

IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
November 09, 2015
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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 September 30, 2015

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. 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 10,322,602 shares of common stock outstanding as of November 4, 2015.

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IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

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(in thousands, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 10,509	\$ 10,073
Restricted cash	5,829	2,420
Mortgage loans held-for-sale	460,808	239,391
Finance receivables	41,334	8,358
Mortgage servicing rights	63,281	24,418
Securitized mortgage trust assets	4,814,798	5,268,531
Goodwill	104,938	352
Intangible assets, net	31,024	
Deferred tax asset, net	24,420	
Other assets	37,942	25,029
Total assets	\$ 5,594,883	\$ 5,578,572
LIABILITIES		
Warehouse borrowings	\$ 477,673	\$ 226,718
Short-term debt		6,000
Term financing	30,000	
Convertible notes	45,000	20,000
Contingent consideration	68,792	
Long-term debt	31,663	22,122
Securitized mortgage trust liabilities	4,799,024	5,251,307
Other liabilities	39,816	27,469
Total liabilities	5,491,968	5,553,616
Commitments and contingencies (See Note 16)		
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 September 30, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, respectively	14	14

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Common stock, \$0.01 par value; 200,000,000 shares authorized; 10,291,653 and 9,588,532 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	103	96
Additional paid-in capital	1,097,436	1,089,574
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(172,125)	(242,215)
Net accumulated deficit	(994,645)	(1,064,735)
Total stockholders' equity	102,915	24,956
Total liabilities and stockholders' equity	\$ 5,594,883	\$ 5,578,572

See accompanying notes to unaudited consolidated financial statements

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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,	
	2015	2014	2015	2014
Revenues:				
Gain on sale of loans, net	\$ 47,274	\$ 8,602	\$ 133,018	\$ 19,468
Real estate services fees, net	2,775	3,243	7,872	11,282
Servicing income, net	2,432	913	4,083	3,773
Loss on mortgage servicing rights	(4,818)	(998)	(14,176)	(3,540)
Other	(11)	197	283	1,703
Total revenues	47,652	11,957	131,080	32,686
Expenses:				
Personnel expense	21,315	9,062	56,883	27,841
Business promotion	10,735	252	19,628	1,020
General, administrative and other	7,100	4,376	20,479	14,260
Accretion of contingent consideration	2,424		5,471	
Change in fair value of contingent consideration	(16,897)		(28,223)	
Total expenses	24,677	13,690	74,238	43,121
Operating income (loss):	22,975	(1,733)	56,842	(10,435)
Other income (expense):				
Interest income	70,301	79,631	210,177	220,613
Interest expense	(70,182)	(78,884)	(208,042)	(220,275)
Change in fair value of long-term debt			(8,661)	(424)
Change in fair value of net trust assets, including trust REO (losses) gains	(3,004)	92	(3,078)	7,841
Total other income (expense)	(2,885)	839	(9,604)	7,755
Earnings (loss) before income taxes	20,090	(894)	47,238	(2,680)
Income tax expense (benefit)	781	307	(22,852)	1,405
Net earnings (loss)	\$ 19,309	\$ (1,201)	\$ 70,090	\$ (4,085)
Earnings (loss) per common share :				
Basic	\$ 1.89	\$ (0.13)	\$ 7.00	\$ (0.44)
Diluted	\$ 1.48	\$ (0.13)	\$ 5.61	\$ (0.44)

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 Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	\$ 70,090	\$ (4,085)
Loss (gain) on sale of mortgage servicing rights	6,193	(1,388)
Change in fair value of mortgage servicing rights	7,983	4,928
Gain on sale of AmeriHome		(1,208)
Gain on sale of mortgage loans	(115,578)	(15,826)
Change in fair value of mortgage loans held-for-sale	(9,030)	(5,103)
Change in fair value of derivatives lending, net	(8,755)	(170)
Provision for repurchases	340	1,602
Origination of mortgage loans held-for-sale	(7,319,723)	(1,737,217)
Sale and principal reduction on mortgage loans held-for-sale	7,146,796	1,635,569
Losses (gains) from REO	4,899	(8,977)
Change in fair value of net trust assets, excluding REO	(4,977)	(2,786)
Change in fair value of long-term debt	8,661	424
Accretion of interest income and expense	111,400	137,087
Amortization of intangible and other assets	2,384	
Accretion of contingent consideration	5,471	
Change in fair value of contingent consideration	(28,223)	
Amortization of debt issuance costs and discount on note payable	248	31
Stock-based compensation	1,076	1,377
Impairment of deferred charge	1,054	
Change in deferred tax assets	(24,420)	
Change in REO impairment reserve	1,655	6,243
Net change in restricted cash	(3,409)	(396)
Net change in other assets and liabilities	8,647	(5,601)
Net cash (used in) provided by operating activities	(137,218)	4,504
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	479,565	452,046
Proceeds from the sale of mortgage servicing rights	23,079	28,665
Finance receivable advances to customers	(523,005)	(37,872)
Repayments of finance receivables	490,029	33,538
Net change in mortgages held-for-investment	46	6
Purchase of premises and equipment	93	(18)
Net principal change on investment securities available-for-sale	83	64
Acquisition of CashCall Mortgage	(5,000)	
Payment of acquisition related contingent consideration	(32,423)	
Proceeds from the sale of REO	24,210	27,666
Proceeds from the sale of AmeriHome		10,200
Net cash provided by investing activities	456,677	514,295
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Issuance of convertible notes	25,000		
Issuance of term financing	30,000		
Repayment of warehouse borrowings	(6,884,047)		(1,560,956)
Borrowings under warehouse agreement	7,135,002		1,662,692
Repayment of line of credit	(11,000)		(23,250)
Borrowings under line of credit	7,000		20,250
Repayment of short-term borrowing	(15,000)		
Short-term borrowing	15,000		
Repayment of securitized mortgage borrowings	(614,505)		(613,708)
Principal payments on short-term debt	(6,000)		
Principal payments on capital lease	(616)		(552)
Capitalized debt issuance costs	(500)		
Proceeds from exercise of stock options	643		33
Net cash used in financing activities	(319,023)		(515,491)
Net change in cash and cash equivalents	436		3,308
Cash and cash equivalents at beginning of period	10,073		9,969
Cash and cash equivalents at end of period	\$ 10,509	\$	13,277

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	For the Nine Months Ended September 30,	
	2015	2014
NON-CASH TRANSACTIONS:		
Transfer of securitized mortgage collateral to real estate owned	\$ 30,307	\$ 23,510
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	76,119	17,238
Acquisition related goodwill asset related to CashCall	104,586	
Acquisition related intangible assets related to CashCall	33,122	
Acquisition related contingent consideration liability related to CashCall	124,592	
Common stock issued related to CashCall acquisition	6,150	
Acquisition of equipment purchased through capital leases	413	573
Common stock issued upon legal settlement		3,449

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 wholly-owned subsidiaries: Integrated Real Estate Service Corporation (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets) and Impac Funding Corporation (IFC).

In the first quarter of 2015, the Company settled its repurchase liability with Fannie Mae (FNMA) related to its legacy non-conforming mortgage operations. As a result of this settlement and previous resolution of other legal matters pertaining to the legacy non-conforming mortgage operations, the Company determined the legacy non-conforming mortgage operations previously reported as discontinued operations is no longer significant for reporting purposes.

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. Beginning in the first quarter of 2015, the mortgage lending operations include the activities of the CashCall Mortgage operations (CCM)(See Note 2. Acquisition of CashCall Mortgage.)

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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, 2014, filed with the United States Securities and Exchange Commission (SEC).

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

Management has made a number of 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. Material estimates subject to change include the fair value estimates of assets acquired and liabilities assumed in the acquisition of CCM as discussed in Note 2. Acquisition of CashCall Mortgage. 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 interest rate lock commitments. Actual results could differ from those estimates and assumptions.

Recent Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-01, *Income Statement-Extraordinary and Unusual Items* (Subtopic 225-20). ASU 2015-01 addresses the elimination from U.S. GAAP the concept of extraordinary items. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. This amended guidance will prohibit separate disclosure of extraordinary items in the income statement. This amendment is effective for years, and interim periods within those years, beginning after December 15, 2015. Entities may apply the amendment prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the year of adoption. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

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In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-08, *Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*. ASU 2015-08 amends various SEC paragraphs included in the FASB's Accounting Standards Codification to reflect the issuance of Staff Accounting Bulletin No. 115 (SAB 115). SAB 115 rescinds portions of the interpretive guidance included in the SEC's Staff Accounting Bulletins series and brings existing guidance into conformity with ASU 2014-17, *Business Combinations (Topic 805): Pushdown Accounting*, which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The Company has adopted the amendments in ASU 2015-08, effective immediately, as the amendments in the update are effective upon issuance. The adoption did not have an impact on the Consolidated Financial Statements.

In June 2015, the Financial Accounting Standards Board issued ASU 2015-10, *Technical Corrections and Improvements*. ASU 2015-10 amends various SEC paragraphs to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, some of the amendments will make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. This ASU is effective for fiscal years and interim periods beginning on or after December 15, 2015, with early adoption permitted. The Company does not expect the guidance in this ASU to have a material impact on our consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)*, which replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. For public business entities, ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, with earlier application permitted for financial statements that have not been issued. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

Note 2. Acquisition of CashCall Mortgage

On January 6, 2015, the Company entered into an Asset Purchase Agreement (the Asset Purchase Agreement) with CashCall, Inc. (CashCall), an unrelated entity, pursuant to which the Company agreed to purchase certain assets of CashCall's residential mortgage operations. Upon closing, which occurred on March 31, 2015, CashCall's mortgage operations began to operate as a separate division of IMC under the name CashCall Mortgage (CCM).

Pursuant to the Asset Purchase Agreement, and subject to the terms and conditions contained therein, the purchase price consists of a fixed component and a contingent component. The fixed component includes (i) the aggregate payment of \$10 million in cash, payable in installments through January 2016 and (ii) 494,017 newly issued unregistered shares of the Company. The contingent component consists of a three year earn-out provision beginning on the effective date (January 2, 2015) of 100% of pre-tax net earnings of CCM for January and February of 2015, 65% of the pre-tax net earnings for the next 10 months of 2015, 55% of pre-tax net earnings for the second year and 45% of pre-tax net earnings for the third year.

If, during the four years following January 2, 2015, the Company sells all or substantially all of its assets or the assets of CCM, the division of IMC, or a person acquires 50% or more of the securities of the Company or IMC, then the Company will pay additional contingent consideration, subject to adjustment, to CashCall of 15% of the enterprise value (as defined in the Asset Purchase Agreement) in excess of \$200 million plus an additional 5% of the enterprise value in excess of \$500 million (Business Appreciation Rights).

During the nine months ended September 30, 2015, consideration paid to CashCall, Inc. included \$5.0 million cash and 494,017 shares of common stock of the Company (issued April 1, 2015) valued at \$6.2 million, pursuant to the fixed component of the Asset Purchase Agreement and \$33.0 million pursuant to the earn-out provision.

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The table below presents the purchase price allocation of the estimated acquisition date fair values of assets acquired and the liabilities assumed as of March 31, 2015.

Consideration paid:		
Cash	\$	5,000
IMH common stock		6,150
Deferred payments		5,000
Contingent consideration (1)		124,592
	\$	140,742
Assets acquired:		
Trademark	\$	17,251
Customer list		10,170
Non-compete agreement		5,701
Fixed assets and software		3,034
Total assets acquired		36,156
Liabilities assumed:		
Total liabilities assumed		
Total assets	\$	36,156
Goodwill	\$	104,586

(1) Included within the contingent consideration is \$1.4 million of Business Appreciation Rights, as defined above.

The CCM acquisition was accounted for under the acquisition method of accounting pursuant to FASB Accounting Standards Codification (ASC) 805, *Business Combinations*. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The Company made significant estimates and exercised significant judgment in estimating fair values of the acquired assets and assumed liabilities. The application of the acquisition method of accounting resulted in tax deductible goodwill of \$104.6 million. The acquisition closed on March 31, 2015; however, the effective date of the transaction was January 2, 2015. From the effective date to the date of the close, IMC was entitled to and recognized the net earnings of the loans originated by CCM. Acquisition related costs of \$0.3 million were expensed as incurred. The expenses were comprised primarily of legal and professional fees.

