

IMPAC MORTGAGE HOLDINGS INC
Form 10-K
March 20, 2014

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013 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

(State or other jurisdiction of
incorporation or organization)

33-0675505

(I.R.S. Employer
Identification No.)

1950 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	NYSE MKT
Preferred Stock Purchase Rights	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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

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to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting
company)

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

As of June 30, 2013, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$66.0 million, based on the closing sales price of common stock on the NYSE MKT on June 28, 2013. For purposes of the calculation only, all directors and executive officers and beneficial holders of more than 10% of the stock of the registrant have been deemed affiliates. There were 9,069,927 shares of common stock outstanding as of March 13, 2014.

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PART I

ITEM 1. BUSINESS

Impac Mortgage Holdings, Inc., sometimes referred to herein as the "Company," "we," "our" or "us," is a Maryland corporation incorporated in August 1995 and has the following subsidiaries: Integrated Real Estate Service Corporation, or IRES, IMH Assets Corp. and Impac Funding Corporation. IRES has the following subsidiaries, which conduct our mortgage lending and real estate services operations: Excel Mortgage Servicing, Inc., or Excel, and AmeriHome Mortgage Corporation, or AmeriHome.

Forward-Looking Statements

This report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "likely," "should," "could," "seem to," "anticipate," "plan," "intend," "project," "assume," or similar terms or variations on those terms or the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: our ability to manage effectively our mortgage lending operations and facilities; volatility in the mortgage industry and unexpected interest rate fluctuations and margin compression; our ability to successfully manage operating expenses and reduce redundant activities; our ability to successfully expand volumes in the warehouse lending business; failure to successfully launch or continue to market new loan products, such as non-qualified mortgages and HELOC loans; ability of wholesale brokers and correspondent sellers to implement mortgage compliance programs and market and sell our loan products; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; inability to hire qualified loan officers, account executives or transact with qualified correspondents; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing and the terms of any financing that we do obtain; increase in loan repurchase requests and ability to adequately settle repurchase obligations; adequate performance by sub-servicers; the failure to create and maintain brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies and our compliance with applicable local, state and federal laws and regulations, including the new qualified mortgage rules, and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The information contained throughout this document is presented on a continuing basis, unless otherwise stated.

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Available Information

Our internet website address is www.impaccompanies.com. We make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements for our annual stockholders' meetings, as well as any amendments to those reports, free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. You can learn more about us by reviewing our SEC filings on our website by clicking on "Investor Relations Stockholder Relations" located on our home page and proceeding to "SEC Filings." We also make available on our website, under "Corporate Governance," charters for the audit, compensation, and governance and nominating committees of our board of directors, our Code of Business Conduct and Ethics, our Corporate Governance Guidelines and other company information, including amendments to such documents and waivers, if any, to our Code of Business Conduct and Ethics. These documents will also be furnished, free of charge, upon written request to Impac Mortgage Holdings, Inc., Attention: Stockholder Relations, 19500 Jamboree Road, Irvine, California 92612. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including our Company.

Our Company

We are an established nationwide independent residential mortgage lender. We were founded in 1995 by members of our current management team, who have extensive experience and an established track record of operating our Company through multiple market cycles. We originate, sell and service residential mortgage loans. We primarily originate conventional mortgage loans eligible for sale to U.S. government-sponsored enterprises, or GSEs, including Fannie Mae, Freddie Mac, and government mortgage loans eligible for government securities issued through Ginnie Mae. We originate and acquire mortgage loans through our Correspondent, Wholesale and Retail origination channels. For the year ended December 31, 2013, we had \$2.5 billion in origination volume, a slight increase over 2012.

Our primary operating segments are Mortgage Lending, Real Estate Services and the Long-Term Mortgage Portfolio. A description of each operating segment is presented below with further details and discussions of each segments' results of operations presented in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations."

Mortgage Lending As a nationwide mortgage lender, we are approved to originate and service Fannie Mae, Freddie Mac and Ginnie Mae eligible loans. We primarily originate, sell and service conventional, conforming agency and government insured residential mortgage loans originated or acquired through our three channels: Correspondent, Wholesale and to a lesser extent, Retail. Our mortgage lending operation generates origination and processing fees, net of origination costs, at the time of origination as well as gains or unexpected losses when the loans are sold to third party investors, including the GSEs and Ginnie Mae. We earn servicing fees, net of sub-servicer costs, from our mortgage servicing portfolio.

Real Estate Services We provide loss mitigation and real estate services primarily on our own long-term mortgage portfolio, including default surveillance, loan modification services, short sale services (where a lender agrees to take less than the balance owed from the borrower), real estate owned, or REO, surveillance and disposition services and monitoring, reconciling and reporting services for residential and multifamily mortgage portfolios. These operations are conducted by Excel.

Long-Term Mortgage Portfolio We manage our long-term mortgage portfolio, which primarily consists of residual interests in the securitization trusts reflected as trust assets and liabilities in our consolidated balance sheets, to mitigate losses and maximize cash flows from our residual interests (net trust assets). We receive cash flows from our residual interests in securitizations to the extent excess

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cash remains in the trusts after required distributions to bondholders and maintaining required overcollateralization levels are met and other specified parameters within the trusts.

Additionally, we have a corporate segment, which includes unallocated corporate and other administrative costs, that was previously included with the Long-Term Mortgage Portfolio in prior periods. We also have a discontinued operations segment that primarily includes legacy repurchase liability exposure and expenses and liabilities associated with litigation matters that pertain to our discontinued, non-conforming mortgage operations.

Today, we primarily operate as a residential mortgage lender and are focused on expanding our mortgage lending platform providing conventional and government-insured mortgage loans as well as opportunistically look to provide innovative products to meet the needs of borrowers in the dynamic mortgage compliance environment in which we operate. To a lesser extent, we provide real estate services and manage our long-term mortgage portfolio. The real estate service segment was created in 2008 to provide solutions to the distressed mortgage and real estate markets, including loan modifications, real estate disposition, monitoring and surveillance services and real estate brokerage. Since 2008, we developed and enhanced our service offerings by providing services to investors, servicers and individual borrowers primarily focusing on loss mitigation and performance of our own long-term mortgage portfolio. The long-term mortgage portfolio predominantly includes non-conforming mortgage loans originated between 2002 and 2007, and is decreasing in size from principal pay-downs and default liquidations. Since we are no longer adding new mortgage loans to the long-term mortgage portfolio, we expect that the real estate services and long-term mortgage portfolio segments will become less meaningful in the future, unless we are able to generate business from unrelated parties.

Recent Developments

In March 2014, Excel, our wholly-owned indirect subsidiary, changed its name to Impac Mortgage Corp. (Impac Mortgage). We changed the name to further build on the historically positive brand name of "Impac" as well as restore brand continuity with the name of our other Impac Companies.

In March 2014, we sold AmeriHome, which was a duplicative operational mortgage platform, for \$10.2 million in cash, recording a gain of approximately \$3.0 million dollars. In conjunction with the transaction, as required by Fannie Mae, we used \$3.0 million of the proceeds to reduce our legacy repurchase liability with Fannie Mae.

In the fourth quarter of 2013, we shifted our mortgage lending focus to wholesale, correspondent and a centralized retail call center. We also consolidated our lending fulfillment centers to operate primarily in our Irvine, California office.

In the third quarter of 2013, we announced our re-entry into the residential warehouse lending business through our new division, Impac Warehouse Lending (www.impactwarehouse.com). This new division is expected to diversify our origination base and increase the capture rate of our approved correspondent sellers' business. Our warehouse lending group offers funding facilities to approved lenders. Our initial focus will be smaller mortgage bankers and credit unions, including some of our current correspondent customers. Offering warehouse lending provides added value for our correspondent customers, which we believe will increase the capture rate from our currently approved customers and increase volumes in our correspondent channel. In the first quarter of 2014, we are launching our new emerging banker warehouse lending program.

The mortgage lending industry is highly competitive, and may become more competitive as a result of legislative, regulatory, economic, and technological changes, as well as consolidation or

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expansion. Our competitors include money center banks, regional and community banks, thrifts, credit unions, real estate brokerage firms, mortgage brokers and mortgage banking companies.

In response to the increased compliance requirements, including the new qualified mortgage rules that took effect in January 2014, we have worked closely with our wholesale brokers and correspondent sellers to help them understand and implement procedures to be compliant with these new rules. Additionally, in response to lower volumes and the current compliance landscape, we are exploring new opportunities to provide additional mortgage products and services to meet the needs of our customers and borrowers. See further discussion in MD&A.

Our strategy during 2014 will be to return the Company to profitability and generate attractive, risk-adjusted returns for our stockholders over the long-term. In 2014, we will shift our channel focus to more business-to-business origination through our wholesale and correspondent channels focusing on (i) customer service, (ii) streamlining loan delivery, underwriting and funding and (iii) providing new loan products to meet the needs of our customers and (iv) loan quality. We expect to continue to originate conventional and government-insured loans as we believe that having the ability and substantial track record to sell loans directly to GSEs and issue Ginnie Mae securities makes us more competitive with regard to products, pricing and operational efficiencies. Further, we expect to offer expanded loan products beyond conventional and government-insured loan programs such as "non-qualified" mortgages that are expected to increase overall lending margins.

Furthermore, in 2013 we increased our mortgage servicing portfolio given the attractive characteristics of agency loans during a period of historically low interest rates and high credit quality which helps mitigate interest rate risk as well as creates a sustainable earning asset. On a selective basis, we have and will continue to strategically sell servicing to keep the amount of capital invested in servicing at acceptable levels while preserving capital needed for further growth.

Continuing Operations

Mortgage Lending Operations

Our mortgage lending activities primarily consist of the origination, sale and servicing of conventional loans eligible for sale to Fannie Mae and Freddie Mac, and government-insured loans eligible for Ginnie Mae securities issuance. We currently originate and fund mortgages through our wholly-owned indirect subsidiary, Impac Mortgage. In order to originate mortgage loans we must be able to finance them and hold them on our balance sheet until such loans are sold, generally within 10 to 15 days. In order to do this we must have lines of credit with banks (called warehouse lines) that allow us the short term funding required.

The following table presents selected data from our mortgage lending operations for the year ended December 31, 2013 and 2012.

(in millions)	For the year ended		
	December 31,		
	2013	2012	% Change
Originations	\$ 2,548.4	\$ 2,419.7	5%
Servicing Portfolio	3,128.6	1,492.1	110%

Our mortgage lending business grew rapidly during 2012 and increased slightly in 2013 to \$2.5 billion in terms of origination volumes as compared to \$2.4 billion for the prior year. In 2013, our correspondent channel achieved the most significant growth as a percentage of total originations. As interest rates began to rise in May 2013, we saw the refinance volumes decline significantly. With the

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increase in rates, our lending volumes in the latter part of 2013 were lower than what we anticipated resulting in a net loss for the mortgage lending segment.

Our mortgage servicing portfolio continued to increase in 2013 from servicing-retained sales of conforming GSE-eligible loans and government-insured loans eligible for Ginnie Mae securities. In 2013, we sold \$1.7 billion of conforming GSE-eligible loans and we issued \$638.8 million of government securities through Ginnie Mae on a servicing retained basis. The servicing retained loan sales increased our mortgage servicing portfolio to \$3.1 billion at December 31, 2013.

Three origination channels are utilized to originate or acquire mortgage loans Wholesale, Correspondent and Retail. Each channel produces similar mortgage loan products and applies similar underwriting standards. At December 31, 2013, we had one origination fulfillment center located in Irvine, California.

(in millions)	For the year ended December 31,			
	2013	%	2012	%
Originations by Channel:				
Wholesale	\$ 971.2	38%	\$ 1,293.2	53%
Correspondent	867.8	34%	391.2	17%
Retail	709.4	28%	735.3	30%
Total originations	\$ 2,548.4	100%	\$ 2,419.7	100%

Wholesale In a wholesale transaction, our account executives work directly with mortgage brokers who originate and document loans for delivery to one of our operational centers where we underwrite and fund the mortgage loan. Each loan is underwritten to our underwriting standards and if approved, the borrower is sent new disclosures under our name and the loan is funded in the name of Impac Mortgage. Prior to accepting loans from mortgage brokers, each mortgage broker is required to meet our guidelines for minimum experience, credit score and net worth. We also obtain a third-party due diligence report for each prospective broker that verifies licensing and provides information on any industry sanctions that might exist. In addition, each mortgage broker is required to sign our broker agreement that contains certain representations and warranties from the brokers. For the year ended December 31, 2013, we closed loans totaling \$971.2 million in this origination channel, which equaled 38% of total originations, as compared to \$1.3 billion or 53% of total originations during 2012.

