

IMPAC MORTGAGE HOLDINGS INC

Form 10-Q

May 10, 2018

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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 March 31, 2018

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)

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Maryland
(State or other jurisdiction of
incorporation or organization)

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

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant's telephone number, including area code)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting
company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 20,953,756 shares of common stock outstanding as of May 7, 2018.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 29,485	\$ 33,223
Restricted cash	5,704	5,876
Mortgage loans held-for-sale	655,506	568,781
Finance receivables	26,989	41,777
Mortgage servicing rights	174,067	154,405
Securitized mortgage trust assets	3,524,053	3,670,550
Goodwill	104,587	104,587
Intangible assets, net	20,532	21,582
Loans eligible for repurchase from Ginnie Mae	54,632	47,697
Other assets	27,379	33,222
Total assets	\$ 4,622,934	\$ 4,681,700
LIABILITIES		
Warehouse borrowings	\$ 650,342	\$ 575,363
MSR financings	45,000	35,133
Convertible notes, net	24,977	24,974
Long-term debt	45,337	44,982
Securitized mortgage trust liabilities	3,508,477	3,653,265
Liability for loans eligible for repurchase from Ginnie Mae	54,632	47,697
Contingent consideration	—	554
Other liabilities	33,970	34,585
Total liabilities	4,362,735	4,416,553

Commitments and contingencies (See Note 10)

STOCKHOLDERS' EQUITY

Series A-1 junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued or outstanding	—	—
Series B 9.375% redeemable preferred stock, \$0.01 par value; liquidation value \$16,640; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of March 31, 2018 and December 31, 2017	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 March 31, 2018 and December 31, 2017	14	14
Common stock, \$0.01 par value; 200,000,000 shares authorized; 20,952,679 and 20,949,679 shares issued and outstanding as of March 31, 2018 and	210	209

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December 31, 2017, respectively		
Additional paid-in capital	1,234,149	1,233,704
Accumulated other comprehensive earnings, net of tax	25,578	—
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(177,239)	(146,267)
Net accumulated deficit	(999,759)	(968,787)
Total stockholders' equity	260,199	265,147
Total liabilities and stockholders' equity	\$ 4,622,934	\$ 4,681,700

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Revenues:		
Gain on sale of loans, net	\$ 21,482	\$ 37,319
Servicing fees, net	9,463	7,320
Gain (loss) on mortgage servicing rights, net	7,705	(977)
Real estate services fees, net	1,385	1,633
Other	90	47
Total revenues	40,125	45,342
Expenses:		
Personnel expense	17,742	24,919
Business promotion	9,731	10,231
General, administrative and other	8,275	8,023
Accretion of contingent consideration	—	845
Change in fair value of contingent consideration	—	539
Total expenses	35,748	44,557
Operating income	4,377	785
Other income (expense):		
Interest income	50,150	61,584
Interest expense	(49,130)	(61,138)
Change in fair value of long-term debt	1,224	(2,497)
Change in fair value of net trust assets, including trust REO gains	(2,138)	6,319
Total other income	106	4,268
Earnings before income taxes	4,483	5,053
Income tax expense	610	426
Net earnings	\$ 3,873	\$ 4,627
Other comprehensive earnings:		
Change in fair value of instrument specific credit risk	\$ (1,440)	\$ —
Total comprehensive earnings	\$ 2,433	\$ 4,627
Earnings per common share:		
Basic	\$ 0.18	\$ 0.29
Diluted	0.18	0.29

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

(Unaudited)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Accumulated Other Comprehensive Earnings	Total Stock Equity
September 30, 2017	2,070,678	\$ 21	20,949,679	\$ 209	\$ 1,233,704	\$ (822,520)	\$ (146,267)	\$ —	\$ 209
Issuance of stock	—	—	3,000	1	15	—	—	—	16
Share repurchase	—	—	—	—	430	—	—	—	430
Adoption of ASU 2016-01	—	—	—	—	—	—	(27,018)	27,018	—
Share repurchase related to ASU	—	—	—	—	—	—	(7,827)	—	(7,827)
Comprehensive income	—	—	—	—	—	—	—	(1,440)	(1,440)
Dividends	—	—	—	—	—	—	3,873	—	3,873
September 30, 2018	2,070,678	\$ 21	20,952,679	\$ 210	\$ 1,234,149	\$ (822,520)	\$ (177,239)	\$ 25,578	\$ 209

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 3,873	\$ 4,627
Loss on sale of mortgage servicing rights	—	414
Change in fair value of mortgage servicing rights	(9,180)	1,122
Gain on sale of mortgage loans	(28,851)	(31,595)
Change in fair value of mortgage loans held-for-sale	4,891	(5,203)
Change in fair value of derivatives lending, net	1,815	(79)
Provision (recovery) for repurchases	378	(1,666)
Origination of mortgage loans held-for-sale	(1,320,128)	(1,580,019)
Sale and principal reduction on mortgage loans held-for-sale	1,246,881	1,558,851
Gains from REO	(2,193)	(1,533)
Change in fair value of net trust assets, excluding REO	4,331	(4,786)
Change in fair value of long-term debt	(1,224)	2,497
Accretion of interest income and expense	14,531	25,550
Amortization of intangible and other assets	1,193	1,192
Accretion of contingent consideration	—	845
Change in fair value of contingent consideration	—	539
Amortization of debt issuance costs and discount on note payable	21	100
Stock-based compensation	430	500
Impairment of deferred charge	—	276
Excess tax benefit from share based compensation	—	12
Net change in other assets	(3,833)	2,046
Net change in other liabilities	(949)	(15,871)
Net cash used in operating activities	(88,014)	(42,181)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	116,205	182,824
Proceeds from the sale of mortgage servicing rights	—	481
Finance receivable advances to customers	(165,668)	(183,613)
Repayments of finance receivables	180,456	208,994
Purchase of premises and equipment	(109)	(291)
Proceeds from the sale of REO	5,418	6,859
Net cash provided by investing activities	136,302	215,254
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of MSR financing	(25,133)	—
Borrowings under MSR financing	35,000	35,133