Unaudited Pro Forma Results of Operations

The following table presents unaudited pro forma results of operations for the periods presented as if the CCM acquisition had been completed on January 1, 2014. The unaudited pro forma results of operations include the historical accounts of the Company and CCM and pro forma adjustments, including the amortization of intangibles with definite lives, depreciation of fixed assets, accretion of discount on contingent consideration and elimination of commissions and loan due diligence costs of IMC. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of the future operating results or operating results that would have occurred had the CCM acquisition been completed at the beginning of 2014. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

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	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenues	\$ 47,652	\$ 28,403	\$ 149,480	\$ 70,156
Other (expense) income	(2,885)	1,121	(9,394)	8,552
Expenses	(28,864)	(34,887)	(106,707)	(102,643)
Pretax net earnings (loss)	\$ 15,903	\$ (5,363)	\$ 33,379	\$ (23,935)

For the three and nine months ended September 30, 2015, revenues from CCM were \$30.3 million and \$109.9 million, respectively. For the three and nine months ended September 30, 2015, expenses from operations were \$22.4 million and \$62.5 million, respectively. During the first quarter of 2015 prior to the close of the acquisition, expenses related to CCM were included in gain on sale of loans, net in the consolidated statements of operations.

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

	September 30, 2015	December 31, 2014
Government (1)	\$ 180,508	\$ 156,385
Conventional (2)	241,404	72,553
Other (3)	19,413	
Fair value adjustment (4)	19,483	10,453
Total mortgage loans held-for-sale	\$ 460,808	\$ 239,391

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

(2) Includes loans eligible for sale to Fannie Mae and Freddie Mac.

(3) Includes ALT-QM and Jumbo loans.

(4) Changes in fair value are included in the statements of operations.

Gain on mortgage loans held-for-sale (LHFS) is comprised of the following for the three and nine months ended September 30, 2015 and 2014:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Gain on sale of mortgage loans	\$ 59,753	\$ 29,593	\$ 179,894	\$ 62,420
Premium from servicing retained loan sales	23,384	8,913	76,119	17,237
Unrealized gains from derivative financial instruments	955	84	8,754	170
Realized losses from derivative financial instruments	(6,747)	(2,436)	(8,453)	(8,579)
Mark to market gain on LHFS	6,678	2,294	9,030	5,103
Direct origination expenses, net	(37,729)	(28,989)	(131,986)	(55,281)
Recovery (provision) for repurchases	980	(857)	(340)	(1,602)
Total gain on sale of loans, net	\$ 47,274	\$ 8,602	\$ 133,018	\$ 19,468

Note 4. Mortgage Servicing Rights

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The Company retains mortgage servicing rights (MSRs) from its sales of certain mortgage loans. MSRs are reported at fair value based on the income derived from the net 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, 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.

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The following table summarizes the activity of MSR's for the nine months ended September 30, 2015 and year ended December 31, 2014:

	September 30, 2015	December 31, 2014
Balance at beginning of period	\$ 24,418	\$ 35,981
Additions from servicing retained loan sales	76,119	29,388
Reductions from bulk sales	(29,273)	(27,276)
Reduction from sale of AmeriHome		(7,446)
Changes in fair value (1)	(7,983)	(6,229)
Fair value of MSR's at end of period	\$ 63,281	\$ 24,418

(1) Changes in fair value are included within loss on mortgage servicing rights in the consolidated statements of operations.

At September 30, 2015 and December 31, 2014, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	September 30, 2015	December 31, 2014
Government insured	\$ 1,259,647	\$ 926,502
Conventional (1)	4,770,257	1,333,853
Alt-QM	58,134	6,731
Total loans serviced	\$ 6,088,038	\$ 2,267,086

(1) Approximately \$3.4 billion of FNMA servicing has been pledged as collateral as part of the Term Financing. (See Note 7. Term Financing.)

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 12. Fair Value of Financial Instruments for a description of the key assumptions used to determine the fair value of MSR's.

Mortgage Servicing Rights Sensitivity Analysis	September 30, 2015
Fair value of MSR's	\$ 63,281
Prepayment Speed:	
Decrease in fair value from 100 basis point (bp) adverse change	(2,307)
Decrease in fair value from 200 bp adverse change	(4,486)
Discount Rate:	

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Decrease in fair value from 100 bp adverse change	(2,288)
Decrease in fair value from 200 bp adverse change	(4,422)

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.

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Loss on mortgage servicing rights is comprised of the following for the three and nine months ended September 30, 2015 and 2014:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
(Loss) gain on sale of mortgage servicing rights	\$ (471)	\$ 207	\$ (6,193)	\$ 1,388
Change in fair value of mortgage servicing rights	(4,347)	(1,205)	(7,983)	(4,928)
Loss on mortgage servicing rights	\$ (4,818)	\$ (998)	\$ (14,176)	\$ (3,540)

During the three months ended September 30, 2015, the Company recorded a \$471 thousand loss on sale of mortgage servicing rights related to refunds of premiums to investors for loan payoffs associated with sales of servicing rights in previous periods.

The following is a summary of certain components of servicing income, net as reported in the Company's consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Contractual servicing fees	\$ 3,014	\$ 1,228	\$ 5,702	\$ 4,885
Late and ancillary fees	33	28	91	107

Note 5. Goodwill and Intangible assets

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Other intangible assets with definite lives include trademarks, customer relationships, and non-compete agreements. In the first quarter of 2015, the Company acquired CCM and recorded \$104.6 million of goodwill and intangible assets of \$33.1 million, consisting of \$17.3 million for trademark, \$10.2 million for customer relationships and \$5.7 million for a non-compete agreement with the former owner of CCM. The purchase price allocation was prepared with the assistance of a third party valuation firm.

Goodwill, trademarks and other intangible assets are tested annually for impairment or more frequently if events and circumstances indicate that the asset might be impaired. The carrying value of these intangible assets could be impaired if a significant adverse change in the use, life, or brand strategy of the asset is determined, or if a significant adverse change in the legal and regulatory environment, business or competitive climate occurs that would adversely impact the asset.

Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization but are instead tested for impairment no less than annually. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss, if any, is measured as the excess of carrying value of the goodwill over the implied fair value of the

goodwill and would be recorded in other expense in the consolidated statements of operations. Intangible assets with definite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed.

For goodwill, the determination of fair value of a reporting unit involves, among other things, application of the income approach, which includes developing forecasts of future cash flows and determining an appropriate discount rate. Goodwill is considered a Level 3 nonrecurring fair value measurement.

The methodology used to determine the fair value of trademarks includes assumptions with inherent uncertainty, including projected sales volumes and related projected revenues, long-term growth rates, royalty rates that a market participant might assume and judgments regarding the factors to develop an applied discount rate. The carrying value of intangible assets is at risk of impairment if future projected revenues or long-term growth rates are lower than those currently projected, or if factors used in the development of a discount rate result in the application of a higher discount rate. The intangible assets are considered Level 3 nonrecurring fair value measurements.

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The following table presents the changes in the carrying amount of goodwill for the period indicated:

Balance at December 31, 2014	\$	352
Addition from CCM acquisition		104,586
Balance at September 30, 2015	\$	104,938

As part of the acquisition of CCM, the purchase price of the intangible assets the Company acquired are listed below:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Life
Intangible assets:				
Trademark	\$ 17,251	\$ (585)	\$ 16,666	14.3
Customer relationships	10,170	(753)	9,417	6.3
Non-compete agreement	5,701	(760)	4,941	3.3
Total intangible assets acquired	\$ 33,122	\$ (2,098)	\$ 31,024	

As part of the acquisition of CCM, the purchase price of other assets the Company acquired are listed below:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Life
Other assets:				
Developed software	\$ 2,719	\$ (286)	\$ 2,433	4.3

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 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. In August and September 2015, the Company was not in compliance with certain financial covenants and received waivers.

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, 2015	Balance Outstanding At December 31, 2014
Short-term borrowings:			
Repurchase agreement 1	\$ 150,000	\$ 64,534	\$ 64,907
Repurchase agreement 2	50,000	18,369	30,523

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Repurchase agreement 3 (1)				24,012
Repurchase agreement 4 (2)	225,000	111,501		107,276
Repurchase agreement 5	150,000	139,266		
Repurchase agreement 6 (3)	100,000	144,003		
Total warehouse borrowings	\$ 675,000	\$ 477,673	\$	226,718

(1) This line expired in April, 2015 and the Company replaced it with a \$100.0 million facility, Repurchase agreement 6.

(2) As of September 30, 2015, \$41.3 million is attributable to financing facility advances made to the Company's warehouse customers.

(3) In September 2015, the lender granted the Company a temporary increase in the maximum borrowing capacity to \$150.0 million.

Note 7. Term Financing

In June 2015, the Company and its subsidiaries, (IRES, IMC and Impac Warehouse Lending, Inc. (IWLI), collectively the (Borrowers)) entered into a Loan Agreement (Loan Agreement) with a lender (Lender) pursuant to which the Lender provided to the Borrowers a term loan in the aggregate principal amount of \$30.0 million (Term Financing) due and payable on December 19, 2016, which may extend to December 18, 2017 at the Lender's discretion. In connection with the Term Financing, the Borrowers issued to the Lender a Term Note dated June 19, 2015. The Lender may in its discretion make additional advances in an aggregate amount not to exceed \$50.0 million (including amounts then outstanding).

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The proceeds from the Term Financing were used to pay off the working capital line of credit with a national bank (approximately \$4.0 million) and amounts under an existing master repurchase agreement with the Lender (approximately \$3.2 million). The Borrowers also paid the Lender an origination fee of \$300 thousand.

Interest on the Term Financing is payable monthly and accrues at a rate of LIBOR plus 8.5% per annum. Amounts under the Term Financing may be prepaid at any time without penalty or premium, provided, however, that any prepayments made within nine months of the closing date will be subject to, with certain exceptions, a prepayment premium equal to 50% of the then applicable interest rate multiplied by the amount of the prepayment. The Borrowers are subject to mandatory prepayment on the Term Financing based on a borrowing base formula that includes amounts under outstanding warehouse facilities, market value of mortgage servicing rights and residual securities and certain mortgage loans.

The obligations of the Borrowers under the Loan Agreement are secured by assets and a pledge of all of the capital stock of the operating subsidiaries IRES, IMC and IWLI pursuant to a Security Agreement dated as of June 19, 2015 between the Borrowers and the Lender (Security Agreement). As part of the Loan Agreement the Company received an acknowledgement agreement from FNMA to pledge the mortgage servicing rights associated with FNMA production as collateral.

The Term Financing is subject to customary affirmative and negative covenants of the Borrowers. Upon an event of default, all outstanding amounts under the Term Financing may become immediately due and payable. An event of default also occurs upon a change of control, which means acquisition of more than 25% of the common stock of the Company, more than 50% of the common stock of any other Borrower, or the ability to elect a majority of such Borrower's directors or an event that triggers a violation of a change of control provision in any of the Borrowers' warehouse facilities.

Note 8. Convertible Notes

In April 2013, the Company entered into a Note Purchase Agreement with the purchasers named therein, whereby the Company issued \$20.0 million in original aggregate principal amount of Convertible Promissory Notes Due 2018 (2013 Convertible Notes). Note holders may convert all or a portion of the outstanding principal amount of the Convertible Notes to shares of IMH common stock at a rate of \$10.875 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches \$16.31 for 20 trading days in a 30 day consecutive period. The 2013 Convertible Notes mature on or before April 30, 2018 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. Even though the Company is currently entitled to force a conversion of the note to common stock, if the Company forces conversion, it is required to prepay the interest due through April 2016. Accordingly, the Company has elected not to force conversion at this time.

On May 8, 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. Note holders may convert all or a portion of the outstanding principal amount of the 2015 Convertible Notes to shares of IMH common stock at a rate of \$21.50 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches \$30.10 for 20 trading days in a 30 day consecutive period.

Note 9. Line of Credit Agreement

The Company had a \$4.0 million working capital line of credit agreement with a national bank that had an interest rate at a variable rate of one-month LIBOR plus 3.50%. The line of credit was unsecured. Under the terms of the agreement, the Company and its subsidiaries were required to maintain various financial and other covenants. As previously discussed, in June 2015, the Company used approximately \$4.0 million of the proceeds from the Term Financing to fully satisfy the remaining amount due on the line of credit agreement and terminated the line. At December 31, 2014, the outstanding balance under the line of credit was \$4.0 million and was included in other liabilities on the consolidated balance sheets.