Correspondent Our correspondent channel represents mortgage loans acquired from our correspondent sellers. Our correspondent channel has historically targeted a market of small banks, credit unions and small mortgage banking firms. Prior to accepting loans from correspondent sellers, each seller is underwritten to determine if it meets financial and other guidelines. Our review of each prospective seller includes obtaining a third party due diligence report that verifies licensing, insurance coverage, quality of recent FHA originations and provides information on any industry sanctions that might exist. In addition, each seller is required to sign our correspondent seller agreement that contains certain representations and warranties from the seller allowing us to require the seller to repurchase a loan sold to us for various reasons including (i) ineligibility for sale to GSEs, (ii) early payment default, (iii) early pay-off or (iv) if the loan is uninsurable by a government agency. In our correspondent channel, the correspondent seller originates and closes the loan. After the loan is originated, the correspondent seller provides the needed documentation and information to us to review and determine if it meets our underwriting guidelines. The loan is acquired by us only after we approve it for purchase. We focus on customer service for our clients by facilitating prompt review by our due diligence team, providing bid pricing on both newly originated and seasoned portfolios, enabling clients to deliver one loan at a time on a flow basis and providing clients with expedited funding timelines. We purchase conventional loans eligible for sale to the GSEs and government-insured loans eligible for Ginnie Mae securities. For the

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year ended December 31, 2013, we closed loans totaling \$867.8 million in the correspondent origination channel, which equaled 34% of total originations, compared to \$391.2 million or 17% of total originations during 2012.

Retail Beginning in January 2014, we originate retail loans with a more centralized approach through our call center. When loans are originated on a retail basis, the origination documentation is completed inclusive of customer disclosures and other aspects of the lending process and funding of the transaction is completed internally. Our call center representatives contact borrowers through either inbound or outbound marketing campaigns sourced from purchase-money and refinance mortgage leads along with portfolio retention within our servicing portfolio. In 2013, we also originated retail loans at a loss through several branch offices. In the fourth quarter of 2013, in an effort to improve profitability, we sold the branches. For the year ended December 31, 2013, including the retail branches we closed \$709.4 million of loans in this origination channel, which equaled 28% of total originations, as compared to \$735.3 million or 30% of total originations during 2012.

Since 2011, we have provided loans to customers predominantly in the Western U.S. with California, Oregon and Washington comprising 61% of originations in 2013. Currently we provide nationwide lending with our retail call center and our correspondent sellers and mortgage brokers. We have one primary loan origination fulfillment center in Irvine, California.

Originations

Our loan products primarily include conventional loans for Fannie Mae and Freddie Mac and government loans insured by Federal Housing Authority (FHA), Veteran's Administration (VA) and U.S. Department of Agriculture (USDA). We have also enhanced our product offering to include more loan products less sensitive to changing interest rates, including FHA 203(k), a home improvement loan that provides the borrower funds to make renovations, reverse mortgages, intermediate Adjustable Rate Mortgages and GSE and government-insured loan programs such as Home Affordable Refinance Program (HARP) loans which help timely paying borrowers to refinance into a loan with a lower interest rate despite the loan balance being greater than the estimated fair value of their home. We believe that these loan products will prepay at a slower rate as compared to other products. By retaining these loan products in our servicing portfolio, we expect to maintain a less volatile mortgage servicing portfolio. Originations by loan type for 2013 and 2012 are as follows.

	For the year ended December 31,			
(in millions)	2013	2012	% Change	
Government (1)	\$ 731.4	\$ 703.7	4%	
Conventional (2)	1,788.0	1,653.2	8%	
Other	29.0	62.8	-54%	
Total originations	\$ 2,548.4	\$ 2,419.7	5%	

(1) Includes government-insured loans including FHA, VA and USDA

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

Loan Sales Selling Loans to GSEs, Issuing Ginnie Mae Securities and Selling Loans on a Whole Loan Basis

We sell our mortgage loans to the secondary market, including sales to the GSEs and issuing securities through Ginnie Mae. We primarily sell loans on a servicing-retained basis where the loan is sold to an investor such as Fannie Mae, and we retain the right to service that loan, called mortgage servicing rights or MSRs. We also "sell" loans to Ginnie Mae by issuing Ginnie Mae securities through a

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process whereby a pool of loans is transferred to Ginnie Mae as collateral for a government mortgage-backed security. Additionally, we sell our residential mortgage loans on a whole loan basis where the investor also acquires the servicing rights.

The following table indicates the breakdown of our loan sales to GSEs, issuance of Ginnie Mae securities and loans sold to investors on a whole loan basis for the periods as indicated:

	For the year ended December 31,	
(in millions)	2013	2012
Fannie Mae	\$ 1,497.3	\$ 1,504.8
Freddie Mac	227.9	608.3
Ginnie Mae	638.8	99.0
Total servicing retained sales	\$ 2,364.0	\$ 2,212.1
Other (servicing released)	102.6	89.9
Total loan sales	\$ 2,466.6	\$ 2,302.0

Mortgage Servicing

Upon our sale of loans to GSEs or the issuance of securities through Ginnie Mae, we generally retain the servicing rights with respect to the mortgage loans. We also sell loans on a servicing-released basis to secondary market investors where we do not retain the servicing rights. When we retain servicing rights, we are entitled to receive a servicing fee which is collected from interest payments made by the borrower and paid to us on a monthly basis equal to a specified percentage, typically between 0.25% and 0.44% per annum of the outstanding principal balance of the loans. We may also be entitled to receive additional servicing compensation, such as late payment fees and earn additional income through the use of non-interest bearing escrows. As a mortgage servicer, we are required to advance certain amounts to meet the contractual loan servicing requirements for certain investors. We advance principal, interest, property taxes and insurance for borrowers that have insufficient escrow accounts, plus any other costs to preserve the property. Also, we will advance funds to maintain, repair and market foreclosed real estate properties.

We have hired a nationally recognized residential servicer to sub-service the servicing portfolio. Although we use a sub-servicer to provide primary servicing and certain default servicing functions, our servicing surveillance team, which is experienced in loss mitigation and real estate recovery, monitors and surveys the performance of the loans and sub-servicer. We generally earn a servicing fee on each loan, but we also incur the cost of the sub-servicer as well as the internal servicing surveillance team. Servicing fees are collected from interest payments made by the borrower. Incurring the cost of both a sub-servicer and an internal surveillance team reduces the net revenues we earn from the mortgage servicing portfolio, however, we believe it reduces our risk by minimizing delinquencies and repurchase risk.

During 2013, the mortgage servicing portfolio increased to \$3.1 billion from \$1.5 billion at the end of 2012, generating gross servicing fees of \$6.8 million, and \$3.0 million in 2013 and 2012, respectively.

Risk Management

Underwriting

We primarily originate residential first mortgage loans for sale that conformed to the respective underwriting guidelines established by Fannie Mae, Freddie Mac, FHA, VA and USDA. Our mortgage

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loans are underwritten individually on a loan-by-loan basis. Each mortgage loan originated from our retail and wholesale channel are underwritten by one of our in-house loan underwriters or by a third party contract underwriter using our underwriting guidelines. Each mortgage loan originated from our correspondent channel is reviewed internally or by a third party underwriting company to determine if the borrower meets our underwriting guidelines.

Our criteria for underwriting generally include, but are not limited to, full documentation of borrower's income, assets, other relevant financial information, the specific agency's eligible loan-to-value ratios, borrower's debt-to-income ratio and full appraisals when required. Variances from any of these standards are permitted only to the extent allowable under the specific program requirements. Our underwriting procedures for all retail and wholesale loans require the use of a GSE automated underwriting systems (AUS). Our underwriting procedures for all correspondent loans that have been originated by a correspondent seller includes a third party file review including verification that the borrower's credit and the collateral meets our applicable program guidelines and an appropriate AUS report has been completed. They also verify the loan is compliant with regulatory guidelines. In addition, the third-party performs pre-funding quality control procedures prior to acquisition. Management reviews the reports prior to the acquisition of any correspondent loan.

Quality Control

Our mortgage brokers, within our wholesale channel and our correspondent sellers are reviewed and approved prior to the acquisition or origination of any loans. Each seller is required to sign our correspondent seller agreement that contains certain representations and warranties from the seller requiring the seller to repurchase a loan sold to us for various reasons including loan ineligibility for sale to GSEs or if the loan is uninsurable by a government agency. Each broker is required to sign our broker agreement that contains certain representations and warranties from the broker requiring the broker to indemnify us for various reasons including early payment defaults or early pay-offs which may lead to repurchase requests and reimbursement of premiums to our investors.

Prior to funding, all retail and wholesale loans are reviewed internally by our quality control department to verify the loan conforms to our program guidelines and meets state and federal compliance guidelines. Prior to the acquisition of a correspondent loan, a third-party performs pre-funding quality control procedures. Management reviews the third-party reports prior to the acquisition of any correspondent loan. We also perform post origination quality controls procedures on at least 10% of all mortgage loans funded or acquired. Additionally, we closely monitor the servicing performance of loans retained in our mortgage servicing portfolio to identify any opportunities to improve our underwriting process or procedures and identify any issues with mortgage brokers or correspondent sellers. Findings are summarized monthly by our credit committee and the appropriate changes are implemented.

Our risk management committee, comprised of senior management, meets periodically to identify, monitor, measure and mitigate key risks in the organization. The committee's responsibilities include monitoring the hedging positions and its effectiveness in mitigating interest rate risk, status of aged unsold loans, status of loans on the warehouse lines, the review of quality control reports, review of servicing portfolio and loan performance and the adequacy of the repurchase reserve and methodology.

Hedging

We are exposed to interest rate risks relating to our mortgage lending operations. Our strategy is to mitigate the credit, market and interest rate risk from loan originations by either selling newly originated loans to GSEs or issuing Ginnie Mae mortgage-backed securities. We typically attempt to sell our mortgage loans within 10 to 15 days from acquisition or origination.

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We enter into interest rate lock commitments, or IRLCs, and commitments to sell mortgages to help mitigate some of the exposure to the effect of changing interest rates on our mortgage lending operation. We actively manage the IRLCs and uncommitted mortgage loans held for sale on a daily basis. To manage the risk, we utilize forward sold Fannie Mae and Ginnie Mae mortgage-backed securities to hedge the fair value changes associated with changes in interest rates.

Data Security

Sensitive borrower information, such as name, address and social security number is included in nearly all mortgage loan files. We seek to keep this information secure for every borrower. To do so, our policy requires all sensitive borrower data to be transmitted to us through our secure website portal which allows all our customers, correspondent sellers, mortgage brokers and individual borrowers to send data to us securely in an encrypted manner.

Real Estate Services

We provide loss mitigation and recovery services primarily on our long-term mortgage portfolio. Our portfolio loss mitigation and real estate services operations include the following services:

Default surveillance and loss recovery services for residential and multifamily mortgage portfolios (primarily our own long-term mortgage portfolio) for loan servicers and investors to assist them with overall portfolio performance and maximizing cash recovery;

Loan modification solutions to individual borrowers. We interact with loan servicers on behalf of the borrowers to assist them in lowering the monthly mortgage payments, which allows them to make their mortgage payments and possibly remain in their homes. We earn fees for these services once the modification is completed;

REO surveillance and disposition services. We provide these services to portfolio managers and servicers to assist them with improving portfolio performance by maximizing liquidation proceeds from managing foreclosed real estate assets. We also provide short sale (where a lender agrees to take less than the balance owed from the borrower) services on pre-foreclosure properties for servicers, investors and institutions with distressed and delinquent residential and multifamily mortgage portfolios, these services also included real estate brokerage services; and

Monitoring, reconciling and reporting services for residential and multifamily mortgage portfolios for investors and servicers.

We intend to continue to provide these services predominantly for our long-term mortgage portfolio. We expect these revenues to gradually decline over time as our long-term mortgage portfolio declines. To the extent that opportunities arise, we may expand our loss mitigation and real estate services to third parties.

Long-Term Mortgage Portfolio

Our long-term mortgage portfolio consists of our residual interests in securitizations represented on our consolidated balance sheet as the difference between total trust assets and total trust liabilities.

Our long-term mortgage portfolio includes adjustable rate and, to a lesser extent, fixed rate Alt-A single-family residential mortgages and commercial (primarily multifamily residential loans) mortgages that were acquired and originated primarily by our discontinued, non-conforming mortgage lending operations and retained in our long-term portfolio before 2008. Alt-A mortgages are primarily first lien

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mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines but have loan characteristics that make them non-conforming under those guidelines.

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

Commercial mortgages in our long-term mortgage portfolio are primarily adjustable rate mortgages with initial fixed interest rate periods of two, three, five, seven and ten years that subsequently convert to adjustable rate mortgages (hybrid ARMs). Commercial mortgages have provided greater asset diversification on our balance sheet as borrowers of commercial mortgages typically have higher credit scores and commercial mortgages typically have lower LTVs.

Historically, we securitized mortgages in the form of collateralized mortgage obligations, or CMOs, which were consolidated and accounted for as secured borrowings for financial statement purposes. Securitized mortgages in the form of real estate mortgage investment conduits, or REMICs, were either consolidated or unconsolidated depending on the design of the securitization structure. We consolidated the variable interest entity, or VIE, as the primary beneficiary of the sole residual interest in each securitization trust where we also performed the master servicing. Amounts consolidated were included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets. At December 31, 2013, our residual interests in securitizations (represented by the difference between total trust assets and total trust liabilities) decreased to \$10.6 million, compared to \$15.9 million at December 31, 2012.