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Repayment of warehouse borrowings	(1,204,301)	(1,498,519)
Borrowings under warehouse agreements	1,279,280	1,519,778
Repayment of term financing	—	(30,000)
Payment of acquisition related contingent consideration	(554)	(7,958)
Repayment of securitized mortgage borrowings	(136,444)	(211,895)
Principal payments on capital lease	(59)	(101)
Debt issuance costs	—	(100)
Tax payments on stock based compensation awards	(3)	(21)
Proceeds from exercise of stock options	16	30
Net cash used in financing activities	(52,198)	(193,653)
Net change in cash, cash equivalents and restricted cash	(3,910)	(20,580)
Cash, cash equivalents and restricted cash at beginning of period	39,099	46,067
Cash, cash equivalents and restricted cash at end of period	\$ 35,189	\$ 25,487
NON-CASH TRANSACTIONS:		
Transfer of securitized mortgage collateral to real estate owned	\$ 4,835	\$ 2,267
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	10,482	12,066

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share and per share data or as otherwise indicated)

Note 1.—Summary of Business and Financial Statement Presentation

Business Summary

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

The Company's operations include the mortgage lending operations and real estate services conducted by IRES and IMC and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets) conducted by IMH. IMC's mortgage lending operations include the activities of CashCall Mortgage (CCM).

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017, filed with the United States Securities and Exchange Commission (SEC).

All significant intercompany balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current period presentation.

Management has made a number of material estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Additionally, other items affected by such estimates and assumptions include the valuation of trust assets and trust liabilities, contingencies, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt, mortgage servicing rights, mortgage loans held-for-sale and derivative instruments, including interest rate lock commitments (IRLC). Actual results could differ from those estimates and assumptions.

Recent Accounting Pronouncements

Accounting Standards Update (ASU) No. 2014-09, 2015-04, 2016-08, 2016-10, 2016-12, 2016-20, 2017-13 and 2017-14, collectively implemented as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), "Revenue from Contracts with Customers (Topic 606)", provides guidance for revenue recognition.

This ASC's core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The standard also clarifies the principal versus agent considerations, providing the evaluation must focus on whether the entity has control of the goods or services before they are transferred to the customer. The new standard permits the use of either the modified retrospective or full retrospective transition method. The Company's revenue is primarily generated from loan originations, loan servicing and real estate services. Origination revenue is comprised of fee income earned at origination of a loan, interest income earned for the period the loans are held and gain on sale on loans upon disposition of the loan. Servicing revenue is comprised of servicing fees and other ancillary fees in connection with our servicing activities. Real estate services revenue is comprised of income earned from various real estate services and support such as loss mitigation, loan modification, surveillance and disposition and monitoring services. The Company performed a

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review of the guidance as compared to current accounting policies and have evaluated all services rendered to customers as well as underlying contracts to determine the impact of this standard to the Company's revenue recognition process. The majority of services rendered by the Company in connection with loan originations, loan servicing and the long-term mortgage portfolio are not within the scope of FASB ASC 606. However, the Company identified real estate services revenues that were within the scope of FASB ASC 606 and the impact upon adoption was not materially different from the previous revenue recognition processes. The Company adopted this guidance on January 1, 2018, and the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things, requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); requires separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The update is effective for interim and annual reporting periods beginning after December 15, 2017 on a modified retrospective basis, using a cumulative-effect adjustment to the balance sheet as of the beginning of the year adopted. The Company adopted this guidance on January 1, 2018, which resulted in a \$27.0 million reclass, net of tax, between opening retained earnings and other comprehensive income (loss) within stockholders' equity.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The update amends the guidance in Accounting Standards Codification 230, Statement of Cash Flows, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. In addition, in November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash (ASU 2016-18). This ASU clarifies certain existing principles in FASB ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. These ASUs will be effective for the Company's fiscal year beginning after December 15, 2017 and subsequent interim periods. The Company adopted this guidance retrospectively on January 1, 2018. The adoption of this ASU did not have a material impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This ASU requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard was applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning

of the period of adoption. The Company adopted this guidance on January 1, 2018, which resulted in a \$7.8 million cumulative effect adjustment to opening retained earnings.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.” The update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU is effective for annual reporting periods beginning after December 15, 2017. The Company adopted this guidance on January 1, 2018, and the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU allows a reclassification from accumulated other comprehensive earnings (AOCE) to retained earnings for the stranded tax effects caused by the revaluation of deferred taxes resulting from the newly enacted corporate tax rate in the Tax Cuts and Jobs Act. The ASU is effective in years beginning after December 15, 2018, but permits early adoption in a period for which financial statements have not yet been issued. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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In February 2018, the FASB ASU 2018-03, “Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This amendment clarifies certain aspects of the new guidance (ASU 2016-01) on recognizing and measuring financial instruments and presentation requirements for certain fair value option liabilities. ASU 2018-03 is effective for interim periods beginning after June 15, 2018 and will be effective for our 2018 annual reporting period. The standard requires entities to record a cumulative-effect adjustment to the statement of financial position at the beginning of the fiscal year in which the amendments are adopted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, “Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118.” This ASU codifies existing SEC guidance contained in SEC Staff Accounting Bulletin No. 118 (SAB 118), which expresses the view of the staff regarding application of existing guidance for the accounting for income taxes as it relates to the enactment of the Tax Cuts and Jobs Act (the TCJA) which was signed into law in the fourth quarter of 2017. In accordance with ASU 2018-05, the Company has recorded provisional estimates for the accounting impacts of the TCJA, deferred tax remeasurements, and other items, due to the uncertainty regarding how these provisions are to be implemented and additional anticipated forthcoming guidance. As management completes the analysis of the impacts of the TCJA, the Company may refine its current estimate and make adjustments, which will be recognized through income in the period such adjustments are identified, as required by ASU 2018-05.