Note 10. Short-Term Debt

Structured Debt

In December 2014, the Company entered into a \$6.0 million short-term structured debt agreement using eight of the Company's residual interests (net trust assets) as collateral. The Company received proceeds of \$6.0 million and had transaction costs of approximately \$60 thousand. The agreement had an interest rate of LIBOR plus 5.75% per annum, had a final repurchase date of June 29, 2015 and the Company had the right to repurchase the securities without penalty prior to the final repurchase date. As previously discussed, in June 2015, the Company used approximately \$3.2 million of the proceeds from the Term Financing to satisfy fully the remaining amount due on the short-term structured debt agreement and the residuals held as collateral have been released to the Company.

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Promissory Note

On April 27, 2015, the Company issued a \$10.0 million short-term Promissory Note with an interest rate of 15% to the former owner of CCM. The balance was repaid in May 2015.

Note 11. Securitized Mortgage Trusts

Trust Assets

Trust assets, which are recorded at fair value, are comprised of the following at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Securitized mortgage collateral	\$ 4,796,405	\$ 5,249,639
Real estate owned	18,343	18,800
Investment securities available-for-sale	50	92
Total securitized mortgage trust assets	\$ 4,814,798	\$ 5,268,531

Trust Liabilities

Trust liabilities, which are recorded at fair value, are comprised of the following at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Securitized mortgage borrowings	\$ 4,796,400	\$ 5,245,860
Derivative liabilities	2,624	5,447
Total securitized mortgage trust liabilities	\$ 4,799,024	\$ 5,251,307

Changes in fair value of net trust assets, including trust REO gains (losses) are comprised of the following for the three and nine months ended September 30, 2015 and 2014:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	\$ (568)	\$ 139	\$ 1,821	\$ (1,136)

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Change in fair value of net trust assets, excluding REO					
(Losses) gains from REO	(2,436)	(47)	(4,899)	8,977	
Change in fair value of net trust assets, including trust REO (losses) gains	\$ (3,004)	\$ 92	\$ (3,078)	\$ 7,841	

Note 12. 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.

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

	Carrying Amount	September 30, 2015 Estimated Fair Value			Carrying Amount	December 31, 2014 Estimated Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	\$ 10,509	\$ 10,509			\$ 10,073	\$ 10,073		
Restricted cash	5,829	5,829			2,420	2,420		
Mortgage loans held-for-sale	460,808		460,808		239,391		239,391	
Finance receivables	41,334		41,334		8,358		8,358	
Mortgage servicing rights	63,281			63,281	24,418			24,418
Derivative assets, lending, net	13,019			13,019	2,884			2,884
Investment securities available-for-sale	50			50	92			92
Securitized mortgage collateral	4,796,405			4,796,405	5,249,639			5,249,639
Warrant					84			84
Liabilities								
Warehouse borrowings	\$ 477,673	\$	\$ 477,673	\$	\$ 226,718	\$	\$ 226,718	\$
Short-term structured debt					6,000			6,000
Line of credit					4,000		4,000	
Term financing	30,000			30,000				
Contingent consideration	68,792			68,792				
Convertible notes	45,000			45,000	20,000			20,000
Long-term debt	31,663			31,663	22,122			22,122
Securitized mortgage borrowings	4,796,400			4,796,400	5,245,860			5,245,860
Derivative liabilities, securitized trusts	2,624			2,624	5,447			5,447
Derivative liabilities, lending, net	2,312		2,312		930		930	

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.

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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, warrant, securitized mortgage collateral and borrowings, derivative assets and liabilities, contingent consideration, 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.

Term financing is recorded at amortized cost. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

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

Fair Value Hierarchy

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

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

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

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

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, securitized mortgage collateral and borrowings, net derivative liabilities, securitized trusts, long-term debt, interest rate lock commitments (IRLCs), mortgage servicing rights, warrant and contingent consideration as Level 3 fair value measurements. Level 3 assets and liabilities were 91% and 99% and 96% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at September 30, 2015 and December 31, 2014.

Recurring Fair Value Measurements

The Company assesses the financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three and nine months ended September 30, 2015.

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, 2015 and December 31, 2014, based on the fair value hierarchy:

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	Recurring Fair Value Measurements					
	September 30, 2015			December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment securities available-for-sale	\$	\$	\$ 50	\$	\$	\$ 92
Mortgage loans held-for-sale		460,808			239,391	
Derivative assets, lending, net (1)			13,019			2,884
Mortgage servicing rights Warrant (2)			63,281			24,418
Securitized mortgage collateral			4,796,405			5,249,639
Total assets at fair value	\$	\$ 460,808	\$ 4,872,755	\$	\$ 239,391	\$ 5,277,117
Liabilities						
Securitized mortgage borrowings	\$	\$	\$ 4,796,400	\$	\$	\$ 5,245,860
Derivative liabilities, securitized trusts (3)			2,624			5,447
Long-term debt			31,663			22,122
Contingent consideration			68,792			
Derivative liabilities, lending, net (4)		2,312			930	
Total liabilities at fair value	\$	\$ 2,312	\$ 4,899,479	\$	\$ 930	\$ 5,273,429

(1) At September 30, 2015, derivative assets, lending, net included \$13.0 million in IRLCs associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2014, derivative assets, lending, net included \$3.0 million in IRLCs associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheets.

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

(3) At September 30, 2015 and December 31, 2014, derivative liabilities, securitized trusts, are included within trust liabilities in the accompanying consolidated balance sheets.

(4) At September 30, 2015 and December 31, 2014, derivative liabilities, lending, net are included in other liabilities in the accompanying consolidated balance sheets.

The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2015 and 2014:

**Level 3 Recurring Fair Value Measurements
For the three months ended September 30, 2015**

Warrant

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	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration	
Fair value, June 30, 2015	\$ 81	\$ 4,979,433	\$ (4,977,150)	\$ (3,509)	\$ 44,244	\$ 8,406	\$ (31,438)	\$ (91,407)	\$ 165
Total gains (losses) included in earnings:									
Interest income (1)	2	18,930							
Interest expense (1)			(53,552)				(225)		
Change in fair value	(7)	(13,485)	13,051	(127)	(4,347)	4,613		14,473	(165)
Total (losses) gains included in earnings	(5)	5,445	(40,501)	(127)	(4,347)	4,613	(225)	14,473	(165)
Transfers in and/or out of Level 3									
Purchases, issuances and settlements:									
Purchases									
Issuances					23,384				
Settlements	(26)	(188,473)	221,251	1,012				8,142	
Fair value, September 30, 2015	\$ 50	\$ 4,796,405	\$ (4,796,400)	\$ (2,624)	\$ 63,281	\$ 13,019	\$ (31,663)	\$ (68,792)	\$

(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, 2015. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

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Level 3 Recurring Fair Value Measurements For the three months ended September 30, 2014									
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Warrant	
Fair value, June 30, 2014	\$ 91	\$ 5,510,741	\$ (5,507,629)	\$ (7,949)	\$ 16,166	\$ 3,073	\$ (17,555)	\$	
Total gains (losses) included in earnings:									
Interest income (1)	6	21,312							
Interest expense (1)			(64,502)				(485)		
Change in fair value	11	(27,784)	27,899	13	(1,205)	(757)			
Total gains (losses) included in earnings	17	(6,472)	(36,603)	13	(1,205)	(757)	(485)		
Transfers in and/or out of Level 3									
Purchases, issuances and settlements:									
Purchases									
Issuances					8,913				164
Settlements	(18)	(153,795)	197,441	1,369	(10,306)				
Fair value, September 30, 2014	\$ 90	\$ 5,350,474	\$ (5,346,791)	\$ (6,567)	\$ 13,568	\$ 2,316	\$ (18,040)	\$	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. The net interest income, including cash received and paid, was \$1.8 million for the three months ended September 30, 2014. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

Level 3 Recurring Fair Value Measurements For the nine months ended September 30, 2015									
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration	Warrant
Fair value, December 31, 2014	\$ 92	\$ 5,249,639	\$ (5,245,860)	\$ (5,447)	\$ 24,418	\$ 2,884	\$ (22,122)	\$	\$ 84
Total gains (losses) included in earnings:									
Interest income (1)	9	49,719							
Interest expense (1)			(160,249)				(880)		
Change in fair value	33	6,918	(4,647)	(483)	(7,984)	10,135	(8,661)	22,752	(84)
Total gains (losses) included in earnings	42	56,637	(164,896)	(483)	(7,984)	10,135	(9,541)	22,752	(84)
Transfers in and/or out of Level 3									
Purchases, issuances and settlements:									
Purchases									
Issuances					76,119			(124,592)	
Settlements	(84)	(509,871)	614,356	3,306	(29,272)			33,048	
Fair value, September 30, 2015	\$ 50	\$ 4,796,405	\$ (4,796,400)	\$ (2,624)	\$ 63,281	\$ 13,019	\$ (31,663)	\$ (68,792)	\$
Unrealized gains (losses) still held (2)	\$ 50	\$ (1,143,833)	\$ 3,287,018	\$ (2,390)	\$ 63,281	\$ 13,019	\$ 39,100	\$ (68,792)	\$

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(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 \$6.3 million for the nine months ended September 30, 2015. 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, 2015.

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Level 3 Recurring Fair Value Measurements For the nine months ended September 30, 2014									
	Investment securities available-for- sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Warrant	
Fair value, December 31, 2013	\$ 108	\$ 5,494,152	\$ (5,492,371)	\$ (10,214)	\$ 35,981	\$ 913	\$ (15,871)	\$	
Total gains (losses) included in earnings:									
Interest income (1)	19	42,268							
Interest expense (1)			(177,629)				(1,745)		
Change in fair value	27	289,610	(290,360)	(413)	(4,928)	1,414	(424)		
Total (losses) gains included in earnings	46	331,878	(467,989)	(413)	(4,928)	1,414	(2,169)		
Transfers in and/or out of Level 3									
Purchases, issuances and settlements:									
Purchases									
Issuances					17,238				164
Settlements	(64)	(475,556)	613,569	4,060	(34,723)	(11)			
Fair value, September 30, 2014	\$ 90	\$ 5,350,474	\$ (5,346,791)	\$ (6,567)	\$ 13,568	\$ 2,316	\$ (18,040)	\$	164
Unrealized gains (losses) still held (2)	\$ 84	\$ (1,446,463)	\$ 3,581,924	\$ (6,132)	\$ 13,568	\$ 2,316	\$ 52,723	\$	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. The net interest income, including cash received and paid, was \$4.0 million for the nine months ended September 30, 2014. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at September 30, 2014.

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, 2015:

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
<u>Assets and liabilities backed by real estate</u>					
Investment securities available-for-sale,	\$ 50	DCF	Discount rates	3.2 - 25.0%	5.1%
Securitized mortgage collateral, and	4,796,405		Prepayment rates	2.1 - 28.1%	6.0%
Securitized mortgage borrowings	(4,796,400)		Default rates	0.6 - 15.5%	2.8%
			Loss severities	5.4 - 60.2%	37.8%
<u>Other assets and liabilities</u>					
Mortgage servicing rights	\$ 63,281	DCF	Discount rate	9.5 - 12.5%	9.9%
			Prepayment rates	3.3 - 28.7%	10.2%
Derivative liabilities, net, securitized trusts	(2,624)	DCF	1M forward LIBOR	0.2 - 2.8%	N/A
Derivative assets - IRLCs, net	13,019	Market pricing	Pull -through rate	38.0 - 99.0%	75.6%
Long-term debt	(31,663)	DCF	Discount rate	14.4%	14.4%
Lease liability	(984)	DCF	Discount rate	12.0%	12.0%
Contingent consideration	(68,792)	DCF	Discount rate	17.0%	17.0%

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Margins	1.6 - 3.7%	2.5%
Probability of outcomes (1)	25.0 - 50.0%	32.1%

DCF = Discounted Cash Flow

1M = 1 Month

(1) Probability of outcomes is the probability of projected CCM earnings over the earn-out period based upon three scenarios (base, low and high).

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.

