seller shall pay the filing costs for any financing statement or statements prepared pursuant to this Section 8.

21

---

## 9. Payment and Transfer

Unless otherwise mutually agreed in writing, all transfers of funds to be made by Seller hereunder shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to Buyer at the following account maintained by Buyer: Account No. 30872061, for the account of CSFB Buyer/Excel-Inbound Account, Citibank, ABA No. 021 000 089 or such other account as Buyer shall specify to Seller in writing. Seller acknowledges that it has no rights of withdrawal from the foregoing account. All Purchased Mortgage Loans transferred by one party hereto to the other party shall be in the case of a purchase by Buyer in suitable form for transfer or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as Buyer may reasonably request. All Purchased Mortgage Loans shall be evidenced by a Trust Receipt. Any Repurchase Price received by Buyer after 4:00 p.m. (New York City time) shall be deemed received on the next succeeding Business Day.

## 10. Conditions Precedent

a. Initial Transaction. As conditions precedent to the initial Transaction, Buyer shall have received on or before the day of such initial Transaction the following, in form and substance satisfactory to Buyer and duly executed by Seller, Guarantors and each other party thereto:

(1) Program Agreements. The Program Agreements duly executed and delivered by the parties thereto and being in full force and effect, free of any modification, breach or waiver.

(2) Security Interest. Evidence that all other actions necessary or, in the opinion of Buyer, desirable to perfect and protect Buyer's interest in the Purchased Mortgage Loans and other Repurchase Assets have been taken, including, without limitation, duly authorized and filed Uniform Commercial Code financing statements on Form UCC-1.

(3) Organizational Documents. A certificate of the corporate secretary of each of Seller and each Guarantor substantially in the form of Exhibit F hereto, attaching certified copies of Seller's and Guarantors' certificate of incorporation, bylaws and corporate resolutions

approving the Program Agreements and transactions thereunder (either specifically or by general resolution) and all documents evidencing other necessary corporate action or governmental approvals as may be required in connection with the Program Agreements.

(4) Good Standing Certificate. A certified copy of a good standing certificate from the jurisdiction of organization of Seller and Guarantors, dated as of no earlier than the date ten (10) Business Days prior to the Purchase Date with respect to the initial Transaction hereunder.

22

---

(5) Incumbency Certificate. An incumbency certificate of the corporate secretary of each of Seller and each Guarantor, certifying the names, true signatures and titles of the representatives duly authorized to request transactions hereunder and to execute the Program Agreements.

(6) Opinion of Counsel. An opinion of Seller's and Guarantors' counsel, in form and substance substantially as set forth in Exhibit E attached hereto.

(7) Underwriting Guidelines. A true and correct copy of the Underwriting Guidelines certified by an officer of the Seller.

(8) Fees. Payment of any fees due to Buyer hereunder.

(9) Insurance. Evidence that Seller has added Buyer as an additional loss payee under the Seller's Fidelity Insurance.

b. All Transactions. The obligation of Buyer to enter into each Transaction pursuant to this Agreement is subject to the following conditions precedent:

(1) Due Diligence Review. Without limiting the generality of Section 34 hereof, Buyer shall have completed, to its satisfaction, its due diligence review of the related Mortgage Loans and Seller, Guarantors and the Servicer.

(2) Required Documents.

(a) With respect to each Purchased Mortgage Loan which is not a Wet-Ink Mortgage Loan, the Mortgage File has been delivered to the Custodian in accordance with the Custodial Agreement.

(b) With respect to each Wet-Ink Mortgage Loan, the Wet-Ink Documents have been delivered to Buyer or Custodian, as the case may be, in accordance with the Custodial Agreement.

(3) Transaction Documents. Buyer or its designee shall have received on or before the day of such Transaction (unless otherwise specified in this Agreement) the following, in form and substance satisfactory to Buyer and (if applicable) duly executed:

(a) A Transaction Request and Mortgage Loan Schedule delivered by Seller pursuant to Section 3.b or 3.c hereof and a Purchase Confirmation with respect to an Exception Mortgage Loan.

(b) The Request for Certification and the related Mortgage Loan Schedule delivered by Seller, and the Trust Receipt and Custodial Mortgage Loan Schedule delivered by Custodian.

(c) Such certificates, opinions of counsel or other documents as Buyer may reasonably request.

23

---

(4) No Default. No Default or Event of Default shall have occurred and be continuing.

(5) Requirements of Law. Buyer shall not have determined that the introduction of or a change in any Requirement of Law or in the interpretation or administration of any Requirement of Law applicable to Buyer has made it unlawful, and no Governmental Authority shall have asserted that it is unlawful, for Buyer to enter into Transactions with a Pricing Rate based on CSCOF.

(6) Representations and Warranties. Both immediately prior to the related Transaction and also after giving effect thereto and to the intended use thereof, the representations and warranties made by Seller in each Program Agreement shall be true, correct and complete on and as of such Purchase Date in all material respects with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date).

(7) Electronic Tracking Agreement. To the extent Seller is selling Mortgage Loans which are registered on the MERS® System, an Electronic Tracking Agreement entered into, duly executed and delivered by the parties thereto and being in full force and effect, free of any modification, breach or waiver.

(8) Material Adverse Change. None of the following shall have occurred and/or be continuing:

(a) Credit Suisse AG, New York Branch's corporate bond rating as calculated by S&P or Moody's has been lowered or downgraded to a rating below investment grade by S&P or Moody's;

(b) an event or events shall have occurred in the good faith determination of Buyer resulting in the effective absence of a "repo market" or comparable "lending market" for financing debt obligations secured by mortgage loans or securities or an event or

events shall have occurred resulting in Buyer not being able to finance Purchased Mortgage Loans through the “repo market” or “lending market” with traditional counterparties at rates which would have been reasonable prior to the occurrence of such event or events; or

(c) an event or events shall have occurred resulting in the effective absence of a “securities market” for securities backed by mortgage loans or an event or events shall have occurred resulting in Buyer not being able to sell securities backed by mortgage loans at prices which would have been reasonable prior to such event or events; or

(d) there shall have occurred a material adverse change in the financial condition of Buyer which affects (or can reasonably be expected to affect) materially and adversely the ability of Buyer to fund its obligations under this Agreement.

## 11. Program; Costs

a. Seller shall reimburse Buyer for any of Buyer’s reasonable out-of-pocket costs, including due diligence review costs and reasonable attorney’s fees, incurred by Buyer in determining the acceptability to Buyer of any Mortgage Loans. Seller shall also pay, or reimburse Buyer if Buyer shall pay, any termination fee, which may be due any Servicer. Seller shall pay the reasonable fees and expenses of Buyer’s counsel in connection with the Program Agreements. Legal fees for any subsequent amendments to this Agreement or related documents shall be borne by Seller. Seller shall pay ongoing custodial fees and expenses as set forth in the Custodial Agreement, and any other ongoing fees and expenses in accordance with the terms of the Program Agreements.

b. If Buyer determines that, due to the introduction of, any change in, or the compliance by Buyer with (i) any eurocurrency reserve requirement or (ii) the interpretation of any law, regulation or any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be an increase in the cost to Buyer in engaging in the present or any future Transactions, then Seller agrees to pay to Buyer, from time to time, upon demand by Buyer (with a copy to Custodian) the actual cost of additional amounts as specified by Buyer to compensate Buyer for such increased costs.

c. With respect to any Transaction, Buyer may conclusively rely upon, and shall incur no liability to Seller in acting upon, any request or other communication that Buyer reasonably believes to have been given or made by a person authorized to enter into a Transaction on Seller’s behalf, whether or not such person is listed on the certificate delivered pursuant to Section 10.a(5) hereof.

d. Notwithstanding the assignment of the Program Agreements with respect to each Purchased Mortgage Loan to Buyer, Seller agrees and covenants with Buyer to enforce diligently Seller’s rights and remedies set forth in the Program Agreements.

e. Any payments made by Seller or any Guarantor to Buyer shall be free and clear of, and without deduction or withholding for, any taxes; provided, however, that if such payer shall be required by law to deduct or withhold any taxes from any sums payable to Buyer, then such payer shall (A) make such deductions or withholdings and pay such amounts to the relevant authority in accordance with applicable law, (B) pay to Buyer the sum that would have been payable had such deduction or withholding not been made, and (C) at the time Price Differential is paid, pay to Buyer all additional amounts as specified by Buyer to preserve the after-tax yield Buyer would have received if such tax had not been imposed, and otherwise indemnify Buyer for any such taxes imposed.

## 12. Servicing

a. Seller, on Buyer’s behalf, shall contract with Servicer to, or if Seller is the Servicer, Seller shall, service the Mortgage Loans consistent with the degree of skill and care that Seller customarily requires with respect to similar Mortgage Loans owned or managed by it and in accordance with Accepted Servicing Practices. The Seller and

Servicer shall (i) comply with all applicable Federal, State and local laws and regulations, (ii) maintain all state and federal licenses necessary for it to perform its servicing responsibilities hereunder and (iii) not impair the rights of Buyer in any Mortgage Loans or any payment thereunder. Buyer may terminate the servicing of any Mortgage Loan with the then existing Servicer in accordance with Section 12.e hereof.

b. Seller shall and shall cause the Servicer to hold or cause to be held all escrow funds collected by Seller and Servicer with respect to any Purchased Mortgage Loans in trust accounts and shall apply the same for the purposes for which such funds were collected.

c. Seller shall and shall cause the Servicer to deposit all collections received by Servicer on the Purchased Mortgage Loans in the account set forth in Section 9 upon the occurrence and during the continuance of an Event of Default.

d. In the event there is a third party Servicer and upon Buyer’s request, Seller shall provide promptly to Buyer a Servicer Notice addressed to and agreed to by the Servicer of the related Purchased Mortgage Loans, advising such Servicer of such matters as Buyer may reasonably request, including, without limitation, recognition by the Servicer of Buyer’s interest in such Purchased Mortgage Loans and the Servicer’s agreement that upon receipt of notice of an Event of Default from Buyer, it will follow the instructions of Buyer with respect to the Purchased Mortgage Loans and any related Income with respect thereto.

e. Upon written notice, Buyer shall have the right to immediately terminate the Servicer’s right to service the Purchased Mortgage Loans without payment of any penalty or termination fee. Seller and the Servicer shall cooperate in transferring the servicing of the Purchased Mortgage Loans to a successor servicer appointed by Buyer in its sole discretion.

f. If Seller should discover that, for any reason whatsoever, Seller or any entity responsible to Seller for managing or servicing any such Purchased Mortgage Loan has failed to perform fully Seller’s obligations under the Program Agreements or any of the obligations of such entities with respect to the Purchased Mortgage Loans, Seller shall promptly notify Buyer.

g. For the avoidance of doubt, the Seller retains no economic rights to the servicing of the Purchased Mortgage Loans other than the Seller's rights under the Servicing Agreement; provided that the Seller shall and shall cause the Servicer to continue to service the Purchased Mortgage Loans hereunder as part of its Obligations hereunder. As such, the Seller expressly acknowledges that the Purchased Mortgage Loans are sold to Buyer on a "servicing released" basis.

### 13. Representations and Warranties

a. Each of Seller and Guarantors represents and warrants to Buyer as of the date hereof and as of each Purchase Date for any Transaction that:

26

---

(1) Seller and Guarantors Existence. Seller has been duly organized and is validly existing as a corporation in good standing under the laws of the State of California. IRES has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Maryland. Impac has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Maryland.

(2) Licenses. Each of Seller and Guarantors is duly licensed or is otherwise qualified in each jurisdiction in which it transacts business for the business which it conducts and is not in default of any applicable federal, state or local laws, rules and regulations unless, in either instance, the failure to take such action is not reasonably likely (either individually or in the aggregate) to cause a Material Adverse Effect and is not in default of such state's applicable laws, rules and regulations. Each of Seller and Guarantors has the requisite power and authority and legal right to originate and purchase Mortgage Loans (as applicable) and to own, sell and grant a lien on all of its right, title and interest in and to the Mortgage Loans, and to execute and deliver, engage in the transactions contemplated by, and perform and observe the terms and conditions of, each Program Agreement and any Transaction Request. Seller is an FHA Approved Mortgagee and VA Approved Lender.

(3) Power. Each of Seller and Guarantors has all requisite corporate or other power, and has all governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as now being or as proposed to be conducted, except where the lack of such licenses, authorizations, consents and approvals would not be reasonably likely to have a Material Adverse Effect.

(4) Due Authorization. Each of Seller and Guarantors has all necessary corporate or other power, authority and legal right to execute, deliver and perform its obligations under each of the Program Agreements, as applicable. Each Program Agreement has been (or, in the case of Program Agreements not yet executed, will be) duly authorized, executed and delivered by Seller and Guarantors, all requisite or other corporate action having been taken, and each is valid, binding and enforceable against Seller and Guarantors in accordance with its terms except as such enforcement may be affected by bankruptcy, by other insolvency laws, or by general principles of equity.

(5) Financial Statements. The Seller has heretofore furnished to Buyer a copy of (a) its consolidated balance sheet and the consolidated balance sheets of its consolidated Subsidiaries for the fiscal year of the Seller ended December 31, 2011 and the related consolidated statements of income and retained earnings and of cash flows for the Seller and its consolidated Subsidiaries for such fiscal year, setting forth in each case in comparative form the figures for the previous year, with the opinion thereon of Squar, Milner, Peterson, Miranda & Williamson, LLP and (b) its consolidated balance sheet and the consolidated balance sheets of its consolidated Subsidiaries for the quarterly fiscal periods of the Seller ended March 31, 2012 and June 30, 2012 and the related consolidated statements of income and retained earnings and of cash flows for the Seller and its consolidated Subsidiaries for such quarterly fiscal periods, setting forth in each

27

---

case in comparative form the figures for the previous year. All such financial statements are complete and correct and fairly present, in all material respects, the consolidated financial condition of the Seller and its Subsidiaries and the consolidated results of their operations as at such dates and for such fiscal periods, all in accordance with GAAP (other than monthly financial statements solely with respect to footnotes, year-end adjustments and cash flow statements) applied on a consistent basis. Since December 31, 2012, there has been no material adverse change in the consolidated business, operations or financial condition of the Seller and its consolidated Subsidiaries taken as a whole from that set forth in said financial statements nor is Seller aware of any state of facts which (with notice or the lapse of time) would or could result in any such material adverse change. The Seller has, on the date of the statements delivered pursuant to this Section (the "Statement Date") no liabilities, direct or indirect, fixed or contingent, matured or unmatured, known or unknown, or liabilities for taxes, long-term leases or unusual forward or long-term commitments not disclosed by, or reserved against in, said balance sheet and related statements, and at the present time there are no material unrealized or anticipated losses from any loans, advances or other commitments of Seller except as heretofore disclosed to Buyer in writing. Since December 31, 2012, there has been no material adverse change in the financial condition of each Guarantor from that set forth in said financial statements nor is any Guarantor aware of any state of facts which (with notice or the lapse of time) would or could result in any such material adverse change.

(6) Event of Default. There exists no Event of Default under Section 15.b hereof, which default gives rise to a right to accelerate Indebtedness as referenced in Section 15.b hereof, under any mortgage, borrowing agreement or other instrument or agreement pertaining to indebtedness for borrowed money or to the repurchase of mortgage loans or securities.

(7) Solvency. Each of Seller and Guarantors is solvent and will not be rendered insolvent by any Transaction and, after giving effect to such Transaction, will not be left with an unreasonably small amount of capital with which to engage in its business. Neither Seller nor Guarantors intends to incur, nor does it believe that it has incurred, debts beyond its ability to pay such debts as they mature and is not contemplating the commencement of insolvency, bankruptcy, liquidation or consolidation proceedings or the appointment of a receiver, liquidator, conservator, trustee or similar official in respect of such entity or any of its assets. The amount of consideration being received by Seller upon the sale of the Purchased Mortgage Loans to Buyer constitutes reasonably equivalent value and fair consideration for such Purchased Mortgage Loans. Seller is not transferring any Purchased Mortgage Loans with any intent to hinder, delay or defraud any of its creditors.

(8) No Conflicts. The execution, delivery and performance by Seller and each Guarantor of each Program Agreement do not conflict with any term or provision of the formation documents or by-laws of Seller or Guarantors or any law, rule, regulation, order, judgment, writ, injunction or decree applicable to Seller or either Guarantor of any court, regulatory body, administrative agency or governmental body having jurisdiction over Seller or any Guarantor, which conflict would have a Material Adverse Effect and will not result in any violation of any such mortgage, instrument, agreement or obligation to which Seller or any Guarantor is a party.

28

---

(9) True and Complete Disclosure. All information, reports, exhibits, schedules, financial statements or certificates of Seller or Guarantors, or any of their officers furnished or to be furnished to Buyer in connection with the initial or any ongoing due diligence of Seller or Guarantors, or any officer thereof, negotiation, preparation, or delivery of the Program Agreements are true and complete and do not omit to disclose any material facts necessary to make the statements herein or therein, in light of the circumstances in which they are made, not misleading. All financial statements have been prepared in accordance with GAAP (other than monthly financial statements solely with respect to footnotes, year-end adjustments and cash flow statements).

(10) Approvals. No consent, approval, authorization or order of, registration or filing with, or notice to any governmental authority or court is required under applicable law in connection with the execution, delivery and performance by Seller or any Guarantor of each Program Agreement.

(11) Litigation. There is no action, proceeding or investigation pending with respect to which the Seller or either Guarantor has received service of process or, to the best of Seller's or either Guarantor's knowledge threatened against it before any court, administrative agency or other tribunal (A) asserting the invalidity of any Program Agreement, (B) seeking to prevent the consummation of any of the transactions contemplated any Program Agreement, (C) making a claim individually in an amount greater than \$1,000,000 or in an aggregate amount greater than \$3,000,000, (D) which requires filing with the Securities and Exchange Commission in accordance with the 1934 Act or any rules thereunder or (E) which might materially and adversely affect the validity of the Mortgage Loans or the performance by it of its obligations under, or the validity or enforceability of any Program Agreement.

(12) Material Adverse Change. There has been no material adverse change in the business, operations, financial condition, properties or prospects of Seller, Guarantors or their Affiliates that are a party to a Program Agreement since the date set forth in the most recent financial statements supplied to Buyer as determined by Buyer in its sole discretion.

(13) Ownership. Upon payment of the Purchase Price and the filing of the financing statement and delivery of the Mortgage Files to the Custodian and the Custodian's receipt of the related Request for Certification, Buyer shall become the sole owner of the Purchased Mortgage Loans and related Repurchase Assets, free and clear of all liens and encumbrances other than Seller's right to repurchase hereunder.

(14) Underwriting Guidelines. The Underwriting Guidelines provided to Buyer are the true and correct Underwriting Guidelines of the Seller.

29

---

(15) Taxes. Seller, Guarantors and their Subsidiaries have timely filed all tax returns that are required to be filed by them and have paid all taxes, except for any such taxes as are being appropriately contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves have been provided. The charges, accruals and reserves on the books of Seller, Guarantors and their Subsidiaries in respect of taxes and other governmental charges are, in the opinion of Seller or Guarantors, as applicable, adequate.

(16) Investment Company. Neither Seller, Guarantors nor any of their Subsidiaries is an "investment company", or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

(17) Chief Executive Office; Jurisdiction of Organization. On the Effective Date, Seller's chief executive office, is, and has been, located at 19500 Jamboree Road, Irvine, CA 92612. On the Effective Date, Seller's jurisdiction of organization is California. Seller shall provide Buyer with thirty days advance notice of any change in Seller's principal office or place of business or jurisdiction. Seller has no trade name. During the preceding five years, Seller has not been known by or done business under any other name, corporate or fictitious, and has not filed or had filed against it any bankruptcy receivership or similar petitions nor has it made any assignments for the benefit of creditors.

(18) Location of Books and Records. The location where Seller keeps its books and records, including all computer tapes and records relating to the Purchased Mortgage Loans and the related Repurchase Assets is its chief executive office.

(19) Adjusted Tangible Net Worth. On the Effective Date, Seller's Adjusted Tangible Net Worth is not less than the amount set forth in Section 2.1 of the Pricing Side Letter.

(20) ERISA. Each Plan to which Seller, Guarantors or their Subsidiaries make direct contributions, and, to the knowledge of Seller, each other Plan and each Multiemployer Plan, is in compliance in all material respects with, and has been administered in all material respects in compliance with, the applicable provisions of ERISA, the Code and any other Federal or State law.

(21) Adverse Selection. Seller has not selected the Purchased Mortgage Loans in a manner so as to adversely affect Buyer's interests.