Since 2007, we have not added any mortgages to our long-term mortgage portfolio.

For additional information regarding the long-term mortgage portfolio refer to Item 7. "*Management's Discussion and Analysis of Financial Condition*," and Note 10. "*Securitized Mortgage Trusts*" in the notes to the consolidated financial statements.

Master Servicing

Until 2007, we retained master servicing rights on substantially all of our non-conforming single-family residential and commercial mortgage acquisitions and originations that were retained or sold through securitizations. The function of a master servicer includes collecting loan payments from loan servicers and remitting loan payments, less master servicing fees receivable and other fees, to a trustee or other purchaser for each series of mortgage-backed securities or mortgages master serviced. In addition, as master servicer, we monitor compliance with the servicing guidelines and perform or contract with third parties to perform all functions not adequately performed by any loan servicer. The master servicer is also required to advance funds, or cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages, but only to the extent that it is determined that such advances are recoverable either from the borrower or from the liquidation of the property. Master servicing fees are generally 0.03% per

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annum on the unpaid principal balance of the mortgages serviced. As a master servicer, we also earn income or incur expense on principal and interest payments received from borrowers until those payments are remitted to the investors of those mortgages. Fees from the master servicing portfolio have declined significantly due to a decrease in principal balances and a decline in interest rates since the end of 2008, which affects the amount we earn on balances held in custodial accounts. At December 31, 2013, we were the master servicer for approximately 32,000 mortgages with an unpaid principal balance of approximately \$8.7 billion of which \$2.1 billion of those loans were 60 or more days delinquent. At December 31, 2013, we were also the master servicer for unconsolidated securitizations (included in the total master servicing portfolio above) totaling approximately \$1.1 billion in unpaid principal balance of which \$0.4 billion of those loans were 60 or more days delinquent. Fees earned from master servicing are separate from those earned from mortgage servicing which are generated from servicing rights from new originations since 2011.

Corporate

This segment includes all corporate services groups including information technology, human resources, legal, facilities, accounting, treasury and corporate administration. This corporate services group supports all operating segments. A portion of these costs are allocated to the operating segments based on certain allocation methods. These corporate services groups are centralized to be efficient and avoid any duplicate cost burdens. Specific costs associated with being a publicly traded company are not allocated and remain in this segment.

At our corporate headquarters in Irvine, California, we occupy office space under our lease agreement. The leased office space includes office space we are attempting to sublet as well as space we are maintaining for future growth. The cost of unused space is recorded in the corporate segment since it is not attributed to mortgage lending or real estate services segments.

The corporate segment also includes debt expense related to the Convertible Notes as well as capital leases. Debt service expense is not allocated to the mortgage lending, real estate services or long-term mortgage portfolio segments. We have taken advantage of very low financing rates and entered into capital lease arrangements to finance the purchase of equipment, mostly computer equipment, used in all three segments. The interest expense associated with the capital leases is not allocated and remains in this segment.

Discontinued Operations

Discontinued operations primarily include mitigating the remaining repurchase liability exposure, which arose as a result of our representations and warranties with respect to sold mortgages during 2007 and prior, and expenses and liabilities associated with litigation matters related to our discontinued, non-conforming mortgage operations.

In previous years, when our discontinued, non-conforming mortgage operations sold loans to investors, we were required to make normal and customary representations and warranties about the loans sold. Whole loan sale agreements generally required us to repurchase loans if a representation or warranty given to the loan purchaser is breached. In addition, we could be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale. We continue to attempt to settle outstanding repurchase requests from third-party investors of our discontinued, non-conforming mortgage operations.

Regulation

The U.S. mortgage industry is heavily regulated. Our mortgage lending operations, as well as our real estate services, are subject to federal, state and local laws that regulate and restrict the manner in

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which we operate in the residential mortgage industry. Plus, mortgage bankers and brokers in our wholesale production channel and correspondents from which we purchase loans are also subject to regulation, which may have an effect on our business and the mortgage loans we are able to fund or acquire. Compliance with regulations in the mortgage industry requires us to incur costs and expenses in our operations. To the extent we, or others with which we conduct business, do not comply with applicable laws and regulations, we may be subject to fines, reimbursements and other penalties. The laws and regulations that we are subject to include the following:

the Federal Truth-in-Lending Act (known as TILA) and Regulation Z promulgated there under, which require certain disclosures to the borrowers regarding the terms of the loans and require substantial changes in compensation that can be paid to brokers and loan originators;

the Equal Credit Opportunity Act and Regulation B promulgated there under, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;

the Fair Housing Act, which prohibits discrimination in housing on the basis of race, color, national origin, religion, sex, familial status, or handicap, in housing-related transactions;

the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;

the Fair and Accurate Credit Transaction Act, which regulates credit reporting and use of credit information in making unsolicited offers of credit;

the Gramm-Leach-Bliley Act, which imposes requirements on all lenders with respect to their collection and use of nonpublic financial information and requires them to maintain the security of that information;

the Real Estate Settlement Procedures Act (known as RESPA) and Regulation X, promulgated thereunder, which requires that consumers receive disclosures at various times and outlaws kickbacks that increase the cost of settlement services;

the Home Mortgage Disclosure Act, which requires the reporting of public loan data;

the Telephone Consumer Protection Act and the Can Spam Act, which regulate commercial solicitations via telephone, fax, and the Internet;

the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws;

the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions;

the Fair Debt Collection Practices Act, which prohibits unfair debt collection practices; and

the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, which establishes national minimum standards for mortgage licensees.

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In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act is a sweeping overhaul of the financial regulatory system. The Dodd-Frank Act has increased, and will continue to increase, regulation of the mortgage industry, including: generally prohibiting lenders from making residential mortgage loans unless a good faith determination is made of a borrower's creditworthiness

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based on verified and documented information; requiring the Consumer Financial Protection Bureau (CFPB) to enact regulations, which were recently finalized, to help assure that consumers are provided with timely and understandable information about residential mortgage loans that protect them against unfair, deceptive and abusive practices; and requiring federal regulators to establish minimum national underwriting guidelines for residential mortgages that lenders will be allowed to securitize without retaining any of the loans' default risk.

Our mortgage lending operations is an approved Housing and Urban Development (HUD) lender, a Ginnie Mae approved issuer and servicer and an approved seller/servicer of Fannie Mae and Freddie Mac. As such, we are required to submit annually to Fannie Mae, Freddie Mac, and HUD, as applicable, audited financial statements, or the equivalent, according to the financial reporting requirements of each regulatory entity for its sellers/servicers. The Company's affairs are also subject to examination by Fannie Mae, Ginnie Mae, Freddie Mac, HUD and state regulatory agencies at any time to assure compliance with applicable regulations, policies and procedures. Also refer to "Regulatory Risks" under Item 1A. Risk Factors for a further discussion of regulations that may affect us.

Competition

We operate in a highly competitive industry that could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continued consolidation or expansion. Our competitors include banks, thrifts, credit unions, real estate brokerage firms and mortgage brokers and mortgage banking companies. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates, lending limits and customer convenience. To compete effectively, we must have a very high level of operational, technological, and managerial expertise, as well as access to capital at a competitive cost. Many of our competitors are larger than we are and have access to greater financial resources than we do, which can place us at a competitive disadvantage. In addition, many of our largest competitors are banks or affiliated with banking institutions, the advantages of which include, but are not limited to, the ability to hold new mortgage loan originations in an investment portfolio and having access to financing with more favorable terms than we do, including lower funding cost with bank deposits as a source of liquidity.

Our real estate services segment competes with firms that provide similar services, including loan modification companies, real estate asset management and disposition companies and real estate brokerage firms. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability to provide real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency.

Risk factors, as outlined below, provide additional information related to risks associated with competition in the mortgage industry.

Employees

As of December 31, 2013 and 2012, we had a total of 312 and 540 employees, respectively. Management believes that relations with our employees are good. We are not a party to any collective bargaining agreements.

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ITEM 1A. RISK FACTORS

Some of the following risk factors relate to a discussion of our assets. For additional information on our asset categories refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as the accompanying notes to the consolidated financial statements.

Risks Related To Our Businesses

Our long-term success is primarily dependent on our ability to increase our mortgage origination volumes and profits and to a lesser extent maintain our real estate services profits and realize cash flows from our long-term mortgage portfolio.

We believe that a key driver of growth of our profitability will be increasing our mortgage origination volumes. Our success is dependent on many factors, some of which we can control and others we cannot, such as the successful implementation of our new loan origination system and documentation and data capture technology, increasing our loan origination operational capacities, attracting qualified employees, ability to maintain our approvals with Fannie Mae, Freddie Mac, Ginnie Mae and other investors, ability to increase our mortgage servicing portfolio, the ability to obtain adequate warehouse borrowing capacity, the ability to adequately maintain loan quality and manage the risk of losses from repurchases, and the changing regulatory environment for mortgage lending.

The ability to generate revenues in the real estate services segment is based on our ability to continue to provide services to the long-term mortgage portfolio, and seek opportunities to provide services to unrelated third parties.

Realizing cash flows from our mortgage portfolio is dependent on the performance of the underlying mortgage loans and the performance of the servicers. At December 31, 2013, our debt obligations, consisting of our trust preferred securities, junior subordinated notes, bank loans and the convertible notes, were an aggregate of approximately \$93.8 million in outstanding net principal balance. If we are unable to generate net income from our mortgage lending operations and real estate services and cash flows from our mortgage portfolio, we may be unable to satisfy our future operating costs and liabilities, including repayment of our debt obligations.

The Company, through its subsidiaries, has entered into financing facility agreements to fund loans for the mortgage lending operations that contain certain financial covenants.

Our warehouse facilities contain covenants, including requirements to maintain a certain minimum net worth, liquidity, litigation judgment thresholds, debt ratios, profitability levels and other customary debt covenants. A breach of the covenants can result in an event of default under these facilities and as such allows the lender to pursue certain remedies, which may constitute a cross default under other agreements. If we are unable to meet or maintain the necessary covenant requirements or satisfy, or obtain waivers from, the continuing covenants, this could have a material adverse effect on our financial condition and results of operations.

We may not be able to access financing sources on favorable terms, or at all, which could adversely affect our ability to implement and operate our business as planned.

Future financing sources may include borrowings in the form of bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private equity and debt issuances and derivative instruments, in addition to transactions or asset specific funding arrangements. Our access to sources of financing depends upon a number of factors some of which we have little or no control, including general market conditions, resources and policies of lenders. Under current market conditions, many forms of structured financing

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arrangements are generally unavailable, which also in the past has limited our ability to borrow under short term warehouse and repurchase agreements that are intended to be refinanced by such financings. In addition, if regulatory capital requirements imposed on our private lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity. Consequently, the expansion of our mortgage lending operations may be dictated by the cost and availability of financing, specifically warehouse facilities. Depending on market conditions at the relevant time, we may have to rely more heavily on additional equity issuances, which may be dilutive to our shareholders, or on less efficient forms of debt financing that require a larger portion of our cash flow from operations, thereby reducing funds available for our operations and future business opportunities. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which could negatively affect our results of operations. Furthermore, we have recently entered into the warehouse lending business making use of funds from our warehouse facility to lend to other mortgage bankers. If our access to such funds are restricted or are on terms that are materially changed, we may not be able to continue those operations which may affect our income and loan origination volumes.

Mortgage market conditions have had and may continue to have a material adverse effect on our earnings and financial condition.

Our results of operations are materially affected by conditions in the mortgage and real estate markets, the financial markets and the economy generally. Beginning in 2007, the mortgage industry and the single-family residential housing markets, and to a lesser extent multifamily residential housing markets, were adversely affected as home prices declined and delinquencies and defaults significantly increased. Borrowers found it difficult to refinance due to home price depreciation and lenders tightened their underwriting guidelines, which led to further increases in defaults and credit losses. During 2013, although housing prices rebounded in parts of the U.S, the Company continued to be significantly and negatively affected by the weak economic environment. As a result, non-conforming mortgage loans have not performed up to historical expectations, and the fair value of non-conforming mortgage loans has deteriorated. This, in turn, has resulted in declining revenues and increased expenses associated with the long-term mortgage portfolio, including increases in loan losses and impairment charges, losses sustained in the operation of real estate properties acquired in foreclosure proceedings and foreclosure related professional fees. These factors have led to deterioration in the quality of the Company's long-term mortgage portfolio, as evidenced by the delinquencies, foreclosures and credit losses.

The adverse market conditions have affected our mortgage loan delinquencies and REO in the long-term mortgage portfolio. At December 31, 2013, the Company's long-term mortgage portfolio had 22.4% or \$1.7 billion of loans that were 60 days or more delinquent, included in continuing and discontinued operations, compared to 22.8% or \$2.0 billion at December 31, 2012. REO decreased 16% to \$18.9 million at December 31, 2013 as compared to \$22.5 million at December 31, 2012. Losses from the sale of REO are within the nonrecourse securitization trusts but could result in reduced cash flows from the Company's residual interests in respective securitizations. These conditions, which increase the cost and reduce the availability of debt, may continue or worsen in the future.