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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, 2015 and 2014:

	Recurring Fair Value Measurements Change in Fair Value Included in Net Earnings For the three months ended September 30, 2015						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 2	\$	\$ (7)	\$	\$	\$	\$ (5)
Securitized mortgage collateral	18,930		(13,485)				5,445
Securitized mortgage borrowings		(53,552)	13,051				(40,501)
Derivative liabilities, net, securitized trusts			(127)(2)				(127)
Long-term debt		(225)					(225)
Mortgage servicing rights (3)					(4,347)		(4,347)
Warrant					(165)		(165)
Contingent consideration					14,473		14,473
Mortgage loans held-for-sale						6,678	6,678
Derivative assets - IRLCs						4,613	4,613
Derivative liabilities - Hedging Instruments						(3,658)	(3,658)
Total	\$ 18,932	\$ (53,777)	\$ (568)	\$	\$ 9,961	\$ 7,633	\$ (17,819)

(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 \$835 thousand in changes in the fair value of derivative instruments, offset by \$963 thousand in cash payments from the securitization trusts for the three months ended September 30, 2015.

(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

	Recurring Fair Value Measurements Change in Fair Value Included in Net Loss For the three months ended September 30, 2014						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 6	\$	\$ 11	\$	\$	\$	\$ 17
Securitized mortgage collateral	21,312		(27,784)				(6,472)
		(64,502)	27,899				(36,603)

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Securitized mortgage borrowings												
Derivative liabilities, net, securitized trusts			13(2)						13			
Long-term debt		(485)							(485)			
Mortgage servicing rights (3)						(1,205)			(1,205)			
Mortgage loans held-for-sale							2,294		2,294			
Derivative assets - IRLCs							(757)		(757)			
Derivative liabilities - Hedging Instruments							841		841			
Total	\$	21,318	\$	(64,987)	\$	139	\$	(1,205)	\$	2,378	\$	(42,357)

(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 \$1.3 million in cash payments from the securitization trusts for the three months ended September 30, 2014.

(3) Included in (loss) gain on mortgage servicing rights in the consolidated statements of operations.

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	Recurring Fair Value Measurements Change in Fair Value Included in Net Earnings For the nine months ended September 30, 2015						
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 9	\$	\$ 33	\$	\$	\$	\$ 42
Securitized mortgage collateral	49,719		6,918				56,637
Securitized mortgage borrowings		(160,249)	(4,647)				(164,896)
Derivative liabilities, net, securitized trusts			(483)(2)				(483)
Long-term debt		(880)		(8,661)			(9,541)
Mortgage servicing rights (3)					(7,984)		(7,984)
Warrant					(84)		(84)
Contingent consideration					22,752		22,752
Mortgage loans held-for-sale						9,030	9,030
Derivative assets - IRLCs						10,135	10,135
Derivative liabilities - Hedging Instruments						(1,381)	(1,381)
Total	\$ 49,728	\$ (161,129)	\$ 1,821(4)	\$ (8,661)	\$ 14,684	\$ 17,784	\$ (85,773)

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

(2) Included in this amount is \$2.7 million in changes in the fair value of derivative instruments, offset by \$3.2 million in cash payments from the securitization trusts for the nine months ended September 30, 2015.

(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

(4) For the nine months ended September 30, 2015, change in the fair value of net trust assets, excluding REO was \$1.8 million. Excluded from the \$5.0 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$3.2 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 Loss For the nine months ended September 30, 2014						
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 19	\$	\$ 27	\$	\$	\$	\$ 46
	42,268		289,610				331,878

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Securitized mortgage collateral									
Securitized mortgage borrowings		(177,629)	(290,360)						(467,989)
Derivative liabilities, net, securitized trusts			(413)(2)						(413)
Long-term debt		(1,745)		(424)					(2,169)
Mortgage servicing rights (3)						(4,928)			(4,928)
Mortgage loans held-for-sale							5,103		5,103
Derivative assets - IRLCs							1,414		1,414
Derivative liabilities - Hedging Instruments								(1,244)	(1,244)
Total	\$	42,287	\$ (179,374)	\$ (1,136)(4)	\$ (424)	\$ (4,928)	\$ 5,273	\$	(138,302)

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

(2) Included in this amount is \$3.5 million in changes in the fair value of derivative instruments, offset by \$3.9 million in cash payments from the securitization trusts for the nine months ended September 30, 2014.

(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

(4) For the nine months ended September 30, 2014, change in the fair value of net trust assets, excluding REO was \$1.1 million. Excluded from the \$(2.8) million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$3.9 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.

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Given the lack of observable market data as of September 30, 2015 and December 31, 2014 relating to these securities, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants' assumptions. Investment securities available-for-sale is considered a Level 3 measurement at September 30, 2015.

Mortgage servicing rights The Company elected to carry its mortgage servicing rights arising from its mortgage loan origination operation at estimated fair value. The fair value of mortgage servicing rights is based upon market prices for similar instruments and a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at September 30, 2015.

Mortgage loans held-for-sale The Company elected to carry its mortgage loans held-for-sale originated or acquired at estimated fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at September 30, 2015.

Securitized mortgage collateral The Company elected to carry its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of September 30, 2015, securitized mortgage collateral had UPB of \$5.9 billion, compared to an estimated fair value on the Company's balance sheet of \$4.8 billion. The aggregate UPB exceeds the fair value by \$1.1 billion at September 30, 2015. As of September 30, 2015, the UPB of loans 90 days or more past due was \$0.9 billion compared to an estimated fair value of \$0.4 billion. The aggregate UPB of loans 90 days or more past due exceed the fair value by \$0.5 billion at September 30, 2015. Securitized mortgage collateral is considered a Level 3 measurement at September 30, 2015.

Securitized mortgage borrowings The Company elected to carry its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of September 30, 2015, securitized mortgage borrowings had an outstanding principal balance of \$5.9 billion, net of \$2.2 billion in bond losses, compared to an estimated fair value of \$4.8 billion. The aggregate outstanding principal balance exceeds the fair value by \$1.1 billion at September 30, 2015.

Securitized mortgage borrowings are considered a Level 3 measurement at September 30, 2015.

Contingent consideration Contingent consideration is applicable to the acquisition of CCM and is estimated and recorded at fair value at the acquisition date as part of purchase price consideration. Additionally, each reporting period, the Company estimates 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 requires significant judgment and assumptions to be made about future operating results, discount rates and probabilities of various projected operating result scenarios. During the nine months ended September 30, 2015, the change in fair value of contingent consideration was related to the estimated reduction in future pre-tax earnings of CCM over the expected earn-out period, primarily due to margin compression. Future revisions to these assumptions could materially change the estimated fair value of contingent consideration and materially affect the Company's financial results. Contingent consideration is considered a Level 3 measurement at September 30, 2015.

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, 2015, long-term debt had UPB of \$70.5 million compared to an estimated fair value of \$31.7 million. The aggregate UPB exceeds the fair value by \$38.8 million at September 30, 2015. The long-term debt is considered a Level 3 measurement at September 30, 2015.

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

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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, 2015, the notional balance of derivative assets and liabilities, securitized trusts was \$74.0 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, 2015.

Derivative assets and liabilities, Lending The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. IRLCs and hedging instruments can be either assets or liabilities depending on interest rate fluctuations subsequent to entering into the commitments. IRLCs are entered into with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. Hedging instruments (typically TBA MBS) are used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date the loan is committed for sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at September 30, 2015.

The fair value of the hedging instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date. Therefore, the hedging instruments are classified as a Level 2 measurement at September 30, 2015.

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

	Notional Amount		Total Gains (Losses) (1)			
	September 30, 2015	September 30, 2014	For the three months ended 2015	September 30, 2014	For the nine months ended 2015	September 30, 2014
Derivative - IRLC s	\$ 664,890	\$ 208,433	\$ 4,613	\$ (757)	\$ 10,135	\$ 1,414
Derivative - TBA MBS	550,210	285,797	(10,406)	(1,595)	(9,835)	(9,823)

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

Warrant Upon entering an arrangement to facilitate the Company's ability to offer Non-QM mortgage products, a warrant to purchase up to 9.9% of Impac Mortgage Corp. was issued. The warrant expired in August and was not exercised. The estimated fair value of the warrant was based on a model incorporating various assumptions including expected future book value of Impac Mortgage Corp., the probability of the warrant being exercised, volatility, expected term and certain other factors.

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.

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The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at September 30, 2015 and 2014, respectively:

	Nonrecurring Fair Value Measurements			Total Gains (Losses) (1)	
	Level 1	Level 2	Level 3	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2015
REO (2)	\$	\$ 2,066	\$	\$ (2,436)	\$ (4,900)
Lease liability (3)			(984)	(14)	(53)
Deferred charge (4)			10,467	(421)	(1,054)

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

(2) Balance represents REO at September 30, 2015 which has been impaired subsequent to foreclosure. For the three months ended September 30, 2015, the \$2.4 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 the net realizable value (NRV). For the nine months ended September 30, 2015, the \$4.9 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 the net realizable value (NRV).

(3) For the three and nine months ended September 30, 2015, the Company recorded \$14 thousand and \$53 thousand expense, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

(4) For the three and nine months ended September 30, 2015, the Company recorded \$421 thousand and \$1.1 million 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.

	Non-recurring Fair Value Measurements			Total Gains (Losses) (1)	
	Level 1	Level 2	Level 3	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2014
REO (2)	\$	\$ 1,686	\$	\$ (47)	\$ 8,977
Lease liability (3)			(1,705)	11	(617)

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

(2) Balance represents REO at September 30, 2014 which has been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three months ended September 30, 2014, the \$47 thousand loss represents additional impairment write-downs attributable to higher expected loss severities on properties held during the period which resulted in a decrease to the net realizable value (NRV). For the nine months ended September 30, 2014, \$9.0 million gain represents recovery of the NRV attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.(2)

(3) For the three and nine months ended September 30, 2014, the Company recorded an \$11 thousand recovery and \$617 thousand in impairment, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

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 September 30, 2015.

Lease liability In connection with the discontinuation of our non-conforming lending and commercial operations in 2007, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. Additionally, the Company has office space that is no longer occupied by the Company and we intend to sublease it. The Company has recorded a liability representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company's judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at September 30, 2015.

Deferred charge 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 in prior years. The Company evaluates 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 is determined to be impaired, it is recognized as a component of income tax expense. For the three and nine months ended September 30, 2015, the Company recorded \$421 thousand and \$1.1 million in income tax expense resulting

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from deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral. There was no impairment of the deferred charge in the three and nine months ended September 30, 2014. Deferred charge is considered a Level 3 measurement at September 30, 2015.

Note 13. 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 (benefit) of \$781 thousand and (\$22.9) million for the three and nine months ended September 30, 2015. For the three months ended September 30, 2015, the Company recorded amortization of the deferred charge and an increase in current income tax provision based upon an estimated increase in federal alternative minimum tax (AMT) and state income taxes. For the nine months ended September 30, 2015, the Company recorded a benefit of \$24.4 million primarily the result of a reversal of valuation allowance partially offset by federal alternative minimum tax (AMT), 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 is amortized and/or impaired, which does not result in any tax liability to be paid. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statements of operations. For the three and nine months ended September 30, 2014, the Company recorded expense of \$307 thousand and \$1.4 million, respectively, primarily related to federal and state AMT associated with taxable income generated from the sale of AmeriHome and mortgage servicing rights.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. As of each reporting date, the Company considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Company's evaluation is based on current tax laws as well as management's expectation of future performance.

The Company's deferred tax assets are primarily the result of net operating losses and other fair value write downs of financial assets and liabilities. As of December 31, 2014, the Company had net deferred tax assets of approximately \$163.2 million which the Company recorded a full valuation allowance against. During the first quarter of 2015, with the aforementioned acquisition of CCM, the Company significantly expanded its mortgage lending operations and profitability. As of March 31, 2015, in part because of the earnings of CCM during the first quarter of 2015, current year projected earnings, future projected earnings as well as the historical earnings of CCM, management determined that sufficient positive evidence exists to conclude that it is more likely than not that deferred taxes of \$24.4 million are realizable in future years, and therefore, reduced the valuation allowance accordingly. Although realization is not assured, the Company believes that the realization of the recognized deferred tax asset of \$24.4 million at September 30, 2015 is more likely than not based on future forecasted net earnings.