(22) Agreements. Neither Seller nor any Subsidiary of Seller is a party to any agreement, instrument, or indenture or subject to any restriction materially and adversely affecting its business, operations, assets or financial condition, except as disclosed in the financial statements described in Section 13.a(5) hereof. Neither Seller nor any Subsidiary of Seller is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement, instrument, or indenture which default could have a material adverse effect on the business, operations, properties, or financial condition of Seller as a whole.

(23) Other Indebtedness. All Indebtedness (other than Indebtedness evidenced by this Agreement) of Seller existing on the date hereof is listed on Exhibit H hereto (the “Existing Indebtedness”).

(24) Agency Approvals. With respect to each Agency Security and to the extent necessary, Seller is an FHA Approved Mortgagee, a VA Approved Lender and a GNMA Approved Lender. Seller is also approved by Fannie Mae as an approved lender and, to the extent previously approved, Freddie Mac as an approved seller/servicer, and, to the extent necessary, approved by the Secretary of Housing and Urban Development pursuant to Sections 203 and 211 of the National Housing Act. In each such case, Seller is in good standing, with no event having occurred or Seller having any reason whatsoever to believe or suspect will occur prior to the issuance of the Agency Security or the consummation of the Take-out Commitment, as the case may be, including, without limitation, a change in insurance coverage which would either make Seller unable to comply with the eligibility requirements for maintaining all such applicable approvals or require notification to the relevant Agency or to the Department of Housing and Urban Development, FHA or VA. Should Seller for any reason cease to possess all such applicable approvals, or should notification to the relevant Agency or to the Department of Housing and Urban Development, FHA or VA be required, Seller shall so notify Buyer immediately in writing.

(25) No Reliance. Seller and each Guarantor has made its own independent decisions to enter into the Program Agreements and each Transaction and as to whether such Transaction is appropriate and proper for it based upon its own judgment and upon advice from such advisors (including without limitation, legal counsel and accountants) as it has deemed necessary. Neither Seller nor any Guarantor is relying upon any advice from Buyer as to any aspect of the Transactions, including without limitation, the legal, accounting or tax treatment of such Transactions.

(26) Plan Assets. Neither Seller nor Guarantors are an employee benefit plan as defined in Section 3 of Title I of ERISA, or a plan described in Section 4975(e)(1) of the Code, and the Purchased Mortgage Loans are not “plan assets” within the meaning of 29 CFR §2510.3-101 as amended by Section 3(42) of ERISA, in the Seller’s hands, and transactions by or with Seller or Guarantors are not subject to any state or local statute regulating investments or fiduciary obligations with respect to governmental plans within the meaning of Section 3(32) of ERISA.

(27) No Prohibited Persons. Neither the Seller nor the Guarantors nor any of their Affiliates, officers, directors, partners or members, is an entity or person (or to the Seller’s or Guarantors’ knowledge, owned or controlled by an entity or person): (i) that is listed in the Annex to, or is otherwise subject to the provisions of Executive Order 13224 issued on September 24, 2001 (“EO13224”); (ii) whose name appears on the United States Treasury Department’s Office of Foreign Assets Control (“OFAC”) most current list of “Specifically Designated National and Blocked Persons” (which list may be published from time to time in various mediums including, but not limited to, the OFAC website, <http://www.treas.gov/ofac/t11sdn.pdf>); (iii) who commits, threatens to commit or supports “terrorism”, as that term is defined in EO13224; or (iv) who is otherwise affiliated with any entity or person listed above (any and all parties or persons described in clauses (i) through (iv) above are herein referred to as a “Prohibited Person”).

(28) Servicing. Seller (if Seller is Servicer) or Servicer has adequate financial standing, servicing facilities, procedures and experienced personnel necessary for the sound servicing of mortgage loans of the same types as may from time to time constitute Mortgage Loans and in accordance with Accepted Servicing Practices.

b. With respect to every Purchased Mortgage Loan, Seller and each Guarantor jointly and severally represents and warrants to Buyer as of the applicable Purchase Date for any Transaction and each date thereafter that each representation and warranty set forth on Schedule 1 is true and correct.

c. The representations and warranties set forth in this Agreement shall survive transfer of the Purchased Mortgage Loans to Buyer and shall continue for so long as the Purchased Mortgage Loans are subject to this Agreement. Upon discovery by Seller, Servicer or Buyer of any breach of any of the representations or warranties set forth in this Agreement, the party discovering such breach shall promptly give notice of such discovery to the others. Buyer has the right to require Seller to repurchase within 1 Business Day after receipt of notice from Buyer any Purchased Mortgage Loan for which a breach of one or more of the representations and warranties referenced in Section 13.b exists and which breach has a material adverse effect on the value of such Mortgage Loan or the interests of Buyer.

#### 14. Covenants

Seller and each Guarantor covenants with Buyer that, during the term of this facility:

a. Litigation. Seller and each Guarantor, as applicable, will promptly (to the extent not previously notified by Seller or either Guarantor), and in any event within ten (10) days after service of process on any of the following, give to Buyer notice of all litigation, actions, suits, arbitrations, investigations (including, without limitation, any of the foregoing which are threatened or pending) or other legal or arbitrable proceedings affecting Seller, Guarantors or any of their Subsidiaries or affecting any of the Property of any of them before any Governmental Authority that (i) questions or challenges the validity or enforceability of any of the Program Agreements or any action to be taken in connection with the transactions contemplated hereby, (ii) makes a claim individually or in the aggregate, if adversely determined, could be reasonably likely to have a Material Adverse Effect. Seller and each Guarantor, as applicable, will promptly provide notice of any judgment, which with the passage of time, could cause an Event of Default hereunder.



b. Prohibition of Fundamental Changes. Seller shall not enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation, winding up or dissolution) or sell all or substantially all of its assets (other than the sale of Mortgage Loans in the ordinary course of business); provided, that Seller may merge or consolidate with (a) any wholly owned subsidiary of Seller, or (b) any other Person if Seller is the surviving corporation; and provided further, that if after giving effect thereto, no Default would exist hereunder.

c. Servicing. Seller shall not cause the Mortgage Loans to be serviced by any Servicer other than a Servicer expressly approved in writing by Buyer, which approval shall be deemed granted by Buyer with respect to Seller with the execution of this Agreement.

d. Insurance. The Seller or Guarantors shall continue to maintain, or cause to be maintained, for Seller and its Subsidiaries, Fidelity Insurance in an aggregate amount at least equal to \$1,000,000. The Seller or Guarantors shall maintain, or cause to be maintained, for Seller and its Subsidiaries, Fidelity Insurance in respect of its officers, employees and agents, with respect to any claims made in connection with all or any portion of the Repurchase Assets. The Seller or Guarantors shall notify the Buyer of any material change in the terms of any such Fidelity Insurance.

e. No Adverse Claims. Seller warrants and will defend, and shall cause any Servicer to defend, the right, title and interest of Buyer in and to all Purchased Mortgage Loans and the related Repurchase Assets against all adverse claims and demands.

f. Assignment. Except as permitted herein, neither Seller nor any Servicer shall sell, assign, transfer or otherwise dispose of, or grant any option with respect to, or pledge, hypothecate or grant a security interest in or lien on or otherwise encumber (except pursuant to the Program Agreements), any of the Purchased Mortgage Loans or any interest therein, provided that this Section shall not prevent any transfer of Purchased Mortgage Loans in accordance with the Program Agreements.

g. Security Interest. Seller shall do all things necessary to preserve the Purchased Mortgage Loans and the related Repurchase Assets so that they remain subject to a first priority perfected security interest hereunder. Without limiting the foregoing, Seller will comply with all rules, regulations and other laws of any Governmental Authority and cause the Purchased Mortgage Loans or the related Repurchase Assets to comply with all applicable rules, regulations and other laws. Seller will not allow any default for which Seller is responsible to occur under any Purchased Mortgage Loans or the related Repurchase Assets or any Program Agreement and Seller shall fully perform or cause to be performed when due all of its obligations under any Purchased Mortgage Loans or the related Repurchase Assets and any Program Agreement.

h. Records.

(1) Seller shall collect and maintain or cause to be collected and maintained all Records relating to the Purchased Mortgage Loans in accordance with industry custom and practice for assets similar to the Purchased Mortgage Loans. Seller or the Servicer of the Purchased Mortgage Loans will maintain all such Records not in the possession of Custodian in good and complete condition in accordance with industry practices for assets similar to the Purchased Mortgage Loans and preserve them against loss.

33

---

(2) For so long as Buyer has an interest in or lien on any Purchased Mortgage Loan, Seller will hold or cause to be held all related Records in trust for Buyer. Seller shall notify, or cause to be notified, every other party holding any such Records of the interests and liens in favor of Buyer granted hereby.

(3) Upon reasonable advance notice from Custodian or Buyer, Seller shall (x) make any and all such Records available to Custodian or Buyer to examine any such Records, either by its own officers or employees, or by agents or contractors, or both, and make copies of all or any portion thereof, and (y) permit Buyer or its authorized agents to discuss the affairs, finances and accounts of Seller with its chief operating officer and chief financial officer and to discuss the affairs, finances and accounts of Seller with its independent certified public accountants.

i. Books. Seller shall keep or cause to be kept in reasonable detail books and records of account of its assets and business and shall clearly reflect therein the transfer of Purchased Mortgage Loans to Buyer.

j. Approvals. Seller shall maintain all licenses, permits or other approvals necessary for Seller to conduct its business and to perform its obligations under the Program Agreements, and Seller shall conduct its business strictly in accordance with applicable law.

k. Material Change in Business. Neither Seller nor Guarantors shall make any material change in the nature of its business as carried on at the date hereof.

l. Underwriting Guidelines. Without the prior written consent of Buyer, Seller shall not amend or otherwise modify the Underwriting Guidelines with respect to Mortgage Loans offered to Buyer hereunder. Without limiting the foregoing, in the event that Seller makes any amendment or modification to the Underwriting Guidelines, Seller shall promptly deliver to Buyer a complete copy of the amended or modified Underwriting Guidelines.

m. Distributions. Neither Seller nor Guarantors shall pay any dividends greater than Net Income in any given calendar year other than with respect to quarterly payments to the holders of trust preferred obligations of Impac paid by Impac. If an Event of Default has occurred and is continuing, neither Seller nor Guarantors shall pay any dividends with respect to any capital stock or other equity interests in such entity, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Seller or Guarantors.

n. Applicable Law. Seller and each Guarantor shall comply with the requirements of all applicable laws, rules, regulations and orders of any Governmental Authority.

34

---

o. Existence. Seller and the Guarantors shall preserve and maintain their legal existence and all of their material rights, privileges, licenses and franchises.

p. Chief Executive Office; Jurisdiction of Organization. Seller shall not move its chief executive office from the address referred to in Section 13.a(17) or change its jurisdiction of organization from the jurisdiction referred to in Section 13.a(17) unless it shall have provided Buyer 30 days' prior written notice of such change.

q. Taxes. Seller and each Guarantor shall timely file all tax returns that are required to be filed by them and shall timely pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained.

r. Transactions with Affiliates. Seller will not enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate unless such transaction is (a) except for intercompany transactions, otherwise permitted under the Program Agreements, (b) in the ordinary course of Seller's business and (c) upon fair and reasonable terms no less favorable to Seller than it would obtain in a comparable arm's length transaction with a Person which is not an Affiliate, or make a payment that is not otherwise permitted by this Section to any Affiliate.

s. Guarantees. Seller shall not create, incur, assume or suffer to exist any Guarantees, except (i) to the extent reflected in Seller's financial statements or notes thereto; (ii) acting as a co-borrower with joint and several liability with respect to other mortgage warehouse facilities; and (iii) other Guarantees of Seller not to exceed \$100,000.

t. Indebtedness. Seller shall not incur any additional material Indebtedness, other than (i) ordinary and typical daily costs and expenses for mortgage originators similarly situated as Seller and consistent with such expenses incurred by Seller prior to the date hereof; (ii) sources for mortgage loan financing (excluding Indebtedness for the acquisition of mortgage servicing rights); (iii) usual and customary accounts payable for a mortgage company and (iv) such other Indebtedness as Buyer may approve in its reasonable discretion.

u. Hedging. Seller has entered into Interest Rate Protection Agreements in accordance with its hedging policy, a copy of which has been provided to Buyer.

v. True and Correct Information. All information, reports, exhibits, schedules, financial statements or certificates of Seller and each Guarantor or any of their officers furnished to Buyer hereunder and during Buyer's diligence of Seller and Guarantors are and will be true and complete in all material respects and do not omit to disclose any material facts necessary to make the statements herein or therein, in light of the circumstances in which they are made, not misleading. All required financial statements, information and reports delivered by Seller to Buyer pursuant to this Agreement shall be prepared in accordance with U.S. GAAP, or, if applicable, to SEC filings, the appropriate SEC accounting regulations.

35

---

w. Agency Approvals. Seller shall maintain its status with Fannie Mae as an approved lender and, to the extent previously approved, Freddie Mac as an approved seller/servicer, in each case in good standing ("Agency Approvals"). Seller shall service all Purchased Mortgage Loans which are Committed Mortgage Loans in accordance with the applicable agency guide. Should Seller, for any reason, cease to possess all such applicable Agency Approvals, or should notification to the relevant Agency or to the Department of Housing and Urban Development, FHA or VA be required, such Seller shall so notify Buyer immediately in writing. Notwithstanding the preceding sentence, Seller shall take all necessary action to maintain all of their applicable Agency Approvals at all times during the term of this Agreement and each outstanding Transaction.

x. Take-out Payments. With respect to each Committed Mortgage Loan, Seller shall arrange that all payments under the related Take-out Commitment shall be paid directly to Buyer at the account set forth in Section 9 hereof, or to an account approved by Buyer in writing prior to such payment. With respect to any Agency Take-out Commitment, if applicable, (1) with respect to the wire transfer instructions as set forth in Freddie Mac Form 987 (Wire Transfer Authorization for a Cash Warehouse Delivery) such wire transfer instructions are identical to Buyer's wire instructions or Buyer has approved such wire transfer instructions in writing in its sole discretion, or (2) the Payee Number set forth on Fannie Mae Form 1068 (Fixed-Rate, Graduated-Payment, or Growing-Equity Mortgage Loan Schedule) or Fannie Mae Form 1069 (Adjustable-Rate Mortgage Loan Schedule), as applicable, shall be identical to the Payee Number that has been identified by Buyer in writing as Buyer's Payee Number or Buyer shall have previously approved the related Payee Number in writing in its sole discretion; with respect to any Take-out Commitment with an Agency, the applicable agency documents shall list Buyer as sole subscriber, unless otherwise agreed to in writing by Buyer, in Buyer's sole discretion.

y. Reserved.

z. Plan Assets. Neither Seller nor Guarantors shall be an employee benefit plan as defined in Section 3 of Title I of ERISA, or a plan described in Section 4975(e)(1) of the Code and the Seller shall not use "plan assets" within the meaning of 29 CFR §2510.3 101, as amended by Section 3(42) of ERISA to engage in this Agreement or any Transaction hereunder. Transactions by or with Seller or Guarantors shall not be subject to any state or local statute regulating investments of or fiduciary obligations with respect to governmental plans within the meaning of Section 3(32) of ERISA.

aa. Sharing of Information. The Seller shall allow the Buyer to exchange information related to the Seller and the Transaction hereunder with third party lenders and the Seller shall permit each third party lender to share such information with the Buyer.

36

---

bb. DE Compare Ratio. Seller's DE Compare Ratio with respect to each of its DE Compare Report shall not (i) on and after the date Seller's DE Compare Ratio is at least 100%, increase by more than 25% or (ii) exceed 150%.

cc. Lender Insurance Authority. In the event that Seller has on the date hereof or subsequently receives Lender Insurance Authority, such authority shall not be revoked or suspended.

dd. Quality Control. Seller shall maintain an internal quality control program that verifies, on a regular basis, the existence and accuracy of all legal documents, credit documents, property appraisals, and underwriting decisions related to Mortgage Loans and shall provide a report on the results of such quality control program in the Officer's Compliance Certificate provided pursuant to Section 17.b(3). Such program shall be capable of evaluating and monitoring the overall quality of Seller's loan production and servicing activities. Such program shall (i) ensure that the Mortgage Loans are originated and serviced in accordance with prudent mortgage banking practices and accounting principles; (ii) guard against dishonest, fraudulent, or negligent acts; and (iii) guard against errors and omissions by officers, employees, or other authorized persons.

ee. Financial Covenants. Seller shall at all times comply with all financial covenants and/or financial ratios set forth in Section 2 of the Pricing Side Letter.

ff. Most Favored Status. Seller, Guarantors and the Buyer each agree that should Seller or Guarantors or any Affiliate thereof enter into a repurchase agreement or credit facility with any Person other than the Buyer or an Affiliate of the Buyer which by its terms provides more favorable terms to the Buyer with respect to any guaranties or financial covenants, including without limitation covenants covering the same or similar subject matter set forth in Sections 14.m and 14.ee hereof (a "More Favorable Agreement"), the terms of this Agreement shall be deemed automatically amended to include such more favorable terms contained in such More Favorable Agreement; provided, that in the event that such More Favorable Agreement is terminated, upon notice by the Seller to the Buyer of such termination, the original terms of this Agreement shall be deemed to be automatically reinstated. In the event that all of Seller's and its Affiliates' repurchase agreements and credit facilities eliminate the guaranty of the Guarantors, upon notice by the Seller to the Buyer of such termination which is confirmed by the purchasers and lenders under such repurchase agreements and credit facilities, this Agreement shall automatically be amended to delete and exclude the Guaranty of the Guarantors; provided, that in the event that any of Seller's or its Affiliates' repurchase agreements or credit facilities thereafter contains a guaranty of the Guarantors, (i) Seller shall promptly notify Buyer that the original terms of this Agreement with respect to the Guaranty and the Guaranty are reinstated and (ii) the original terms of this Agreement with respect to the Guaranty and the Guaranty shall be deemed to be automatically reinstated, provided that notice shall not be a prerequisite to such reinstatement. The Seller, the Guarantors, and the Buyer further agree to execute and deliver any new guaranties, agreements or amendments to this Agreement evidencing such provisions, provided that the execution of such amendment shall not be a precondition to the effectiveness of such amendment, but shall merely be for the convenience of the parties

37

---

hereto. Promptly upon Seller or Guarantors or any Affiliate thereof entering into a repurchase agreement or other credit facility with any Person other than the Buyer, the Seller shall deliver to the Buyer a true, correct and complete copy of such repurchase agreement, loan agreement, guaranty or other financing documentation.