Note 2.—Mortgage Loans Held-for-Sale

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

	March 31, 2018	December 31, 2017
Government (1)	\$ 179,150	\$ 263,512
Conventional (2)	358,575	193,055
Other (3)	103,470	93,012
Fair value adjustment (4)	14,311	19,202
Total mortgage loans held for sale	\$ 655,506	\$ 568,781

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- (1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).
 - (2) Includes loans eligible for sale to Federal National Mortgage Association (Fannie Mae or FNMA) and Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC).
 - (3) Includes non-qualified mortgages (NonQM) and jumbo loans.
 - (4) Changes in fair value are included in gain on sale of loans, net in the accompanying consolidated statements of operations.

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Gain on mortgage loans held-for-sale (LHFS), included in gain on sale of loans, net in the consolidated statements of operations, is comprised of the following the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017
Gain on sale of mortgage loans	\$ 29,338	\$ 38,240
Premium from servicing retained loan sales	10,482	12,066
Unrealized losses from derivative financial instruments	(2,100)	(1,145)
Realized gains from derivative financial instruments	12,045	1,125
Mark to market (loss) gain on LHFS	(4,891)	5,203
Direct origination expenses, net	(23,014)	(19,836)
Provision for repurchases	(378)	1,666
Total gain on sale of loans, net	\$ 21,482	\$ 37,319

Note 3.—Mortgage Servicing Rights

The Company retains mortgage servicing rights (MSRs) from its sales and securitization of certain mortgage loans or as a result of purchase transactions. MSRs are reported at fair value based on the income derived from the net projected cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the UPB of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees, such as late charges, collateral reconveyance charges and nonsufficient fund fees, and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance payments.

The following table summarizes the activity of MSRs for the three months ended March 31, 2018 and year ended December 31, 2017:

March 31, 2018	December 31, 2017
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Balance at beginning of period	\$ 154,405	\$ 131,537
Additions from servicing retained loan sales	10,482	56,049
Addition from purchases	—	5,618
Reductions from bulk sales (1)	—	(895)
Changes in fair value (2)	9,180	(37,904)
Fair value of MSR's at end of period	\$ 174,067	\$ 154,405

- (1) In the first quarter of 2017, the Company sold substantially all of its NonQM MSR's.
- (2) Changes in fair value are included within gain (loss) on MSR's, net in the accompanying consolidated statements of operations.

At March 31, 2018 and December 31, 2017, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	March 31, 2018	December 31, 2017
Government insured	\$ 3,346,717	\$ 2,834,680
Conventional (1)	13,403,157	13,493,463
NonQM	1,947	1,957
Total loans serviced	\$ 16,751,821	\$ 16,330,100

- (1) At March 31, 2018 and December 31, 2017, \$13.4 billion and \$13.5 billion, respectively, of Fannie Mae and Freddie Mac servicing has been pledged as collateral as part of the MSR Financing (See Note 4.—Debt— MSR Financings). Pledged collateral

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was approximately 79% and 81% of the fair value of MSR's in the consolidated balance sheets at March 31, 2018 and December 31, 2017, respectively.

The table below illustrates hypothetical changes in fair values of MSR's, caused by assumed immediate changes to key assumptions that are used to determine fair value. See Note 6.—Fair Value of Financial Instruments for a description of the key assumptions used to determine the fair value of MSR's.

	March 31, 2018	December 31, 2017
Mortgage Servicing Rights Sensitivity Analysis		
Fair value of MSR's	\$ 174,067	\$ 154,405
Prepayment Speed:		
Decrease in fair value from 10% adverse change	(4,418)	(5,643)
Decrease in fair value from 20% adverse change	(9,029)	(11,275)
Decrease in fair value from 30% adverse change	(13,752)	(16,807)
Discount Rate:		
Decrease in fair value from 10% adverse change	(6,449)	(5,461)
Decrease in fair value from 20% adverse change	(12,449)	(10,555)
Decrease in fair value from 30% adverse change	(18,043)	(15,316)

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.

Gain (loss) on mortgage servicing rights, net is comprised of the following for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017
Change in fair value of mortgage servicing rights	\$ 9,180	\$ (1,122)
Loss on sale of mortgage servicing rights	(2)	(414)
Realized and unrealized (losses) gains from hedging instruments	(1,473)	559
Gain (loss) on mortgage servicing rights, net	\$ 7,705	\$ (977)

Servicing fees, net is comprised of the following for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017

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Contractual servicing fees	\$ 11,538	\$ 8,366
Late and ancillary fees	151	85
Subservicing and other costs	(2,226)	(1,131)
Servicing fees, net	\$ 9,463	\$ 7,320

Loans Eligible for Repurchase from Ginnie Mae (GNMA)

The Company routinely sells loans in GNMA guaranteed mortgage backed securities (MBS) by pooling eligible loans through a pool custodian and assigning rights to the loans to GNMA. When these GNMA loans are initially pooled and securitized, the Company meets the criteria for sale treatment and derecognizes the loans. The terms of the GNMA MBS program allow, but do not require, the Company to repurchase mortgage loans when the borrower has made no payments for three consecutive months. When the Company has the unconditional right, as servicer, to repurchase GNMA pool loans it has previously sold and are more than 90 days past due, the Company then re-recognizes the loans on its

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consolidated balance sheets in other assets, at their UPB, and records a corresponding liability in other liabilities in the consolidated balance sheets. At March 31, 2018 and December 31, 2017, loans eligible for repurchase from GNMA totaled \$54.6 million and \$47.7 million in UPB, respectively. As part of the Company's repurchase reserve, the Company records a repurchase provision to provide for estimated losses from the sale or securitization of all mortgage loans, including these loans.