The Company has recorded a valuation allowance against its remaining net deferred tax assets at September 30, 2015 as it is more likely than not that not all of the deferred tax assets will be realized. The valuation allowance is based on the management's assessment that it is more likely than not that certain deferred tax assets, primarily net operating loss carryforwards, may not be realized in the foreseeable future due to objective negative evidence that the Company would not generate sufficient taxable income to realize the deferred tax assets.

Note 14. 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).

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator for basic earnings (loss) per share:				
Net earnings (loss)	\$ 19,309	\$ (1,201)	\$ 70,090	\$ (4,085)
Numerator for diluted earnings (loss) per share:				
Net earnings (loss)	\$ 19,309	\$ (1,201)	\$ 70,090	\$ (4,085)
Interest expense attributable to convertible notes	844		1,875	
Net earnings (loss) plus interest expense attributable to convertible notes	\$ 20,153	\$ (1,201)	\$ 71,965	\$ (4,085)
Denominator for basic earnings (loss) per share (1):				
Basic weighted average common shares outstanding during the year	10,242	9,466	10,019	9,262
Denominator for diluted earnings (loss) per share (1):				
Basic weighted average common shares outstanding during the year	10,242	9,466	10,019	9,262
Net effect of dilutive convertible notes	3,002		2,461	
Net effect of dilutive stock options and DSU s	354		357	
Diluted weighted average common shares	13,598	9,466	12,837	9,262
Net earnings (loss) per common share:				
Basic	\$ 1.89	\$ (0.13)	\$ 7.00	\$ (0.44)
Diluted	\$ 1.48	\$ (0.13)	\$ 5.61	\$ (0.44)

(1) Number of shares presented in thousands.

For the three and nine months ended September 30, 2015 there were 367 thousand anti-dilutive stock options outstanding. The anti-dilutive stock options outstanding for the three and nine months ended September 30, 2014 were 2.9 million shares. Included in the anti-dilutive shares for the three and nine months ended September 30, 2014 was 1.8 million shares attributable to the 2013 Convertible Notes.

Note 15. Segment Reporting

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

Statement of Operations Items for the three months ended September 30, 2015:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 47,274	\$	\$	\$	\$ 47,274
Real estate services fees, net		2,775			2,775

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Servicing income, net	2,432				2,432
Loss on mortgage servicing rights	(4,818)				(4,818)
Other revenue	(145)		79	55	(11)
Other income (expense)	658		(1,936)	(1,607)	(2,885)
Total expense (income)	(21,354)	(1,447)	(263)	(1,613)	(24,677)
Net earnings before income taxes	\$ 24,047	\$ 1,328	\$ (2,120)	\$ (3,165)	20,090
Income tax expense					781
Net earnings					\$ 19,309

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Statement of Operations Items for the three months ended September 30, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 8,602	\$	\$	\$	\$ 8,602
Real estate services fees, net		3,243			3,243
Servicing income, net	913				913
Loss on mortgage servicing rights	(998)				(998)
Other revenue	109		86	2	197
Other income (expense)	403	(6)	847	(405)	839
Total expenses	(8,746)	(1,386)	(214)	(3,344)	(13,690)
Net earnings (loss) before income taxes	\$ 283	\$ 1,851	\$ 719	\$ (3,747)	(894)
Income tax expense					307
Net loss					\$ (1,201)

Statement of Operations Items for the nine months ended September 30, 2015:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 133,018	\$	\$	\$	\$ 133,018
Real estate services fees, net		7,872			7,872
Servicing income, net	4,083				4,083
Loss on mortgage servicing rights	(14,176)				(14,176)
Other revenue	(25)		203	105	283
Other income (expense)	1,673		(8,281)	(2,996)	(9,604)
Total expense (income)	(63,347)	(4,422)	(611)	(5,858)	(74,238)
Net earnings (loss) before income taxes	\$ 61,226	\$ 3,450	\$ (8,689)	\$ (8,749)	47,238
Income tax benefit					(22,852)
Net earnings					\$ 70,090

Statement of Operations Items for the nine months ended September 30, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 19,468	\$	\$	\$	\$ 19,468
Real estate services fees, net		11,282			11,282
Servicing income, net	3,773				3,773
Loss on mortgage servicing rights	(3,540)				(3,540)
Other revenue	1,366		296	41	1,703
Other income (expense)	774	(5)	8,198	(1,212)	7,755
Total expenses	(26,320)	(4,443)	(720)	(11,638)	(43,121)
Net (loss) earnings before income taxes	\$ (4,479)	\$ 6,834	\$ 7,774	\$ (12,809)	(2,680)
Income tax expense					1,405
Net loss					\$ (4,085)

Balance Sheet Items as of:	Mortgage Lending	Real Estate Services	Long-term Mortgage Portfolio	Corporate and other	Consolidated
Total Assets at September 30, 2015 (1)	\$ 737,547	\$ 2,893	\$ 4,825,472	\$ 28,971	\$ 5,594,883
Total Assets at December 31, 2014 (1)	\$ 291,829	\$ 2,672	\$ 5,280,274	\$ 3,797	\$ 5,578,572

(1) All segment asset balances exclude intercompany balances.

Note 16. 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.

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

Based on the Company's current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

The Company is 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 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, 2014 and subsequent Form 10-Q filings for a description of litigation and claims.

Repurchase Reserve

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

The following table summarizes the repurchase reserve activity related to previously sold loans for the nine months ended September 30, 2015 and year ended December 31, 2014:

	September 30, 2015	December 31, 2014
Beginning balance	\$ 5,714	\$ 9,478
Provision for repurchases	340	2,252

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Settlements		(1,286)		(6,016)
Total repurchase reserve	\$	4,768	\$	5,714

During the three months ended September 30, 2015, the general repurchase reserve was reduced by \$980 thousand as a result of a review of the Company's historical loss experience on originations since 2011. In the first quarter of 2015, the Company settled its repurchase liability with FNMA related to its legacy non-conforming mortgage operations. As part of the agreement, the Company paid FNMA \$1.0 million during the first quarter with a final payment of \$228 thousand paid in April 2015. Additionally, settlements for the year ended December, 31, 2014, were also primarily related to previous repurchase claims from the Company's legacy non-conforming mortgage operations.

Short-Term Loan Commitments

The Company uses a portion of its warehouse borrowing capacity to provide secured short-term revolving financing to small and medium-size mortgage originators to finance mortgage loans from the closing of the mortgage loans until sold to investors (Finance Receivables). As of September 30, 2015, the warehouse lending operations had warehouse lines to non-affiliated customers totaling \$116.5 million, of which there was an outstanding balance of \$41.3 million in finance receivables compared to \$8.4 million as of December 31, 2014. The finance receivables are generally secured by residential mortgage loans as well as personal guarantees.

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Note 17. Share Based Payments

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

	September 30, 2015
Risk-free interest rate	1.54 - 1.76%
Expected lives (in years)	5.50 - 5.73
Expected volatility (1)	49.53 - 79.56%
Expected dividend yield	0.00%
Fair value per share	6.74 - 9.96

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

The following table summarizes activity, pricing and other information for the Company's stock options for the nine months ended September 30, 2015:

	For the nine months ended September 30, 2015		Weighted- Average Exercise Price
	Number of Shares		
Options outstanding at beginning of period	1,078,230	\$	6.88
Options granted	405,800		19.59
Options exercised	(209,104)		3.07
Options forfeited/cancelled	(102,946)		9.08
Options outstanding at end of period	1,171,980	\$	11.77
Options exercisable at end of period	495,701	\$	8.13

As of September 30, 2015, there was approximately \$3.9 million of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 2.4 years.

There were 405,800 and 409,250 options granted during the nine months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, the aggregate grant-date fair value of stock options granted was approximately \$3.8 million and \$1.4 million, respectively.

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The following table summarizes activity, pricing and other information for the Company's DSU's, also referred to as deferred stock units as the issuance of the stock is deferred until termination of service, for the nine months ended September 30, 2015:

	Number of Shares		Weighted- Average Grant Date Fair Value
DSU's outstanding at beginning of period	75,750	\$	8.63
DSU's granted	5,000		20.50
DSU's exercised			
DSU's forfeited/cancelled			
DSU's outstanding at end of period	80,750	\$	9.36

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As of September 30, 2015, there was approximately \$169 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 0.8 years.

Note 18. Related Party Transactions

In January 2015, the Company entered into a \$5.0 million short-term borrowing secured by Ginnie Mae servicing rights with an interest rate of 15%, transaction costs of \$50 thousand, and was provided by a related party of the Company. The balance was repaid in March 2015.

Note 19. Sale of AmeriHome

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

Note 20. Subsequent Events

In October 2015 the Company sold \$3.5 billion of conventional mortgage servicing rights for approximately \$34.0 million. The transaction settled in October 2015.

In October 2015 the Company signed a term sheet to sell \$1.0 billion of government insured mortgage servicing. The transaction is expected to settle in November 2015.

Subsequent events have been evaluated through the date of this filing.

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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), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets), and Impac Funding Corporation (IFC).

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, likely, should, could, seem to, anticipate, plan, intend, project, assume, or similar 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: failure to achieve the benefits expected from the acquisition of the CashCall Mortgage operations; costs and difficulties related to the integration of the business and operations with the Company's operations, unexpected costs, liabilities, charges or expenses resulting from the transaction, successful development, marketing, sale and financing of new mortgage products, including the non-Qualified Mortgage and conventional and government loan programs; ability to increase our market share in the various residential mortgage businesses; volatility in the mortgage industry; unexpected interest rate fluctuations and margin compression; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing, through lending and repurchase facilities, debt or equity funding, strategic relationships or otherwise; the terms of any financing, whether debt or equity, that we do obtain and our expected use of proceeds from any financing; increase in loan repurchase requests and ability to adequately settle repurchase obligations; failure to create brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies; and our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the period ended December 31, 2014, and other reports we file under the Securities Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Mortgage Industry and Discussion of Relevant Fiscal Periods

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The mortgage industry is subject to current events that occur in the financial services industry including changes to regulations and compliance requirements that result in uncertainty surrounding the actions of states, municipalities and new government agencies, including the Consumer Financial Protection Bureau (CFPB) and Federal Housing Finance Agency (FHFA). These events can also include changes in economic indicators, interest rates, price competition, geographic shifts, disposable income, housing prices, market liquidity, market anticipation, and customer perception, as well as others. The factors that affect the industry change rapidly and can be unforeseeable making it difficult to predict and manage an operation in the financial services industry.

Current events can diminish the relevance of quarter over quarter and year-to-date over year-to-date comparisons of financial information. In such instances, the Company attempts to present financial information in its Management's Discussion and Analysis of Financial Condition and Results of Operations that is the most relevant to its financial information.

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	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:					
Gain on sale of loans, net	\$ 47,274	\$ 48,346	\$ 8,602	\$ 133,018	\$ 19,468
Real estate services fees, net	2,775	2,355	3,243	7,872	11,282
Servicing income, net	2,432	1,017	913	4,083	3,773
Loss on mortgage servicing rights	(4,818)	(2,790)	(998)	(14,176)	(3,540)
Other	(11)	156	197	283	1,703
Total revenues	47,652	49,084	11,957	131,080	32,686
Expenses:					
Personnel expense	21,315	24,078	9,062	56,883	27,841
Business promotion	10,735	8,679	252	19,628	1,020
General, administrative and other	7,100	7,943	4,376	20,479	14,260
Accretion of contingent consideration	2,424	3,046		5,471	
Change in fair value of contingent consideration	(16,897)	(11,326)		(28,223)	
Total expenses	24,677	32,420	13,690	74,238	43,121
Operating income (loss):	22,975	16,664	(1,733)	56,842	(10,435)
Other income (expense):					
Net interest income	119	959	747	2,135	338
Change in fair value of long-term debt		(1,544)		(8,661)	(424)
Change in fair value of net trust assets	(3,004)	802	92	(3,078)	7,841
Total other income (expense)	(2,885)	217	839	(9,604)	7,755
Net earnings (loss) before income taxes	20,090	16,881	(894)	47,238	(2,680)
Income tax expense (benefit)	781	71	307	(22,852)	1,405
Net earnings (loss)	\$ 19,309	\$ 16,810	\$ (1,201)	\$ 70,090	\$ (4,085)
Diluted earnings (loss) per share	\$ 1.48	\$ 1.33	\$ (0.13)	\$ 5.61	\$ (0.44)

Status of Operations*Summary Highlights*

- Mortgage lending volumes decreased slightly in the third quarter of 2015 to \$2.3 billion from \$2.6 billion in the second quarter of 2015 but increased from \$923.6 million in the third quarter of 2014.
- Gain on sale of loans, net decreased in the third quarter of 2015 to \$47.3 million from \$48.3 million in the second quarter of 2015 but increased from \$8.6 million in the third quarter of 2014.
- Mortgage servicing portfolio increased to \$6.1 billion at September 30, 2015 from \$4.1 billion at June 30, 2015 and \$2.3 billion at December 31, 2014.

