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

x 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

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

For the transition period from to .

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Maryland	**33-0675505**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

There were 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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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(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

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, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 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:		

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).

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.

	For the Three Months Ended September 30,		For the Nine Months Ended 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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Note 3. Mortgage Loans Held-for-Sale

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

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 MSRs 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 MSRs 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 MSRs, 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 MSRs.

Mortgage Servicing Rights Sensitivity Analysis		**September 30, 2015**
Fair value of MSRs	$	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:		

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

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

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(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)

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:

	September 30, 2015				December 31, 2014			
	Carrying Amount	Estimated Fair Value			Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	$ 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.

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			63,281			24,418
Warrant (2)						84
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

	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)	$

(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
Assets and liabilities backed by real estate					
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%
Other assets and liabilities					
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%

	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

			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	$ 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

			Change in Fair Value of				
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	$ 6	$	$ 11	$	$	$	$ 17
Securitized mortgage collateral	21,312		(27,784)				(6,472)
		(64,502)	27,899				(36,603)

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)**

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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.

(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

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 monthes 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 September 30, 2015	2014	For the nine months ended September 30, 2015	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 September 30, 2015			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 September 30, 2014			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

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	