## 15. Events of Default

Each of the following shall constitute an "Event of Default" hereunder:

a. Payment Failure. Failure of Seller to (i) make any payment of Price Differential or Repurchase Price or any other sum which has become due, on a Price Differential Payment Date or a Repurchase Date or otherwise, whether by acceleration or otherwise, under the terms of this Agreement, any other warehouse and security agreement or any other document evidencing or securing Indebtedness of Seller to Buyer or to any Affiliate of Buyer, or (ii) cure any Margin Deficit when due pursuant to Section 6 hereof.

b. Cross Default. Seller, Guarantors or any of their Affiliates shall be in default under (i) any Indebtedness, in the aggregate, in excess of (x) \$1,000,000 with respect to Seller, IRES or an Affiliate that is a party to a Program Agreement or (y) \$2,000,000 with respect to IMPAC, in each case, which default (1) involves the failure to pay a matured obligation, or (2) permits the acceleration of the maturity of obligations by any other party to or beneficiary with respect to such Indebtedness, or (ii) any other contract or contracts, in the aggregate in excess of (x) \$1,000,000 to which Seller, IRES or such Affiliate that is a party to a Program Agreement is a party or (y) \$2,000,000 to which IMPAC is a party, in each case which default (1) involves the failure to pay a matured obligation, or (2) permits the acceleration of the maturity of obligations by any other party to or beneficiary of such contract.

c. Assignment. Assignment or attempted assignment by Seller or any Guarantor of this Agreement or any rights hereunder without first obtaining the specific written consent of Buyer, or the granting by Seller of any security interest, lien or other encumbrances on any Purchased Mortgage Loans to any person other than Buyer.

d. Insolvency. An Act of Insolvency shall have occurred with respect to Seller or any Guarantor.

e. Material Adverse Change. A Material Adverse Effect shall have occurred.

f. Breach of Financial Representation or Covenant or Obligation. A breach by Seller or either Guarantor of any of the representations, warranties or covenants or obligations set forth in Sections 13.a(1), 13.a(7), 13.a(12), 13.a(19), 13.a(23), 14.b, 14.m, 14.o, 14.s, 14.t, 14.x, 14.z, 14.ee or 14. ff of this Agreement.

g. Breach of Non-Financial Representation or Covenant. A breach by Seller or any Guarantor of any other material representation, warranty or covenant set forth in this Agreement (and not otherwise specified in Section 15.f above), if such breach is not cured within five (5) Business Days of Seller's or Guarantors' knowledge thereof (other

38

---

than the representations and warranties set forth in Section 13.b and Schedule 1, which shall be considered solely for the purpose of determining Asset Value, the existence of a Margin Deficit and the obligation to repurchase such Mortgage Loan) unless (i) such party shall have made any such

representations and warranties with knowledge that they were materially false or misleading at the time made, (ii) any such representations and warranties have been determined by Buyer in its sole discretion to be materially false or misleading on a regular basis, or (iii) Buyer, in its sole discretion, determines that such breach of a material representation, warranty or covenant materially and adversely affects the condition (financial or otherwise) of such party and its Subsidiaries, taken as a whole, then such breach shall constitute an immediate Event of Default and Seller shall have no cure right hereunder).

h. Change of Control. The occurrence of a Change in Control.

i. Failure to Transfer. Seller fails to transfer the Purchased Mortgage Loans to Buyer on the applicable Purchase Date (provided Buyer has tendered the related Purchase Price).

j. Judgment. A final judgment or judgments for the payment of money in excess of \$1,000,000 in the aggregate shall be rendered against the Seller or any Guarantor by one or more courts, administrative tribunals or other bodies having jurisdiction and the same shall not be satisfied, discharged (or provision shall not be made for such discharge) or bonded, or a stay of execution thereof shall not be procured, within 30 days after the date of entry thereof.

k. Government Action. Any Governmental Authority or any person, agency or entity acting or purporting to act under governmental authority shall have taken any action to condemn, seize or appropriate, or to assume custody or control of, all or any substantial part of the Property of Seller or Guarantors, or shall have taken any action to displace the management of Seller or Guarantors or to curtail its authority in the conduct of the business of Seller or Guarantors, or takes any action in the nature of enforcement to remove, limit or restrict the approval of Seller or Guarantors as an issuer, buyer or a seller/servicer of Mortgage Loans or securities backed thereby, and such action provided for in this Section 15.k shall not have been discontinued or stayed within 30 days.

l. Inability to Perform. An officer of Seller or any Guarantor shall admit its inability to, or its intention not to, perform any of Seller's Obligations hereunder or any Guarantor's obligations hereunder or under the Guaranty.

m. Security Interest. This Agreement shall for any reason cease to create a valid, first priority security interest in any material portion of the Purchased Mortgage Loans or other Repurchase Assets purported to be covered hereby.

n. Financial Statements. Seller's or Guarantors' audited annual financial statements or the notes thereto or other opinions or conclusions stated therein shall be qualified or limited by reference to the status of Seller or Guarantors as a "going concern" or a reference of similar import.

39

---

o. Guarantor Breach. A breach by any Guarantor of any material representation, warranty or covenant set forth in the Guaranty or any other Program Agreement, any "event of default" by any Guarantor under the Guaranty, any repudiation of the Guaranty by any Guarantor, or if the Guaranty is not enforceable against any Guarantor.

An Event of Default shall be deemed to be continuing unless expressly waived by Buyer in writing.

## **16. Remedies Upon Default**

In the event that an Event of Default shall have occurred:

a. Buyer may, at its option (which option shall be deemed to have been exercised immediately upon the occurrence of an Act of Insolvency of Seller or any Guarantor), declare an Event of Default to have occurred hereunder and, upon the exercise or deemed exercise of such option, the Repurchase Date for each Transaction hereunder shall, if it has not already occurred, be deemed immediately to occur (except that, in the event that the Purchase Date for any Transaction has not yet occurred as of the date of such exercise or deemed exercise, such Transaction shall be deemed immediately canceled). Buyer shall (except upon the occurrence of an Act of Insolvency) give written notice to Seller and Guarantors of the exercise of such option as promptly as practicable.

b. If Buyer exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Section, (i) Seller's obligations in such Transactions to repurchase all Purchased Mortgage Loans, at the Repurchase Price therefor on the Repurchase Date determined in accordance with subparagraph (a) of this Section, shall thereupon become immediately due and payable, (ii) all Income paid after such exercise or deemed exercise shall be retained by Buyer and applied, in Buyer's sole discretion, to the aggregate unpaid Repurchase Prices for all outstanding Transactions and any other amounts owing by Seller hereunder, and (iii) Seller shall immediately deliver to Buyer the Mortgage Files relating to any Purchased Mortgage Loans subject to such Transactions then in Seller's possession or control.

c. Buyer also shall have the right to obtain physical possession, and to commence an action to obtain physical possession, of all Records and files of Seller relating to the Purchased Mortgage Loans and all documents relating to the Purchased Mortgage Loans (including, without limitation, any legal, credit or servicing files with respect to the Purchased Mortgage Loans) which are then or may thereafter come in to the possession of Seller or any third party acting for Seller. To obtain physical possession of any Purchased Mortgage Loans held by Custodian, Buyer shall present to Custodian a Trust Receipt. Without limiting the rights of Buyer hereto to pursue all other legal and equitable rights available to Buyer for Seller's failure to perform its obligations under this Agreement, Seller acknowledges and agrees that the remedy at law for any failure to perform obligations hereunder would be inadequate and Buyer shall be entitled to specific performance, injunctive relief, or other equitable remedies in the event of any such failure. The availability of these remedies shall not prohibit Buyer from pursuing any other remedies for such breach, including the recovery of monetary damages.

40

---

d. Buyer shall have the right to direct all servicers then servicing any Purchased Mortgage Loans to remit all collections thereon to Buyer, and if any such payments are received by Seller, Seller shall not commingle the amounts received with other funds of Seller and shall promptly pay them over to Buyer. Buyer shall also have the right to terminate any one or all of the servicers then servicing any Purchased Mortgage Loans with or without cause. In addition, Buyer shall have the right to immediately sell the Purchased Mortgage Loans and liquidate all Repurchase Assets. Such disposition of Purchased Mortgage Loans may be, at Buyer's option, on either a servicing-released or a servicing-retained basis. Buyer shall not be required to give any warranties as to the Purchased Mortgage Loans with respect to any such disposition thereof. Buyer may specifically disclaim or modify any warranties of title or the like relating to the Purchased Mortgage Loans. The foregoing procedure for disposition of the Purchased Mortgage Loans and liquidation of the Repurchase Assets shall not be considered to adversely affect the commercial reasonableness of any sale thereof. Seller agrees that it would not be commercially unreasonable for Buyer to dispose of the Purchased Mortgage Loans or the Repurchase Assets or any portion thereof by using Internet sites that provide for the auction of assets similar to the Purchased Mortgage Loans or the Repurchase Assets, or that have the reasonable capability of doing so, or that match buyers and sellers of assets. Buyer shall be entitled to place the Purchased Mortgage Loans in a pool for issuance of mortgage-backed securities at the then-prevailing price for such securities and to sell such securities for such prevailing price in the open market. Buyer shall also be entitled to sell any or all of such Mortgage Loans individually for the prevailing price. Buyer shall also be entitled, in its sole discretion to elect, in lieu of selling all or a portion of such Purchased Mortgage Loans, to give the Seller credit for such Purchased Mortgage Loans and the Repurchase Assets in an amount equal to the Market Value of the Purchased Mortgage Loans against the aggregate unpaid Repurchase Price and any other amounts owing by the Seller hereunder.

e. Upon the happening of one or more Events of Default, Buyer may apply any proceeds from the liquidation of the Purchased Mortgage Loans and Repurchase Assets to the Repurchase Prices hereunder and all other Obligations in the manner Buyer deems appropriate in its sole discretion.

f. Seller shall be liable to Buyer for (i) the amount of all reasonable legal or other expenses (including, without limitation, all costs and expenses of Buyer in connection with the enforcement of this Agreement or any other agreement evidencing a Transaction, whether in action, suit or litigation or bankruptcy, insolvency or other similar proceeding affecting creditors' rights generally, further including, without limitation, the reasonable fees and expenses of counsel incurred in connection with or as a result of an Event of Default, (ii) damages in an amount equal to the cost (including all fees, expenses and commissions) of entering into replacement transactions and entering into or terminating hedge transactions in connection with or as a result of an Event of Default, and (iii) any other loss, damage, cost or expense directly arising or resulting from the occurrence of an Event of Default in respect of a Transaction.

41

---

g. To the extent permitted by applicable law, Seller shall be liable to Buyer for interest on any amounts owing by Seller hereunder, from the date Seller becomes liable for such amounts hereunder until such amounts are (i) paid in full by Seller or (ii) satisfied in full by the exercise of Buyer's rights hereunder. Interest on any sum payable by Seller under this Section 16.g shall accrue at a rate equal to the Post-Default Rate.

h. Buyer shall have, in addition to its rights hereunder, any rights otherwise available to it under any other agreement or applicable law.

i. Buyer may exercise one or more of the remedies available to Buyer immediately upon the occurrence of an Event of Default and, except to the extent provided in subsections (a) and (d) of this Section, at any time thereafter without notice to Seller. All rights and remedies arising under this Agreement as amended from time to time hereunder are cumulative and not exclusive of any other rights or remedies which Buyer may have.

j. Buyer may enforce its rights and remedies hereunder without prior judicial process or hearing, and Seller hereby expressly waives any defenses Seller might otherwise have to require Buyer to enforce its rights by judicial process. Seller also waives any defense (other than a defense of payment or performance) Seller might otherwise have arising from the use of nonjudicial process, enforcement and sale of all or any portion of the Repurchase Assets, or from any other election of remedies. Seller recognizes that nonjudicial remedies are consistent with the usages of the trade, are responsive to commercial necessity and are the result of a bargain at arm's length.

k. Buyer shall have the right to perform reasonable due diligence with respect to Seller and the Mortgage Loans, which review shall be at the expense of Seller.

## 17. Reports

a. Default Notices. Seller and Guarantors shall each furnish to Buyer (i) promptly, copies of any material and adverse notices (including, without limitation, notices of defaults, breaches, potential defaults or potential breaches) and any material financial information that is not otherwise required to be provided by Seller or Guarantors hereunder which is given to Seller's or Guarantors' lenders and (ii) immediately, notice of the occurrence of any (A) Event of Default hereunder, (B) default or breach by Seller, Guarantors or any Servicer which is an Affiliate of any obligation under any Program Agreement or any material contract or agreement of Seller, Guarantors or any Servicer which is an Affiliate or (C) event or circumstance that such party reasonably expects has resulted in, or will, with the passage of time, result in, a Material Adverse Effect or an Event of Default or such a default or breach by such party.

b. Financial Notices. Seller and Guarantors shall each furnish to Buyer:

(1) as soon as available and in any event within thirty (30) calendar days after the end of each calendar month, the unaudited consolidated balance sheets of Seller and Guarantors and their consolidated Subsidiaries as of the end of such period and

42

---

the related unaudited consolidated statements of income and retained earnings for the Seller and Guarantors and their consolidated Subsidiaries for such period and the portion of the fiscal year through the end of such period, accompanied by a certificate of a Responsible Officer of Seller and Guarantors, which certificate shall state that said consolidated financial statements fairly present in all material respects the consolidated financial

condition and results of operations of Seller and Guarantors and its consolidated Subsidiaries in accordance with GAAP (other than solely with respect to footnotes, year-end adjustments) consistently applied, as at the end of, and for, such period;

(2) as soon as available and in any event within ninety (90) days after the end of each fiscal year of Seller and Guarantors, the consolidated balance sheets of Seller and Guarantors and their consolidated Subsidiaries as at the end of such fiscal year and the related consolidated statements of income and retained earnings and of cash flows for the Seller and Guarantors and their consolidated Subsidiaries for such year, setting forth in each case in comparative form the figures for the previous year, accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion and the scope of audit shall be acceptable to Buyer in its good faith discretion, shall have no “going concern” qualification and shall state that said consolidated financial statements fairly present in all material respects the consolidated financial condition and results of operations of Seller and Guarantors and their respective consolidated Subsidiaries as at the end of, and for, such fiscal year in accordance with GAAP;

(3) at the time the Seller and Guarantors furnish each set of financial statements pursuant to Section 17.b(1) or (1) above, an Officer’s Compliance Certificate of a Responsible Officer of Seller and Guarantors in the form attached as Exhibit A to the Pricing Side Letter;

(4) as soon as available and in any event within thirty (30) days after receipt thereof;

(a) if applicable, copies of any 10-Ks, 10-Qs, registration statements and other “corporate finance” SEC filings (other than 8-Ks) by Seller and Guarantors, within 5 Business Days after their filing with the SEC; provided, that, Seller and Guarantors will provide Buyer with a copy of the annual 10-K filed with the SEC by Seller or Guarantors, no later than 90 days after the end of the year;

(b) to the extent allowed by law, copies of relevant portions of all final written Agency, FHA, VA, Governmental Authority and investor audits, examinations, evaluations, monitoring reviews and reports of its operations (including those prepared on a contract basis) which provide for or relate to (i) material corrective action required, (ii) material sanctions proposed, imposed or required, including without limitation notices of defaults, notices of termination of approved status, notices of imposition of supervisory agreements or interim servicing agreements, and notices of probation, suspension, or non-renewal, or

43

---

(iii) “report cards,” “grades” or other classifications of the quality of Seller’s and Guarantors’ operations;

(c) such other information regarding the financial condition, operations, or business of the Seller and Guarantors as Buyer may reasonably request; and

(d) the particulars of any Event of Termination in reasonable detail.

(5) Seller shall provide the market value analysis for the MSR Valuation as determined (i) internally for each monthly fiscal period and (ii) by a Third Party Evaluator for each quarterly fiscal period to the extent that (x) Seller has received a value from a Third Party Evaluator or (y) Buyer applies 50% or more of the MSR Valuation to Unencumbered Mortgage Servicing Rights for the purposes of calculating Adjusted Tangible Net Worth, in all instances as more particularly set forth in the Officer’s Compliance Certificate delivered pursuant to Section 17.b (3);

(6) Seller shall provide Buyer, as part of the Officer’s Certificate delivered pursuant to Section 17.b(3) above, a list of all actions, notices, proceedings or investigations pending with respect to which Seller has received service of process or other form of notice or, to the best of Seller’s knowledge, threatened against it, before any court, administrative or governmental agency or other regulatory body or tribunal as of such date with such information provided as noted in the applicable Schedule to Exhibit A of the Pricing Side Letter.

c. Notices of Certain Events. As soon as possible and in any event within five (5) Business Days of knowledge thereof, Seller shall furnish to Buyer notice of the following events:

(1) a change in the insurance coverage required of Seller, any Guarantor or any Servicer which is an Affiliate pursuant to any Program Agreement, with a copy of evidence of same attached;

(2) any material dispute, litigation, investigation, proceeding or suspension between Seller or any Servicer which is an Affiliate, on the one hand, and any Governmental Authority or any Person;

(3) any material change in accounting policies or financial reporting practices of Seller or any Servicer which is an Affiliate;

(4) with respect to any Purchased Mortgage Loan, that the underlying Mortgaged Property has been damaged by waste, fire, earthquake or earth movement, windstorm, flood, tornado or other casualty, or otherwise damaged, in each case, so as to affect adversely the value of such Mortgaged Loan;

(5) any material issues raised upon examination of Seller or Seller’s facilities by any Governmental Authority;

44

---

(6) any material change in the Indebtedness of the Seller, including, without limitation, any default, renewal, non-renewal, termination, increase in available amount or decrease in available amount related thereto;

(7) any default related to any Repurchase Asset or any lien or security interest (other than security interests created hereby or by the other Program Agreements) on, or claim asserted against, any of the Purchased Mortgage Loans;

(8) any other event, circumstance or condition that has resulted, or is reasonably likely to result, in a Material Adverse Effect with respect to Seller or any Servicer which is an Affiliate; and

(9) the occurrence of any material employment dispute that has the possibility of resulting in a Material Adverse Effect.

d. **Portfolio Performance Data.** On the first Reporting Date of each calendar month, Seller will furnish to Buyer electronically, in a format mutually acceptable to Buyer and Seller, servicing information, including, without limitation, those fields reasonably requested by Buyer from time to time, on a loan-by-loan basis and in the aggregate, with respect to the Purchased Mortgage Loans serviced by Seller or any Servicer for the month (or any portion thereof) prior to the Reporting Date. In addition to the foregoing information on each Reporting Date, Seller will furnish to Buyer such information upon (i) the occurrence and continuation of an Event of Default and (ii) upon any Purchased Mortgage Loan becoming an Aged Loan.

e. **Other Reports.** Seller shall deliver to Buyer any other reports or information reasonably requested by Buyer or as otherwise required pursuant to this Agreement or as set forth in the Officer's Compliance Certificate delivered pursuant to Section 17.b(3) above.

#### **18. Repurchase Transactions**

Buyer may, in its sole election, engage in repurchase transactions with the Purchased Mortgage Loans or otherwise pledge, hypothecate, assign, transfer or otherwise convey the Purchased Mortgage Loans with a counterparty of Buyer's choice. Unless an Event of Default shall have occurred and be continuing, no such transaction shall relieve Buyer of its obligations to transfer Purchased Mortgage Loans to Seller pursuant to Section 4 hereof, or of Buyer's obligation to credit or pay Income to, or apply Income to the obligations of, Seller pursuant to Section 7 hereof. In the event Buyer engages in a repurchase transaction with any of the Purchased Mortgage Loans or otherwise pledges or hypothecates any of the Purchased Mortgage Loans, Buyer shall have the right to assign to Buyer's counterparty any of the applicable representations or warranties herein and the remedies for breach thereof, as they relate to the Purchased Mortgage Loans that are subject to such repurchase transaction.

#### **19. Single Agreement**

Buyer and Seller acknowledge they have and will enter into each Transaction hereunder, in consideration of and in reliance upon the fact that, all Transactions hereunder

45

---

constitute a single business and contractual relationship and have been made in consideration of each other. Accordingly, each of Buyer and Seller agrees (i) to perform all of its obligations in respect of each Transaction hereunder, and that a default in the performance of any such obligations shall constitute a default by it in respect of all Transactions hereunder, (ii) that each of them shall be entitled to set-off claims and apply property held by them in respect of any Transaction against obligations owing to them in respect of any other Transactions hereunder and (iii) that payments, deliveries and other transfers made by either of them in respect of any Transaction shall be deemed to have been made in consideration of payments, deliveries and other transfers in respect of any other Transactions hereunder, and the obligations to make any such payments, deliveries and other transfers may be applied against each other and netted.

#### **20. Notices and Other Communications**

Any and all notices (with the exception of Transaction Requests or Purchase Confirmations, which shall be delivered via electronic mail or other electronic medium agreed to by the Buyer and the Seller), statements, demands or other communications hereunder may be given by a party to the other by mail, email, facsimile, messenger overnight courier or delivery service or otherwise to the address specified below, or so sent to such party at any other place specified in a notice of change of address hereafter received by the other. All notices, demands and requests hereunder may be made orally, to be confirmed promptly in writing, or by other communication as specified in the preceding sentence. In all cases, to the extent that the related individual set forth in the respective "Attention" line is no longer employed by the respective Person, such notice may be given to the attention of a Responsible Officer of the respective Person or to the attention of such individual or individuals as subsequently notified in writing by a Responsible Officer of the respective Person.

If to Seller or any Guarantor:

19500 Jamboree Road  
Irvine, CA 92612  
Attention: Ron Morrison  
Phone: (949) 475-3942  
Fax: (949) 706-6208  
E-mail: Ron.Morrison@impaccompanies.com

with a copy to:

19500 Jamboree Road  
Irvine, CA 92612  
Attention: Todd Taylor  
(949) 475-6509  
E-mail: Todd.Taylor@impaccompanies.com

46

---

If to Buyer:

For Transaction Requests and Purchase Confirmations:

CSFBMC LLC  
c/o Credit Suisse Securities (USA) LLC  
One Madison Avenue, 2nd floor  
New York, New York 10010  
Attention: Christopher Bergs, Resi Mortgage Warehouse Ops  
Phone: 212-538-5087  
E-mail: christopher.bergs@credit-suisse.com

with a copy to:

Credit Suisse First Boston Mortgage Capital LLC  
c/o Credit Suisse Securities (USA) LLC  
Eleven Madison Avenue, 4th Floor  
New York, NY 10010  
Attention: Bruce Kaiserman  
E-mail: bruce.kaiserman@credit-suisse.com

For all other Notices:

Credit Suisse First Boston Mortgage Capital LLC  
c/o Credit Suisse Securities (USA) LLC  
Eleven Madison Avenue, 4th Floor  
Attention: Margaret Dellafera  
New York, New York 10010  
Phone Number: 212-325-6471  
Fax Number: 212-743-4810  
E-mail: margaret.dellafera@credit-suisse.com

with a copy to:

Credit Suisse First Boston Mortgage Capital LLC  
c/o Credit Suisse Securities (USA) LLC  
One Madison Avenue, 9th Floor  
New York, NY 10010  
Attention: Legal Department—RMBS Warehouse Lending  
Fax Number: (212) 322-2376

**21. Entire Agreement; Severability**

This Agreement shall supersede any existing agreements between the parties containing general terms and conditions for repurchase transactions. Each provision and agreement herein shall be treated as separate and independent from any other provision or

47

---

agreement herein and shall be enforceable notwithstanding the unenforceability of any such other provision or agreement.