The disruption in the capital markets and secondary mortgage markets has also reduced liquidity and investor demand for mortgage loans and mortgage backed securities, while yield requirements for these products have increased. Continuing concerns about the declining real estate market, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit, have contributed to increased volatility and diminished expectations for the economy and markets going forward. The mortgage market has been severely affected by changes in the lending landscape and there is no assurance that these conditions have stabilized or that they will not worsen. These unprecedented

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disruptions and deterioration of the mortgage market have had, and may continue to have, an adverse effect on the Company's results of operations and financial condition.

As a result of an unprecedented immediate spike in interest rates in 2013, tightening of credit guidelines in the overall mortgage market, a decline in financed real estate transactions, increasing interest rates, current economic conditions, the extremely difficult and complex mortgage and credit regulatory environment and other factors it is projected by some mortgage organizations that mortgage originations during 2014 may be at historic low volumes since the early 2000's. As a result we may experience reduced volumes and thereby reduced income unless we are able to garner a greater market share of originations or sufficiently reduce costs.

Our hedging strategies recently implemented by our mortgage lending operations may not be successful in mitigating our risks associated with the market movement of interest rates.

We use various derivative financial instruments to provide a level of protection against interest rate risks in our mortgage lending operations, but no hedging strategy can protect us completely. When rates change, we expect to record a gain or loss on derivatives which would be offset by an inverse change in the value of mortgage loans held for sale and interest rate lock commitments. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. There have been periods, and it is likely that there will be periods in the future, during which we will not have offsetting gains or losses in mortgage loan and interest rate lock commitment values after accounting for our derivative financial instruments. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies, improperly executed and recorded transactions or inaccurate assumptions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses.

Representations and warranties made by us in our loan sales and securitizations may subject us to liability.

In connection with our loan sales to third parties and our prior securitizations, we transferred mortgages acquired and originated by us to third parties or into a trust in exchange for cash and, in the case of a securitized mortgage, residual certificates issued by the trust. The trustee, purchaser, bondholder, guarantor or other entities involved in the issuance of the securities (which may include bond insurers) may have recourse to us with respect to the breach of the representations, and warranties made by us at the time such mortgages are transferred or when the securities are sold. Those representations and warranties may include, but are not limited to, issues such as the validity of the lien, the absence of liens or delinquent taxes, the validity of the appraisal obtained in conjunction with the loan, the truthfulness of information used in the loan approval process, the loans compliance with all local, state and federal laws, the delivery of all documents required to perfect title to the lien, the loan meeting all underwriting criteria and the selection process used to include the loans in any particular transaction. Also, we engage in bulk whole loan sales pursuant to agreements that generally provide for recourse by the purchaser against us in the event of a breach of one of our representations or warranties, any fraud or misrepresentation during the mortgage origination process, or upon early default on such mortgage. We attempt to limit the potential recourse from such purchasers by seeking remedies from correspondent sellers and wholesale brokers who originated the mortgages if we did not originate the loan. However, many of the entities we acquired loans from in the past are no longer in business. In some cases, we may not be able to seek remedies from others whom have sold mortgage loans to us. Furthermore, if we discover, prior to the sale or transfer of a loan, that there is any fraud or misrepresentation with respect to the mortgage and the originator fails to repurchase the mortgage, then

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we may not be able to sell the mortgage or we may have to sell the mortgage at a discount. Changes in the timing, processes and procedures of our primary investors review loans which they purchase from us may affect the number of loans that are rejected, the timing of our loan sales, or the frequency of repurchase demands issued to us. Also, similar changes by mortgage insurers agree to insure loans may also affect the frequency and timing of our loan sales. As a result, the effectiveness of our loan sales, our repurchase reserves and our profitability may be affected as we may have to sell loans at a discount.

Competition in the residential mortgage industry and real estate services business is intense and may adversely affect our business operations and financial performance; the dominance of a limited number of companies may affect our ability to operate and compete effectively.

Competition in the residential mortgage industry and real estate services business is intense. Plus, the mortgage business has experienced substantial consolidation. Our competitors include banks, thrifts, credit unions, real estate brokerage firms, mortgage brokers, asset management companies, and mortgage banking companies. Several of our competitors enjoy advantages, including greater financial resources and access to capital, a wider geographic presence, more accessible branch office locations, more aggressive marketing campaigns, better brand recognition, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. To compete effectively, we must have a very high level of operational, technological, and managerial expertise, as well as access to capital at a competitive cost. As a result of reduced access to capital, general housing trends, rising delinquencies and defaults and other factors, many mortgage and real estate services firms have recently experienced severe financial difficulty, with some exiting the business or filing for bankruptcy protection, resulting in a consolidation of companies in such industries. The dominance of a limited number of companies have made it difficult to compete effectively, as such it may adversely affect our business operations and financial performance.

New regulatory laws affecting our operations may affect our ability to expand our mortgage lending operations.

Changes to the laws, regulations or regulatory policies can affect whether and to what extent we may be able to expand our mortgage lending activities. Many states and local governments and the Federal government have enacted, or may enact laws, or regulations that restrict or prohibit some provisions in some programs or businesses that we currently participate in or plan to participate in the future. As such, we cannot be sure that in the future we will be able to engage in activities that were similar to those we engaged or participated in the past thereby limiting our ability to commence new operations. As a result, we might be at a competitive disadvantage which would affect our operations and profitability.

The recently effective changes in loan originator compensation, qualified mortgages requirements and other regulatory restrictions may put us at a competitive disadvantage to our competitors. As a result of the nature of our operations, our capital, costs, source of funds and other similar factors may affect our ability to maintain and grow lending.

For example, the Consumer Financial Protection Bureau recently finalized its rulemaking implementing strict residential mortgage loan underwriting standards enacted under the Dodd-Frank Act. The Act and that rulemaking impose significant liability for violation of those underwriting standards, and offer certain protection from that liability only for loans that comply with tight limitations on upfront fees and that do not contain certain alternative features (like balloon payments). Those requirements, which become effective in 2014, may affect our ability to originate residential mortgage loans or the profitability of those operations.

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In addition to new rules and regulations involving areas such as loan officer compensation, servicing requirements, origination disclosures and various federal, state and local laws and regulations could pose substantial hardship on our ability to maintain our lending volumes and our compliance with such requirements could expose us to fines, penalties or licensing restrictions that could affect our operations. Additionally expensive and time consuming audits and reviews by state and federal regulators could interfere with our operations and could negatively affect our ability to continue our operations in the same manner.

Our performance may be adversely affected by the performance of parties who service or sub-service our mortgage loans.

We contract with third parties for the servicing of our mortgage loans in our long-term mortgage portfolio, for which we are the master servicer, and the servicing portfolio in our mortgage lending operations. Our operations, performance and liabilities are subject to risks associated with inadequate or untimely servicing. If a servicer defaults or fails to perform to certain standards then this can be deemed to be a default or failure by us to perform those duties or functions. If we, or our sub-servicers, commit a material breach of our obligations as a servicer or master servicer, we may be subject to damages or termination if the breach is not cured within a specified period of time following notice, causing us to lose servicing income. In addition, we may be required to indemnify the investor or securitization trustee against losses from any failure by us, as master servicer or on behalf of the sub-servicer, to perform the servicing obligations properly. If, as a result of a servicer or sub-servicer's failure to perform adequately, we were terminated as servicer by an investor or master servicer of a securitization, the value of any servicing or master servicing rights held by us could be adversely affected. Also, this could affect the cash flow generated by our servicing rights portfolio.

Poor performance by a sub-servicer may result in greater than expected delinquencies and foreclosures and losses on our mortgage loans or, in the case of our long-term mortgage portfolio, in our resulting exposure to investors, bond holders, bond insurers or others to whom we are responsible for the performance of our loan sub-servicers. A substantial increase in our delinquency or foreclosure rate could adversely affect our ability to access the capital and secondary markets for our financing needs. With respect to our long-term mortgage portfolio, greater delinquencies would adversely affect the value of our residual interests, if any, we hold in connection with that securitization.

One of the primary servicers of our long-term mortgage portfolio recently considered transferring the servicing rights and obligations to a third party. It is not unusual that whenever servicing is transferred, delinquencies increase often due to the borrower misunderstanding of the transfer and delays caused by payments being sent to the wrong servicer. This could increase delinquencies and as such adversely affect the performance of our securities and the value of our residual interests.

Mortgage servicing rights are a material asset on our consolidated balance sheets. The value of these rights are dependent upon various factors, including, but not limited to, the adequate performance of the servicing function by our sub-servicer, the responsibilities imposed on us by the investors of our loans for which we hold the servicing rights, interest rates, the cost of our sub-servicers, loan prepayments and delinquencies. As these factors and others vary, the value of our mortgage servicing rights may fluctuate which may affect our ability to meet financial covenants, maintain credit facilities, expand our operations and generate income from our operations.

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Our loss of approvals with, or the potential limitation or wind-down of, the role Ginnie Mae, Fannie Mae and Freddie Mac play in the residential mortgage-backed security (MBS) market may adversely affect our business, operations and financial condition.

We originate loans eligible for sale to Fannie Mae, Freddie Mac and government insured or guaranteed loans, such as FHA, VA and USDA loans, and loans eligible for Ginnie Mae securities issuance. We also service loans sold to the GSEs. We believe that having the ability to both sell loans directly to these agencies and issue Ginnie Mae securities gives us an advantage in the overall mortgage origination market. In 2008, the GSEs were placed in a conservatorship by the U.S. government. The Obama Administration has delivered a report to Congress regarding proposals to reform the housing finance market in the United States. The report, among other things, outlined various potential proposals to wind down Ginnie Mae or Fannie Mae and Freddie Mac and reduce or eliminate over time the role of the GSEs in guaranteeing mortgages and purchasing mortgage loans, as well as proposals to implement reforms relating to borrowers, lenders, and investors in the mortgage market, including reducing the maximum size of a loan that the GSEs can purchase, phasing-in a minimum down payment requirement for borrowers, improving underwriting standards, and increasing accountability and transparency in the securitization process. During 2011, the Treasury issued a White Paper titled "Reforming America's Housing Finance Market" (or the White Paper) that lays out, among other things, proposals to limit or potentially wind down the role that Fannie Mae and Freddie Mac play in the mortgage market. There have also been discussions concerning the ability or right of the GSEs to limit the amount of loans a company can sell to them based upon the company's net worth. This could negatively impact our growth. Most recently, the acting director of the Federal Housing Finance Agency announced that Fannie Mae and Freddie Mac will create a new business entity to create a single securitization platform as they plan for a future, which may include a future where the two companies may no longer exist. Any such proposals, if enacted, may have broad adverse implications for the MBS market and our business, operations and financial condition.

We also service loans on behalf of Fannie Mae and Freddie Mac, as well as loans that have been delivered into securitization programs sponsored by Ginnie Mae in connection with the issuance of agency guaranteed mortgage-backed securities. These entities establish the base service fee to compensate us for servicing loans as well as the assessment of fines and penalties that may be imposed upon us for failing to meet servicing standards.

The extent and timing of any regulatory reform regarding the GSEs and the home mortgage market, as well as any effect on Impac's business operations and financial results, are uncertain. We expect such proposals to be the subject of significant discussion and it is not yet possible to determine whether such proposals will be enacted and, if so, when, what form any final legislation or policies might take or how proposals, legislation or policies may impact the MBS market and our business, operations and financial condition. Our inability to make the necessary changes to respond to these changing market conditions or loss of our approved seller/servicer status with the GSEs would have a material adverse effect on our mortgage lending operations and our financial condition, results of operations and cash flows. If those agencies cease to exist, wind down, or otherwise significantly change their business operations or if we lost approvals with those agencies, our ability to profitably sell the loans could be affected and our profitability, business, operations and financial condition may be adversely affected.

Growth may place significant demands on our management and our infrastructure.

For our operations to continue to grow in size, scope and complexity, we will need to improve and upgrade our systems and infrastructure to meet the demands and maintain efficiency of our business. Growth could strain our ability to maintain reliable service levels, develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train and retain highly skilled personnel. Managing our growth will require significant expenditures and

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allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business would be harmed.

We may become, and in some cases are, a defendant in lawsuits, some of which may be class action matters, and we may not prevail in these matters.