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- In October 2015, we sold \$3.5 billion in mortgage servicing rights generating approximately \$34.0 million.

In the third quarter of 2015, net earnings increased to \$19.3 million or \$1.48 per diluted common share, as compared to a net loss of \$1.2 million or \$0.13 per diluted common share for the third quarter of 2014 and net earnings of \$16.8 million or \$1.33 per diluted common share for the second quarter of 2015. For the nine months ended September 30, 2015, net earnings increased to \$70.1 million as compared to a loss of \$4.1 million for the same period in 2014.

Net earnings (loss) includes certain fair value adjustments for changes in the (i) contingent consideration, (ii) long-term debt and (iii) net trust assets as well as accretion of the contingent consideration. The change in fair value of the contingent consideration

and accretion is related to the CashCall Mortgage acquisition transaction, while the other fair value adjustments are related to our legacy portfolio. These items, as discussed below, are non-cash items and are not related to current operating results.

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Operating income increased to \$23.0 million in the third quarter of 2015 from \$16.7 million in the second quarter of 2015 and an operating loss of \$1.7 million in the third quarter of 2014. The increase in the third quarter is primarily due to the change in fair value of the contingent consideration. Although we are required by GAAP to record change in fair value of the contingent consideration and related accretion, management believes operating income excluding these items, as shown in the following table, is more useful to discuss our operations. Operating income excluding changes in contingent consideration is a non-GAAP financial measure and should be considered in addition to, but not as a substitute for the financial measure prepared in accordance with GAAP in this report.

Operating income (loss) (in thousands)	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Operating income (loss):	\$ 22,975	\$ 16,664	\$ (1,733)	\$ 56,842	\$ (10,435)
Accretion of contingent consideration	2,424	3,046		5,471	
Change in fair value of contingent consideration	(16,897)	(11,326)		(28,223)	
Operating income (loss) excluding changes in contingent consideration	\$ 8,502	\$ 8,384	\$ (1,733)	\$ 34,090	\$ (10,435)

Operating income, excluding the change in fair value of the contingent consideration and the related accretion, slightly increased to \$8.5 million in the third quarter as compared to \$8.4 million in the second quarter, and increased significantly from the operating loss of \$1.7 million in the third quarter of 2014.

For the third quarter of 2015, gain on sale of loans was \$47.3 million as compared to \$8.6 million in the third quarter of 2014 and \$48.3 million in the second quarter of 2015. Gain on sale margin increased to 205 bps from 186 bps in the second quarter primarily as a result of interest rate declines in the quarter.

Total operating expenses, excluding the changes in the contingent consideration, declined in the third quarter of 2015 as compared to the second quarter of 2015 by approximately \$1.6 million, although marketing expenses increased. This decrease in expenses was primarily a result of the decrease in origination volume in the quarter. The increase in marketing expenses, called business promotion on the consolidated statement of operations, is due to our efforts to expand our geographic marketing programs.

In the third quarter, similar to the second quarter, we continue to incorporate current market condition assumptions, including the overall margin compression at CCM in the estimated value of the contingent consideration. The contingent consideration liability represents the estimated fair value of the expected future earn-out payments to be paid to the seller of the CashCall Mortgage operations which were acquired in the first quarter of 2015.

As a result of the change in market conditions, we recorded a change in the fair value of the contingent consideration in the third quarter reducing the contingent consideration liability by \$16.9 million over the remaining earn-out period of 2 ¼ years. Additionally, we recorded accretion of the contingent consideration liability, which increases the liability over the earn-out period. The change in the contingent consideration is primarily due to lower expected future earn-out payments due to changes in market conditions. Accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period. Despite the decrease in the contingent consideration, our Cash Call Mortgage division (CCM) remains very profitable and the long term outlook continues to be very positive.

The CCM consumer direct channel's marketing strategy is to offer attractive mortgage loan interest rates through television and radio advertising to create lead generation for the call center and internet portal. In the third quarter of 2015, marketing expenses included in business promotion on the consolidated statement of operations continued to increase as part of our efforts to develop a national advertising campaign to leverage the

CashCall Mortgage brand name better, as we continue to expand our geographic marketing programs. In the third quarter, our geographic footprint expanded as we saw volume from an additional 19 states. We are also expanding lead generation through our web based internet marketing channel where we want to create more origination traffic through our consumer web portal. Web based internet lead generation will be an important strategy in 2016 as we continue to diversify the CashCall Mortgage marketing initiative.

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For the three months ended September 30, 2015, we originated and sold \$2.3 billion and \$2.2 billion of loans, respectively, as compared to \$923.6 million and \$813.5 million of loans originated and sold, respectively, during the same period in 2014, and \$2.6 billion and \$2.7 billion of loans originated and sold, respectively, during the second quarter of 2015.

During the third quarter of 2015, and consistent with the rest of the market, total originations decreased to \$2.3 billion, from \$2.6 billion, in the second quarter of 2015. However, total originations increased approximately 150% from the third quarter of 2014. The retail channel decreased 17% over the second quarter, while still representing approximately 56% or \$1.3 billion of total originations. The wholesale channel remained consistent with the second quarter, representing approximately 18% or \$409.0 million of total originations. The correspondent division decreased slightly from the second quarter, representing \$608.5 million or 26% of total originations. For the third quarter of 2015, purchase money transactions increased to 25% of total production, as compared to 18% of total production in the second quarter.

As of September 30, 2015, the Company's mortgage servicing portfolio increased to \$6.1 billion, a 50% increase from June 30, 2015, which correspondingly increased our retained mortgage servicing rights to \$63.3 million at September 30, 2015 as compared to \$44.2 million at June 30, 2015. However, to manage the capital needs of the Company and to reduce the mortgage servicing rights asset concentration, in October 2015 the Company sold \$3.5 billion of conventional mortgage servicing rights for approximately \$34.0 million.

Originations

(in millions)	For the three months ended				
	September 30, 2015	June 30, 2015	% Change	September 30, 2014	% Change
Originations	\$ 2,303.2	\$ 2,604.3	-12%	\$ 923.6	149%

Origination volume decreased 12% in the third quarter of 2015 over the second quarter of 2015 to \$2.3 billion as compared to \$2.6 billion, respectively. Of the \$2.3 billion in total originations, approximately \$1.3 billion, or 56%, was originated through the CCM retail channel. In contrast, during the third quarter of 2014, our retail originations contributed only 2% to our total origination volume. However, in 2014, the Company purchased mortgage loans from CashCall, Inc. (prior to the acquisition of their mortgage operations by the Company), as a correspondent customer.

Originations by Channel:

(in millions)	For the three months ended				
	September 30, 2015	June 30, 2015	% Change	September 30, 2014	% Change
Wholesale	\$ 409.0	\$ 416.5	-2%	\$ 159.1	157%
Correspondent	608.5	640.2	-5%	747.3	-19%
Retail	1,285.7	1,547.6	-17%	17.2	7375%
Total originations	\$ 2,303.2	\$ 2,604.3	-12%	\$ 923.6	149%

During the third quarter of 2015, correspondent volume decreased 19% as compared to the third quarter of 2014 and 5% as compared to the second quarter of 2015. The decline in correspondent volume from the prior year was due to the acquisition of CCM in the first quarter of 2015.

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as we purchased mortgage loans from CashCall, Inc. (prior to the acquisition of CCM by the Company), as a correspondent customer.

In the third quarter of 2015, wholesale originations increased 157% as compared to the third quarter of 2014 and decreased 2% as compared to the second quarter of 2015. The volume in the wholesale channel declined as compared to the second quarter of 2015 as originations declined across the industry in the third quarter of 2015.

We believe the retail call center complements our wholesale and correspondent channels by lowering overall costs for mortgage lending. We anticipate that these channels will continue to see growth month over month, as a result of the increased pipeline growth that both channels have recently enjoyed due to market share expansion. The growth of CCM originations, which is more dependent on the refinance market, will be more reliant on geographic and product expansion. We believe our expanded national lending footprint, combined with access to our Impac loan products, will unlock significant opportunities to greatly diversify CCM's retail loan production and increase our mortgage lending divisions total production.

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Our loan products primarily include conventional loans eligible for sale to Fannie Mae and Freddie Mac, loans eligible for government insurance (government loans) by FHA, VA and USDA and also AltQM.

Originations by Loan Type:

(in millions)	For the three months ended September 30,			% Change
	2015	2014		
Government (1)	\$ 527.5	\$ 265.7		99%
Conventional	1,713.4	636.8		169%
Other (2)	62.3	21.1		195%
Total originations	\$ 2,303.2	\$ 923.6		149%

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

(2) Includes \$48.0 million of AltQM mortgages originated during the third quarter of 2015.

(in millions)	For the nine months ended September 30,			% Change
	2015	2014		
Government (1)	\$ 1,421.7	\$ 575.2		147%
Conventional	5,772.9	1,118.6		416%
Other (2)	125.7	48.1		161%
Total originations	\$ 7,320.3	\$ 1,741.9		320%

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

(2) Includes \$81.6 million of AltQM mortgages originated during the nine months ended September 30, 2015.

We believe there is an underserved mortgage market for borrowers with good credit who may not meet the new qualified mortgage (QM) guidelines set out by the CFPB. In our opinion, as the demand by consumers for the non-QM product grows we expect the investor appetite will increase for the non-QM mortgages. During 2014, we rolled out and began originating non-qualified mortgage (non-QM) loans, marketed under our AltQM label. The predominant amount of the early originations came through our wholesale lending channel. Our correspondent customers began delivering loans that meet our AltQM program guidelines during the third quarter of 2015. We have established strict lending guidelines, including determining the prospective borrowers ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable levels. In conjunction with launching these new AltQM products we established a strategic investor relationship which provides us with an exit strategy for these non-conforming loans.

During the third quarter of 2015, purchase money transactions increased \$106.1 million or 23% as compared to the second quarter of 2015. This was primarily the result of a continued increase in purchase money transactions in our business to business channels.

To mitigate against any reduced refinance volumes with the eventual expected increase in mortgage rates, we are focusing on opportunities that will create diversity in our revenue streams. Our efforts to expand our AltQM volumes as well as increase our geographic footprint of our originations are part of this strategy. We also believe that there is an opportunity to provide a third party servicing retention program using our CashCall Mortgage platform to create an additional source of revenue. Furthermore, we expect to expand lead generation through our internet channel and monetizing our current mortgage leads to diversify our loan product offering. We are moving forward on all of these initiatives in creating growing revenue streams.

Table of Contents**Originations by Purpose:**

(in millions)	For the three months ended September 30,			
	2015	%	2014	%
Refinance	\$ 1,732.9	75%	\$ 630.1	68%
Purchase	570.3	25%	293.5	32%
Total originations	\$ 2,303.2	100%	\$ 923.6	100%

(in millions)	For the nine months ended September 30,			
	2015	%	2014	%
Refinance	\$ 6,000.9	82%	\$ 1,054.5	61%
Purchase	1,319.4	18%	687.4	39%
Total originations	\$ 7,320.3	100%	\$ 1,741.9	100%

Mortgage servicing portfolio

(in millions)	September 30,	December 31,	%	September 30,	%
	2015	2014	Change	2014	Change
Mortgage servicing portfolio	\$ 6,088.0	\$ 2,267.1	169%	\$ 1,247.7	388%

The mortgage servicing portfolio increased to \$6.1 billion at September 30, 2015 as compared to \$2.3 billion at December 31, 2014. The increase was due to servicing retained loan sales of \$7.0 billion, partially offset by bulk sales of servicing rights totaling \$2.8 billion in unpaid principal balance (UPB).

To manage our liquidity, we have continued to sell mortgage servicing rights (MSRs) to generate cash needed to fund warehouse haircuts as well as other operating needs. During the nine months ended September 30, 2015, we sold MSRs representing \$2.8 billion in UPB of loans serviced, which has generated approximately \$25.0 million in cash.