**22. Non assignability**

The Program Agreements are not assignable by Seller or either Guarantor. Buyer may from time to time assign all or a portion of its rights and obligations under this Agreement and the Program Agreements; provided, however that Buyer shall maintain as agent of Seller, for review by Seller upon written request, a register of assignees and a copy of an executed assignment and acceptance by Buyer and assignee ("Assignment and Acceptance"), specifying the percentage or portion of such rights and obligations assigned. Upon such assignment, (a) such assignee shall be a party hereto and to each Program Agreement to the extent of the percentage or portion set forth in the Assignment and Acceptance, and shall succeed to the applicable rights and obligations of Buyer hereunder, and (b) Buyer shall, to the extent that such rights and obligations have been so assigned by it to either (i) an Affiliate of Buyer which assumes the obligations of Buyer or (ii) another Person approved by Seller (such approval not to be unreasonably withheld) which assumes the obligations of Buyer, be released from its obligations hereunder and under the Program Agreements. Unless otherwise stated in the Assignment and Acceptance, Seller shall continue to take directions solely from Buyer unless otherwise notified by Buyer in writing. Buyer may distribute to any prospective assignee any document or other information delivered to Buyer by Seller.

**23. Set-off**

In addition to any rights and remedies of the Buyer hereunder and by law, the Buyer shall have the right, without prior notice to the Seller, Impac or IRES, any such notice being expressly waived by the Seller, Impac and IRES to the extent permitted by applicable law to set-off and appropriate and apply against any Obligation from Seller, Impac or IRES thereof to Buyer or any of its Affiliates any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other obligation (including to return excess margin), credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by or due from the Buyer or any Affiliate thereof to or for the credit or the account of the Seller, Impac or IRES. The Buyer agrees promptly to notify the Seller, Impac or IRES after any such set off and application made by the Buyer; provided that the failure to give such notice shall not affect the validity of such set off and application.

**24. Binding Effect; Governing Law; Jurisdiction**



a. This Agreement shall be binding and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Seller acknowledges that the obligations of Buyer hereunder or otherwise are not the subject of any guaranty by, or recourse to, any direct or indirect parent or other Affiliate of Buyer. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF.

48

---

b. SELLER AND EACH GUARANTOR HEREBY WAIVE TRIAL BY JURY. SELLER AND EACH GUARANTOR HEREBY IRREVOCABLY CONSENT TO THE EXCLUSIVE PERSONAL JURISDICTION OF ANY COURT OF THE STATE OF NEW YORK, OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, ARISING OUT OF OR RELATING TO THE PROGRAM AGREEMENTS IN ANY ACTION OR PROCEEDING. SELLER AND EACH GUARANTOR HEREBY SUBMIT TO, AND WAIVE ANY OBJECTION THEY MAY HAVE TO, EXCLUSIVE PERSONAL JURISDICTION AND VENUE IN THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, WITH RESPECT TO ANY DISPUTES ARISING OUT OF OR RELATING TO THE PROGRAM AGREEMENTS.

## 25. No Waivers, Etc.

No express or implied waiver of any Event of Default by either party shall constitute a waiver of any other Event of Default and no exercise of any remedy hereunder by any party shall constitute a waiver of its right to exercise any other remedy hereunder. No modification or waiver of any provision of this Agreement and no consent by any party to a departure herefrom shall be effective unless and until such shall be in writing and duly executed by both of the parties hereto. Without limitation on any of the foregoing, the failure to give a notice pursuant to Section 6.a, 16.a or otherwise, will not constitute a waiver of any right to do so at a later date.

## 26. Intent

a. The parties recognize that each Transaction is a “repurchase agreement” as that term is defined in Section 101 of Title 11 of the United States Code, as amended, a “securities contract” as that term is defined in Section 741 of Title 11 of the United States Code, as amended, and a “master netting agreement” as that term is defined in Section 101(38A)(A) of the Bankruptcy Code, that all payments hereunder are deemed “margin payments” or “settlement payments” as defined in Title 11 of the United States Code, and that the pledge of the Repurchase Assets constitutes “a security agreement or other arrangement or other credit enhancement” that is “related to” the Agreement and Transactions hereunder within the meaning of Sections 101(38A)(A), 101(47)(A)(v) and 741(7)(A)(xi) of the Bankruptcy Code. Seller and Buyer further recognize and intend that this Agreement is an agreement to provide financial accommodations and is not subject to assumption pursuant to Bankruptcy Code Section 365(a).

b. Buyer’s right to liquidate the Purchased Mortgage Loans delivered to it in connection with the Transactions hereunder or to accelerate or terminate this Agreement or otherwise exercise any other remedies pursuant to Section 16 hereof is a contractual right to liquidate, accelerate or terminate such Transaction as described in Bankruptcy Code Sections 555, 559 and 561; any payments or transfers of property made with respect to this Agreement or any Transaction to satisfy a Margin Deficit shall be considered a “margin payment” as such term is defined in Bankruptcy Code Section 741(5).

49

---

c. The parties agree and acknowledge that if a party hereto is an “insured depository institution,” as such term is defined in the Federal Deposit Insurance Act, as amended (“FDIA”), then each Transaction hereunder is a “qualified financial contract,” as that term is defined in FDIA and any rules, orders or policy statements thereunder (except insofar as the type of assets subject to such Transaction would render such definition inapplicable).

d. It is understood that this Agreement constitutes a “netting contract” as defined in and subject to Title IV of the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) and each payment entitlement and payment obligation under any Transaction hereunder shall constitute a “covered contractual payment entitlement” or “covered contractual payment obligation”, respectively, as defined in and subject to FDICIA (except insofar as one or both of the parties is not a “financial institution” as that term is defined in FDICIA).

e. This Agreement is intended to be a “repurchase agreement” and a “securities contract,” within the meaning of Section 555 and Section 559 under the Bankruptcy Code.

f. Each party agrees that this Agreement is intended to create mutuality of obligations among the parties, and as such, the Agreement constitutes a contract which (i) is between all of the parties and (ii) places each party in the same right and capacity.

## 27. Disclosure Relating to Certain Federal Protections

The parties acknowledge that they have been advised that:

a. in the case of Transactions in which one of the parties is a broker or dealer registered with the SEC under Section 15 of the 1934 Act, the Securities Investor Protection Corporation has taken the position that the provisions of the SIPA do not protect the other party with respect to any Transaction hereunder;

b. in the case of Transactions in which one of the parties is a government securities broker or a government securities dealer registered with the SEC under Section 15C of the 1934 Act, SIPA will not provide protection to the other party with respect to any Transaction hereunder; and

c. in the case of Transactions in which one of the parties is a financial institution, funds held by the financial institution pursuant to a Transaction hereunder are not a deposit and therefore are not insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, as applicable.

## 28. Power of Attorney

Seller hereby authorizes Buyer to file such financing statement or statements relating to the Repurchase Assets without Seller's signature thereon as Buyer, at its option, may deem appropriate. Seller hereby appoints Buyer as Seller's agent and attorney-in-fact to execute any such financing statement or statements in Seller's name and to perform all other acts which

50

---

Buyer deems appropriate to perfect and continue its ownership interest in and/or the security interest granted hereby, if applicable, and to protect, preserve and realize upon the Repurchase Assets, including, but not limited to, the right to endorse notes, complete blanks in documents, transfer servicing, and sign assignments on behalf of Seller as its agent and attorney-in-fact. This agency and power of attorney is coupled with an interest and is irrevocable without Buyer's consent. Notwithstanding the foregoing, the power of attorney hereby granted may be exercised only during the occurrence and continuance of any Event of Default hereunder. Seller shall pay the filing costs for any financing statement or statements prepared pursuant to this Section 28. In addition the foregoing, the Seller agrees to execute a Power of Attorney, in the form of Exhibit D hereto, to be delivered on the date hereof.

## 29. Buyer May Act Through Affiliates

Buyer may, from time to time, designate one or more Affiliates for the purpose of performing any action hereunder.

## 30. Indemnification; Obligations

a. Seller agrees to hold Buyer and each of its respective Affiliates and their respective officers, directors, employees, agents and advisors (each, an "Indemnified Party") harmless from and indemnify each Indemnified Party (and will reimburse each Indemnified Party as the same is incurred) against all third party liabilities, losses, damages, judgments, costs and expenses (including, without limitation, reasonable fees and expenses of counsel) of any kind which may be imposed on, incurred by, or asserted against any Indemnified Party relating to or arising out of this Agreement, any Transaction Request, Purchase Confirmation, any Program Agreement or any transaction contemplated hereby or thereby resulting from anything other than the Indemnified Party's gross negligence or willful misconduct. Seller also agrees to reimburse each Indemnified Party for all reasonable expenses in connection with the enforcement of this Agreement and the exercise of any right or remedy provided for herein, any Transaction Request, Purchase Confirmation and any Program Agreement, including, without limitation, the reasonable fees and disbursements of counsel. Seller's agreements in this Section 30 shall survive the payment in full of the Repurchase Price and the expiration or termination of this Agreement. Seller hereby acknowledges that its obligations hereunder are recourse obligations of Seller and are not limited to recoveries each Indemnified Party may have with respect to the Purchased Mortgage Loans. Seller also agrees not to assert any claim against Buyer or any of its Affiliates, or any of their respective officers, directors, employees, attorneys and agents, on any theory of liability, for special, indirect, consequential or punitive damages arising out of or otherwise relating to the facility established hereunder, the actual or proposed use of the proceeds of the Transactions, this Agreement or any of the transactions contemplated thereby. **THE FOREGOING INDEMNITY AND AGREEMENT NOT TO ASSERT CLAIMS EXPRESSLY APPLIES, WITHOUT LIMITATION, TO THE NEGLIGENCE (BUT NOT GROSS NEGLIGENCE OR WILLFUL MISCONDUCT) OF THE INDEMNIFIED PARTIES.**

b. Without limitation to the provisions of Section 4, if any payment of the Repurchase Price of any Transaction is made by Seller other than on the then scheduled

51

---

Repurchase Date thereto as a result of an acceleration of the Repurchase Date pursuant to Section 16 or for any other reason, Seller shall, upon demand by Buyer, pay to Buyer an amount sufficient to compensate Buyer for any losses, costs or expenses that it may reasonably incur as of a result of such payment.

c. Without limiting the provisions of Section 30.a hereof, if Seller fails to pay when due any costs, expenses or other amounts payable by it under this Agreement, including, without limitation, fees and expenses of counsel and indemnities, such amount may be paid on behalf of Seller by Buyer, in its sole discretion.

## 31. Counterparts

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, and all such counterparts shall together constitute one and the same instrument.

## 32. Confidentiality

a. This Agreement and its terms, provisions, supplements and amendments, and notices hereunder, are proprietary to Buyer and shall be held by Seller and each Guarantor in strict confidence and shall not be disclosed to any third party without the written consent of Buyer except for (i) disclosure to Seller's or Guarantors' direct and indirect Affiliates and Subsidiaries, attorneys or accountants, but only to the extent such disclosure is necessary and such parties agree to hold all information in strict confidence, or (ii) disclosure required by law, rule, regulation or order of a court or other regulatory body.

b. Buyer agrees to keep confidential all non-public information provided to it by Seller, either Guarantor or an Affiliate thereof pursuant to this Agreement or any other Program Agreement that is designated by such Person as confidential and such information shall not be disclosed to any third party without the written consent of Seller except for (i) disclosure to any participant or assignee (each, a "Transferee") of Buyer or prospective Transferee which, in each case, executes a Confidentiality Agreement, (ii) disclosure to Buyer's direct and indirect Affiliates and Subsidiaries, employees, directors, agents, attorneys, accountants or other professional advisors, but only to the extent such disclosure is necessary and such parties agree to hold all information in strict confidence, (iii) disclosure required by law, rule, regulation or order of a court or other regulatory body, (iv) disclosure in connection with the enforcement of any of the provisions of this Agreement, (v) to the extent to such Confidential

Information is in the public domain other than due to a breach of this Section 32 or (vi) such other circumstances as are reasonably within the discretion of a public company in order to meet its corporate obligations; provided that in the case of (vi) Buyer shall take reasonable actions to provide Seller with prior written consent.

c. Notwithstanding the foregoing or anything to the contrary contained herein or in any other Program Agreement, the parties hereto may disclose to any and all Persons, without limitation of any kind, the federal, state and local tax treatment of the

52

---

Transactions, any fact relevant to understanding the federal, state and local tax treatment of the Transactions, and all materials of any kind (including opinions or other tax analyses) relating to such federal, state and local tax treatment and that may be relevant to understanding such tax treatment; provided that Seller may not disclose the name of or identifying information with respect to Buyer or any pricing terms (including, without limitation, the Pricing Rate, Non-Utilization Fee, Purchase Price Percentage and Purchase Price) or other nonpublic business or financial information (including any sublimits and financial covenants) that is unrelated to the federal, state and local tax treatment of the Transactions and is not relevant to understanding the federal, state and local tax treatment of the Transactions, without the prior written consent of the Buyer.

d. Notwithstanding anything in this Agreement to the contrary, the Seller shall comply with all applicable local, state and federal laws, including, without limitation, all privacy and data protection law, rules and regulations that are applicable to the Purchased Mortgage Loans and/or any applicable terms of this Agreement (the "Confidential Information"). The Seller understands that the Confidential Information may contain "nonpublic personal information", as that term is defined in Section 509(4) of the Gramm-Leach-Bliley Act (the "Act"), and the Seller agrees to maintain such nonpublic personal information that it receives hereunder in accordance with the Act and other applicable federal and state privacy laws. The Seller shall implement such physical and other security measures as shall be necessary to (i) ensure the security and confidentiality of the "nonpublic personal information" of the "customers" and "consumers" (as those terms are defined in the Act) of Buyer or any Affiliate of Buyer which the Seller holds, (ii) protect against any threats or hazards to the security and integrity of such nonpublic personal information, and (iii) protect against any unauthorized access to or use of such nonpublic personal information. The Seller represents and warrants that it has implemented appropriate measures to meet the objectives of Section 501(b) of the Act and of the applicable standards adopted pursuant thereto, as now or hereafter in effect. Upon request, the Seller will provide evidence reasonably satisfactory to allow Buyer to confirm that the providing party has satisfied its obligations as required under this Section. Without limitation, this may include Buyer's review of audits, summaries of test results, and other equivalent evaluations of the Seller. The Seller shall notify Buyer immediately following discovery of any breach or compromise of the security, confidentiality, or integrity of nonpublic personal information of the customers and consumers of Buyer or any Affiliate of Buyer provided directly to the Seller by Buyer or such Affiliate. The Seller shall provide such notice to Buyer by personal delivery, by facsimile with confirmation of receipt, or by overnight courier with confirmation of receipt to the applicable requesting individual.

e. Notwithstanding anything in this Agreement to the contrary, Buyer shall comply with all applicable local, state and federal laws, including, without limitation, all privacy and data protection law, rules and regulations that are applicable to the Purchased Mortgage Loans and/or any applicable terms of this Agreement (the "Seller Confidential Information"). Buyer understands that the Seller Confidential Information may contain "nonpublic personal information", as that term is defined in Section 509(4) of the Act, and Buyer agrees to maintain such nonpublic personal information that it receives hereunder in accordance with the Act and other applicable federal and state privacy laws. Buyer shall

53

---

implement such physical and other security measures as shall be necessary to (i) ensure the security and confidentiality of the "nonpublic personal information" of the "customers", "consumers" (as those terms are defined in the Act) of Seller, a Guarantor or any Affiliate of Seller or Guarantors which Buyer holds, (ii) protect against any threats or hazards to the security and integrity of such nonpublic personal information, and (iii) protect against any unauthorized access to or use of such nonpublic personal information. Buyer represents and warrants that it has implemented appropriate measures to meet the objectives of Section 501(b) of the Act and of the applicable standards adopted pursuant thereto, as now or hereafter in effect. Buyer shall notify Seller timely following discovery of any breach or compromise of the security, confidentiality, or integrity of nonpublic personal information of the customers, and consumers of Seller, a Guarantor or any Affiliate of Seller or Guarantors provided directly to the Buyer by Seller or such Affiliate. The Buyer shall provide such notice to Seller by personal delivery, by facsimile with confirmation of receipt, or by overnight courier with confirmation of receipt to the applicable requesting individual.

### **33. Recording of Communications**

Buyer, Seller and Guarantors shall have the right (but not the obligation) from time to time to make or cause to be made tape recordings of communications between its employees and those of the other party with respect to Transactions. Buyer, Seller and Guarantors consent to the admissibility of such tape recordings in any court, arbitration, or other proceedings. The parties agree that a duly authenticated transcript of such a tape recording shall be deemed to be a writing conclusively evidencing the parties' agreement if the Persons reflected in the transcript had authority to bind the relevant party.

### **34. Periodic Due Diligence Review**

Seller acknowledges that Buyer has the right to perform continuing due diligence reviews with respect to the Seller and the Mortgage Loans, for purposes of verifying compliance with the representations, warranties and specifications made hereunder, for the purpose of performing quality control review of the Mortgage Loans or otherwise, and Seller agrees that upon reasonable (but no less than five (5) Business Days') prior notice unless an Event of Default shall have occurred and be continuing, in which case no notice is required, to Seller, Buyer or its authorized representatives will be permitted during normal business hours to examine, inspect, and make copies and extracts of, the Mortgage Files and any and all documents, data, records, agreements, instruments or information relating to such Mortgage Loans (including, without limitation, quality control review) in the possession or under the control of Seller and/or the Custodian. Seller also shall make available to Buyer a knowledgeable financial or accounting officer for the purpose of answering questions respecting the Mortgage Files and the Mortgage Loans. Without limiting the generality of the foregoing, Seller acknowledges that Buyer may purchase Mortgage Loans from Seller based solely upon the information provided by Seller to Buyer in the Mortgage Loan Schedule and the representations, warranties and covenants contained herein, and that Buyer, at its option, has the right at any time to conduct a partial or complete due diligence review on some or all of the Mortgage Loans purchased in a Transaction, including, without limitation, ordering Broker's price opinions, new credit reports and new appraisals on the related Mortgaged Properties and otherwise

re-generating the information used to originate such Mortgage Loan. Buyer may underwrite such Mortgage Loans itself or engage a mutually agreed upon third party underwriter to perform such underwriting. Seller agrees to cooperate with Buyer and any third party underwriter in connection with such underwriting, including, but not limited to, providing Buyer and any third party underwriter with access to any and all documents, records, agreements, instruments or information relating to such Mortgage Loans in the possession, or under the control, of Seller. Seller further agrees that Seller shall pay all out-of-pocket costs and expenses incurred by Buyer in connection with Buyer's activities pursuant to this Section 34.

**35. Authorizations**

Any of the persons whose signatures and titles appear on Schedule 2 are authorized, acting singly, to act for Seller or Buyer to the extent set forth therein, as the case may be, under this Agreement.

**36. Acknowledgement Of Anti-Predatory Lending Policies**

Buyer has in place internal policies and procedures that expressly prohibit its purchase of any High Cost Mortgage Loan.

**37. Documents Mutually Drafted**

The Seller and the Buyer agree that this Agreement and each other Program Agreement prepared in connection with the Transactions set forth herein have been mutually drafted and negotiated by each party, and consequently such documents shall not be construed against either party as the drafter thereof.

**38. General Interpretive Principles**

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

- a. the terms defined in this Agreement have the meanings assigned to them in this Agreement and include the plural as well as the singular, and the use of any gender herein shall be deemed to include the other gender;
- b. accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP;
- c. references herein to "Articles", "Sections", "Subsections", "Paragraphs", and other subdivisions without reference to a document are to designated Articles, Sections, Subsections, Paragraphs and other subdivisions of this Agreement;
- d. a reference to a Subsection without further reference to a Section is a reference to such Subsection as contained in the same Section in which the reference appears, and this rule shall also apply to Paragraphs and other subdivisions;

e. the words "herein", "hereof", "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular provision;

f. the term "include" or "including" shall mean without limitation by reason of enumeration;

g. all times specified herein or in any other Program Agreement (unless expressly specified otherwise) are local times in New York, New York unless otherwise stated; and

h. all references herein or in any Program Agreement to "good faith" means good faith as defined in Section 1-201(19) of the UCC as in effect in the State of New York.