Individual and class action lawsuits and regulatory actions alleging improper marketing practices, abusive loan terms and fees, disclosure violations and other matters are risks faced by all mortgage originators. We are a defendant in purported class actions pending in different states and could be named in other matters. Some of the actions allege generally that the loan originator (whether or not Impac) improperly charged fees in violation of various state lending or consumer protection laws in connection with mortgages that we acquired while others allege that our lending practice was a statutory violation, an unlawful business practice, an unfair business practice or a breach of a contract. They generally seek unspecified compensatory damages, punitive damages, pre- and post-judgment interest, costs and expenses and rescission of the mortgages, as well as a return of any improperly collected fees. We are also subject to a purported class action lawsuit relating to the tender of our preferred stock that is seeking cumulative dividends and the election of two directors by the preferred holders. We will incur defense costs and other expenses in connection with the lawsuits, and we cannot assure you that the ultimate outcome of these or other actions will not have a material adverse effect on our financial condition or results of operations. In addition to the expense and burden incurred in defending any of these actions and any damages that we may suffer, our management's efforts and attention may be diverted from the ordinary business operations in order to address these claims. Plus, we may be deemed in default of our warehouse lines if a judgment for money that exceeds specified thresholds is rendered against us. If the final resolution of this litigation is unfavorable to us in any of these actions, our financial condition, results of operations and cash flows might be materially adversely affected.

Litigation in the mortgage industry related to securitizations against issuers, sellers, originators, underwriters and others may adversely affect our business operations.

As defaults, delinquencies, foreclosures, and losses in the real estate market continue, there have been lawsuits by various investors, insurers, underwriters and others against various participants in securitizations, such as sponsors, depositors, underwriters, and loan sellers. Some lawsuits have alleged that the mortgage loans had origination defects, that there were misrepresentations made about the mortgage loans and the parties failed to properly disclose the quality of the mortgage loans or repurchase defective loans or that there were other misrepresentations or lack of representations. There have been claims related to our securitizations contending errors or misrepresentations in the securitization documents or process itself. Recently a court made a ruling in three such circumstances and as a result we may be subject to claims by third parties. Historically, we both securitized and sold mortgage loans to third parties that may have been deposited or included in pools for securitizations. We have received notices of claims for indemnification relating to mortgage-backed security bond issues, originated or sold by the Company from Countrywide, UBS, Wilmington Trust, Deutsche Bank and Merrill Lynch. The claims seek indemnification from claims asserted against them in various actions in which we are not parties. The notices each seek indemnification for all losses, liabilities, damages and legal fees and costs incurred in those actions. We also received a demand to cover losses on the purchase of mortgage-backed securities. In connection with these potential claims, we may become subject to litigation related to the securitizations. As a result, we may incur significant legal and other expenses in defending against claims and litigation and we may be required to pay settlement costs, damages, penalties or other charges which could adversely affect our financial results.

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Our share prices have been and may continue to be volatile and the trading of our shares may be limited.

The market price of our securities has been volatile. We cannot guarantee that a consistently active trading market for our securities will continue. In addition, there can be no assurances that such markets will continue or that any shares which may be purchased may be sold without incurring a loss. Any such market price of our shares may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for the shares in the future. The market price of our securities is likely to continue to be highly volatile and could be significantly affected by factors including:

unanticipated fluctuations in our operating results;

general market and mortgage industry conditions;

mortgage and real estate fees;

delinquencies and defaults on outstanding mortgages;

loss severities on loans and REO;

prepayments on mortgages;

the regulatory environment and results of our mortgage originations;

mark to market adjustments related to the fair value of loans held-for-sale, mortgage servicing rights, long-term debt and derivatives;

interest rates; and

litigation.

During 2013, our common stock reached an intra-day high sales price of \$15.39 on February 27th, and an intra-day low sales price of \$4.66 on December 5th. As of March 13, 2014, our stock price closed at \$6.61 per share. In addition, significant price and volume fluctuations in the stock market have particularly affected the market prices for the securities of mortgage companies such as ours. Furthermore, general conditions in the mortgage industry may adversely affect the market price of our securities. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our securities. If our results of operations fail to meet the expectations of security analysts or investors in a future quarter, the market price of our securities could also be materially adversely affected and we may experience difficulty in raising capital.

If we fail to maintain effective systems of internal control over financial reporting and disclosure controls and procedures, we may not be able to report our financial results accurately or prevent fraud, which could cause current and potential stockholders to lose confidence in our financial reporting, adversely affect the trading price of our securities or harm our operating results.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and operate successfully as a public company. Any failure to develop or maintain effective internal control over financial reporting and disclosure controls and procedures could harm our reputation or operating results, or cause us to fail to meet our reporting obligations. We cannot be certain that our efforts to improve or maintain our internal control over financial reporting and disclosure controls and procedures will be successful or that we will be able to maintain adequate controls over our financial processes and

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reporting in the future. Any failure to develop or maintain effective controls or difficulties encountered in their implementation or other effective improvement of our internal control over financial reporting and disclosure controls and procedures could harm our operating results, or cause us to fail to meet our reporting obligations. If we are unable to adequately establish or maintain our internal control over financial reporting, our external auditors will not be able to issue an unqualified opinion on the effectiveness of our internal control over financial reporting. In the past, we have reported, and may discover in the future, material weaknesses in our internal control over financial reporting.

Ineffective internal control over financial reporting and disclosure controls and procedures could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our securities or affect our ability to access the capital markets and could result in regulatory proceedings against us by, among others, the SEC. In addition, a material weakness in internal control over financial reporting, which may lead to deficiencies in the preparation of financial statements, could lead to litigation claims against us. The defense of any such claims may cause the diversion of management's attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation, even if resolved in our favor, could cause us to incur significant legal and other expenses or cause delays in our public reporting. Such events could harm our business, affect our ability to raise capital and adversely affect the trading price of our securities.

Violation of various federal, state and local laws may result in financial losses.

We are subject to federal, state and local laws and regulations related to the mortgage industry that generally regulate interest rates and other charges, require certain disclosure, and require applicable licensing. In addition, other state and local laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of our loans. Violations of certain provisions of these federal and state laws and regulations may limit our ability to collect all or part of the principal of or interest on the loans and in addition could subject us to damages, could result in the mortgagors rescinding the loans whether held by us or subsequent holders of the loans, or could cause us to repurchase the loan and thereby suffer a loss on the transaction. In addition, such violations could cause us to be in default under our credit and repurchase lines and could result in the loss of licenses held by us.

Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act contains the Mortgage Reform and Anti-Predatory Lending Act ("Mortgage Act"), which imposes a number of additional requirements on lenders and servicers of residential mortgage loans, including Impac, by amending certain existing provisions and adding new sections to TILA, RESPA, and other federal laws. It also broadly prohibits unfair, deceptive or abusive acts or practices, and knowingly or recklessly providing substantial assistance to a covered person in violation of that prohibition. The penalties for noncompliance with these laws are also significantly increased by the Mortgage Act, which could lead to an increase in lawsuits against mortgage lenders and servicers.

Issuances of additional shares of our common stock may adversely affect its market price and significantly dilute stockholders.

In order to support our business objectives, we may raise capital through the sale of equity or convertible securities. We may also issue shares of common stock to settle outstanding obligations and liabilities. The issuance or sale, or the proposed sale, of substantial amounts of our common stock in the public market could materially adversely affect the market price of our common stock or other outstanding securities. We do not know the actual or perceived effect of these issuances, the timing of any offerings or issuances of securities, the potential dilution of the book value or earnings per share of our securities then outstanding and the effect on the market price of our securities then outstanding.

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Our principal stockholders beneficially own a large portion of our stock, and accordingly, may have control over stockholder matters and sales may adversely affect the market price of our common stock.

As of March 13, 2014, Todd M. Pickup and Richard H. Pickup and their respective affiliates beneficially owned approximately, in the aggregate, 32.5% of our outstanding common stock, which includes 898,851 shares and 524,138 shares of the Company's common stock that Todd Pickup and Richard Pickup, respectively, has the right to acquire at any time by converting the outstanding principal balance of Convertible Notes Due 2018, at the initial conversion price of \$10.875 per share. These stockholders together possess significant influence over our company. Such ownership may have the effect of control over substantially all matters requiring stockholder approval, including the election of directors. Furthermore, such ownership and control may have the effect of delaying or preventing a change in control of our Company, impeding a merger, consolidation, takeover or other business combination involving our Company or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company. We do not expect that these stockholders will vote together as a group. In addition, sales of significant amounts of shares held by these stockholders, or the prospect of these sales, could adversely affect the market price of our common stock.

Increases in LIBOR rates could significantly reduce the future cash flows we receive from the retained interests in securitization trusts.

The cash flows from residual interests in certain securitization trusts are contingent upon various factors including the interest income collected on the loans in the trusts in excess of the interest expense paid to respective bondholders. These cash flows are distributed to the residual interest holder after the required interest and principal payments are made to the bondholders. Interest rates on the bonds usually adjust monthly with changes primarily in one-month London Inter-bank Offering Rate (also known as LIBOR). Derivatives instruments (primarily interest rate swap agreements) inside the securitization trusts initially entered into were designed to offset the risk of movements in LIBOR that created the adverse effect of the interest income collected on the loans being less than interest expense paid to the respective bondholders. However, many of these derivatives agreements have maturities less than the maturities of the loans. Therefore, increases in LIBOR rates could significantly reduce the future cash flows we receive from the retained interests in these securitization trusts. The amount of the remaining derivatives instruments is not sufficient to fully protect the residual cash flows from increases in LIBOR. The Company does not have the ability to change the derivatives instruments inside the trusts and does not currently hedge this interest rate risk with derivatives instruments outside the securitization trusts. As a result of not fully hedging interest rate risks, the Company's future residual cash flows could be significantly affected by rising LIBOR rates.

The geographic concentration of our mortgages increases our exposure to risks in those areas.

We do not set limitations on the percentage of mortgages composed of properties located in any one area (whether by state, zip code or other geographic measure). Concentration in any one area increases our exposure to the economic and natural hazard risks associated with that area. A majority of our mortgage acquisitions and originations and mortgages held in our long-term mortgage portfolio are secured by properties in California and, to a lesser extent, Florida, Washington and Oregon. These states have experienced, and may experience in the future, an economic downturn and California and Florida have also suffered the effects of certain natural hazards. As a result of the economic downturn, real estate values in California and Florida have decreased drastically and may continue to decrease in the future, which could have a material adverse effect on our results of operations or financial condition. In addition, Florida is among several states with higher than average costs for investors in circumstances of mortgage default and foreclosure, since the foreclosure process takes significantly longer than average.

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Accordingly, to the extent the mortgages we originate or are held in our long-term mortgage portfolio experience defaults or foreclosures in that area, we may be exposed to higher losses.

Furthermore, if borrowers are not insured for natural disasters, which are typically not covered by standard hazard insurance policies, then they may not be able to repair the property or may stop paying their mortgages if the property is damaged. This would cause increased foreclosures and decrease our ability to recover losses on properties affected by such disasters. This would have a material adverse effect on our results of operations or financial condition.

Loss of our current executive officers or other key management could significantly harm our business.

We depend on the diligence, skill and experience of our senior executives, including our chief executive officer and president. We believe that our future results will also depend in part upon our attracting and retaining highly skilled and qualified management. We seek to compensate our executive officers, as well as other employees, through competitive salaries, bonuses and other incentive plans, but there can be no assurance that these programs will allow us to retain key management executives or hire new key employees. The loss of our chief executive officer, president, or other senior executive officers and key management could have a material adverse effect on our operations because other officers may not have the experience and expertise to readily replace these individuals. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting or retaining such personnel. Furthermore, in light of our present financial condition, no assurance can be given that we will retain these and other executive officers and key management personnel. To the extent that one or more of our top executives or other key management personnel are no longer employed by us, our operations and business prospects may be adversely affected. The loss of, and changes in, key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and results of operations.

Non-conforming mortgage loans in the long-term mortgage portfolio may expose us to a higher risk of delinquencies, foreclosures and losses adversely affecting our earnings and financial condition.

Our long-term mortgage portfolio includes non-conforming single-family and multifamily mortgage loans. These are mortgages that generally did not qualify for purchase by government-sponsored agencies such as Fannie Mae and Freddie Mac. The performance of the long-term mortgage portfolio has been negatively affected by the losses from these mortgages. Credit risks associated with these mortgages may be greater than those associated with conforming mortgages. Mortgages made to these borrowers generally entail a higher risk of delinquency and higher losses than mortgages made to borrowers who utilize conventional mortgage sources. Delinquency, foreclosures and losses generally increase during economic slowdowns or recessions. The actual risk of delinquencies, foreclosures and losses on mortgages made to these borrowers are higher under current economic conditions than those in the past. Additionally, the combination of different underwriting criteria and higher rates of interest leads to greater risk, including higher prepayment rates and higher delinquency rates and /or credit losses. The long-term mortgage portfolio also contains loans that are interest only. If there is a decline in real estate values, as recently seen, borrowers may default on these types of loans since they have not reduced their principal balances, which, therefore, could exceed the value of their property. In addition, a reduction in property values would also cause an increase in the loan-to-value (LTV) ratio for that loan which could have the effect of reducing the value of the property collateralized by that loan, reducing the borrowers' equity in their homes to a level that would increase the risk of default.

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Losses from defaulted loans may be higher than anticipated because we did not obtain mortgage insurance or if the mortgage insurance company is insolvent.