In October 2015, we sold \$3.5 billion of conventional mortgage servicing rights for approximately \$34.0 million. Additionally, in October 2015, we signed a term sheet to sell \$1.0 billion of government insured mortgage servicing rights. The transaction is expected to settle in November 2015.

The following table includes information about our mortgage servicing portfolio:

(in millions)	At September 30,	% 60+ days	At December 31,	% 60+ days
	2015	delinquent (1)	2014	delinquent (1)
Fannie Mae	\$ 3,433.8	0.15%	\$ 496.1	0.71%
Freddie Mac	1,336.4	0.09%	837.8	0.16%
Ginnie Mae	1,259.7	0.59%	926.5	1.23%

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Other		58.1	0.00%	6.7	0.00%
Total servicing portfolio	\$	6,088.0	0.24%	\$ 2,267.1	0.72%

(1) Based on loan count.

Our warehouse lending division continues to grow and the outstanding balance of finance receivables, representing warehouse lending advances to our warehouse customers, decreased to \$41.3 million at September 30, 2015 as compared to \$54.3 million at June 30, 2015. Funding s from the warehouse lending division decreased to \$185.5 million for the three months ended September 30, 2015 as compared to \$213.3 for the three months ended June 30, 2015. As of September 30, 2015, the warehouse lending operations had extended warehouse lines to non-affiliated customers totaling \$116.5 million as compared to \$112.0 million at June 30, 2015.

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For the third quarter of 2015, real estate services fees were \$2.8 million as compared to \$2.4 million in the second quarter of 2015 and \$3.2 million in the third quarter of 2014. Despite the real estate services fees increasing slightly during the third quarter of 2015, we expect these fees to decrease over time with the anticipated runoff of our long-term mortgage portfolio.

In our long-term mortgage portfolio, the residuals generated cash flows of \$1.1 million in the third quarter of 2015 as compared to \$1.6 million in the second quarter of 2015. The estimated fair value of the residual interest decreased \$2.1 million in the third quarter of 2015 to \$15.8 million at September 30, 2015, as a result of residual cash flows received and increased loss and severity assumptions.

In the first quarter of 2015, we settled our repurchase liability with Fannie Mae related to our pre-2008 non-conforming mortgage operations. As a result of this settlement and previous resolution of other legal matters pertaining to the legacy non-conforming mortgage operations, the discontinued segment is not expected to have any significant effect on our consolidated operations and financial results. Therefore, we determined that we will no longer report the legacy non-conforming mortgage operations as discontinued operations.

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

Liquidity and Capital Resources

During the nine months ended September 30, 2015, we funded our operations primarily from mortgage lending revenues and real estate services fees, net, which include gains on sale of loans, net, and other mortgage related income, portfolio loss mitigation and real estate services fees, net, primarily generated from our long-term mortgage portfolio, and cash flows from our residual interests in securitizations. Additionally, we funded mortgage loan originations using warehouse facilities which are repaid once the loan is sold. During the second quarter of 2015, we raised approximately \$55.0 million of debt to provide the liquidity needed to fund warehouse facility haircuts, retain mortgage servicing rights and working capital to fund the growth of origination volumes. Furthermore, we used the proceeds from the sale of mortgage servicing rights as an additional source of liquidity, as well as borrowings under the \$4.0 million line of credit, \$6.0 million short-term structured debt and \$10.0 million short-term Promissory Note. All of which have been repaid. In order to support the continued growth of our mortgage lending platform, we intend to continue to manage our capital through the sale of mortgage servicing rights. We may also seek to raise capital by issuing debt or equity.

The CCM acquisition contingent consideration payments for the first two earn-out periods were approximately \$33.0 million and were paid in two parts during the second and third quarters of 2015. These contingent consideration payments are based on the performance of the CCM division and over time are expected to decline for the remaining earn-out periods since the earn-out percentage decreases to 55% beginning in 2016 and to 45% beginning in 2017. Additionally, the quarterly contingent consideration payment due in November 2015 for the third earn-out period is expected to be approximately \$5.6 million.

In October 2015, we sold \$3.5 billion of conventional mortgage servicing rights for approximately \$34.0 million.

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In June 2015, the Company and its subsidiaries, (IRES, IMC and Impac Warehouse Lending, Inc. (IWLI), collectively, the (Borrowers)) entered into a Loan Agreement (Loan Agreement) with a lender (Lender) pursuant to which the Lender provided to the Borrowers a term loan in the aggregate principal amount of \$30.0 million (Term Financing) due and payable on December 19, 2016, which may be extended up to December 18, 2017 at the Lender's discretion. In connection with the Term Financing, the Borrowers issued to the Lender a Term Note dated June 19, 2015. The Lender may in its discretion make additional advances in an aggregate amount not to exceed \$50.0 million (including amounts then outstanding). The proceeds from the Term Financing were used to pay off the working capital line of credit with a national bank (approximately \$4.0 million) and amounts under an existing master repurchase agreement with the Lender (approximately \$3.2 million). The Borrowers also paid the Lender an origination fee of \$300 thousand. The Term Financing is payable monthly and accrues interest at the rate per annum equal to LIBOR plus 8.5%. Amounts under the Term Financing may be prepaid at any time without penalty or premium, provided, however, that any prepayments made within nine months of the closing date will be subject to, with certain exceptions, a prepayment premium equal to 50% of the then applicable interest rate multiplied by the amount of the prepayment that would be payable until the end of the nine months. The Borrowers are subject to mandatory prepayment on the Term Financing based on a borrowing base formula that includes amounts under outstanding warehouse facilities, market value of mortgage servicing rights and residual securities and certain mortgage loans.

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In May 2015, the Company issued \$25.0 million in original aggregate principal amount of Convertible Promissory Notes (Convertible Notes). The Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. Note holders may convert all or a portion of the outstanding principal amount of the Convertible Notes to shares of IMH common stock at a rate of \$21.50 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches \$30.10 for 20 trading days in a 30 day consecutive period.

In April 2015, the Company issued a \$10.0 million short term Promissory Note with an interest rate of 15%. The balance was repaid in May 2015.

Our results of operations and liquidity are materially affected by conditions in the markets for mortgages and mortgage-related assets, as well as the broader financial markets and the general economy. Concerns over economic recession, geopolitical issues, unemployment, the availability and cost of financing, the mortgage market and real estate market conditions contribute to increased volatility and diminished expectations for the economy and markets. Volatility and uncertainty in the marketplace may make it more difficult for us to obtain financing on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

We believe that current cash balances, cash flows from our mortgage lending operations, the sale of mortgage servicing rights, real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs. We believe the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which have offices in our market area as well as operations throughout the United States. We compete for loans principally on the basis of the interest rates and loan fees we charge, the types of loans we originate and the quality of services we provide to borrowers, brokers and sellers. Additionally, competition for loss mitigation servicing, loan modification services and other portfolio services has increased. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability to provide mortgage and real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows from our residual interests in securitizations are sensitive to delinquencies, defaults and credit losses associated with the securitized loans. Losses in excess of current estimates will reduce the residual interest cash receipts from our long-term mortgage portfolio.

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

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the effect of changing market conditions and/or consumer behavior. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are

particularly susceptible to significant change to our financial condition and results of operations include those issues included in Management's Discussion and Analysis of Results of Operations in IMH's report on Form 10-K for the year ended December 31, 2014. Such policies have not materially changed during 2015 other than what is outlined below:

Income Taxes

Provision for income taxes is calculated using the asset and liability method, which requires the recognition of deferred income taxes. Deferred tax assets and liabilities are recognized and reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in the valuation allowance. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. We provide a valuation allowance against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

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Goodwill and Intangible Assets

We account for business combinations using the acquisition method, under which the total consideration transferred (including contingent consideration) is allocated to the fair value of the assets acquired (including identifiable intangible assets) and liabilities assumed. The excess of the consideration transferred over the fair value of the assets acquired and liabilities assumed results in goodwill.

We evaluate our reporting units on an annual or on as needed basis and, if necessary, reassign goodwill using a relative fair value allocation approach. Goodwill and other intangible assets with an indefinite useful life are not subject to amortization but are reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated primarily through the use of a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. If we determine that it is more likely than not that the intangible assets are impaired, a quantitative impairment test is performed. For the quantitative impairment test, we estimate and compare the fair value of indefinite-lived intangible asset with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, the amount of the impairment is measured as the difference between the carrying amount of the asset and its fair value. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

Intangible assets with finite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed. We review intangible assets for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable, in which case any impairment charge would be recorded to earnings.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed which involve contingencies must also be recognized at their estimated fair value, provided such fair value can be determined during the measurement period. Acquisition-related costs, including severance, conversion and other restructuring charges, such as abandoned space accruals, are expensed. Results of operations of an acquired business are included in the statement of operations from the date of acquisition.

Table of Contents**Financial Condition and Results of Operations****Financial Condition**

As of September 30, 2015 compared to December 31, 2014

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

	September 30, 2015 (Unaudited)	December 31, 2014	Increase (Decrease)	% Change
ASSETS				
Cash	\$ 10,509	\$ 10,073	\$ 436	4%
Restricted cash	5,829	2,420	3,409	141
Mortgage loans held-for-sale	460,808	239,391	221,417	92
Finance receivables	41,334	8,358	32,976	395
Mortgage servicing rights	63,281	24,418	38,863	159
Securitized mortgage trust assets	4,814,798	5,268,531	(453,733)	(9)
Goodwill	104,938	352	104,586	29,712
Intangibles	31,024		31,024	n/a
Deferred tax asset	24,420		24,420	n/a
Other assets	37,942	25,029	12,913	52
Total assets	\$ 5,594,883	\$ 5,578,572	\$ 16,311	0%
LIABILITIES & EQUITY				
Warehouse borrowings	\$ 477,673	\$ 226,718	\$ 250,955	111%
Short-term debt		6,000	(6,000)	(100)
Term financing	30,000		30,000	n/a
Convertible notes	45,000	20,000	25,000	125
Long-term debt (\$71,120 par)	31,663	22,122	9,541	43
Repurchase reserve	4,768	5,714	(946)	(17)
Securitized mortgage trust liabilities	4,799,024	5,251,307	(452,283)	(9)
Contingent consideration	68,792		68,792	n/a
Other liabilities	35,048	21,755	13,293	61
Total liabilities	5,491,968	5,553,616	(61,648)	(1)
Total equity	102,915	24,956	77,959	312
Total liabilities and stockholders equity	\$ 5,594,883	\$ 5,578,572	\$ 16,311	0%

As a result of the net earnings in the nine months ended September 30, 2015, including \$24.4 million from changes in the deferred tax asset valuation allowance and \$22.8 million from changes in contingent consideration liability, book value per share increased 284% to \$10.00 at September 30, 2015 as compared to \$2.60 at December 31, 2014.

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In the third quarter of 2015, cash balances decreased, primarily due to the increase in mortgage servicing rights as well as the earn-out payment to CashCall Inc. of approximately \$8.0 million based upon CCM earnings for the second quarter of 2015.

At September 30, 2015, cash increased slightly to \$10.5 million from \$10.1 million at December 31, 2014. The primary sources of cash between periods were \$30.0 million issuance of Term Financing, approximately \$25.0 million from the sale of mortgage servicing rights, \$25.0 million from the issuance of the Convertible Notes, \$39.5 million from the gain on sale of mortgage loans (net of non-cash premiums, mark-to-market adjustments, unrealized gains from derivatives instruments and provision for repurchases) and \$4.6 million from residual interests in securitizations. Offsetting the sources of cash were operating expenses totaling \$91.8 million (net of non-cash depreciation expense, amortization of intangible assets and stock compensation expense), \$76.1 million of investment in mortgage servicing rights, \$33.0 million in earn out payments to CashCall Inc., \$6.0 million payoff of the short-term borrowings, \$5.0 million payment as part of the consideration for the acquisition of CCM and \$4.0 million payoff of the line of credit.

Mortgage loans held-for-sale increased \$221.4 million to \$460.8 million at September 30, 2015 as compared to \$239.4 million at December 31, 2014. The increase was due to \$7.3 billion in originations offset by \$7.1 billion in loan sales related to growth in our mortgage lending division including the acquisition of CCM. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

Finance receivables increased \$33.0 million to \$41.3 million at September 30, 2015 as compared to \$8.4 million at December 31, 2014. The increase was due to \$523.0 million in fundings offset by \$490.0 million in settlements.