**39. Conflicts**

In the event of any conflict between the terms of this Agreement and any other Program Agreement, the documents shall control in the following order of priority: first, the terms of the Pricing Side Letter shall prevail, then the terms of this Agreement shall prevail, and then the terms of the other Program Agreements shall prevail.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be duly executed as of the date first above written.

Credit Suisse First Boston Mortgage Capital LLC, as Buyer

By: /s/ Adam Loskove  
Name: Adam Loskove

Title: Vice President

Excel Mortgage Servicing, Inc., as Seller

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

Integrated Real Estate Service Corp., as Guarantor

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

Impac Mortgage Holdings, Inc., as Guarantor

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

Signature Page to the Master Repurchase Agreement

---

## SCHEDULE 1

### REPRESENTATIONS AND WARRANTIES WITH RESPECT TO PURCHASED MORTGAGE LOANS

(a) Payments Current. All payments required to be made up to the Purchase Date for the Mortgage Loan under the terms of the Mortgage Note have been made and credited. No payment required under the Mortgage Loan is delinquent nor has any payment under the Mortgage Loan been delinquent at any time since the origination of the Mortgage Loan. The first Monthly Payment shall be made, or shall have been made, with respect to the Mortgage Loan on its Due Date or within the grace period, all in accordance with the terms of the related Mortgage Note.

(b) No Outstanding Charges. All taxes, governmental assessments, insurance premiums, water, sewer and municipal charges, leasehold payments or ground rents which previously became due and owing have been paid, or an escrow of funds has been established in an amount sufficient to pay for every such item which remains unpaid and which has been assessed but is not yet due and payable. Neither Seller nor the Qualified Originator from which Seller acquired the Mortgage Loan has advanced funds, or induced, solicited or knowingly received any advance of funds by a party other than the Mortgagor, directly or indirectly, for the payment of any amount required under the Mortgage Loan, except for interest accruing from the date of the Mortgage Note or date of disbursement of the proceeds of the Mortgage Loan, whichever is earlier, to the day which precedes by one month the Due Date of the first installment of principal and/or interest thereunder.

(c) Original Terms Unmodified. The terms of the Mortgage Note and Mortgage have not been impaired, waived, altered or modified in any respect, from the date of origination; except by a written instrument which has been recorded, if necessary to protect the interests of Buyer, and which has been delivered to the Custodian and the terms of which are reflected in the Custodial Mortgage Loan Schedule. The substance of any such waiver, alteration or modification has been approved by the title insurer, to the extent required, and its terms are reflected on the Custodial Mortgage Loan Schedule. No Mortgagor in respect of the Mortgage Loan has been released, in whole or in part, except in connection with an assumption agreement approved by the title insurer, to the extent required by such policy, and which assumption agreement is part of the Mortgage File delivered to the Custodian and the terms of which are reflected in the Custodial Mortgage Loan Schedule.

(d) No Defenses. The Mortgage Loan is not subject to any right of rescission, set-off, counterclaim or defense, including, without limitation, the defense of usury, nor will the operation of any of the terms of the Mortgage Note or the Mortgage, or the exercise of any right thereunder, render either the Mortgage Note or the Mortgage unenforceable, in whole or in part and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto, and no Mortgagor in respect of the Mortgage Loan was a debtor in any state or Federal bankruptcy or insolvency proceeding at the time the Mortgage Loan was originated. Unless otherwise permitted by the Underwriting Guidelines, Mortgagor (i) did not have a prior bankruptcy and (ii) did not previously own property that was the subject of a foreclosure during the time the Mortgagor was the owner of record. Seller has no knowledge nor has it received

Schedule 1-1

---

any notice that any Mortgagor in respect of the Mortgage Loan is a debtor in any state or federal bankruptcy or insolvency proceeding. Seller has no knowledge of any circumstances or condition with respect to the Mortgage, the Mortgaged Property, the Mortgagor or the Mortgagor's credit standing that could reasonably be expected to cause investors to regard the Mortgage Loan as an unacceptable investment, cause the Mortgage Loan to become delinquent or materially adversely affect the value or marketability of the Mortgage Loan.

(e) Hazard Insurance. The Mortgaged Property is insured by a fire and extended perils insurance policy, issued by a Qualified Insurer, and such other hazards as are customary in the area where the Mortgaged Property is located, and to the extent required by Seller as of the date of origination consistent with the Underwriting Guidelines, against earthquake and other risks insured against by Persons operating like properties in the locality of the Mortgaged Property, in an amount not less than the greatest of (i) 100% of the replacement cost of all improvements to the Mortgaged Property, (ii) the outstanding principal balance of the Mortgage Loan, or (iii) the amount necessary to avoid the operation of any co-insurance provisions with respect to the

Mortgaged Property, and consistent with the amount that would have been required as of the date of origination in accordance with the Underwriting Guidelines. If any portion of the Mortgaged Property is in an area identified by any federal Governmental Authority as having special flood hazards, and flood insurance is available, a flood insurance policy meeting the current guidelines of the Federal Emergency Management Agency is in effect with a generally acceptable insurance carrier, in an amount representing coverage not less than the least of (1) the outstanding principal balance of the Mortgage Loan (2) the full insurable value of the Mortgaged Property, and (3) the maximum amount of insurance available under the National Flood Insurance Act of 1968, as amended by the Flood Disaster Protection Act of 1974. All such insurance policies (collectively, the "hazard insurance policy") contain a standard mortgagee clause naming Seller, its successors and assigns (including, without limitation, subsequent owners of the Mortgage Loan), as mortgagee, and may not be reduced, terminated or canceled without 30 days' prior written notice to the mortgagee. No such notice has been received by Seller. All premiums on such insurance policy have been paid. The related Mortgage obligates the Mortgagor to maintain all such insurance and, at such Mortgagor's failure to do so, authorizes the mortgagee to maintain such insurance at the Mortgagor's cost and expense and to seek reimbursement therefor from such Mortgagor. Where required by state law or regulation, the Mortgagor has been given an opportunity to choose the carrier of the required hazard insurance, provided the policy is not a "master" or "blanket" hazard insurance policy covering a condominium, or any hazard insurance policy covering the common facilities of a planned unit development. The hazard insurance policy is the valid and binding obligation of the insurer and is in full force and effect. Seller has not engaged in, and has no knowledge of the Mortgagor's having engaged in, any act or omission which would impair the coverage of any such policy, the benefits of the endorsement provided for herein, or the validity and binding effect of either including, without limitation, no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by any attorney, firm or other Person, and no such unlawful items have been received, retained or realized by Seller.

(f) Environmental Compliance. There does not exist on the Mortgaged Property any hazardous substances, hazardous wastes or solid wastes, as such terms are defined in the Comprehensive Environmental Response Compensation and Liability Act, the Resource

Schedule 1-2

---

Conservation and Recovery Act of 1976, or other applicable federal, state or local environmental laws including, without limitation, asbestos, in each case in excess of the permitted limits and allowances set forth in such environmental laws to the extent such laws are applicable to the Mortgaged Property. There is no pending action or proceeding directly involving the Mortgaged Property in which compliance with any environmental law, rule or regulation is an issue; there is no violation of any applicable environmental law (including, without limitation, asbestos), rule or regulation with respect to the Mortgaged Property; and nothing further remains to be done to satisfy in full all requirements of each such law, rule or regulation constituting a prerequisite to use and enjoyment of said property.

(g) Compliance with Applicable Laws. Any and all requirements of any federal, state or local law including, without limitation, usury, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity or disclosure laws applicable to the 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 demand, evidence of compliance with all such requirements.

(h) No Satisfaction of Mortgage. The Mortgage has not been satisfied, canceled, subordinated or rescinded, in whole or in part, and the Mortgaged Property has not been released from the lien of the Mortgage, in whole or in part, nor has any instrument been executed that would affect any such release, cancellation, subordination or rescission. Seller has not waived the performance by the Mortgagor of any action, if the Mortgagor's failure to perform such action would cause the Mortgage Loan to be in default, nor has Seller waived any default resulting from any action or inaction by the Mortgagor.

(i) Location and Type of Mortgaged Property. The Mortgaged Property is located in an Acceptable State as identified in the Custodial Mortgage Loan Schedule and consists of a single parcel of real property with a detached single family residence erected thereon, or a two- to four-family dwelling, or an individual condominium unit in a low-rise condominium project, or an individual unit in a planned unit development or a de minimis planned unit development; provided, however, that any condominium unit or planned unit development shall conform with the applicable Fannie Mae and Freddie Mac requirements regarding such dwellings or shall conform to underwriting guidelines acceptable to Buyer in its sole discretion and that no residence or dwelling is a mobile home. No portion of the Mortgaged Property is used for commercial purposes; provided, that, the Mortgaged Property may be a mixed use property if such Mortgaged Property conforms to underwriting guidelines acceptable to Buyer in its sole discretion.

(j) Valid First Lien. The Mortgage is a valid, subsisting, enforceable and perfected with respect to each first lien Mortgage Loan, first priority lien and first priority security interest on the real property included in the Mortgaged Property, including all buildings on the Mortgaged Property and all installations and mechanical, electrical, plumbing, heating and air conditioning systems located in or annexed to such buildings, and all additions, alterations and replacements made at any time with respect to the foregoing. The lien of the Mortgage is subject only to:

Schedule 1-3

---

- a. the lien of current real property taxes and assessments not yet due and payable;
- b. covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording acceptable to prudent mortgage lending institutions generally and specifically referred to in Buyer's title insurance policy delivered to the originator of the Mortgage Loan and (a) referred to or otherwise considered in the appraisal made for the originator of the Mortgage Loan or (b) which do not adversely affect the Appraised Value of the Mortgaged Property set forth in such appraisal;
- c. other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the Mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property.

Any security agreement, chattel mortgage or equivalent document related to and delivered in connection with the Mortgage Loan establishes and creates a valid, subsisting and enforceable first lien and first priority security interest on the property described therein and Seller has full right to pledge and assign the same to Buyer. The Mortgaged Property was not, as of the date of origination of the Mortgage Loan, subject to a mortgage, deed of trust, deed to secure debt or other security instrument creating a lien subordinate to the lien of the Mortgage.

(k) Validity of Mortgage Documents. The Mortgage Note and the Mortgage and any other agreement executed and delivered by a Mortgagor or guarantor, if applicable, in connection with a Mortgage Loan are genuine, and each is the legal, valid and binding obligation of the maker thereof enforceable in accordance with its terms. All parties to the Mortgage Note, the Mortgage and any other such related agreement had legal capacity to enter into the Mortgage Loan and to execute and deliver the Mortgage Note, the Mortgage and any such agreement, and the Mortgage Note, the Mortgage and any other such related agreement have been duly and properly executed by such related parties. No fraud, error, omission, misrepresentation, negligence or similar occurrence with respect to a Mortgage Loan has taken place on the part of any Person, including, without limitation, the Mortgagor, any appraiser, any builder or developer, or any other party involved in the origination of the Mortgage Loan. Seller has reviewed all of the documents constituting the Mortgage File and has made such inquiries as it deems necessary to make and confirm the accuracy of the representations set forth herein. To the best of Seller's knowledge, except as disclosed to Buyer in writing, all tax identifications and property descriptions are legally sufficient; and tax segregation, where required, has been completed.

(l) Full Disbursement of Proceeds. There is no further requirement for future advances under the Mortgage Loan, 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 Mortgage Note or Mortgage. All broker fees have been properly assessed to the Mortgagor and no claims will arise as to broker fees that are double charged and for which the Mortgagor would be entitled to reimbursement.

Schedule 1-4

---

(m) Ownership. Seller has full right to sell the Mortgage Loan to Buyer free and clear of any encumbrance, equity, participation interest, lien, pledge, charge, claim or security interest, and has full right and authority subject to no interest or participation of, or agreement with, any other party, to sell each Mortgage Loan pursuant to this Agreement and following the sale of each Mortgage Loan, Buyer will own such Mortgage Loan free and clear of any encumbrance, equity, participation interest, lien, pledge, charge, claim or security interest except any such security interest created pursuant to the terms of this Agreement.

(n) Doing Business. All parties which have had any interest in the Mortgage Loan, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) (i) in compliance with any and all applicable licensing requirements of the laws of the state wherein the Mortgaged Property is located, and (ii) either (A) organized under the laws of such state, (B) qualified to do business in such state, (C) a federal savings and loan association, a savings bank or a national bank having a principal office in such state, or (D) not doing business in such state.

(o) Title Insurance. The Mortgage Loan is covered by either (i) an attorney's opinion of title and abstract of title, the form and substance of which is acceptable to prudent mortgage lending institutions making mortgage loans in the area wherein the Mortgaged Property is located or (ii) an ALTA lender's title insurance policy or other generally acceptable form of policy or insurance acceptable to Fannie Mae or Freddie Mac and each such title insurance policy is issued by a title insurer acceptable to Fannie Mae or Freddie Mac and qualified to do business in the jurisdiction where the Mortgaged Property is located, insuring Seller, its successors and assigns, as to the first priority lien of the Mortgage, as applicable, in the original principal amount of the Mortgage Loan, with respect to a Mortgage Loan (or to the extent a Mortgage Note provides for negative amortization, the maximum amount of negative amortization in accordance with the Mortgage), subject only to the exceptions contained in clauses (a), (b) and (c) of paragraph (i) of this Schedule 1, and in the case of adjustable rate Mortgage Loans, against any loss by reason of the invalidity or unenforceability of the lien resulting from the provisions of the Mortgage providing for adjustment to the Mortgage Interest Rate and Monthly Payment. Where required by state law or regulation, the Mortgagor has been given the opportunity to choose the carrier of the required mortgage title insurance. Additionally, such lender's title insurance policy affirmatively insures ingress and egress and against encroachments by or upon the Mortgaged Property or any interest therein. The title policy does not contain any special exceptions (other than the standard exclusions) for zoning and uses and has been marked to delete the standard survey exception or to replace the standard survey exception with a specific survey reading. Seller, its successors and assigns, are the sole insureds of such lender's title insurance policy, and such lender's title insurance policy is valid and remains in full force and effect and will be in force and effect upon the consummation of the transactions contemplated by this Agreement. No claims have been made under such lender's title insurance policy, and no prior holder or servicer of the related Mortgage, including Seller, has done, by act or omission, anything which would impair the coverage of such lender's title insurance policy, including without limitation, no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by any attorney, firm or other Person, and no such unlawful items have been received, retained or realized by Seller.

Schedule 1-5

---

(p) No Defaults. There is no default, breach, violation or event of acceleration existing under the Mortgage or the Mortgage Note and no event has occurred which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration, and neither Seller nor its predecessors have waived any default, breach, violation or event of acceleration.

(q) No Mechanics' Liens. There are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that under the law could give rise to such liens) affecting the Mortgaged Property which are or may be liens prior to, or equal or coordinate with, the lien of the Mortgage.

(r) Location of Improvements; No Encroachments. All improvements which were considered in determining the Appraised Value of the Mortgaged Property lie wholly within the boundaries and building restriction lines of the Mortgaged Property, and no improvements on adjoining properties encroach upon the Mortgaged Property. No improvement located on or being part of the Mortgaged Property is in violation of any applicable zoning and building law, ordinance or regulation. All seller and/or builder cash concessions have been subtracted from the Appraised Value of the Mortgage Property for purposes of determining the LTV.

(s) Origination; Payment Terms. The Mortgage Loan was originated by or in conjunction with a mortgagee approved by the Secretary of Housing and Urban Development pursuant to Sections 203 and 211 of the National Housing Act, a savings and loan association, a savings bank, a commercial bank, credit union, insurance company or similar banking institution which is supervised and examined by a federal or state authority. Principal and/or interest payments on the Mortgage Loan commenced no more than 60 days after funds were disbursed in connection with the Mortgage Loan. No Mortgage Loan has a balloon payment feature. To the extent required by the Underwriting Guidelines, the Mortgagor contributed at least five percent (5%) (or three and one-half percent (3.5%) for FHA Loans) of the purchase price for the Mortgaged Property from their own funds. Interest on the Mortgage Loan

is calculated on the basis of a 360-day year consisting of twelve 30-day months. With respect to adjustable rate Mortgage Loans, the Mortgage Interest Rate is adjusted on each Interest Rate Adjustment Date to equal the Index plus the Gross Margin (rounded up or down to the nearest .125%), subject to the Mortgage Interest Rate Cap. The Mortgage Note is payable on the first day of each month in equal monthly installments of principal and/or interest (subject to an "interest only" period in the case of Interest Only Loans), which installments of interest (a) with respect to adjustable rate Mortgage Loans are subject to change on the Interest Rate Adjustment Date due to adjustments to the Mortgage Interest Rate on each Interest Rate Adjustment Date and (b) with respect to Interest Only Loans are subject to change on the Interest Only Adjustment Date due to adjustments to the Mortgage Interest Rate on each Interest Only Adjustment Date, in both cases with interest calculated and payable in arrears, sufficient to amortize the Mortgage Loan fully by the stated maturity date, over an original term of not more than 30 years from commencement of amortization.

(t) Customary Provisions. The Mortgage Note has a stated maturity. The Mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the

Schedule 1-6

---

benefits of the security provided thereby, including, (i) in the case of a Mortgage designated as a deed of trust, by trustee's sale, and (ii) otherwise by judicial foreclosure. Upon default by a Mortgagor on a Mortgage Loan and foreclosure on, or trustee's sale of, the Mortgaged Property pursuant to the proper procedures, the holder of the Mortgage Loan will be able to deliver good and merchantable title to the Mortgaged Property. There is no homestead or other exemption or other right available to the Mortgagor or any other person, or restriction on the Seller or any other person, including without limitation, any federal, state or local, law, ordinance, decree, regulation, guidance, attorney general action, or other pronouncement, whether temporary or permanent in nature, that would interfere with, restrict or delay, either (y) the ability of the Seller, Buyer or any servicer or any successor servicer to sell the related Mortgaged Property at a trustee's sale or otherwise, or (z) the ability of the Seller, Buyer or any servicer or any successor servicer to foreclose on the related Mortgage. The Mortgage Note and Mortgage are on forms acceptable to Freddie Mac or Fannie Mae.

(u) Occupancy of the Mortgaged Property. As of the Purchase Date the Mortgaged Property is lawfully occupied under applicable law. All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the Mortgaged Property and, with respect to the use and occupancy of the same, including but not limited to certificates of occupancy and fire underwriting certificates, have been made or obtained from the appropriate authorities. Seller has not received notification from any Governmental Authority that the Mortgaged Property is in material non-compliance with such laws or regulations, is being used, operated or occupied unlawfully or has failed to have or obtain such inspection, licenses or certificates, as the case may be. Seller has not received notice of any violation or failure to conform with any such law, ordinance, regulation, standard, license or certificate. With respect to any Mortgage Loan originated with an "owner-occupied" Mortgaged Property, the Mortgagor represented at the time of origination of the Mortgage Loan that the Mortgagor would occupy the Mortgaged Property as the Mortgagor's primary residence.

(v) No Additional Collateral. The Mortgage Note is not and has not been secured by any collateral except the lien of the corresponding Mortgage and the security interest of any applicable security agreement or chattel mortgage referred to in clause (i) above.

(w) Deeds of Trust. In the event the Mortgage constitutes a deed of trust, a trustee, authorized and duly qualified under applicable law to serve as such, has been properly designated and currently so serves and is named in the Mortgage, and no fees or expenses are or will become payable by the Custodian or Buyer to the trustee under the deed of trust, except in connection with a trustee's sale after default by the Mortgagor.

(x) Transfer of Mortgage Loans. Except with respect to Mortgage Loans intended for purchase by GNMA and for Mortgage Loans registered with MERS, the Assignment of Mortgage is in recordable form and is acceptable for recording under the laws of the jurisdiction in which the Mortgaged Property is located.

(y) Due-On-Sale. Except with respect to Mortgage Loans intended for purchase by GNMA, the Mortgage contains an enforceable provision for the acceleration of the payment of the unpaid principal balance of the Mortgage Loan in the event that the Mortgaged Property is sold or transferred without the prior written consent of the mortgagee thereunder.

Schedule 1-7

---

(z) No Buydown Provisions; No Graduated Payments or Contingent Interests. Except with respect to Agency Mortgage Loans, the Mortgage Loan does not contain provisions pursuant to which Monthly Payments are paid or partially paid with funds deposited in any separate account established by Seller, the Mortgagor, or anyone on behalf of the Mortgagor, or paid by any source other than the Mortgagor nor does it contain any other similar provisions which may constitute a "buydown" provision. The Mortgage Loan is not a graduated payment mortgage loan and the Mortgage Loan does not have a shared appreciation or other contingent interest feature.