The loans eligible for repurchase from GNMA are in the Company's servicing portfolio. The Company monitors the delinquency of the servicing portfolio and directs the servicer to mitigate losses on delinquent loans.

Note 4.—Debt

Warehouse Borrowings

The Company, through its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are uncommitted facilities used to fund, and are secured by, residential mortgage loans from the time of funding until the time of settlement when sold to the investor. In accordance with the terms of the Master Repurchase Agreements, the Company is required to maintain cash balances with the lender as additional collateral for the borrowings, which are included in restricted cash in the accompanying consolidated balance sheets.

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

	Maximum Borrowing Capacity	Balance Outstanding At		Maturity Date
		March 31, 2018	December 31, 2017	
Short-term borrowings:				
Repurchase agreement 1	\$ 150,000	\$ 127,272	\$ 100,630	June 15, 2018
Repurchase agreement 2	35,000	31,172	31,632	May 28, 2018
Repurchase agreement 3 (1)	225,000	150,345	154,020	December 21, 2018
Repurchase agreement 4 (2)	250,000	131,745	152,772	May 28, 2018
Repurchase agreement 5	175,000	147,792	88,920	January 31, 2019
Repurchase agreement 6	200,000	61,848	47,389	June 28, 2018
Repurchase agreement 7	50,000	168	—	December 26, 2018
Total warehouse borrowings	\$ 1,085,000	\$ 650,342	\$ 575,363	

(1) As of March 31, 2018 and December 31, 2017, \$27.0 million and \$41.8 million, respectively, are associated with finance receivables made to the Company's warehouse customers.

(2) In April 2018, the maturity of the line was extended for 30 days to May 28, 2018, while the annual renewal is completed.

MSR Financings

On August 17, 2017, IMC (Borrower), entered into a Line of Credit Promissory Note with a lender providing for a revolving line of credit of \$30.0 million (FHLMC Financing). The Borrower is able to borrow up to 55% of the fair market value of FHLMC pledged mortgage servicing rights. The Line of Credit has a term until May 31, 2018 and will automatically renew for subsequent one year periods unless the lender provides the Borrowers 150 days' notice of its intention not to renew. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0% and the balance of the obligation may be prepaid at any time. The obligations under the Line of Credit are secured by FHLMC pledged mortgage servicing rights and is guaranteed by Integrated Real Estate

Services, Corp. In February 2018, the maximum borrowing capacity of the revolving line of credit was increased to \$50.0 million and the term was extended to January 31, 2019. At March 31, 2018, \$30.0 million was outstanding under the FHLMC Financing and was secured by \$65.7 million of mortgage servicing rights.

On February 10, 2017, IMC (Borrower), entered into a Loan and Security Agreement (Agreement) with a lender providing for a revolving loan commitment of \$40.0 million for a period of two years (FNMA Financing). The Borrower is able to borrow up to 55% of the fair market value of FNMA pledged servicing rights. Upon the two year

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anniversary of the Agreement, any amounts outstanding will automatically be converted into a term loan due and payable in full on the one year anniversary of the conversion date. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0% and the balance of the obligation may be prepaid at any time. The Borrower initially drew down \$35.1 million, and used a portion of the proceeds to pay off the Term Financing (approximately \$30.1 million) originally entered into in June 2015 as discussed below. The Borrower also paid the lender an origination fee of \$100 thousand, which is deferred and amortized over the life of the FNMA Financing. At March 31, 2018, \$15.0 million was outstanding under the FNMA Financing and was secured by \$71.4 million of mortgage servicing rights.

Convertible Notes

In May 2015, the Company issued an additional \$25.0 million Convertible Promissory Notes (2015 Convertible Notes). The 2015 Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. The Company had approximately \$50 thousand in transaction costs, which were deferred and amortized over the life of the 2015 Convertible Notes.

Noteholders may convert all or a portion of the outstanding principal amount of the 2015 Convertible Notes into shares of the Company's common stock (Conversion Shares) at a rate of \$21.50 per share, subject to adjustment for stock splits and dividends (Conversion Price). The Company has the right to convert the entire outstanding principal of the 2015 Convertible Notes into Conversion Shares at the Conversion Price if the market price per share of the common stock, as measured by the average volume-weighted closing stock price per share of the common stock on the NYSE AMERICAN (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of common stock are listed), reaches the level of \$30.10 for any twenty (20) trading days in any period of thirty (30) consecutive trading days after the Closing Date. Upon conversion of the 2015 Convertible Notes by the Company, the entire amount of accrued and unpaid interest (and all other amounts owing) under the 2015 Convertible Notes are immediately due and payable. Furthermore, if the conversion of the 2015 Convertible Notes by the Company occurs prior to the third anniversary of the Closing Date, then the entire amount of interest under the 2015 Convertible Notes through the third anniversary is immediately due and payable. To the extent the Company pays any cash dividends on its shares of common stock prior to conversion of the 2015 Convertible Notes, upon conversion of the 2015 Convertible Notes, the Noteholders will also receive such dividends on an as-converted basis of the 2015 Convertible Notes less the amount of interest paid by the Company prior to such dividend.