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MSRs increased \$38.9 million to \$63.3 million at September 30, 2015 as compared to \$24.4 million at December 31, 2014. The increase was due to servicing retained loan sales of \$7.0 billion. Partially offsetting the increase were bulk sales of MSRs totaling \$2.8 billion in UPB and a mark-to-market reduction in fair value of \$8.0 million. At September 30, 2015, we serviced \$6.1 billion in UPB for others as compared to \$2.3 billion at December 31, 2014.

Warehouse borrowings increased \$251.0 million to \$477.7 million at September 30, 2015 as compared to \$226.7 million at December 31, 2014. The increase was due to an increase in mortgage loans held-for-sale attributable to the increased loan volume from the growth in our mortgage lending division including the acquisition of CCM and increased finance receivables at September 30, 2015. During the nine months ended September 30, 2015, we increased our total borrowing capacity to \$675.0 million as compared to \$415.0 million at December 31, 2014.

In the fourth quarter of 2014, we entered into a \$6.0 million short-term structured debt agreement collateralized by the residual interests in securitizations. The agreement had an interest rate of LIBOR plus 5.75% per annum and had a maturity date of June 29, 2015. The holder received monthly principal and interest payments which were equal to the distributions from the residual interest underlying collateral with a minimum payment of \$500,000. In June, we used approximately \$3.2 million of the proceeds from the Term Financing to pay off the short-term structured debt.

Long-term debt increased \$9.5 million to \$31.7 million at September 30, 2015 as compared to \$22.1 million at December 31, 2014. The increase was primarily due to a mark-to-market adjustment of \$8.7 million as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, an improvement in our financial condition and results of operations as well as an increase in the forward LIBOR curve.

Repurchase reserve liability decreased to \$4.8 million at September 30, 2015 as compared to \$5.7 million at December 31, 2014. As previously reported, in the first quarter of 2015, we settled our repurchase liability with FNMA related to our legacy non-conforming mortgage operations. As part of the agreement, the Company paid FNMA \$1.0 million during the first quarter with a final payment of \$228 thousand paid in April 2015. We have received a minimal amount of repurchase requests by IMC's mortgage lending operation for loans sold since early 2011. During the third quarter of 2015, the general repurchase reserve was reduced by \$1.2 million as a result of a review of the Company's historical loss experience on originations since 2011.

The changes in total assets and liabilities, at fair market value, are primarily attributable to decreases in our trust assets and trust liabilities as summarized below.

	September 30, 2015	December 31, 2014	Increase (Decrease)	% Change
Securitized mortgage collateral	\$ 4,796,405	\$ 5,249,639	\$ (453,234)	(9)%
Other trust assets	18,393	18,892	(499)	(3)
Total trust assets	4,814,798	5,268,531	(453,733)	(9)
Securitized mortgage borrowings	\$ 4,796,400	\$ 5,245,860	\$ (449,460)	(9)%
Other trust liabilities	2,624	5,447	(2,823)	(52)

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Total trust liabilities	4,799,024	5,251,307	(452,283)	(9)
Residual interests in securitizations	\$ 15,774	\$ 17,224	\$ (1,450)	(8)%

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was \$15.8 million at September 30, 2015, compared to \$17.2 million at December 31, 2014.

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the nine months ended September 30, 2015, we decreased the investor yield requirements for certain securitized mortgage collateral and borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. Additionally, during the second and third quarters of 2015 we lowered the discount rate on certain residual interest vintages. The decrease in discount rates resulted in an increase in the value of these trust assets and liabilities resulting in an increase

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in the value of our residual interests during the the nine months ended September 30, 2015. However, offsetting the increase was principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings.

- The estimated fair value of securitized mortgage collateral decreased \$453.2 million during the nine months ended September 30, 2015, primarily due to reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral. Additionally, other trust assets decreased \$499 thousand during the nine months ended September 30, 2015, primarily due to liquidations of \$24.2 million and a \$4.9 million decrease in the net realizable value (NRV) of REO. Partially offsetting the decrease was an increase of \$28.7 million in REO from foreclosures.
- The estimated fair value of securitized mortgage borrowings decreased \$449.5 million during the nine months ended September 30, 2015, primarily due to reductions in principal balances from principal payments during the period for single-family and multi-family collateral as well as a decrease in loss assumptions. The \$2.8 million reduction in other trust liabilities during the nine months ended September 30, 2015, was primarily due to \$3.3 million in derivative cash payments from the securitization trusts, and a \$483 thousand increase in derivative fair value resulting from changes in forward LIBOR interest rates.

Prior to 2008, we securitized mortgage loans by transferring originated and acquired residential single-family mortgage loans and multi-family commercial loans (the transferred assets) into non-recourse bankruptcy remote trusts which in turn issued tranches of bonds to investors supported only by the cash flows of the transferred assets. Because the assets and liabilities in the securitizations are nonrecourse to us, the bondholders cannot look to us for repayment of their bonds in the event of a shortfall. These securitizations were structured to include interest rate derivatives. We retained the residual interest in each trust, and in most cases would perform the master servicing function. A trustee and sub-servicer, unrelated to us, was utilized for each securitization. Cash flows from the loans (the loan payments as well as liquidation of foreclosed real estate properties) collected by the loan sub-servicer are remitted to us, the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The sub-servicer collects loan payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO. Our real estate services segment also performs mitigation activities for loans within the portfolio.

To estimate fair value of the assets and liabilities within the securitization trusts each reporting period, management uses an industry standard valuation and analytical model that is updated monthly with current collateral, real estate, derivative, bond and cost (servicer, trustee, etc.) information for each securitization trust. We employ an internal process to validate the accuracy of the model as well as the data within this model. Forecasted assumptions sometimes referred to as curves, for defaults, loss severity, interest rates (LIBOR) and prepayments are inputted into the valuation model for each securitization trust. We hire third-party market participants to provide forecasted curves for the aforementioned assumptions for each of the securitizations. Before inputting this information into the model, management employs a process to qualitatively and quantitatively review the assumption curves for reasonableness using other information gathered from the mortgage and real estate market (*i.e.*, third party home price indices, published industry reports discussing regional mortgage and commercial loan performance and delinquency) as well as actual default and foreclosure information for each trust from the respective trustees.

We use the valuation model to generate the expected cash flows to be collected from the trust assets and the expected required bondholder distribution (trust liabilities). To the extent that the trusts are over collateralized, we may receive the excess interest as the holder of the residual interest. The information above provides us with the future expected cash flows for the securitized mortgage collateral, real estate owned, securitized mortgage borrowings, derivative assets/liabilities, and the residual interests.

To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization (after taking into consideration any derivatives in the securitization). As previously discussed, during the second and third quarters of 2015, we adjusted the acceptable range of expected yields and discount rates for some of our earlier vintage securitizations. Based on improving bond prices and declining yields in our securitization trusts, we lowered certain residual discount rates during the second and third quarters of 2015.

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The following table presents changes in the trust assets and trust liabilities for the nine months ended September 30, 2015:

	TRUST ASSETS				TRUST LIABILITIES			
	Level 3 Recurring Fair Value Measurements		NRV (1)		Level 3 Recurring Fair Value Measurements			
	Investment securities available-for-sale	Securitized mortgage collateral	Real estate owned	Total trust assets	Securitized mortgage borrowings	Derivative liabilities	Total trust liabilities	Net trust assets
Recorded book value at December 31, 2014	\$ 92	\$ 5,249,639	\$ 18,800	\$ 5,268,531	\$ (5,245,860)	\$ (5,447)	\$ (5,251,307)	\$ 17,224
Total gains/(losses) included in earnings:								
Interest income	9	49,719		49,728				49,728
Interest expense					(160,249)		(160,249)	(160,249)
Change in FV of net trust assets, excluding REO	33	6,918		6,951(2)	(4,647)	(483)	(5,130)(2)	1,821
Losses from REO - not at FV but at NRV			(4,899)	(4,899)(2)				(4,899)
Total gains (losses) included in earnings	42	56,637	(4,899)	51,780	(164,896)	(483)	(165,379)	(113,599)
Transfers in and/or out of level 3								
Purchases, issuances and settlements	(84)	(509,871)	4,442	(505,513)	614,356	3,306	617,662	112,149
Recorded book value at September 30, 2015	\$ 50	\$ 4,796,405	\$ 18,343	\$ 4,814,798	\$ (4,796,400)	\$ (2,624)	\$ (4,799,024)	\$ 15,774

(1) Accounted for at net realizable value.

(2) Represents change in fair value of net trust assets, including trust REO (losses) gains in the consolidated statements of operations for the nine months ended September 30, 2015.

Inclusive of gains from REO, total trust assets above reflect a net gain of \$2.1 million as a result of an increase in fair value of securitized mortgage collateral of \$6.9 million, increases from other trust assets of \$33 thousand offset by losses from REO of \$4.9 million. Net losses on trust liabilities were \$5.1 million as a result of \$4.6 million in losses from the decrease in fair value of securitized mortgage borrowings and losses from derivative liabilities of \$483 thousand. As a result, non-interest income net trust assets totaled a loss of \$3.1 million for the nine months ended September 30, 2015.

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

	September 30, 2015	December 31, 2014
Net trust assets	\$ 15,774	\$ 17,224
Total trust assets	4,814,798	5,268,531
Net trust assets as a percentage of total trust assets	0.33%	0.33%

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For the nine months ended September 30, 2015, the estimated fair value of the net trust assets remained the same as a percentage of total trust assets.

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

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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, 2015 and December 31, 2014:

Year		SF	MF	Total	SF	MF	Total
2002-2003	(1)	\$ 11,360	\$ 1,366	\$ 12,726	\$ 10,826	\$ 1,975	\$ 12,801
2004		1,022	900	1,922	1,846	1,506	3,352
2005	(2)	4	40	44	11	209	220
2006	(2)		1,082	1,082		851	851
2007	(2)						
Total		\$ 12,386	\$ 3,388	\$ 15,774	\$ 12,683	\$ 4,541	\$ 17,224
Weighted avg. prepayment rate		5.0%	11.8%	5.5%	4.3%	12.4%	4.9%
Weighted avg. discount rate		15.8%	14.6%	15.6%	19.0%	16.2%	18.3%

(1) 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.

(2) The estimated fair values of residual interests in vintage years 2005 through 2007 is reflective of higher estimated future losses and investor yield requirements compared to earlier vintage years.

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions. As previously discussed, during the second and third quarters of 2015, the single-family (SF) vintages were lowered to a range of 15% to 35% (15.8% weighted average) from 18% to 35% (19.0% weighted average) and the multi-family (MF) vintages were lowered to a range of 12% to 20% (14.6% weighted average) from 15% to 20% (16.2% weighted average). The combined SF and MF weighted average discount rate for the quarter ended September 30, 2015 dropped to 15.6% from 18.3% at December 31, 2014.

The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at September 30, 2015:

	Estimated Future Losses		Investor Yield Requirement	
	(1)	(1)	(2)	(2)
	SF	MF	SF	MF
2002-2003	7%	*(3)	5%	7%
2004	10%	*(3)	5%	5%

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2005	12%	3%	5%	4%
2006	20%	5%	6%	5%
2007	20%	1%	6%	4%

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- (1) Estimated future losses derived by dividing future projected losses by UPB at September 30, 2015.
 - (2) Investor yield requirements represent our estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.
 - (3) Represents less than 1%.

Despite the increase in housing prices through September 30, 2015, housing prices in many parts of the country are still at levels which have significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

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We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days delinquent or greater, foreclosures and delinquent bankruptcies were \$1.2 billion or 19.1% of the long-term mortgage portfolio as of September 30, 2015.

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

	September 30, 2015	Total Collateral %		December 31, 2014	Total Collateral %
<u>Securitized mortgage collateral</u>					
60 - 89 days delinquent	\$ 123,574	2.0%	\$	137,913	2.0%
90 or more days delinquent	361,027	5.9%	\$	503,849	7.5%
Foreclosures (1)	434,575	7.1%	\$	443,751	6.6%
Delinquent bankruptcies (2)	247,817	4.1%	\$	281,936	4.2%
Total 60 or more days delinquent	\$ 1,166,993	19.1%	\$	1,367,449	20.3%
Total collateral	\$		\$		