(aa) Consolidation of Future Advances. Any future advances made to the Mortgagor prior to the Purchase Date have been consolidated with the outstanding principal amount secured by the Mortgage, and the secured principal amount, as consolidated, bears a single interest rate and single repayment term. The lien of the Mortgage securing the consolidated principal amount is expressly insured as having first lien priority by a title insurance policy, an endorsement to the policy insuring the mortgagee's consolidated interest or by other title evidence acceptable to Fannie Mae and Freddie Mac. The consolidated principal amount does not exceed the original principal amount of the Mortgage Loan.

(bb) No Condemnation Proceeding. There have not been any condemnation proceedings with respect to the Mortgaged Property and Seller has no knowledge of any such proceedings.

(cc) Collection Practices; Escrow Deposits; Interest Rate Adjustments. The origination and collection practices used by the originator, each servicer of the Mortgage Loan and Seller with respect to the Mortgage Loan have been in all respects in compliance with Accepted Servicing Practices, applicable laws and regulations, and have been in all respects legal and proper. With respect to escrow deposits and Escrow Payments, all such payments are in the possession of, or under the control of, Seller and there exist no deficiencies in connection therewith for which customary arrangements for repayment thereof have not been made. All Escrow Payments have been collected in full compliance with state and federal law. An escrow of funds is not prohibited by applicable law and has been established in an amount sufficient to pay for every item that remains unpaid and has been assessed but is not yet due and payable. No escrow deposits or Escrow Payments or other charges or payments due Seller have been capitalized under the Mortgage or the Mortgage Note.



All Mortgage Interest Rate adjustments have been made in strict compliance with state and federal law and the terms of the related Mortgage Note. Any interest required to be paid pursuant to state, federal and local law has been properly paid and credited.

(dd) Conversion to Fixed Interest Rate. Except as allowed by Fannie Mae or Freddie Mac or otherwise as expressly approved in writing by Buyer, with respect to adjustable rate Mortgage Loans, the Mortgage Loan is not convertible to a fixed interest rate Mortgage Loan.

(ee) Other Insurance Policies. No action, inaction or event has occurred and no state of facts exists or has existed that has resulted or will result in the exclusion from, denial of, or defense to coverage under any applicable special hazard insurance policy, PMI Policy or bankruptcy bond, irrespective of the cause of such failure of coverage. In connection with the

---

Schedule 1-8

placement of any such insurance, no commission, fee, or other compensation has been or will be received by Seller or by any officer, director, or employee of Seller or any designee of Seller or any corporation in which Seller or any officer, director, or employee had a financial interest at the time of placement of such insurance.

(ff) Servicemembers Civil Relief Act. The Mortgagor has not notified Seller, and Seller has no knowledge, of any relief requested or allowed to the Mortgagor under the Servicemembers Civil Relief Act of 2003.

(gg) Appraisal. Except as otherwise permitted by the terms of any relevant Agency program, the Mortgage File contains an appraisal of the related Mortgaged Property signed prior to the funding of the Mortgage Loan by a qualified appraiser, duly appointed by Seller, who had no interest, direct or indirect in the Mortgaged Property or in any loan made on the security thereof, and whose compensation is not affected by the approval or disapproval of the Mortgage Loan, and the appraisal and appraiser both satisfy the requirements of Fannie Mae or Freddie Mac and Title XI of the Federal Institutions Reform, Recovery, and Enforcement Act of 1989 as amended and the regulations promulgated thereunder, all as in effect on the date the Mortgage Loan was originated. As of the origination date, no required appraisal is more than one hundred and twenty (120) days old.

(hh) Disclosure Materials. The Mortgagor has executed a statement to the effect that the Mortgagor has received all disclosure materials required by applicable law with respect to the making of adjustable rate mortgage loans, and Seller maintains such statement in the Mortgage File.

(ii) Construction or Rehabilitation of Mortgaged Property. No Mortgage Loan was made in connection with the construction or rehabilitation of a Mortgaged Property or facilitating the trade-in or exchange of a Mortgaged Property.

(jj) No Defense to Insurance Coverage. No action has been taken or failed to be taken, no event has occurred and no state of facts exists or has existed on or prior to the Purchase Date (whether or not known to Seller on or prior to such date) which has resulted or will result in an exclusion from, denial of, or defense to coverage under any private mortgage insurance (including, without limitation, any exclusions, denials or defenses which would limit or reduce the availability of the timely payment of the full amount of the loss otherwise due thereunder to the insured) whether arising out of actions, representations, errors, omissions, negligence, or fraud of Seller, the related Mortgagor or any party involved in the application for such coverage, including the appraisal, plans and specifications and other exhibits or documents submitted therewith to the insurer under such insurance policy, or for any other reason under such coverage, but not including the failure of such insurer to pay by reason of such insurer's breach of such insurance policy or such insurer's financial inability to pay.

(kk) Capitalization of Interest. The Mortgage Note does not by its terms provide for the capitalization or forbearance of interest.

(ll) No Equity Participation. No document relating to the Mortgage Loan provides for any contingent or additional interest in the form of participation in the cash flow of

---

Schedule 1-9

the Mortgaged Property or a sharing in the appreciation of the value of the Mortgaged Property. The indebtedness evidenced by the Mortgage Note is not convertible to an ownership interest in the Mortgaged Property or the Mortgagor and Seller has not financed nor does it own directly or indirectly, any equity of any form in the Mortgaged Property or the Mortgagor.

(mm) Proceeds of Mortgage Loan. The proceeds of the Mortgage Loan have not been and shall not be used to satisfy, in whole or in part, any debt owed or owing by the Mortgagor to Seller or any Affiliate or correspondent of Seller, except in connection with a refinanced Mortgage Loan; provided, however, that other than with respect to FHA Loans and VA Loans originated in accordance with their respective guidelines, no such refinanced Mortgage Loan shall have been originated pursuant to a streamlined mortgage loan refinancing program.

(nn) Origination Date. The Purchase Date is no more than thirty (30) days following the origination date.

(oo) No Exception. The Custodian has not noted any material exceptions on a Custodial Mortgage Loan Schedule with respect to the Mortgage Loan which would materially adversely affect the Mortgage Loan or Buyer's interest in the Mortgage Loan.

(pp) Mortgage Submitted for Recordation. The Mortgage either has been or will promptly be submitted for recordation in the appropriate governmental recording office of the jurisdiction where the Mortgaged Property is located.

(qq) Documents Genuine. Such Purchased Mortgage Loan and all accompanying collateral documents are complete and authentic and all signatures thereon are genuine. Such Purchased Mortgage Loan is a "closed" loan fully funded by Seller and held in Seller's name.

(rr) Bona Fide Loan. Such Purchased Mortgage Loan arose from a bona fide loan, complying with all applicable State and Federal laws and regulations, to persons having legal capacity to contract and is not subject to any defense, set-off or counterclaim.

(ss) Other Encumbrances. To the best of Seller's knowledge, any property subject to any security interest given in connection with such Purchased Mortgage Loan is not subject to any other encumbrances other than a stated first mortgage, if applicable, and encumbrances which may be allowed under the Underwriting Guidelines.

(tt) Description. Each Purchased Mortgage Loan conforms to the description thereof as set forth on the related Custodial Mortgage Loan Schedule delivered to the Custodian and Buyer.

(uu) Located in U.S. No collateral (including, without limitation, the related real property and the dwellings thereon and otherwise) relating to a Purchased Mortgage Loan is located in any jurisdiction other than in one of the fifty (50) states of the United States of America or the District of Columbia.

Schedule 1-10

---

(vv) Underwriting Guidelines. Each Purchased Mortgage Loan has been originated in accordance with the Underwriting Guidelines (including all supplements or amendments thereto) previously provided to Buyer.

(ww) Aging. Such Purchased Mortgage Loan has not been subject to a Transaction hereunder for more than the applicable Aging Limit.

(xx) Committed Mortgage Loans. Each Committed Mortgage Loan is covered by a Take-out Commitment, does not exceed the availability under such Take-out Commitment (taking into consideration mortgage loans which have been purchased by the respective Take-out Investor under the Take-out Commitment and mortgage loan which Seller has identified to Buyer as covered by such Take-out Commitment) and conforms to the requirements and the specifications set forth in such Take-out Commitment and the related regulations, rules, requirements and/or handbooks of the applicable Take-out Investor and is eligible for sale to and insurance or guaranty by, respectively the applicable Take-out Investor and applicable insurer. Each Take-out Commitment is a legal, valid and binding obligation of Seller enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(yy) Primary Mortgage Guaranty Insurance. Each Mortgage Loan is insured as to payment defaults by a policy of primary mortgage guaranty insurance in the amount required where applicable, and by an insurer approved, by the applicable Take-out Investor, if applicable, and all provisions of such primary mortgage guaranty insurance have been and are being complied with, such policy is in full force and effect, and all premiums due thereunder have been paid. Each Mortgage Loan which is represented to Buyer to have, or to be eligible for, FHA insurance is insured, or eligible to be insured, pursuant to the National Housing Act. Each Mortgage Loan which is represented by Seller to be guaranteed, or to be eligible for guaranty, by the VA is guaranteed, or eligible to be guaranteed, under the provisions of Chapter 37 of Title 38 of the United States Code. As to each FHA insurance certificate or each VA guaranty certificate, Seller has complied with applicable provisions of the insurance for guaranty contract and federal statutes and regulations, all premiums or other charges due in connection with such insurance or guarantee have been paid, there has been no act or omission which would or may invalidate any such insurance or guaranty, and the insurance or guaranty is, or when issued, will be, in full force and effect with respect to each Mortgage Loan. There are no defenses, counterclaims, or rights of setoff affecting the Mortgage Loans or affecting the validity or enforceability of any private mortgage insurance or FHA insurance applicable to the Mortgage Loans or any VA guaranty with respect to the Mortgage Loans.

(zz) Tax Service. The Mortgage Loan is covered by a life of loan, transferrable real estate tax service contract that may be assigned to Buyer.

(aaa) Predatory Lending Regulations; High Cost Loans. No Mortgage Loan is classified as High Cost Mortgage Loans.

(bbb) Credit Score and Reporting. As of the Purchase Date, the Mortgagor's credit score as listed on the Mortgage Loan Schedule is no more than ninety (90) days old. Full,

Schedule 1-11

---

complete and accurate information with respect to the Mortgagor's credit file was furnished to Equifax, Experian and Trans Union Credit Information in accordance with the Fair Credit Reporting Act and its implementing regulations.

(ccc) Wet-Ink Mortgage Loans. With respect to each Mortgage Loan that is a Wet-Ink Mortgage Loan, the Settlement Agent has been instructed in writing by Seller to hold the related Mortgage Loan Documents as agent and bailee for Buyer or Buyer agent and to promptly forward such Mortgage Loan Documents in accordance with the provisions of the Custodial Agreement and the Escrow Instruction Letter.

(ddd) FHA Mortgage Insurance; VA Loan Guaranty. With respect to the FHA Loans, the FHA Mortgage Insurance Contract is in full force and effect and there exists no impairment to full recovery without indemnity to the Department of Housing and Urban Development or the FHA under FHA Mortgage Insurance. With respect to the VA Loans, the VA Loan Guaranty Agreement is in full force and effect to the maximum extent stated therein. All necessary steps have been taken to keep such guaranty or insurance valid, binding and enforceable and each of such is the binding, valid and enforceable obligation of the FHA and the VA, respectively, to the full extent thereof, without surcharge, set-off or defense. Each FHA Loan and VA Loan was originated in accordance with the criteria of an Agency for purchase of such Mortgage Loans.

Schedule 1-12

---

**SCHEDULE 2**

**AUTHORIZED REPRESENTATIVES**

**SELLER AUTHORIZATIONS**

Any of the persons whose signatures and titles appear below are authorized, acting singly, to act for Seller under this Agreement:

Authorized Representatives for execution of Program Agreements and amendments

Name	Title	Signature

Authorized Representatives for execution of Transaction Requests and day-to-day operational functions

Name	Title	Signature

Signature Page to the Master Repurchase Agreement

**BUYER AUTHORIZATIONS**

Any of the persons whose signatures and titles appear below, including any other authorized officers, are authorized, acting singly, to act for Buyer under this Agreement:

Name	Title	Signature
Bruce Kaiserman		
Margaret Dellafera		
Adam Loskove		

Signature Page to the Master Repurchase Agreement

EXHIBIT A

**FORM OF PURCHASE CONFIRMATION**

[Date]

[Name]

Attention:

Credit Suisse First Boston Mortgage Capital LLC (“CSFBMCL”) is pleased to confirm your sale and our purchase of the Mortgage Loans described below and on the attached Custodial Mortgage Loan Schedule pursuant to the Master Repurchase Agreement dated as of September 21, 2012 (as amended from time to time, the “Master Repurchase Agreement”) by and among Excel Mortgage Servicing, Inc., Integrated Real Estate Service Corp., Impac Mortgage Holdings, Inc. and Credit Suisse First Boston Mortgage Capital LLC under the following terms and conditions:

Asset Value:	\$
Current Principal Amount of Mortgage Loans:	\$
Aggregate Purchase Price:	\$
Purchase Date:	
Repurchase Date:	
Pricing Rate:	
<b>ADDITIONAL INFORMATION:</b>	
Aggregate Purchase Price (date):	\$
Less Previous Aggregate Purchase Price:	\$
Less Price Differential due on (date):	\$
Net funds due [CSFB]/[Name] on (date):	\$

The Master Repurchase Agreement is incorporated by reference into this Transaction Confirmation, is made a part hereof as if it were fully set forth herein and is extended hereby until all amounts due in connection with this Transaction are paid in full.

All capitalized terms used herein but not defined herein shall have the meanings specified in the Master Repurchase Agreement.

CREDIT SUISSE FIRST BOSTON MORTGAGE CAPITAL LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[Name]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

A-2

EXHIBIT B

RESERVED

B-1

EXHIBIT C

RESERVED

C-1

EXHIBIT D

**FORM OF POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that Excel Mortgage Servicing, Inc. ("Seller") hereby irrevocably constitutes and appoints Credit Suisse First Boston Mortgage Capital LLC ("Buyer") and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Seller and in the name of Seller or in its own name, from time to time in Buyer's discretion:

(a) in the name of Seller, or in its own name, or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due with respect to any assets purchased by Buyer under the Master Repurchase Agreement (as amended, restated or modified) dated September 21, 2012 (the "Assets") and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Buyer for the purpose of collecting any and all such moneys due with respect to any other assets whenever payable;

(b) to pay or discharge taxes and liens levied or placed on or threatened against the Assets;

(c) (i) to direct any party liable for any payment under any Assets to make payment of any and all moneys due or to become due thereunder directly to Buyer or as Buyer shall direct; (ii) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Assets; (iii) to sign and endorse any invoices, assignments, verifications, notices and other documents in connection with any Assets; (iv) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Assets or any proceeds thereof and to enforce any other right in respect of any Assets; (v) to defend any suit, action or proceeding brought against Seller with respect to any Assets; (vi) to settle, compromise or adjust any suit, action or proceeding described in clause (vii) above and, in connection therewith, to give such discharges or releases as Buyer may deem appropriate; and (viii) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any Assets as fully and completely as though Buyer were the absolute owner thereof for all purposes, and to do, at Buyer's option and Seller's expense, at any time, and from time to time, all acts and things which Buyer deems necessary to protect, preserve or realize upon the Assets and Buyer's Liens thereon and to effect the intent of this Agreement, all as fully and effectively as Seller might do;

(d) for the purpose of carrying out the transfer of servicing with respect to the Assets from Seller to a successor servicer appointed by Buyer in its sole discretion and to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish such transfer of servicing, and, without limiting the generality of the foregoing, Seller hereby gives Buyer the power and right, on behalf of Seller, without assent by Seller, to, in the name of Seller or its own name, or otherwise, prepare and send or cause to be sent "good-bye" letters to all mortgagors under the Assets, transferring the servicing of the Assets to a successor servicer appointed by Buyer in its sole discretion;

D-1

(e) for the purpose of delivering any notices of sale to mortgagors or other third parties, including without limitation, those required by law.

Seller hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

Seller also authorizes Buyer, from time to time, to execute, in connection with any sale, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Assets.

The powers conferred on Buyer hereunder are solely to protect Buyer's interests in the Assets and shall not impose any duty upon it to exercise any such powers. Buyer shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to Seller for any act or failure to act hereunder, except for its or their own gross negligence or willful misconduct.

TO INDUCE ANY THIRD PARTY TO ACT HEREUNDER, SELLER HEREBY AGREES THAT ANY THIRD PARTY RECEIVING A DULY EXECUTED COPY OR FACSIMILE OF THIS INSTRUMENT MAY ACT HEREUNDER, AND THAT REVOCATION OR TERMINATION HEREOF SHALL BE INEFFECTIVE AS TO SUCH THIRD PARTY UNLESS AND UNTIL ACTUAL NOTICE OR KNOWLEDGE OF SUCH REVOCATION OR TERMINATION SHALL HAVE BEEN RECEIVED BY SUCH THIRD PARTY, AND BUYER ON ITS OWN BEHALF AND ON BEHALF OF BUYER'S ASSIGNS, HEREBY AGREES TO INDEMNIFY AND HOLD HARMLESS ANY SUCH THIRD PARTY FROM AND AGAINST ANY AND ALL CLAIMS THAT MAY ARISE AGAINST SUCH THIRD PARTY BY REASON OF SUCH THIRD PARTY HAVING RELIED ON THE PROVISIONS OF THIS INSTRUMENT.

[REMAINDER OF PAGE INTENTIONALLY BLANK. SIGNATURES FOLLOW.]

D-2

IN WITNESS WHEREOF Seller has caused this Power of Attorney to be executed and Seller's seal to be affixed this \_\_\_\_\_ day of \_\_\_\_\_, 201\_\_\_\_\_.

Excel Mortgage Servicing, Inc.

By: \_\_\_\_\_  
Name:  
Title:

Signature Page to Power of Attorney

STATE OF \_\_\_\_\_ )  
 ) ss.:  
COUNTY OF \_\_\_\_\_ )

On the \_\_\_\_\_ day of \_\_\_\_\_, 201\_\_\_\_\_ before me, a Notary Public in and for said State, personally appeared \_\_\_\_\_, known to me to be \_\_\_\_\_ of Excel Mortgage Servicing, Inc., the institution that executed the within instrument and also known to me to be the person who executed it on behalf of said corporation, and acknowledged to me that such corporation executed the within instrument.

IN WITNESS WHEREOF, I have hereunto set my hand affixed my office seal the day and year in this certificate first above written.

\_\_\_\_\_  
Notary Public

My Commission expires \_\_\_\_\_

Signature Page to Power of Attorney

EXHIBIT E

FORM OF OPINION OF SELLER'S COUNSEL

Ladies and Gentlemen:

We have acted as counsel to Excel Mortgage Servicing, Inc. ("Seller"), Integrated Real Estate Service Corp. ("IRES") and Impac Mortgage Holdings, Inc. (a "Guarantor", together with IRES, the "Guarantors") in connection with the sale and repurchase by Seller of certain loans (the "Mortgage Loans") purchased from time to time (each such date, a "Purchase Date") by Credit Suisse First Boston Mortgage Capital LLC ("Buyer") pursuant to a Master Repurchase Agreement, dated as of September 21, 2012, among Seller, Guarantors and Buyer (the "Master Repurchase Agreement") and Guarantors' guarantee of Seller's obligations under the Master Repurchase Agreement pursuant to the Guaranty dated as of September 21, 2012 (the "Guaranty"). Capitalized terms used but not defined herein shall have the meanings set forth in the Master Repurchase Agreement.

We have acted as counsel to Seller and Guarantors in connection with the preparation, execution and delivery of the Master Repurchase Agreement and the Guaranty.

In connection with rendering this opinion, we have examined such documents as we have deemed necessary or advisable, including the following documents:

- a. The Program Agreements;
- b. The organizational documents of Seller and the Guarantors;
- c. The certified Consents of the Officer of Seller and each Guarantor relating to the transactions provided for in the Program Agreements;
- d. A copy of a UCC-1 financing statement describing the Repurchase Assets naming Seller as debtor and Buyer as secured party, which will be filed under the Uniform Commercial Code as in effect in the State of \_\_\_\_\_ with the office of the [Secretary of the State] of \_\_\_\_\_ (the "Filing Office") on or about \_\_\_\_\_, 20\_\_\_\_ (the "Financing Statement");
- e. The reports attached hereto as Exhibit A (the "Search Reports"), which set forth the results of an examination conducted by [Federal Research Corporation] of all currently indexed UCC-1 financing statements naming Seller as debtor that are on file in the Filing Office;
- f. [Good standing certificates, as of a recent date, for Seller and each Guarantor from each of the States listed on Schedule 1 attached hereto;] and

E-1

---

g. The certificates, letters and opinions required to be furnished by Seller, Guarantors and others in connection with the execution of the Program Agreements, and the additional certificates, letter and documents delivered by or on behalf of such parties concurrently herewith.