Unless an event of default has occurred and is continuing, each purchaser of the 2015 Convertible Notes agrees, for the three years after the Closing Date, to vote all Conversion Shares for each of the Company's nominees for election to the Company's board of directors and not to nominate any other candidate for election to the board of directors at any time within such three year period.

Long-term Debt

Junior Subordinated Notes

The Company carries its Junior Subordinated Notes at estimated fair value as more fully described in Note 6.—Fair Value of Financial Instruments. The following table shows the remaining principal balance and fair value of junior subordinated notes issued as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Junior Subordinated Notes (1)	\$ 62,000	\$ 62,000
Fair value adjustment	(16,663)	(17,018)
Total Junior Subordinated Notes	\$ 45,337	\$ 44,982

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

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Note 5.—Securitized Mortgage Trusts

Securitized Mortgage Trust Assets

Securitized mortgage trust assets, which are recorded at their estimated fair value (FMV), are comprised of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Securitized mortgage collateral	\$ 3,513,901	\$ 3,662,008
REO	10,152	8,542
Total securitized mortgage trust assets	\$ 3,524,053	\$ 3,670,550

Securitized Mortgage Trust Liabilities

Securitized mortgage trust liabilities, which are recorded at their estimated FMV, are comprised of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Securitized mortgage borrowings	\$ 3,508,477	\$ 3,653,265

Changes in fair value of net trust assets, including trust REO losses, are comprised of the following for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended	
	March 31, 2018	2017
Change in fair value of net trust assets, excluding REO	\$ (4,331)	\$ 4,786
Gains from REO	2,193	1,533
Change in fair value of net trust assets, including trust REO gains	\$ (2,138)	\$ 6,319

Note 6.—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.

FASB ASC 825 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

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	March 31, 2018				December 31, 2017			
	Carrying Amount	Estimated Fair Value Level 1	Estimated Fair Value Level 2	Level 3	Carrying Amount	Estimated Fair Value Level 1	Estimated Fair Value Level 2	Level 3
Assets								
Cash and cash equivalents	\$ 29,485	\$ 29,485	\$ —	\$ —	\$ 33,223	\$ 33,223	\$ —	\$ —
Restricted cash	5,704	5,704	—	—	5,876	5,876	—	—
Mortgage loans held-for-sale	655,506	—	655,506	—	568,781	—	568,781	—
Finance receivables	26,989	—	26,989	—	41,777	—	41,777	—
Mortgage servicing rights	174,067	—	—	174,067	154,405	—	—	154,067
Derivative assets, lending, net	3,854	—	—	3,854	4,777	—	420	4,357
Securitized mortgage collateral	3,513,901	—	—	3,513,901	3,662,008	—	—	3,662,008
Liabilities								
Warehouse borrowings	\$ 650,342	\$ —	\$ 650,342	\$ —	\$ 575,363	\$ —	\$ 575,363	\$ —
MSR financings	45,000	—	—	45,000	35,133	—	—	35,133
Convertible notes	24,977	—	—	24,977	24,974	—	—	24,974
Contingent consideration	—	—	—	—	554	—	—	554
Long-term debt	45,337	—	—	45,337	44,982	—	—	44,982
Securitized mortgage borrowings	3,508,477	—	—	3,508,477	3,653,265	—	—	3,653,265
Derivative liabilities, lending, net	892	—	892	—	—	—	—	—

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

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

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

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

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

Convertible notes are recorded at amortized cost. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

MSR financings carrying amount approximates fair value as the underlying facility bears interest at a rate that is periodically adjusted based on a market index.

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Fair Value Hierarchy

The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value.

FASB ASC 820-10-35 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices (unadjusted) in active markets for identical instruments or liabilities that an entity has the ability to assess at measurement date.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for an asset or liability, including interest rates and yield curves observable at commonly quoted intervals, prepayment speeds, loss severities, credit risks and default rates; and market-corroborated inputs.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers is unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when estimating fair value.

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, mortgage servicing rights, securitized mortgage collateral and borrowings, derivative assets and liabilities (trust and IRLCs), and long-term debt as Level 3 fair value measurements. Level 3 assets and liabilities measured at fair value on a recurring basis were approximately 85% and 99% and 87% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at March 31, 2018 and December 31, 2017.

Recurring Fair Value Measurements

The Company assesses the financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three months ended March 31, 2018.

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The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at March 31, 2018 and December 31, 2017, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	March 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Mortgage loans held-for-sale	\$ —	\$ 655,506	\$ —	\$ —	\$ 568,781	\$ —
Derivative assets, lending, net (1)	—	—	3,854	—	420	4,357
Mortgage servicing rights	—	—	174,067	—	—	154,405
Securitized mortgage collateral	—	—	3,513,901	—	—	3,662,008
Total assets at fair value	\$ —	\$ 655,506	\$ 3,691,822	\$ —	\$ 569,201	\$ 3,820,770
Liabilities						
Securitized mortgage borrowings	\$ —	\$ —	\$ 3,508,477	\$ —	\$ —	\$ 3,653,265
Long-term debt	—	—	45,337	—	—	44,982
Contingent consideration	—	—	—	—	—	554
Derivative liabilities, lending, net (2)	—	892	—	—	—	—
Total liabilities at fair value	\$ —	\$ 892	\$ 3,553,814	\$ —	\$ —	\$ 3,698,801

(1) At March 31, 2018, derivative assets, lending, net included \$3.9 million in IRLCs and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2017, derivative assets, lending, net included \$4.4 million in IRLCs and \$420 thousand in Hedging instruments, respectively, and is included in other assets in the accompanying consolidated balance sheets.