Certain securitization trusts in the long term mortgage portfolio do not have credit enhancements such as mortgage pool insurance for all of the mortgages and mortgage investments. Generally, the Company required mortgage insurance on any first mortgage with an LTV ratio greater than 80%. During the time we hold mortgages for investment, we are subject to risks of borrower defaults and bankruptcies and special hazard losses that are not covered by standard hazard insurance. If a borrower defaults on a mortgage that we hold, we bear the risk of loss of principal to the extent there is any deficiency between the value of the related mortgaged property and the amount owing on the mortgage loan and any insurance proceeds available to us through the mortgage insurer. Also, to the extent we have mortgage insurance coverage, we may bear the risk of the insurance carriers rescinding such insurance under the terms of the policy, or not being able to make the required payments which will increase losses on foreclosures.

A material difference between the assumptions used in the determination of the estimated fair value of our residual interests in our long-term mortgage portfolio and our actual experience could cause us to write down the value of these securities and could harm our liquidity and financial condition.

We receive cash flows from the residual interests in the securitization trusts within our long-term mortgage portfolio. Investments in residual interests and subordinated securities are much riskier than investments in senior mortgage-backed securities because these subordinated securities bear credit losses prior to the related senior securities. The risk associated with holding residual interests and subordinated securities is greater than holding the underlying mortgage loans directly due to the concentration of losses attributed to the subordinated securities. The value of residual interests represents the present value of future cash flows expected to be received by us from the excess cash flows created in the securitization transaction. In general, future cash flows are estimated by taking the coupon rate of the loans underlying the transaction less the interest rate paid to the bond holders, less contractually specified servicing and trustee fees, and after giving effect to estimated prepayments, credit losses and over-collateralization requirements. We estimate future cash flows from these securities and value them utilizing assumptions based in part on projected interest rates, delinquency, mortgage loan prepayment speeds and credit losses. It is extremely difficult to validate the assumptions we use in valuing our residual interests. Even if the general accuracy of the valuation model is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships which drive the results of the model. Such assumptions are complex as we must make judgments about the effect of matters that are inherently uncertain. If our actual experience differs from our assumptions, we could be required to reduce the value of these residual interests and securities. Furthermore, if our actual experience differs materially from these assumptions, our cash flow, financial condition, results of operations and liquidity may be harmed.

A failure in or breach of our technology infrastructure, or the systems operated by our third-party service providers, to protect confidential information of borrowers could damage our reputation and substantially harm our business.

We, or our third party service providers, maintain certain confidential information relating to our borrowers for mortgage loans. If the information is maintained electronically, we rely on encryption and authentication technology licensed from third parties to effect secure transmission of confidential information, including personal information and credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us to protect customer transaction data. We may also

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be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems, which could lead to loss of critical data or the unauthorized disclosure of confidential borrower data. The possession and use of personal information in conducting our business subject us to legislative and regulatory burdens that may require notification to customers of a security breach, restrict our use of personal information and hinder our ability to operate our mortgage lending business. A failure in or breach of the security of our information systems, or those of our service providers, could result in damage to our reputation and harm our business.

We are subject to risks of operational failure that are beyond our control.

Substantially all of our operations are located in Irvine, California and, to a lesser extent, other areas within the U.S. Our systems and operations are vulnerable to damage and interruption from fire, flood, telecommunications failure, break-ins, earthquake and similar events. Our operations may also be interrupted by power disruptions. Furthermore, our security mechanisms may be inadequate to prevent security breaches to our computer systems, including from computer viruses, electronic break-ins and similar disruptions. Such security breaches or operational failures could expose us to liability, impair our operations, result in losses, and harm our reputation.

Our ability to utilize our net operating losses and certain other tax attributes may be limited.

At the end of our 2013 taxable year, we had net operating loss (NOL) carry-forwards of approximately \$518.7 million for federal income tax purposes and approximately \$437.0 million for state income tax purposes. Although, under existing tax rules, we are generally allowed to use those NOL carry-forwards to offset taxable income in subsequent taxable years, our ability to use those NOL carry-forwards to offset income may be severely limited to the extent that we experience an ownership change within the meaning of Section 382 of the Internal Revenue Code. These provisions could also limit our ability to deduct certain losses (built-in losses) we recognize after an ownership change with respect to assets we own at the time of the ownership change. In general, an ownership change, as defined by Section 382, results from transactions increasing ownership of certain stockholders or public groups in our stock by more than 50% over a three-year period. In addition, the generation of taxable income from cancellation of debt may further reduce the NOL. Any limitation on our NOL carry-forwards that could be used to offset taxable income would adversely affect our liquidity and cash flow, as and when we become profitable. We may not generate sufficient taxable income in future periods to be able to realize fully the tax benefits of our NOL carry-forwards. In 2013, the Company enacted a NOL rights plan, subject to stockholder approval, which is designed to mitigate the risk of losing net operating loss carry-forwards and certain other tax attributes from being limited in reducing future income taxes. An NOL rights plan does not prevent a change of control transaction but instead strongly discourages it.

We do not expect to pay dividends in the foreseeable future and we may be restricted in paying dividends on our common stock.

We do not anticipate paying any dividends on our common stock in the foreseeable future and we intend to retain any future earnings for funding growth. We may also be restricted in paying dividends on our common stock. For example, our existing and any future warehouse facilities may contain covenants prohibiting dividend payments upon an occurrence of a default or otherwise. Furthermore, if we receive an adverse judgment on the purposed class action relating to our preferred stock and the Company is required to pay dividends on the preferred stock, we will be prohibited from paying dividends on our common stock until such preferred stock dividends are paid. As a result, you should not rely on an investment in our stock if you require dividend income. Capital appreciation, if any, of our stock may be your sole source of gain for the foreseeable future.

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Our operations may be adversely affected if we are subject to the Investment Company Act.

We intend to conduct our business at all times so as not to become regulated as an investment company under the Investment Company Act. The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.

In order to qualify for this exemption we must maintain at least 55% of our assets directly in mortgages, qualifying pass-through certificates and certain other qualifying interests in real estate. Our ownership of certain mortgage assets may be limited by the provisions of the Investment Company Act, should we ever be subject to the Act. If the SEC adopts a contrary interpretation with respect to these securities or otherwise believes we do not satisfy the above exception, we could be required to restructure our activities or sell certain of our assets. To insure that we continue to qualify for the exemption we may be required at times to adopt less efficient methods of financing certain of our mortgage assets and we may be precluded from acquiring certain types of higher-yielding mortgage assets. The net effect of these factors will be to lower our net interest income. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. Our business will be materially and adversely affected if we fail to qualify for this exemption.

If we are forced to liquidate, we may have few unpledged assets for distribution to unsecured creditors or equity holders.

In the event we are forced to liquidate, the majority of our assets is either collateral for specific borrowings or pledged as collateral for secured liabilities. We may have few remaining assets available for unsecured creditors and equity holders.

Provisions in our charter documents and Maryland law, as well as our NOL Rights Plan, impose limitations that may delay or prevent our acquisition by a third party.

Our charter and bylaws contain provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions include, among other things, advance notice for raising business issues or making nominations at meetings and blank check preferred stock that allows our board of directors, without stockholder approval, to designate and issue additional series of preferred stock with rights and terms as our board of directors may determine, including rights to dividends and proceeds in a liquidation that are senior to our common stock.

We are also subject to certain provisions of the Maryland General Corporation Law, which could delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the price for their common stock or may otherwise be in the best interests of our stockholders. This includes the "business combinations" statute that prohibits transactions between a Maryland corporation and "interested stockholders," which is any person who beneficially owns 10% or more of the voting power of our then-outstanding voting stock for a period of five years unless the board of directors approved the transaction prior to the party's becoming an interested stockholder. The five-year period runs from the most recent date on which the interested stockholder became an interested stockholder. The law also requires a super majority stockholder vote for such transactions after the end of the five-year period.

Maryland law also provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the shares eligible to vote. The control share acquisition statute would not apply to shares acquired in a merger, consolidation or share exchange if we were a party to the transaction. The control share

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acquisition statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

We have also adopted a Tax Benefits Preservations Rights Agreement, also known as an NOL rights plan, pursuant to which each share of common stock also has a "right" attached to it. Although the NOL rights plan was adopted to help preserve the value of certain deferred tax benefits, including those generated by net operating losses, it also has the effect of deterring or delaying an acquisition of the Company by a third party. The rights are not exercisable except upon the occurrence of certain takeover-related events most importantly, the acquisition by a third party (the "Acquiring Person") of more than 4.99% of our outstanding voting shares. Once triggered, the rights entitle the stockholders, other than the Acquiring Person, to certain "flip-in", "flip-over" and exchange rights. The effect of triggering the rights is to expose the Acquiring Person to severe dilution of its ownership interest, as the shares of common stock of our Company (or any surviving corporation) are offered to all of the stockholders other than the Acquiring Person at a steep discount to their market value.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our primary executive and administrative offices are located at 19500 Jamboree Road, Irvine, California 92612 where we have a premises lease expiring in November 2016. We have two options to extend the term for five-year periods for each option. The premises consist of a seven-story building containing approximately 210,000 square feet with an initial annual rental rate of \$31.80 per square foot, which amount increases every 30 months since commencement of the lease in October 2006. As of December 31, 2013, we have subleased approximately 82,000 square feet of our corporate headquarters.

ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

We are a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against us. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, we generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, we established an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any cases, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what we believe to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent our maximum loss exposure. At December 31, 2013, we have a \$4.2 million accrued liability recorded for such estimated loss exposure.

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

The legal matters summarized below are ongoing and may have an effect on the Company's business and future financial condition and results of operations:

On or about April 20, 2011, an action was filed entitled Federal Home Loan Bank of Boston v. Ally Financial Inc., et al, naming IMH Assets Corp, IFC, the Company, and ISAC as defendants. The complaint alleges misrepresentations in the materials used to market mortgage-backed securities that the plaintiff purchased. The complaint seeks damages and attorney's fees in an amount to be established at time of trial. The case was removed to the United States District Court for the District of Massachusetts and on September 30, 2013, the Court granted the Company's motion to dismiss claims against it arising under the Massachusetts Uniform Securities Act. The case remains pending as to other claims against the Company.

On January 30, 2012, a Summons with Notice was filed entitled Deutsche Zentral-Genossenschaftsbank AG New York Branch, dba DZ Bank AG, New York Branch v. JPMorgan Chase & Co., et al. Named as a defendant in that action is ISAC. On August 3, 2012, a Consolidated Complaint was filed in which the above matter was consolidated with two other cases by the same plaintiff and DG Holding Trust. ISAC first received a copy of the complaint during the third quarter of 2012. The Consolidated Complaint alleges misrepresentations in connection with the marketing and sale of mortgage backed securities issued by ISAC that the plaintiff purchased. The complaint seeks rescission, damages, prejudgment interest, punitive damages, and attorney's fees in an amount to be proven at trial. On November 15, 2013, the plaintiff filed an amended complaint. Discovery in this matter is proceeding at this time.

On April 30, 2012 a purported class action was filed entitled Marentes v. Impac Mortgage Holdings, Inc., alleging that certain loan modification activities of the Company constitute an unfair business practice, false advertising and marketing, and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and pre-judgment interest. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant. On October 2, 2012, the plaintiff dismissed Impac Mortgage Holdings, Inc., without prejudice. On December 27, 2012, the court granted IFC's motion to dismiss and on January 30, 2013, the plaintiffs appealed the court's dismissal. The plaintiff's appeal remains pending.

In October 2011 and November 2012, the Company received letters from Countrywide Securities Corporation (Countrywide), Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch), and UBS Securities LLC (UBS) claiming indemnification relating to mortgage backed securities bonds issued, originated or sold by ISAC, IFC, IMH Assets Corp. and the Company. The claims seek indemnification from claims asserted against Countrywide, Merrill Lynch, and UBS in specified legal actions entitled American International Group Inc. v. Bank of America Corp., et al, in the United States District Court for the Southern District of New York and Federal Home Loan Bank of Boston v. Ally Financial, Inc., et al, in the United States District Court for the District of Massachusetts. The notices each seek indemnification for all losses, liabilities, damages and legal fees and costs incurred in those actions. Further related to these claims, the Company received a demand from American International Group (AIG) for claims it purports to have based upon 12 Residential Mortgage Backed Securities it purchased in which the

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Company was depositor, sponsor, seller and/or originator. AIG contends it has suffered almost \$800 million in losses on the securities and contends there were misrepresentations and breaches of representations and warranties regarding the securities. In October 2012 and January 2013, Deutsche Bank issued indemnification demands to IFC for claims asserted against them in the Superior Court of New York in a case entitled Royal Park Investments SA/NV v. Merrill Lynch, et. al and Dealink Funding Ltd. v. Deutsche Bank. In February of 2013 the Company also received a notice of intent to seek indemnification on behalf of Deutsche Bank AG, Deutsche Bank Securities, Inc., DB Structured Products, Inc., ACE Securities Corp and Deutsche Alt-A Securities, Inc. The claim relates to an action filed against those entities in the Superior Court of New York.