For purposes of the opinions expressed below, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons and the conformity to the originals of all documents.

Based solely upon the foregoing, we are of the opinion that:

1. Seller is a corporation, duly organized, validly existing and in good standing under the laws of the State of [[ \_\_\_\_\_ ]], and has the corporate power and authority to own its properties and transact the business in which it is engaged. Seller is duly qualified as a foreign [[ \_\_\_\_\_ ]] to transact business in, and is in good standing under, the laws of each state in which a mortgaged property is located or is otherwise exempt under applicable law from such qualification. The principal place of business of Seller is located at \_\_\_\_\_.
2. IRES is a corporation, duly organized, validly existing and in good standing under the laws of the State of \_\_\_\_\_, and has the corporate power and authority to own its properties and transact the business in which it is engaged. IRES is duly qualified as a foreign corporation to transact business in, and is in good standing under, the laws of each state in which a mortgaged property is located or is otherwise exempt under applicable law from such qualification. The principal place of business of IRES is located at \_\_\_\_\_. Impac Mortgage Holdings, Inc. is a corporation, duly organized, validly existing and in good standing under the laws of the State of \_\_\_\_\_, and has the corporate power and authority to own its properties and transact the business in which it is engaged. Impac Mortgage Holdings, Inc. is duly qualified as a foreign corporation to transact business in, and is in good standing under, the laws of each state in which a mortgaged property is located or is otherwise exempt under applicable law from such qualification. The principal place of business of Impac Mortgage Holdings, Inc. is located at \_\_\_\_\_.
3. Seller has the power to engage in the transactions contemplated by the Program Agreements, and has all requisite power, authority and legal right to execute and deliver the Program Agreements, to transfer and deliver the Purchased Mortgage Loans, to pledge the Repurchase Assets and to perform and observe the terms and conditions of the Program Agreements. Each Guarantor has the power, authority and legal right to issue and deliver the Guaranty and to perform and observe the terms and conditions thereof.
4. The Program Agreements have been duly and validly authorized, executed and delivered by each of Seller and each Guarantor, as applicable, and are valid, legal and binding agreements, enforceable against Seller and each Guarantor in accordance with their respective terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally, none of which will materially interfere with the realization of the benefits provided thereunder or with Buyer's ownership of the Mortgage Loans.

E-2

---

5. No consent, approval, authorization or order of, or notice, filing or registration with, any court or governmental agency or body is required for the execution, delivery and performance by either Seller or Guarantors of, or compliance by such entity with, the Program Agreements, or the transfer of the Purchased Mortgage Loans or the pledge of the Repurchase Assets or the consummation of the transactions contemplated by the Program Agreements.

6. Neither the transfer or delivery of the Mortgage Loans, nor the consummation of any other of the transactions contemplated in the Program Agreements, nor the fulfillment of the terms of the Program Agreements will result in a breach of or constitutes or will constitute a default under (a) the charter or by-laws of either of Seller or Guarantors, or the terms of any material indenture or other agreement or instrument to which either Seller or Guarantors is a party or by which it is bound or to which it is subject, (b) any contractual or legal restriction contained in any indenture, mortgage, deed of trust, agreement, instrument or other similar document to which Seller is a party or by which it is bound or to which it is subject, or (c) any statute or order, rule, regulation, writ, injunction or decree of any court, governmental authority or regulatory body to which either Seller or Guarantors or any of its properties is subject or by which it is bound.

7. There are no actions, suits, proceedings or investigations pending or, to the best of our knowledge, threatened against either Seller or Guarantors that, in our judgment, either in any one instance or in the aggregate, may result in any material adverse change in the business, operations, financial condition, properties or assets of either Seller or Guarantors or in any material impairment of the right or ability of either Seller or Guarantors to carry on its business substantially as now conducted or in any material liability on the part of either Seller or Guarantors that would draw into question the validity of the Program Agreements, or of any action taken or to be taken in connection with the transactions contemplated thereby, or that would be likely to impair materially the ability of either Seller or Guarantors to perform under the terms of, the Program Agreements.

8. The Repurchase Agreement is effective to create, in favor of the Buyer, a valid "security interest" as defined in Section 1-201(37) of the Uniform Commercial Code in all of the right, title and interest of the Seller in, to and under the Repurchase Assets, except that (a) such security interests will continue in Repurchase Assets after its sale, exchange or other disposition only to the extent provided in Section 9-315 of the Uniform Commercial Code, (b) the security interests in Repurchase Assets in which the Seller acquires rights after the commencement of a case under the Bankruptcy Code in respect of the Seller may be limited by Section 552 of the Bankruptcy Code.

9. When the Mortgage Notes are delivered to the Custodian, endorsed in blank by a duly authorized officer of Seller, the security interest referred to in Section [8] above in the Mortgage Notes will constitute a fully perfected first-priority security interest in all right, title and interest of Seller therein.

10. (a) Upon the filing of Financing Statements with the Filing Office, the security interests referred to in Section [8] above will constitute a fully perfected security interest under the Uniform Commercial Code in all right, title and interest of Seller in, to and under such

E-3

---

Repurchase Assets, to the extent that a security interest therein can be perfected by filing under the Uniform Commercial Code.

(b) The UCC Search Report sets forth the proper filing offices and the proper debtors necessary to identify those Persons who have on file in the jurisdictions listed on Schedule 1 financing statements covering the Repurchase Assets as of the dates and times specified on Schedule 2. The UCC Search Report identifies no Person who has filed in any Filing Office a financing statement describing the Repurchase Assets prior to the effective dates of the UCC Search Report.

11. Neither Seller nor any Guarantor is an "investment company", or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

Very truly yours,

\_\_\_\_\_  
E-4

---

EXHIBIT F

#### CERTIFICATE OF AN OFFICER OF THE SELLER [OR GUARANTOR]

The undersigned, \_\_\_\_\_ of [Excel Mortgage Servicing, Inc.] [Integrated Real Estate Service Corp.] [Impac Mortgage Holdings, Inc.], a [STATE] [corporation] (the "[Seller] [Guarantor]"), hereby certifies on behalf of [Seller] [Guarantor] as follows:

1. Attached hereto as Exhibit A is a copy of the formation documents of the [Seller] [Guarantor], as certified by the Secretary of State of the State of [STATE].

2. Neither any amendment to the formation documents of the [Seller] [Guarantor] nor any other charter document with respect to the [Seller] [Guarantor] has been filed, recorded or executed since \_\_\_\_\_, 201\_\_\_\_, and no authorization for the filing, recording or execution of any such amendment or other charter document is outstanding.

3. Attached hereto as Exhibit B is a true, correct and complete copy of the By-laws of the [Seller] [Guarantor] as in effect as of the date hereof and at all times since \_\_\_\_\_, 201\_\_\_\_.

4. Attached hereto as Exhibit C is a true, correct and complete copy of resolutions adopted by the Board of Directors of the [Seller] [Guarantor] by unanimous written consent on \_\_\_\_\_, 201\_\_\_\_ (the "Resolutions"). The Resolutions have not been further amended, modified or rescinded and are in full force and effect in the form adopted, and they are the only resolutions adopted by the Board of Directors of the [Seller] [Guarantor] or by any committee of or designated by such Board of Directors relating to the execution and delivery of, and performance of the transactions contemplated by the Master Repurchase Agreement dated as of September 21, 2012 (the "Repurchase Agreement"), among the Seller, the Guarantors and Credit Suisse First Boston Mortgage Capital LLC (the "Buyer") and the Custodial Agreement dated as of September 21, 2012, among the Seller, the Buyer and Deutsche Bank National Trust Company, as custodian (the "Custodian").

5. The Repurchase Agreement and the [Custodial Agreement] [Guarantee] are substantially in the form approved by the Resolutions or pursuant to authority duly granted by the Resolutions.

6. The undersigned, as a officers of the [Seller] [Guarantor] or as attorney-in-fact, are authorized to and have signed manually the Repurchase Agreement, the [Custodial Agreement] [Guarantee] or any other document delivered in connection with the transactions contemplated thereby, were duly elected or appointed, were qualified and acting as such officer or attorney-in-fact at the respective times of the signing and delivery thereof, and were duly authorized to sign such document on behalf of the [Seller] [Guarantor], and the signature of each such person appearing on any such document is the genuine signature of each such person.

Name	Title	Signature

F-1

IN WITNESS WHEREOF, the undersigned has hereunto executed this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, 201 .

[Excel Mortgage Servicing, Inc.] [Integrated Real Estate Service Corp.] [Impac Mortgage Holdings, Inc.], as [Seller] [Guarantor]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

F-2

Exhibit C to Officer's Certificate of the Seller [or Guarantor]

**CORPORATE RESOLUTIONS OF SELLER [OR GUARANTOR]**

Action of the Board of Directors  
Without a Meeting Pursuant to  
Section \_\_\_\_\_ of \_\_\_\_\_

The undersigned, being the directors of [ \_\_\_\_\_ ], a [national] banking [association] [corporation] (the "Seller"), do hereby consent to the taking of the following action without a meeting and do hereby adopt the following resolutions by written consent pursuant to Section \_\_\_\_\_ of the State of \_\_\_\_\_ :

WHEREAS, it is in the best interests of the Seller to transfer from time to time to Buyer Mortgage Loans against the transfer of funds by Buyer, with a simultaneous agreement by Buyer to transfer to Seller such Mortgage Loans at a date certain or on demand, against the transfer of funds by Seller pursuant to the terms of the Repurchase Agreement (as defined below).

NOW, THEREFORE, be it

RESOLVED, that the execution, delivery and performance by the Seller of the Master Repurchase Agreement (the "Repurchase Agreement") to be entered into by the Seller, Integrated Real Estate Service Corp. ("IRES"), Impac Mortgage Holdings, Inc. (a "Guarantor", together with IRES, the "Guarantors") and Credit Suisse First Boston Mortgage Capital LLC, as Buyer, substantially in the form of the draft dated September 21, 2012, attached hereto as Exhibit A, are hereby authorized and approved and that the [President] or any [Vice President] (collectively, the "Authorized Officers") of the Seller be and each of them hereby is authorized and directed to execute and deliver the Repurchase Agreement to the Buyer with such changes as the officer executing the same shall approve, his execution and delivery thereof to be conclusive evidence of such approval;

RESOLVED, that the execution, delivery and performance by the Seller of the Custodial Agreement (the "Custodial Agreement") to be entered into by the Seller, the Buyer and Deutsche Bank National Trust Company, as custodian (the "Custodian") substantially in the form of the draft dated September 21, 2012, attached hereto as Exhibit B, are hereby authorized and approved and that the Authorized Officers of the Seller be and each of them hereby is authorized and directed to execute and deliver the Custodial Agreement to the Buyer and Custodian with such changes as the officer executing the same shall approve, his execution and delivery thereof to be conclusive evidence of such approval;

RESOLVED, that the Authorized Officers hereby are, and each hereby is, authorized to execute and deliver all such aforementioned agreements on behalf of the Seller and to do or cause to be done, in the name and on behalf of the Seller, any and all such acts and

F-1

things, and to execute, deliver and file in the name and on behalf of the Seller, any and all such agreements, applications, certificates, instructions, receipts and other documents and instruments, as such Authorized Officer may deem necessary, advisable or appropriate in order to carry out the purposes of the foregoing resolutions.



RESOLVED, that the proper officers, agents and counsel of the Seller are, and each of such officers, agents and counsel is, hereby authorized for and in the name and on behalf of the Seller to take all such further actions and to execute and deliver all such other agreements, instruments and documents, and to make all governmental filings, in the name and on behalf of the Seller and such officers are authorized to pay such fees, taxes and expenses, as advisable in order to fully carry out the intent and accomplish the purposes of the resolutions heretofore adopted hereby.

Dated as of: \_\_\_\_\_, 201

F-2

---

EXHIBIT G

**SELLER'S AND GUARANTORS' TAX IDENTIFICATION NUMBER**

Excel Mortgage Servicing, Inc. 80-0233937

Integrated Real Estate Service Corp. 90-0452263

Impac Mortgage Holdings, Inc. 33-0675505

G-1

---

EXHIBIT H

**EXISTING INDEBTEDNESS**

None

H-1

---

EXHIBIT I

**FORM OF ESCROW INSTRUCTION LETTER TO BE PROVIDED BY SELLER BEFORE CLOSING**

The escrow instruction letter (the "Escrow Instruction Letter") shall also include the following instruction to the Settlement Agent (the "Escrow Agent"):

Credit Suisse First Boston Mortgage Capital LLC (the "Buyer"), has agreed to provide funds ("Escrow Funds") to Excel Mortgage Servicing, Inc. to finance certain mortgage loans (the "Mortgage Loans") for which you are acting as Escrow Agent.

You hereby agree that (a) you shall receive such Escrow Funds from Buyer to be disbursed in connection with this Escrow Instruction Letter, (b) you will hold such Escrow Funds in trust, without deduction, set-off or counterclaim for the sole and exclusive benefit of Buyer until such Escrow Funds are fully disbursed on behalf of Buyer in accordance with the instructions set forth herein, and (c) you will disburse such Escrow Funds on the date specified for closing (the "Closing Date") only after you have followed the Escrow Instruction Letter's requirements with respect to the Mortgage Loans. In the event that the Escrow Funds cannot be disbursed on the Closing Date in accordance with the Escrow Instruction Letter, you agree to promptly remit the Escrow Funds to the Buyer by re-routing via wire transfer the Escrow Funds in immediately available funds, without deduction, set-off or counterclaim, back to the account specified in Buyer's incoming wire transfer.

You further agree that, upon disbursement of the Escrow Funds, you will hold all Mortgage Loan Documents specified in the Escrow Instruction Letter in escrow as agent and bailee for Buyer, and will forward the Mortgage Loan Documents and original Escrow Instruction Letter in connection with such Mortgage Loans by overnight courier to the Custodian within five (5) Business Days following the date of origination.

You agree that all fees, charges and expenses regarding your services to be performed pursuant to the Escrow Instruction Letter are to be paid by Seller or its borrowers, and Buyer shall have no liability with respect thereto.

You represent, warrant and covenant that you are not an affiliate of or otherwise controlled by Seller, and that you are acting as an independent contractor and not as an agent of Seller.

The provisions of this Escrow Instruction Letter may not be modified, amended or altered, except by written instrument, executed by the parties hereto and Buyer. You understand that Buyer shall act in reliance upon the provisions set forth in this Escrow Instruction Letter, and that Buyer is an intended third party beneficiary hereof.

Whether or not an Escrow Instruction Letter executed by you is received by the Custodian, your acceptance of the Escrow Funds shall be deemed to constitute your acceptance of the Escrow Instruction Letter.

I-1

---

EXHIBIT J

FORM OF SERVICER NOTICE

[Date]

[ ], as Servicer  
[ADDRESS]  
Attention:

Re: Master Repurchase Agreement, dated as of September 21, 2012 (the "Repurchase Agreement"), by and among Excel Mortgage Servicing, Inc. (the "Seller"), Integrated Real Estate Service Corp. ("IRES") and Impac Mortgage Holdings, Inc. (a "Guarantor", together with IRES, the "Guarantors") and Credit Suisse First Boston Mortgage Capital LLC (the "Buyer").

Ladies and Gentlemen:

[ ] (the "Servicer") is servicing certain mortgage loans for Seller pursuant to that certain Servicing Agreement between the Servicer and Seller. Pursuant to the Repurchase Agreement between Buyer and Seller, the Servicer is hereby notified that Seller has pledged to Buyer certain mortgage loans which are serviced by Servicer which are subject to a security interest in favor of Buyer.

Upon receipt of a Notice of Event of Default from Buyer ("Notice of Event of Default") in which Buyer shall identify the mortgage loans which are then pledged to Buyer under the Repurchase Agreement (the "Mortgage Loans"), the Servicer shall segregate all amounts collected on account of such Mortgage Loans, hold them in trust for the sole and exclusive benefit of Buyer, and remit such collections, net of any servicing fees and advances then due and owing pursuant to the written agreement between Servicer and Seller, in accordance with Buyer's written instructions. Following such Notice of Event of Default, Servicer shall follow the instructions of Buyer with respect to the Mortgage Loans, and shall deliver to Buyer any information with respect to the Mortgage Loans reasonably requested by Buyer.

Notwithstanding any contrary information which may be delivered to the Servicer by Seller, the Servicer may conclusively rely on any information or Notice of Event of Default delivered by Buyer, and Seller shall indemnify and hold the Servicer harmless for any and all claims asserted against it for any actions taken in good faith by the Servicer in connection with the delivery of such information or Notice of Event of Default.

J-1

Please acknowledge receipt of this instruction letter by signing in the signature block below and forwarding an executed copy to Buyer promptly upon receipt. Any notices to Buyer should be delivered to the following addresses: Eleven Madison Avenue, New York, New York 10010; Attention: Margaret Dellafera; Telephone: 212-325-6471.

Very truly yours,

[ ]

By: \_\_\_\_\_  
Name:  
Title:

ACKNOWLEDGED:

[ ]  
as Servicer

By: \_\_\_\_\_  
Title:  
Telephone:  
Facsimile:

J-2

EXECUTION

CREDIT SUISSE FIRST BOSTON MORTGAGE CAPITAL LLC  
c/o Credit Suisse Securities (USA) LLC  
Eleven Madison Avenue, 4th Floor  
New York, NY 10010

September 21, 2012

Excel Mortgage Servicing, Inc.  
Impac Mortgage Holdings, Inc  
Integrated Real Estate Service Corp.

19500 Jamboree Road

Irvine, CA 92612  
Attention: Ron Morrison  
Phone: (949) 475-3942  
Fax: (949) 706-6208  
Ron.Morrison@impaccompanies.com

with a copy to:

19500 Jamboree Road  
Irvine, CA 92612  
Attention: Todd Taylor  
(949) 475-6509

Todd.Taylor@impaccompanies.com

Re: Pricing Side Letter

Ladies and Gentlemen:

Reference is hereby made to, and this side letter (the "Pricing Side Letter") is hereby incorporated by reference into, the Master Repurchase Agreement, dated as of September 21, 2012 (as amended, supplemented and otherwise modified from time to time, the "Agreement"), among Credit Suisse First Boston Mortgage Capital LLC (the "Buyer"), Excel Mortgage Servicing, Inc. (the "Seller") and Integrated Real Estate Service Corp. ("IRES") and a "Guarantor") and Impac Mortgage Holdings, Inc. ("Impac", a "Guarantor" and together with IRES, the "Guarantors"). Any capitalized term used but not defined herein shall have the meaning assigned to such term in the Agreement.

**Section 1. Definitions.** The following terms shall have the meanings set forth below.

1.1 "Adjusted Tangible Net Worth" means, for any Person, Net Worth of such Person plus Subordinated Debt (provided that Subordinated Debt shall not be taken into account to the extent that it would cause Adjusted Tangible Net Worth to be comprised of greater than 25% Subordinated Debt), minus (a) Restricted Cash (other than any portion of Restricted Cash

---

that has a corresponding offsetting current liability); (b) 25% of investment securities; (c) 50% of all mortgage loans held for investment; (d) 50% of real estate owned property; (e) 50% of the MSR Valuation of any Unencumbered Mortgage Servicing Rights; (f) 100% of the MSR Valuation of any Encumbered Mortgage Servicing Rights, (g) 100% of corporate or servicing advances and (h) all intangible assets, including goodwill, patents, tradenames, trademarks, copyrights, franchises, any organizational expenses, deferred taxes and expenses, prepaid expenses, prepaid assets, receivables from shareholders, Affiliates or employees, and any other asset as shown as an intangible asset on the balance sheet of such Person on a consolidated basis as determined at a particular date in accordance with GAAP.

1.2 "Aged Loan" means a Mortgage Loan which has been subject to a Transaction hereunder for a period of greater than 30 days but not greater than 60 days.

1.3 "Aging Limit" means, (i) with respect to Purchased Mortgage Loans other than Aged Loans, 30 days and (ii) with respect to Purchased Mortgage Loans that are Aged Loans, 60 days.