(2) At March 31, 2018, derivative liabilities, lending, net included \$892 thousand in Hedging Instruments and is included in other liabilities in the accompanying consolidated balance sheets.

The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2018 and 2017:

	Level 3 Recurring Fair Value Measurements For the Three Months Ended March 31, 2018					
	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration
Fair value, December 31, 2017	\$ 3,662,008	\$ (3,653,265)	\$ 154,405	\$ 4,357	\$ (44,982)	\$ (554)
Total gains (losses) included in earnings:						
Interest income (1)	5,688	—	—	—	—	—
Interest expense (1)	—	(20,080)	—	—	(139)	—

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Change in fair value	(32,755)	28,424	9,180	(503)	1,224	—
Change in instrument specific credit risk	—	—	—	—	(1,440)	(2) —
Total gains (losses) included in earnings	(27,067)	8,344	9,180	(503)	(355)	—
Transfers in and/or out of Level 3	—	—	—	—	—	—
Purchases, issuances and settlements:						
Purchases	—	—	—	—	—	—
Issuances	—	—	10,482	—	—	—
Settlements	(121,040)	136,444	—	—	—	554
Fair value, March 31, 2018	\$ 3,513,901	\$ (3,508,477)	\$ 174,067	\$ 3,854	\$ (45,337)	\$ —
Unrealized gains (losses) still held (3)	\$ (533,589)	\$ 2,694,742	\$ 174,067	\$ 3,854	\$ 16,663	\$ —

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was \$2.2 million for three months ended March 31, 2018. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

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- (2) Amount represents the change in instrument specific credit risk in other comprehensive earnings in the consolidated statements of operations and comprehensive earnings as required by the adoption of ASU 2016-01 on January 1, 2018.
- (3) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at March 31, 2018.

Level 3 Recurring Fair Value Measurements
For the Three Months Ended March 31, 2017

	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long- term debt	Contingent consideration
Fair value, December 31, 2016	\$ 4,021,891	\$ (4,017,603)	\$ 131,537	\$ 11,169	\$ (47,207)	\$ (31,072)
Total gains (losses) included in earnings:						
Interest income (1)	15,484	—	—	—	—	—
Interest expense (1)	—	(40,695)	—	—	(340)	—
Change in fair value	51,052	(46,266)	(1,122)	1,164	(2,497)	(1,384)
Total gains (losses) included in earnings	66,536	(86,961)	(1,122)	1,164	(2,837)	(1,384)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Purchases, issuances and settlements:						
Purchases	—	—	—	—	—	—
Issuances	—	—	12,066	—	—	—
Settlements	(185,091)	211,896	(895)	—	—	7,958
Fair value, March 31, 2017	\$ 3,903,336	\$ (3,892,668)	\$ 141,586	\$ 12,333	\$ (50,044)	\$ (24,498)
Unrealized gains (losses) still held (2)	\$ (825,087)	\$ 2,977,521	\$ 141,586	\$ 12,333	\$ 20,719	\$ (24,498)

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was \$2.1 million for the three months ended March 31, 2017. 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 March 31, 2017.

The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and nonrecurring basis at March 31, 2018:

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Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
Assets and liabilities backed by real estate					
Securitized mortgage collateral, and	\$ 3,513,901	DCF	Prepayment rates	1.7 - 25.1 %	7.1 %
Securitized mortgage borrowings	(3,508,477)		Default rates	0.01 - 4.2 %	1.1 %
			Loss severities	9.9 - 84.7 %	46.1 %
			Discount rates	3.9 - 25.0 %	4.6 %
Other assets and liabilities					
Mortgage servicing rights	\$ 174,067	DCF	Discount rate	9.0 - 14.0 %	9.7 %
			Prepayment rates	6.9 - 88.8 %	10.3 %
Derivative assets - IRLCs, net	3,854	Market pricing	Pull-through rate	15.1 - 99.9 %	78.5 %
Long-term debt	(45,337)	DCF	Discount rate	9.9 %	9.9 %

DCF = Discounted Cash Flow

For assets and liabilities backed by real estate, a significant increase in discount rates, default rates or loss severities would result in a significantly lower estimated fair value. The effect of changes in prepayment speeds would have differing effects depending on the seniority or other characteristics of the instrument. For other assets and

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liabilities, a significant increase in discount rates would result in a significantly lower estimated fair value. A significant increase in one-month LIBOR would result in a significantly higher estimated fair value for derivative liabilities, net, securitized trusts. The Company believes that the imprecision of an estimate could be significant.

The following tables present the changes in recurring fair value measurements included in net earnings for the three months ended March 31, 2018 and 2017:

Recurring Fair Value Measurements Changes in Fair Value Included in Net Earnings For the Three Months Ended March 31, 2018							
	Change in Fair Value of						Total
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on sale of loans, net	
Securitized mortgage collateral	\$ 5,688	\$ —	\$ (32,755)	\$ —	\$ —	\$ —	\$ (27,067)
Securitized mortgage borrowings	—	(20,080)	28,424	—	—	—	8,344
Derivative liabilities, net, securitized trusts	—	—	—	—	—	—	—
Long-term debt	—	(139)	—	1,224	—	—	1,085
Mortgage servicing rights (2)	—	—	—	—	9,180	—	9,180
Mortgage loans held-for-sale	—	—	—	—	—	(4,891)	(4,891)
Derivative assets — IRLCs	—	—	—	—	—	(503)	(503)
Derivative liabilities — Hedging Instruments	—	—	—	—	285	(1,597)	(1,312)
Total	\$ 5,688	\$ (20,219)	\$ (4,331)	(3) \$ 1,224	\$ 9,465	\$ (6,991)	\$ (15,164)

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.