On December 7, 2011 a purported class action was filed entitled Timm, v. Impac Mortgage Holdings, Inc, et al. alleging on behalf of holders of the Company's 9.375% Series B Cumulative Redeemable Preferred Stock (Preferred B) and 9.125% Series C Cumulative Redeemable Preferred Stock (Preferred C) who did not tender their stock in connection with the Company's 2009 completion of its Offer to Purchase and Consent Solicitation that the Company failed to achieve the required consent of the Preferred B and C holders, the consents to amend the Preferred stock were not effective because they were given on unissued stock (after redemption), the Company tied the tender offer with a consent requirement that constituted an improper "vote buying" scheme, and that the tender offer was a breach of a fiduciary duty. The action seeks the payment of two quarterly dividends for the Preferred B and C holders, the unwinding of the consents and reinstatement of the cumulative dividend on the Preferred B and C stock, and the election of two directors by the Preferred B and C holders. The action also seeks punitive damages and legal expenses. The court, on January 28, 2013, dismissed all individual director and officer defendants from the case and further dismissed the Second, Third and Fifth causes of action. The remaining causes of action against the Company allege the Preferred B holders did not approve amendments to its Articles Supplementary and the holders thereof seek to recover two quarters of dividends and to elect two members to the Board of Directors of the Company. On November 27, 2013, the court denied the plaintiff's motion to reconsider the court's January 28, 2013 order. The Company has filed a motion for summary judgment on the remaining claims and that motion is currently pending.

The legal matters summarized below are ongoing but management believes these matters have been resolved in a satisfactory manner.

On October 16, 2012, a matter was filed entitled Deutsche Bank National Trust Company, in its individual capacity, and as Indenture Trustee of Impac Secured Assets CMB Trust Series 1998-1, Impac CMB Trust Series 1999-2, 2000-2, 2001-4, 2002-1, and 2003-5, and Impac Real Estate Asset Trust Series 2006-SD1 v. Impac Mortgage Holdings, Inc., et al. The action alleges the defendants owe the plaintiff indemnification for settlements that the plaintiff allegedly entered into in connection with the Gilmor, et al. v. Preferred Credit Corp., et al. matter described above. The plaintiff seeks declaratory and injunctive relief and unspecified damages and the case remains pending. On March 11, 2014, the parties entered into a settlement agreement, subject to court approval, whereby the Company agreed to pay \$1.65 million, which is payable in installments in either cash or Company stock, at the Company's option.

On May 15, 2013, a matter was filed entitled Wilmington Trust Company, in its individual capacity, and as Owner Trustee of Impac Secured Assets CMN Trust Series 1998-1 and Impac CMB Trust Series 1999-1, 1999-2, 2000-1, 2000-2, 2001-4, 2002-1, and 2003-5 v. Impac Secured Assets Corp., et al. The action alleges the defendants owe the plaintiff indemnification for settlements that the plaintiff allegedly entered into in connection with the Gilmor, et al. v. Preferred Credit Corp., et al. matter, which was settled and approved by the court in March 2013. The plaintiff seeks declaratory and injunctive relief and unspecified damages. On January 10, 2014, the parties entered into a settlement agreement whereby the Company agreed to pay \$1.05 million, which is payable in either cash or Company stock, at the Company's option.

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We are a party to other litigation and claims which are normal in the course of our operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations.

We believe we have meritorious defenses to the above claims and intends to defend these claims vigorously and as such we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. Nevertheless, litigation is uncertain and we may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on our financial position and results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES**

Our common stock is currently listed on the NYSE MKT under the symbol "IMH".

The following table summarizes the high and low sales prices for our common stock for the periods indicated:

	2013		2012	
	High	Low	High	Low
First Quarter	15.39	9.55	2.90	1.98
Second Quarter	11.95	9.67	2.50	1.95
Third Quarter	10.90	9.48	8.63	1.93
Fourth Quarter	9.70	4.66	18.00	7.13

On March 13, 2014, the last quoted price of our common stock on the NYSE MKT was \$6.61 per share. As of March 13, 2014, there were 225 holders of record, including holders who are nominees for an undetermined number of beneficial owners, of our common stock.

The Board of Directors of the Company authorizes in its discretion the payment of cash dividends on its common stock, subject to an ongoing review of our profitability, liquidity and future operating cash requirements. We and some of our subsidiaries are subject to restrictions under our warehouse borrowings and long-term debt agreements on our ability to pay dividends if there is an event of default or otherwise. Plus, certain debt arrangements require the maintenance of ratios and contain restrictive financial covenants that could limit our ability, and the ability of our subsidiaries, to pay dividends. The Board of Directors did not declare cash dividends on our common stock during the years ended December 31, 2013 and 2012. We do not expect to declare or pay any cash dividends on our common stock in the foreseeable future.

Recent Sale of Unregistered Securities

On December 23, 2013, pursuant to the terms of the Settlement Agreement with Citigroup Global Market, Inc. ("Citigroup"), the Company issued to Citigroup an additional 100,000 shares of common stock, and on January 15, 2014, the Company made its final installment with the issuance to Citigroup of 75,000 shares of common stock. The issuances of the shares were made in reliance upon the exemption from registration under Section 3(a)(10) of the Securities Act of 1933, as amended. As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, on December 20, 2012, the Company entered into a Settlement Agreement with Citigroup regarding a lawsuit initially filed on May 26, 2011 in the U.S. District Court of Central District of California. Pursuant to the Settlement Agreement, the Company agreed to pay Citigroup an aggregate of \$3.1 million within a 12 month period. On January 24, 2013, the court approved the Settlement Agreement, which included the issuance of shares of the Company's common stock. As previously reported in the Company's Form 10-Q filings for the periods ended March 31, and June 30, 2013, the Company previously issued to Citigroup 84,942 shares on January 30, 2013 and 100,000 shares on June 26, 2013.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide the information required by this Item.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Refer to Item 1. "Business Forward-Looking Statements" for a complete description of forward-looking statements. Refer to Item 1. "Business" for information on our businesses and operating segments.

Amounts are presented in thousands, except per share data or as otherwise indicated.

Market Conditions

In 2013, the economy experienced moderate growth with improved labor market conditions, increased household spending and further strengthening in many housing markets. Housing markets in the United States in general continued the rebound which began in the second half of 2012 with overall home prices moving higher as demand increased and the supply of homes for sale declined. However, the rise in housing prices has begun to slow. Rising mortgage rates are tempering demand, which is holding down prices. According to the National Association of Realtors, pending home sales fell in September to their lowest levels since December 2012.

Long-term interest rates began to rise during 2013, in part out of concern that the Federal Reserve would begin to slow its quantitative easing program if the economy continued to strengthen. While these concerns subsided to a certain extent in September when the Federal Reserve announced its bond buying program would continue at then current levels to support the slow growing economy, they resurfaced again towards the end of the year due to continuing improvements in economic growth and a stronger than expected November jobs report. That led to the Federal Reserve announcing in mid-December that it would reduce its bond buying stimulus program beginning in January 2014. As part of this announcement, Federal Reserve policy makers also strengthened their statement on short-term interest rates indicating that they would remain at near zero "well past" the time the unemployment rate falls below 6.5%.

With the aforementioned rise in mortgage loan interest rates during 2013, origination of mortgage loans, in particular refinance activity, has substantially declined across the mortgage lending industry. Financial firms are cutting tens of thousands of jobs because of a slowdown in the mortgage business, the sluggish economy, the growth of online banking and new regulations. Many of the recent job losses stem from the rise in interest rates and resulting decline in mortgage refinancing activity. The Mortgage Bankers Association estimates mortgage originations to drop 36% to \$1.12 trillion in 2014 with the largest drop associated with refinancing volume, which they project to drop 60% to \$440 billion in 2014.

Selected Financial Results for 2013

After a year of significant expansion of our lending platform in 2012, 2013 was a challenging year. Although lending volume slightly increased in 2013 to \$2.5 billion as compared to \$2.4 billion in 2012, margin compression, an increase in interest rates, increase in lending compliance efforts and the roll out of our new LOS system resulted in a very challenging year for us.

With the economic conditions experienced in the last few years, the Federal Reserve has attempted to keep interest rates low to spur economic growth. The resulting historically low interest rate environment drove significant refinance volumes in 2012. As interest rates began to rise in May 2013, we saw the refinance volumes decline significantly. With the increase in rates, our lending volumes in the

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latter part of 2013 were lower than what we anticipated resulting in a net loss for the mortgage lending segment.

Status of Operations

Today, we have three primary operating segments: Mortgage Lending, Real Estate Services and Long-Term Mortgage Portfolio. Unallocated corporate and other administrative costs, including the cost associated with being a public company, are presented in Corporate. Segment operating results are as follows:

	For the year ended December 31,			
	2013		2012	
	Net earnings (loss)	Diluted EPS	Net earnings (loss)	Diluted EPS
Mortgage Lending (1)	\$ (1,237)	\$ (0.14)	\$ 17,612	\$ 2.23
Real Estate Services	13,250	1.51	12,581	1.59
Long-term Mortgage Portfolio	(4,251)	(0.49)	(3,727)	(0.47)
Corporate	(13,940)	(1.59)	(13,048)	(1.65)
Continuing Operations	\$ (6,178)	\$ (0.71)	\$ 13,418	\$ 1.70
Income tax (benefit) expense from continuing operations	(1,031)	(0.12)	1,244	0.16
Continuing Operations, net of tax	\$ (5,147)	\$ (0.59)	\$ 12,174	\$ 1.54
Discontinued Operations, net of tax	(3,037)	(0.35)	(15,549)	(1.96)
Net loss attributable to IMH	\$ (8,184)	\$ (0.94)	\$ (3,375)	\$ (0.42)

(1) Includes net earnings attributable to noncontrolling interest.

Mortgage Lending

The decrease in net earnings in the mortgage lending segment during 2013 as compared to 2012 was due to margin compression, an increase in interest rates reducing volumes, an increase in lending compliance efforts and certain costs associated with the roll out of our new LOS system. Gain on sale margins continued to compress in 2013 creating challenges for the mortgage banking industry. During the second quarter, we had maintained excess lending operating capacity for an anticipated increase in volumes, but with the unexpected increase in interest rates in May 2013, lending volumes declined. With excess operational capacity and an increase in compliance costs due to new mortgage lending regulations, we experienced higher operational costs. In response to the reduced production volumes and revenues, we have taken steps to align the operating expenses with reduced lending volumes and revenues. Furthermore, we took advantage of an opportunity to reduce our retail branch lending operations by shifting our focus to wholesale, correspondent and a centralized retail call center. Additionally, we have consolidated our lending operations to one primary fulfillment center in Irvine, California.

During 2013, we continued to increase the mortgage servicing portfolio which has increased to \$3.1 billion as of December 31, 2013 and produced net servicing fees of \$4.2 million in 2013 as

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compared to \$1.2 million in 2012. The estimated fair value of mortgage servicing rights increased to \$36.0 million at December 31, 2013, as compared to \$10.7 million at December 31, 2012.

(in millions)	For the year ended December 31,		
	2013	2012	% Change
Originations	\$ 2,548.4	\$ 2,419.7	5%
Servicing Portfolio	3,128.6	1,492.1	110%

During 2013, our warehouse borrowing capacity increased from \$217.5 million to \$265.0 million. At December 31, 2013, we had four warehouse lender relationships, including one relationship with a major national financial institution. During the first quarter of 2014, we obtained approvals for an additional \$25.0 million in total warehouse capacity.

During the third quarter of 2013, we announced that our warehouse lending business was operational. Our warehouse lending group offers funding facilities to approved lenders. Our initial focus will be smaller mortgage bankers and credit unions, including some of our current correspondent customers. Offering warehouse lending provides added value for our correspondent customers, which we believe will increase the capture rate from our currently approved customers and increase volumes in our correspondent channel. In the first quarter of 2014, we are launching our new emerging banker warehouse lending program.

Our loan products primarily include conventional loans for Fannie Mae and Freddie Mac and government loans insured by FHA, VA and USDA.

Originations by Loan Type:

(in millions)	For the year ended December 31,		
	2013	2012	% Change
Government (1)	\$ 731.4	\$ 703.7	4%
Conventional (2)	1,788.0	1,653.2	8%
Other	29.0	62.8	-54%

Total originations	\$ 2,548.4	\$ 2,419.7	5%
Weighted Average FICO (3)	726	729	
Weighted Average LTV (4)	84.1%	86.5%	
Weighted Average Coupon	4.04%	3.83%	
Average Loan Size	\$ 220,526	\$ 230,621	

- (1) Includes government-insured loans including FHA, VA and USDA
- (2) Includes loans eligible for sale to Fannie Mae and Freddie Mac
- (3) FICO Fair Isaac Company credit score
- (4) LTV loan to value measures ratio of loan balance to estimated property value based upon third party appraisal

We expect to continue originating conventional and government-insured loans as we believe that having the ability to sell loans direct to GSEs and issue Ginnie Mae securities makes us more competitive with regard to products, pricing, operational efficiencies and overall recruitment of high quality loan originators.