1.4 "Asset Value" means with respect to any Purchased Mortgage Loans as of any date of determination, an amount equal to the product of (a) the Purchase Price Percentage for the Purchased Mortgage Loan and (b) the lesser of (i) the Market Value of the Purchased Mortgage Loan or (ii) the unpaid principal balance of such Purchased Mortgage Loan. Without limiting the generality of the foregoing, Seller acknowledges that (a) in the event that a Purchased Mortgage Loan is not subject to a Take-out Commitment, Buyer may deem the Asset Value for such Mortgage Loan to be no greater than par and (b) the Asset Value of a Purchased Mortgage Loan may be reduced to zero by Buyer if any of the following events occur:

(i) a breach of a representation, warranty or covenant made by Seller in the Agreement with respect to such Purchased Mortgage Loan has occurred and is continuing;

(ii) such Purchased Mortgage Loan is a Non-Performing Mortgage Loan;

(iii) such Purchased Mortgage Loan has been released from the possession of the Custodian under the Custodial Agreement (other than to a Take-out Investor pursuant to a Bailee Letter) for a period in excess of ten (10) calendar days;

(iv) such Purchased Mortgage Loan has been released from the possession of the Custodian under the Custodial Agreement to a Take-out Investor pursuant to a Bailee Letter for a period in excess of thirty (30) calendar days;

(v) such Purchased Mortgage Loan has been subject to a Transaction hereunder for a period of greater than the respective Aging Limit;

(vi) such Purchased Mortgage Loan is an FHA 203(k) Loan for which the Buyer is requested to enter into a Transaction for a draw on such FHA 203(k) Loan other than an initial draw;

---

(vii) such Purchased Mortgage Loan is a Wet-Ink Mortgage Loan for which the Mortgage File has not been delivered to the Custodian on or prior to the Wet-Ink Delivery Date;

(viii) when the Purchase Price for such Purchased Mortgage Loan is added to other Purchased Mortgage Loans, the aggregate Purchase Price of all Purchased Mortgage Loans of any type of Mortgage Loan set forth below exceeds the applicable percentage listed opposite such type of Mortgage Loan as set forth below:

Type of Mortgage Loan	Percentage of the Maximum Aggregate Purchase Price (unless otherwise noted)
Conforming Mortgage Loans	100%
FHA Loans and VA Loans	100%
FHA 203(k) Loans	10%
Aged Loans	10%
Wet-Ink Mortgage Loans	30%
Conforming High LTV Loans	10%
VA High LTV Loans	2.5%

1.5 “Market Value” means, with respect to any Purchased Mortgage Loan as of any date of determination, the whole-loan servicing released fair market value of such Purchased Mortgage Loan on such date as determined by Buyer (or an Affiliate thereof) in its sole good faith discretion.

1.6 “Maximum Aggregate Purchase Price” means FORTY MILLION DOLLARS (\$ 40,000,000).

1.7 “Non-Utilization Fee” means, for each calendar quarter, an amount equal to the product of (a) 1.00% per annum calculated on a 360 day year and (b) the excess of, if any (i) 50% of Maximum Aggregate Purchase Price over (ii) the average daily Purchase Price of the Purchased Mortgage Loans during such calendar quarter.

1.8 “Officer’s Compliance Certificate” means the certificate attached hereto as Exhibit A.

1.9 “Post Default Rate” means an annual rate of interest equal to the greater of (a) the Pricing Rate plus an additional 3% or (b) the Mortgage Interest Rate.

1.10 “Pricing Rate” means (a) CSCOF plus the applicable percentage listed opposite the type of Mortgage Loan as set forth below:

Type of Mortgage Loan	Percentage for Mortgage Loans other than Wet-Ink Mortgage Loans or Aged Loans	Percentage for Wet-Ink Mortgage Loans (increases calculated based upon original Pricing Rate)	Percentage for Aged Loans (increases calculated based upon original Pricing Rate)
Conforming Mortgage Loan (other than Conforming High LTV Loans)	3.50%	increased by an additional 0.25%	increased by an additional 0.25%
FHA Loan and VA Loan	3.50%	increased by an additional 0.25%	increased by an additional 0.25%
FHA 203(k) Loans	3.50%	increased by an additional 0.25%	increased by an additional 0.25%
Conforming High LTV Loans	3.75%	increased by an additional 0.25%	increased by an additional 0.25%
VA High LTV Loans	3.75%	increased by an additional 0.25%	increased by an additional 0.25%

(b) the rate determined in the sole discretion of Buyer with respect to Transactions the subject of which are Exception Mortgage Loans and any other Transactions so identified by the Buyer in agreeing to enter into a Transaction with respect to such Exception Mortgage Loan.

The Pricing Rate shall change in accordance with CSCOF, as provided in Section 5(a). Where a Purchased Mortgage Loan may qualify for two or more Pricing Rates hereunder, unless otherwise expressly agreed to by the Buyer in writing, such Purchased Mortgage Loan shall be assigned the higher Pricing Rate, as applicable.

1.11 “Purchase Price Percentage” means, (a) the applicable percentage listed opposite the type of Mortgage Loan as set forth below:

Type of Mortgage Loan	Percentage for Mortgage Loans other than Aged Loans	Percentage for Aged Loans (reductions calculated based upon original Purchase Price Percentage)
Conforming Mortgage Loan (other than Conforming High LTV Loans)	95%	reduced by an additional 5%
FHA Loan and VA Loan	95%	reduced by an additional 5%
FHA 203(k) Loans	95%	reduced by an additional 5%
Wet-Ink Mortgage Loans	Percentage based on type of Mortgage Loan	n/a
Conforming High LTV Loans	95%	reduced by an additional 5%

(b) with respect to Transactions the subject of which are Exception Mortgage Loans, a percentage to be determined by Buyer in its sole discretion, provided that in the absence of an Exception Notice, the applicable Purchase Price Percentage for such Purchased Mortgage Loan shall be reduced by 10% every ten (10) Business Day period, such reduction to occur at the outset of each such ten (10) Business Day period, commencing on the date that such Mortgage Loan becomes an Exception Mortgage Loan.

Where a Purchased Mortgage Loan may qualify for two or more Purchase Price Percentages hereunder, unless otherwise expressly agreed to by the Buyer in writing, such Purchased Mortgage Loan shall be assigned the lower Purchase Price Percentage, as applicable.

1.12 "Restricted Cash" means for any Person, any amount of cash of such Person that is contractually required to be set aside, segregated or otherwise reserved.

1.13 "Termination Date" means the earlier of (a) September 20, 2013, and (b) the date determined by Buyer (or otherwise deemed to occur) in accordance with the provisions of Section 16 of the Agreement.

1.14 "Test Period" means the prior calendar quarter.

5

---

1.15 "Wet-Ink Delivery Date" means, with respect to each Wet-Ink Mortgage Loan, the seventh (7<sup>th</sup>) calendar day following the applicable Purchase Date.

## **Section 2. Financial Covenants.**

2.1 Adjusted Tangible Net Worth. Seller shall maintain an Adjusted Tangible Net Worth of at least \$10,000,000.

2.2 Indebtedness to Adjusted Tangible Net Worth Ratio. Seller's ratio of Indebtedness (on and off balance sheet) to Adjusted Tangible Net Worth shall not exceed 12:1.

2.3 Maintenance of Liquidity. The Seller shall ensure that at all times, it has cash (other than Restricted Cash) and Cash Equivalents in an amount not less than \$5,000,000.

2.4 Maintenance of Profitability. Seller shall not permit, for any Test Period, Net Income for such Test Period, before income taxes for such Test Period and distributions made during such Test Period, to be less than \$1.00.

2.5 Additional Warehouse Line. Seller shall maintain at least one additional warehouse or repurchase facility with counterparties other than Affiliates in a combined amount at least equal to the Maximum Aggregate Purchase Price.

## **Section 3. Program Fees.**

3.1 Non-Utilization Fee. Commencing on the ninety-first (91<sup>st</sup>) day following the date hereof, Seller shall pay to Buyer in immediately available funds, no later than the Price Differential Payment Date following the end of each calendar quarter, a non-refundable Non-Utilization Fee. All payments of the Non-Utilization Fee shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to Buyer at such account designated by Buyer.

**Section 4. Fees**. The Seller agrees to pay as and when billed by the Buyer all of the reasonable fees, disbursements and expenses of counsel to the Buyer in connection with the development, preparation and execution of this Pricing Side Letter or any other documents prepared in connection herewith in accordance with Section 11 of the Agreement and receipt of payment thereof shall be a condition precedent to the Buyer entering into any Transaction pursuant hereto.

**Section 5. Severability**. Each provision and agreement herein shall be treated as separate and independent from any other provision or agreement herein and shall be enforceable notwithstanding the unenforceability of any such other provision or agreement.

**Section 6. GOVERNING LAW**. THIS PRICING SIDE LETTER SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

6

---

**Section 7. Counterparts**. This Pricing Side Letter may be executed in one or more counterparts and by different parties hereto on separate counterparts, each of which, when so executed, shall constitute one and the same agreement.

7

---

IN WITNESS WHEREOF, the undersigned have caused this Pricing Side Letter to be duly executed as of the date first above written.

By: /s/ Adam Loskove  
Name: Adam Loskove  
Title: Vice President

Excel Mortgage Servicing, Inc., as Seller

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

Impac Mortgage Holdings, Inc, as a Guarantor

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

Integrated Real Estate Service Corp., as a Guarantor

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

Signature Page to the Pricing Side Letter

---

EXHIBIT A

OFFICER'S COMPLIANCE CERTIFICATE

I, \_\_\_\_\_, do hereby certify that I am the [duly elected, qualified and authorized] [CFO/TREASURER/FINANCIAL OFFICER] of Excel Mortgage Servicing, Inc. ("Seller"), I, \_\_\_\_\_, do hereby certify that I am the [duly elected, qualified and authorized] [CFO/TREASURER/FINANCIAL OFFICER] of Integrated Real Estate Service Corp. ("IRES" and a "Guarantor") and I, \_\_\_\_\_, do hereby certify that I am the [duly elected, qualified and authorized] [CFO/TREASURER/FINANCIAL OFFICER] of Impac Mortgage Holdings, Inc ("Impac", a "Guarantor" and together with IRES, the "Guarantors"). This Certificate is delivered to you in connection with Section 17 of the Master Repurchase Agreement dated as of September 21, 2012, among Seller, Guarantors and Credit Suisse First Boston Mortgage Capital LLC (as amended from time to time, the "Agreement"), as the same may have been amended from time to time. I hereby certify that, as of the date of the financial statements attached hereto and as of the date hereof, Seller and each Guarantor are and have been in compliance with all the terms of the Agreement and, without limiting the generality of the foregoing, I certify that:

Adjusted Tangible Net Worth. Seller has maintained an Adjusted Tangible Net Worth of at least \$10,000,000. A detailed summary of the calculation of Seller's actual Adjusted Tangible Net Worth is provided in Schedule 1 hereto.

Indebtedness to Adjusted Tangible Net Worth Ratio. Seller's ratio of Indebtedness (on and off balance sheet) to Adjusted Tangible Net Worth has not exceeded 12:1 for the calendar month ending [DATE]. A calculation of Seller's actual Indebtedness to Adjusted Tangible Net Worth is provided in Schedule 1 hereto.

Maintenance of Profitability. Seller has not permitted, for any Test Period, Net Income for such Test Period, before income taxes for such Test Period and distributions made during such Test Period, to be less than \$1.00.

Maintenance of Liquidity. The Seller has ensured that, at all times, it has had cash (other than Restricted Cash) and Cash Equivalents in an amount not less than \$5,000,000.

Additional Warehouse Line. The Seller has maintained at least one additional warehouse or repurchase facility in a combined amount at least equal to the Maximum Aggregate Purchase Price.

Insurance. Seller, or its Affiliates, have maintained, for Seller and its Subsidiaries, insurance coverage with respect to employee dishonesty, forgery or alteration, theft, disappearance and destruction, robbery and safe burglary, property (other than money and securities) and computer fraud or an aggregate

Financial Statements. The financial statements attached hereto are accurate and complete, accurately reflect the financial condition of Seller, and do not omit any material fact as of the date(s) thereof.

Documentation. Seller has performed the documentation procedures required by its operational guidelines with respect to endorsements and assignments, including the recordation of assignments, or has verified that such documentation procedures have been performed by a prior holder of such Mortgage Loan.

Compliance. Seller has observed or performed in all material respects all of its covenants and other agreements, and satisfied every condition, contained in the Agreement and the other Program Agreements to be observed, performed and satisfied by it. [If a covenant or other agreement or condition has not been complied with, Seller shall describe such lack of compliance and provide the date of any related waiver thereof.]

Regulatory Action. Seller is not currently under investigation or, to best of Seller's knowledge, no investigation by any federal, state or local government agency is threatened. Seller has not been the subject of any government investigation which has resulted in the voluntary or involuntary suspension of a license, a cease and desist order, or such other action as could adversely impact Seller's business. [If so, Seller shall describe the situation in reasonable detail and describe the action that Seller has taken or proposes to take in connection therewith.]

No Default. No Default or Event of Default has occurred or is continuing. [If any Default or Event of Default has occurred and is continuing, Seller shall describe the same in reasonable detail and describe the action Seller has taken or proposes to take with respect thereto, and if such Default or Event of Default has been expressly waived by Buyer in writing, Seller shall describe the Default or Event of Default and provide the date of the related waiver.]

Distributions. On and after the date of the Agreement, Seller nor Guarantors have paid any dividends greater than Net Income in any given calendar year other than with respect to quarterly payments to the holders of trust preferred obligations of Impac paid by Impac.

Indebtedness. All Indebtedness (other than Indebtedness evidenced by the Repurchase Agreement) of Seller existing on the date hereof is listed on Schedule 2 hereto.

Originations. Attached hereto as Schedule 3 is a true and correct summary of all Mortgage Loans originated by Seller for the calendar month ending [DATE] and for the year to date ending [DATE].

A-2

---

DE Compare Ratio. Seller's DE Compare Ratio has not (i) on and after the date Seller's DE Compare Ratio was at least 100%, increased by more than 25% or (ii) exceeded 150%, for the calendar month ending [DATE].

Hedging. Attached hereto as Schedule 4 is a true and correct summary of all Interest Rate Protection Agreements entered into or maintained by Seller during the calendar month ending on [DATE].

Repurchases and Early Payment Default Requests. Attached hereto as Schedule 5 is a true and correct summary of the portfolio performance including representation breaches, missing document breaches, repurchases due to fraud, early payment default requests, and Mortgage Loans subject to other warehouse lines in excess of 60 days summarized on the basis of (a) pending repurchase demands (including weighted average duration of outstanding request), (b) satisfied repurchase demands and (c) total repurchase demands.

Quality Control. Attached hereto as Schedule 6 is a true and correct copy of the internal quality control maintained by Seller.

Secondary Market Sales. Attached hereto as Schedule 7 is a true and correct summary of all the mortgage loans sold by Seller during the calendar month ending [DATE].

Geographic Production Breakdown. Attached hereto as Schedule 8 is a true and correct summary of all the geographic locations of the Mortgage Loans originated by Seller during the calendar month ending [DATE].

MSR Valuation. A detailed summary of either (i) the monthly Seller's MSR Valuation or (ii) quarterly third party valuation vendor's MSR Valuation, as applicable, is provided in Schedule 9 hereto.

Litigation Summary. Attached hereto as Schedule 10 is a true and correct summary of all actions, notices, proceedings and investigations pending with respect to which Seller has received service of process or other form of notice or, to the best of Seller's knowledge, threatened against it, before any court, administrative or governmental agency or other regulatory body or tribunal as of the calendar month ending [DATE].

A-3

---

IN WITNESS WHEREOF, I have set my hand this                      day of                      ,                      .

[[Name], as Seller]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name:

Title:

A-4

SCHEDULE 1 TO OFFICER'S COMPLIANCE CERTIFICATE

## CALCULATIONS OF FINANCIAL COVENANTS

As of the calendar month ended [DATE] or quarter ended [DATE]

**I. Adjusted Tangible Net Worth**

1.	Net Worth (book)	\$
	<i>Plus:</i>	
2.	Subordinated Debt (maturity > CSFB line maturity)	\$
<b>I.(a)</b>	<b>Total of items 1-2</b>	<b>\$</b>
	<i>Less:</i>	
3.	Restricted Cash	\$
4.	25% of investment securities	\$
5.	50% of all mortgage loans held for investment	\$
6.	50% of real estate owned property	\$
7.	50% of the MSR Valuation of any Unencumbered Mortgage Servicing Rights	\$
8.	100% of the MSR Valuation of any Encumbered Mortgage Servicing Rights	\$
9.	100% of corporate or servicing advances	\$
10.	Goodwill	\$
11.	Patents	\$
12.	Tradenames	\$
13.	Trademarks	\$
14.	Copyrights	\$
15.	Franchises	\$
16.	Organizational expenses	
17.	Deferred taxes and expenses	
18.	Prepaid expenses	
19.	Prepaid assets	
20.	Receivables from shareholders, Affiliates or employees	\$
21.	Any other intangible assets	\$
<b>I.(b)</b>	<b>Total of items 3-21</b>	<b>\$</b>
<b>I.(c)</b>	<b>Actual Adjusted Tangible Net Worth (a minus b)</b>	<b>\$</b>
	<b>Compliance?</b>	<b>Yes / No</b>

A-5

**II. Leverage Ratio**

<b>Total Debt divided by Adjusted Tangible Net Worth — Actual</b>	<b>xx.x</b>
Total Indebtedness (on and off balance sheet) - Actual	
[Please insert calculations]	
Leverage Covenant	12.1
<b>Compliance?</b>	<b>Yes / No</b>

**III. Test Period Net Income - Actual**

<b>Net Income/Loss</b>	<b>\$</b>
<b>Test Period Profitability</b>	<b>&gt;= \$1.00</b>
<b>Compliance?</b>	<b>Yes/No</b>

**IV. Liquidity**

Total cash (other than Restricted Cash)	\$
Total unrestricted Cash Equivalents	\$
Total	\$
Liquidity Covenant	\$5,000,000



SCHEDULE 2 TO OFFICER'S COMPLIANCE CERTIFICATE

INDEBTEDNESS as of

LENDER	TOTAL FACILITY SIZE	FACILITY TYPE (i.e. EFP, Repurchase, etc)	\$ AMOUNT COMMITTED	OUTSTANDING INDEBTEDNESS	EXPIRATION DATE

SCHEDULE 3 TO OFFICER'S COMPLIANCE CERTIFICATE

OVERALL MORTGAGE LOAN ORIGINATIONS

MORTGAGE LOAN TYPE	RETAIL		WHOLESALE		CORRESPONDENT	
	Units	Total \$	Units	Total \$	Units	Total \$
Conforming Mortgage Loans (other than Conforming High LTV loans)						
FHA Loans						
VA Loans						
FHA 203(k) Loans						
Conforming High LTV Loans						
Other (please specify)						
Other (please specify)						
Other (please specify)						
<b>Total</b>						

SCHEDULE 4 TO OFFICER'S COMPLIANCE CERTIFICATE

INTEREST RATE PROTECTION AGREEMENTS

SCHEDULE 5 TO OFFICER'S COMPLIANCE CERTIFICATE

REPURCHASES AND EARLY PAYMENT DEFAULT REQUESTS

Outstanding/Pending Repurchases & Indemnifications

Loan #	Repo or Indem	Investor	Notice Date	Origination Date	Breach/Defect	Original Loan Amount (\$)	Estimated Loss Amount (\$)

Satisfied/Resolved Repurchases

Loan #	Repo or Indem	Investor	Origination Date	Date Resolved	Original Loan Amount (\$)	Amount Paid (\$)

SCHEDULE 6 TO OFFICER'S COMPLIANCE CERTIFICATE

QUALITY CONTROL RESULTS

A-11

SCHEDULE 7 TO OFFICER'S COMPLIANCE CERTIFICATE

Secondary Market Sales

<u>Investor Name</u>	<u>Aggregate original principal balance of mortgage loans sold in prior calendar month (\$)</u>	<u>Percentage (measured by original principal balance) of mortgage loans sold in prior calendar month</u>	<u>Aggregate original principal balance of mortgage loans sold year-to-date (\$)</u>	<u>Percentage (measured by original principal balance) of mortgage loans sold year-to-date</u>

A-12

SCHEDULE 8 TO OFFICER'S COMPLIANCE CERTIFICATE

Geographic Production Breakdown

<u>Current Month Geographic Concentration Top 10 States</u>	<u>Current Month Total \$</u>	<u>Current Month % of Total</u>
<b>Totals</b>		

A-13

SCHEDULE 9 TO OFFICER'S COMPLIANCE CERTIFICATE

MSR Valuation

A-14

SCHEDULE 10 TO OFFICER'S COMPLIANCE CERTIFICATE

Litigation Summary

<u>Case Caption</u>	<u>Filing Date</u>	<u>Court / Regulator</u>	<u>Case No.</u>	<u>Nature of Claims</u>	<u>Damages / Penalties Alleged</u>	<u>Plaintiff's Counsel</u>	<u>Customer's counsel</u>	<u>Status</u>	<u>Customer's Reserve Amount</u>

A-15

## 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  
November 13, 2012

---

## 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

November 13, 2012

---

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the report of Impac Mortgage Holdings, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2012 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*  
November 13, 2012

/s/ TODD R. TAYLOR

\_\_\_\_\_  
Todd R. Taylor  
*Chief Financial Officer*  
November 13, 2012

---