(2) Included in loss on MSR, net in the consolidated statements of operations.

(3) For the three months ended March 31, 2018, change in the fair value of net trust assets, excluding REO was \$4.3 million.

Recurring Fair Value Measurements Changes in Fair Value Included in Net Earnings For the Three Months Ended March 31, 2017							
	Change in Fair Value of						Total
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on sale of loans, net	

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Securitized mortgage collateral	\$ 15,484	\$ —	\$ 51,052	\$ —	\$ —	\$ —	\$ 66,536
Securitized mortgage borrowings	—	(40,695)	(46,266)	—	—	—	(86,961)
Derivative liabilities, net, securitized trusts	—	—	—	—	—	—	—
Long-term debt	—	(340)	—	(2,497)	—	—	(2,837)
Mortgage servicing rights (2)	—	—	—	—	(1,122)	—	(1,122)
Contingent consideration	—	—	—	—	(1,384)	—	(1,384)
Mortgage loans held-for-sale	—	—	—	—	—	5,203	5,203
Derivative assets — IRLCs	—	—	—	—	—	1,164	1,164
Derivative liabilities — Hedging Instruments	—	—	—	—	1,223	(2,309)	(1,086)
Total	\$ 15,484	\$ (41,035)	\$ 4,786	(3) \$ (2,497)	\$ (1,283)	\$ 4,058	\$ (20,487)

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in loss on MSR, net in the consolidated statements of operations.
- (3) For the three months ended March 31, 2017, change in the fair value of net trust assets, excluding REO was \$4.8 million.

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

Mortgage servicing rights—The Company elected to carry its MSR arising from its mortgage loan origination operation at estimated fair value. The fair value of MSR is based upon market prices for similar instruments and a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in

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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 March 31, 2018.

Mortgage loans held-for-sale—The Company elected to carry its mortgage loans held-for-sale originated or acquired at estimated fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at March 31, 2018.

Securitized mortgage collateral—The Company elected to carry its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2018, securitized mortgage collateral had UPB of \$4.0 billion, compared to an estimated fair value on the Company's balance sheet of \$3.5 billion. The aggregate UPB exceeds the fair value by \$0.5 billion at March 31, 2018. As of March 31, 2018, the UPB of loans 90 days or more past due was \$0.5 billion compared to an estimated fair value of \$0.2 billion. The aggregate UPB of loans 90 days or more past due exceed the fair value by \$0.3 billion at March 31, 2018. Securitized mortgage collateral is considered a Level 3 measurement at March 31, 2018.

Securitized mortgage borrowings—The Company elected to carry its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2018, securitized mortgage borrowings had an outstanding principal balance of \$4.0 billion, net of \$2.2 billion in bond losses, compared to an estimated fair value of \$3.5 billion. The aggregate outstanding principal balance exceeds the fair value by \$0.5 billion at March 31, 2018. Securitized mortgage borrowings are considered a Level 3 measurement at March 31, 2018.

Contingent consideration—Contingent consideration was applicable to the acquisition of CCM and was estimated and recorded at fair value at the acquisition date as part of purchase price consideration. Additionally, each reporting period, the Company estimated the change in fair value of the contingent consideration and any change in fair value is recognized in the Company's consolidated statements of operations if it is determined to not be a measurement period adjustment. The estimate of the fair value of contingent consideration required significant judgment and assumptions to be made about future operating results, discount rates and probabilities of various projected operating result scenarios. In the fourth quarter of 2017, the earn-out period ended and the remaining \$554 thousand in contingent consideration payments were paid during the three months ended March 31, 2018. Contingent consideration was considered a Level 3 measurement at March 31, 2017 and as of March 31, 2018, we have no further contingent consideration liability.

Long-term debt—The Company elected to carry its remaining long-term debt (consisting of junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of March 31, 2018, long-term debt had UPB of \$62.0 million compared to an estimated fair value of \$45.3 million. The aggregate UPB exceeds the fair value by \$16.7 million at March 31, 2018. The long-term debt is considered a

Level 3 measurement at March 31, 2018.

Derivative assets and liabilities, Lending—The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivatives include IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the

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borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. The derivatives also include hedging instruments (typically TBA MBS) used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending originations as well as mortgage servicing rights. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at March 31, 2018.

The fair value of the Hedging Instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date. Therefore, the Hedging Instruments are classified as a Level 2 measurement at March 31, 2018.

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

	Notional Amount		Total Gains (Losses) (1) For the Three Months Ended	
	March 31, 2018	December 31, 2017	March 31, 2018	2017
Derivative – IRLC's	\$ 354,117	\$ 398,225	\$ (503)	\$ 1,164
Derivative – TBA MBS	407,936	687,500	10,448	(1,184)

(1) Amounts included in gain on sale of loans, 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 March 31, 2018 and 2017, respectively:

	Nonrecurring Fair Value Measurements					
	March 31, 2018			March 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
REO (1)	\$ —	\$ 1,307	\$ —	\$ —	\$ 6,342	\$ —
Deferred charge (2)	—	—	—	—	—	8,409

(1) Balance represents REO at March 31, 2018 which have been impaired subsequent to

foreclosure.

- (2) With the adoption of ASU 2016-16 on January 1, 2018, \$7.8 million in deferred charge was eliminated with a cumulative effect adjustment to opening retained earnings.

	Total Gains (Losses) (1) For the Three Months Ended March 31,	
	2018	2017
REO (2)	\$ 2,193	\$ 1,533
Deferred charge (3)	—	(277)

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- (1) Total losses reflect losses from all nonrecurring measurements during the period.

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- (2) For the three months ended March 31, 2018 and 2017, the Company recorded \$2.2 million and \$1.5 million, respectively, in gains which represent 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.
- (3) For the three months ended March 2017, the Company recorded \$277 thousand in income tax expense resulting from impairment write-downs of deferred charge based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. With the adoption of ASU 2016-16 on January 1, 2018, there will no longer be impairment of deferred charge.

Real estate owned—REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO balance representing REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at March 31, 2018.

Deferred charge—Deferred charge represented 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. The Company evaluated the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. If the deferred charge was determined to be impaired, it was recognized as a component of income tax expense. On January 1, 2018, the Company adopted ASU 2016-16, which resulted in a \$7.8 million cumulative effect adjustment to opening retained earnings eliminating the remaining deferred charge on the balance sheet. Deferred charge was considered a Level 3 measurement at March 31, 2017.

Note 7.—Income Taxes

The Company calculates its quarterly tax provision pursuant to the guidelines in ASC 740 Income Taxes. ASC 740 requires companies to estimate the annual effective tax rate for current year ordinary income. In calculating the effective tax rate, permanent differences between financial reporting and taxable income are factored into the calculation, but temporary differences are not. The estimated annual effective tax rate represents the best estimate of the tax provision in relation to the best estimate of pre-tax ordinary income or loss. The estimated annual effective tax rate is then applied to year-to-date ordinary income or loss to calculate the year-to-date interim tax provision.

The Company recorded income tax expense of \$610 thousand and \$426 thousand for the three months ended March 31, 2018 and 2017, respectively. Tax expense for the three months ended March 31, 2018 is primarily the result of state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT. Tax expense for the three months ended March 31, 2017 is primarily the result of amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT.

The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge amortization and/or impairment, which does not result in any tax liability to be paid, is calculated based on the change in the estimated fair value of the underlying securitized mortgage collateral during the period. Prior to the adoption of ASU 2016-16 on January 1, 2018, the deferred charge was included in other assets in the accompanying consolidated balance sheets and was amortized as a component of income tax expense in the accompanying consolidated statements of operations.

As of December 31, 2017, the Company had estimated federal net operating loss (NOL) carryforwards of approximately \$619.9 million. Federal NOL carryforwards begin to expire in 2027. As of December 31, 2017, the Company had estimated California NOL carryforwards of approximately \$431.0 million, which begin to expire in 2028. The Company may not be able to realize the maximum benefit due to the nature and tax entities that holds the NOL.

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Note 8.—Reconciliation of Earnings Per Share

Basic net earnings per share is computed by dividing net earnings available to common stockholders (numerator) by the weighted average number of vested, common shares outstanding during the period (denominator). Diluted net earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method. Dilutive potential common shares include shares issuable upon conversion of Convertible Notes, dilutive effect of outstanding stock options and deferred stock units (DSUs).

	For the Three Months Ended March 31,	
	2018	2017
Numerator for basic earnings per share:		
Net earnings	\$ 3,873	\$ 4,627
Numerator for diluted earnings per share:		
Net earnings	\$ 3,873	\$ 4,627
Interest expense attributable to convertible notes (1)	—	454
Net earnings plus interest expense attributable to convertible notes	\$ 3,873	\$ 5,081
Denominator for basic earnings per share (2):		
Basic weighted average common shares outstanding during the period	20,951	16,025
Denominator for diluted earnings per share (2):		
Basic weighted average common shares outstanding during the period	20,951	16,025
Net effect of dilutive convertible notes (1)	—	1,163
Net effect of dilutive stock options and DSU's	151	234
Diluted weighted average common shares	21,102	17,422
Net earnings per common share:		
Basic	\$ 0.18	\$ 0.29
Diluted	\$ 0.18	\$ 0.29

(1) Adjustments to diluted earnings per share for the convertible notes for the three months ended March 31, 2018 were excluded from the calculation as they are anti-dilutive.

(2) Number of shares presented in thousands.

At March 31, 2018, there were 1.2 million anti-dilutive stock options outstanding. There were 838 thousand anti-dilutive stock options outstanding the three months ended March 31, 2017.

Note 9.—Segment Reporting

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

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Statement of Operations Items for the Three Months Ended March 31, 2018:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 21,482	\$ —	\$ —	\$ —	\$ 21,482
Real estate services fees, net	—	1,385	—	—	1,385
Servicing fees, net	9,463	—	—	—	9,463
Gain on mortgage servicing rights, net	7,705	—	—	—	7,705
Other revenue	—	—	84	6	90
Other operating expense	(31,548)	(638)	(65)	(3,497)	(35,748)
Other income (expense)	334	—	196	(424)	106
Net (loss) earnings before income tax expense	\$ 7,436	\$ 747	\$ 215	\$ (3,915)	4,483
Income tax expense					610
Net earnings					\$ 3,873

Statement of Operations Items for the Three Months Ended March 31, 2017:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 37,319	\$ —	\$ —	\$ —	\$ 37,319
Real estate services fees, net	—	1,633	—	—	1,633
Servicing fees, net	7,320	—	—	—	7,320
Loss on mortgage servicing rights, net	(977)	—	—	—	(977)
Other revenue	14	—	61	(28)	47
Accretion of contingent consideration	(845)				