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We have enhanced our product offering to include more loan products less sensitive to changing interest rates, including FHA 203(k), a home improvement loan that provides the borrower funds to make renovations, reverse mortgages, intermediate Adjustable Rate Mortgages and GSE and government sponsored loan programs such as Home Affordable Refinance Program (HARP) loans which help timely paying borrowers to refinance into a loan with a lower interest rate despite the loan balance being greater than the estimated fair value of their home. We believe that these loan products will prepay at a slower rate as compared to other products. By retaining these loan products in our servicing portfolio, we expect to maintain a less volatile mortgage servicing portfolio.

In 2013, we attempted to improve the mix of purchase-money transactions as we believe it will create better opportunities to increase our origination market share in a decreasing refinance market. The primary reason for the increase in purchase money transactions in 2013 was aligning ourselves with customers that were purchase transaction centric in their lead generation strategies and ability to offer a better customer service experience through our sales and operations.

(in millions)	For the year ended December 31,			
	2013	%	2012	%
Originations by Purpose:				
Refinance	\$ 1,510.3	59%	\$ 1,674.4	69%
Purchase	1,038.1	41%	745.3	31%

Total originations	\$ 2,548.4	100%	\$ 2,419.7	100%
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In 2013, our mortgage lending channel that experienced the largest percentage of growth was our correspondent channel.

(in millions)	For the year ended December 31,			
	2013	%	2012	%
Originations by Channel:				
Wholesale	\$ 971.2	38%	\$ 1,293.2	53%
Retail	709.4	28%	735.3	30%
Correspondent	867.8	34%	391.2	17%

Total originations	\$ 2,548.4	100%	\$ 2,419.7	100%
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During 2013, we had 33 retail branches where our loan officers worked directly with consumers to provide mortgage financing and with real estate brokers to provide financing for the purchase of homes. As previously discussed, in the fourth quarter of 2013, we sold the retail branches and consolidated the lending fulfillment centers in an effort to consolidate costs, streamline our operations and focus on expanding lending volumes in our wholesale, correspondent and retail call center consumer direct channels. As of December 31, 2013, we have approximately 595 approved wholesale relationships with mortgage brokerage companies and are approved to lend in 40 states. We have approximately 151 approved correspondent relationships with banks, credit unions and mortgage companies and are approved to lend in 48 states.

During 2013, the mortgage servicing portfolio increased to \$3.1 billion as compared to \$1.5 billion at the end of 2012. We earn servicing fees, net of sub-servicer costs from our mortgage servicing portfolio. The servicing portfolio generated gross servicing fees of \$6.8 million, and \$3.0 million in 2013 and 2012, respectively.

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The following table includes information about our mortgage servicing portfolio:

(in millions)	At December 31, 2013	% 60+ days delinquent	At December 31, 2012	% 60+ days delinquent
Fannie Mae	\$ 1,520.2	0.17%	\$ 622.4	0.00%
Freddie Mac	317.2	0.38%	100.4	0.00%
Ginnie Mae	1,203.5	1.28%	655.6	0.71%
Total owned servicing portfolio	\$ 3,040.9	0.63%	\$ 1,378.4	0.34%
Acquired Portfolio (1)	87.7	9.26%	113.7	10.48%
Total servicing portfolio	\$ 3,128.6	0.87%	\$ 1,492.1	1.11%
Number of loans	16,040		11,352	
Weighted average FICO	728		743	
Weighted average LTV	84.9%		86.1%	
Weighted average Coupon	4.08%		3.86%	
Avg. Loan size (in thousands)	\$ 195.1		\$ 191.8	

(1) Represents servicing portfolio acquired in 2010 acquisition of AmeriHome

We also believe that there are other opportunities that exist in today's mortgage and lending markets. Depending on the amount of capital we have available, either internally generated or otherwise, we are considering pursuing opportunities to begin originating small balance multifamily loans, originating, pooling and securitizing jumbo mortgage loans and offering warehouse lines to small banks, credit unions and mortgage banking firms as we did in the past.

In response to the lower volumes and the current compliance landscape, we are exploring opportunities to provide mortgage products and services to meet the needs of our customers and borrowers. We believe there is an underserved mortgage market for a borrower with good credit who does not meet the new guidelines of a Qualified Mortgage (QM). In our opinion, as the demand for a non QM product grows and the investor appetite increases, non QM mortgages will be in more demand. In addition, the origination for home equity lines of credit (HELOC) loans is increasing creating another new product opportunity for lenders like us. Furthermore, with the excess warehouse capacity in today's market, we are seeking ways to utilize our re-warehousing business to partner with wholesale brokers and correspondent sellers to expand volumes and better serve customers and the borrowers. We are currently in discussions with parties interested in funding and investing in these types of products and services that could create an opportunity for re-emergence of a liquid private securitization market.

Real Estate Services

We provide portfolio loss mitigation and real estate services including real estate owned (REO) surveillance and disposition services, default surveillance and loss recovery services, short sale and real estate brokerage services, portfolio monitoring and reporting services. The source of revenue for this segment is primarily from the long-term mortgage portfolio, along with a small number of third party clients as well.

The real estate services segments continues to earn consistent profits and posted net earnings of \$13.3 million for the year ended December 31, 2013, as compared to \$12.6 million for the same period in

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2012. In a continuing effort to leverage our platform beyond mortgage lending, our real estate services segment has expanded by offering its loss mitigation services beyond our own legacy portfolio. We have recently established relationships with third-parties to perform mortgage insurance recovery services. In addition, we are in the final stages of solidifying an arrangement to provide title remediation for a third-party.

Long-Term Mortgage Portfolio

The long-term mortgage portfolio primarily includes the residual interests in securitizations, master servicing rights from the securitizations and long-term debt.

Although we have seen some stabilization and improvement in defaults, the portfolio continues to suffer losses and may continue for the foreseeable future until we see a significant prolonged decline in the number of foreclosure properties in the market.

At December 31, 2013, our residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) decreased to \$10.6 million, compared to \$15.9 million at December 31, 2012. The decrease in residual fair value in 2013 was primarily due to \$6.8 million in cash received and a decrease in fair value related to write-downs of REO and changes in assumptions associated with defaults and severities, offset by an increase in fair value related to net interest income accretion.

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

Corporate

The corporate segment includes all corporate services groups, public company costs, unused office space for future growth as well as debt expense related to the Convertible Notes and capital leases. This corporate services group supports all operating segments. A portion of the corporate services costs are allocated to the operating segments. The costs associated with being a public company, unused space for growth as well as the interest expense related to the Convertible Notes and capital leases is not allocated to our other segments and remains in this segment.

For additional information regarding the corporate segment refer to *Results of Operations by Business Segment* below.

Critical Accounting Policies

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

fair value of financial instruments;

variable interest entities and transfers of financial assets and liabilities;

net realizable value of REO;

repurchase reserve; and

interest income and interest expense.

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Fair Value of Financial Instruments

Financial Accounting Standards Board Accounting Standards Codification FASB ASC 820-10-35 defines fair value, establishes a framework for measuring fair value and outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). Fair value measurements are categorized into a three-level hierarchy based on the extent to which the measurement relies on observable market inputs in measuring fair value. Level 1, which is the highest priority in the fair value hierarchy, is based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 is based on observable market-based inputs, other than quoted prices, in active markets for identical assets or liabilities. Level 3, which is the lowest priority in the fair value hierarchy, is based on unobservable inputs. Assets and liabilities are classified within this hierarchy in their entirety based on the lowest level of any input that is significant to the fair value measurement.

The use of fair value to measure our financial instruments is fundamental to our financial statements and is a critical accounting estimate because a substantial portion of our assets and liabilities are recorded at estimated fair value. Financial instruments classified as Level 3 are generally based on unobservable inputs, and the process to determine fair value is generally more subjective and involves a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions, as well as changes in market conditions and interest rates, could have a material effect on our results of operations or financial condition.

Mortgage loans held-for-sale We elected to carry our mortgage loans held-for-sale originated or acquired from the mortgage lending operation at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants.

Mortgage servicing rights We elected to carry all of our mortgage servicing rights arising from our mortgage lending operation at fair value. The fair value of mortgage servicing rights is based upon 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.

Derivative financial instruments We utilize certain derivative instruments in the ordinary course of our business to manage our exposure to changes in interest rates. These derivative instruments include forward sales of MBS and forward loan sale commitments (Hedging Instruments). We also issue IRLCs to borrowers in connection with single family mortgage loan originations. We recognize all derivative instruments at fair value. 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 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 and are recorded in other liabilities in the consolidated balance sheet. The initial and subsequent changes in value of IRLCs and forward sale commitments are a component of gain on sale of loans, net in the consolidated statements of operations.

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Long-term debt Long-term debt (consisting of trust preferred securities and junior subordinated notes) is reported at fair value within the long-term mortgage portfolio. These securities are measured based upon an analysis prepared by management, which considers the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. Unrealized gains and losses are recognized in earnings in the accompanying consolidated statements of operations as change in fair value of long-term debt. Our estimate of the fair value of the long-term debt requires us to exercise significant judgment as to the timing and amount of the future obligation. Changes in assumptions resulting from changes in the Company's own credit risk profile will affect the estimated fair value of the long-term debt and those changes are recorded as a component of net earnings. A change in assumptions associated with the improvement in the Company's own credit risk profile could result in a significant increase in the estimated fair value of the long-term debt which would result in a significant charge to net earnings.

Variable Interest Entities and Transfers of Financial Assets and Liabilities

Historically, we securitized mortgages in the form of collateralized mortgage obligations (CMO), which were consolidated and accounted for as secured borrowings for financial statement purposes. We also securitized mortgages in the form of real estate mortgage investment conduits (REMICs), which were either consolidated or unconsolidated depending on the design of the securitization structure. CMO and certain REMIC securitizations contained structural terms that resulted in the transferee (securitization trust) to not be a qualifying special purpose entity (QSPE), and therefore we consolidated the variable interest entity (VIE) as it was the primary beneficiary of the sole residual interest in each securitization trust. Generally, this was achieved by including terms in the securitization agreements that gave us the ability to unilaterally cause the securitization trust to return specific mortgages, other than through a clean-up call. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

Our estimate of the fair value of our net retained residual interests in unconsolidated securitizations, which are included in investment securities available-for-sale in the consolidated balance sheets, requires us to exercise significant judgment as to the timing and amount of future cash flows from the residual interests. We are exposed to credit risk from the underlying mortgage loans in unconsolidated securitizations to the extent we retain subordinated interests. Changes in expected cash flows resulting from changes in expected net credit losses will impact the value of our subordinated retained interests and those changes are recorded as a component of change in fair value of net trust assets.

In contrast, for securitizations that are structured as secured borrowing, we recognize interest income over the life of the securitized mortgage collateral and interest expense incurred for the securitized mortgage borrowings. We refer to these transactions as consolidated securitizations. The mortgage loans collateralizing the debt securities for these financings are included in securitized mortgage collateral and the debt securities payable to investors in these securitizations are included in securitized mortgage borrowings in our consolidated balance sheet.

Whether a securitization is consolidated or unconsolidated, investors in the securities issued by the securitization trust have no recourse to our non-securitized assets or to us and have no ability to require us to provide additional assets, but rather have recourse only to the assets transferred to the trust. Whereas the accounting differences are significant, the underlying economic impact to us, over time, will be the same regardless of whether the securitization trust is consolidated or unconsolidated.

These securitizations are evaluated for consolidation based on the provisions of FASB ASC 810-10-25, which eliminated the concept of a QSPE and changed the approach to determine a

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securitization trust's primary beneficiary. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

Net Realizable Value (NRV) of REO

The Company considers the NRV of its REO properties in evaluating REO losses. When real estate is acquired in settlement of mortgage loans, or other real estate owned, the mortgage is written-down to a percentage of the property's appraised value, broker's price opinion or list price less estimated selling costs and including mortgage insurance proceeds expected to be received. Subsequent changes in the NRV of the REO is reflected as a write-down of REO and results in additional losses.

Repurchase Reserve

When we sell loans through whole loan sales we are required to make normal and customary representations and warranties about the loans to the purchaser. Our whole loan sale agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale.

Investors may request us to repurchase loans or to indemnify them against losses on certain loans which the investors believe either do not comply with applicable representations or warranties or defaulted shortly after its purchase. Upon completion of its own investigation regarding the investor claims, we repurchase or provide indemnification on certain loans, as appropriate. We maintain a liability reserve for expected losses on dispositions of loans expected to be repurchased or on which indemnification is expected to be provided. We regularly evaluate the adequacy of this repurchase liability reserve based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiations, and other relevant factors including economic conditions.

We record a provision for losses relating to such representations and warranties as part of each loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimated future defaults and loan repurchase rates and the potential severity of loss in the event of defaults and the probability of reimbursement by the correspondent loan seller. We establish a liability at the time loans are sold and continually update our estimated repurchase liability. The level of the repurchase liability for representations and warranties is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor demand strategies, and other external conditions that may change over the lives of the underlying loans.

Interest Income and Interest Expense

Interest income on securitized mortgage collateral and interest expense on securitized mortgage borrowings are recorded using the effective interest method for the period based on the previous quarter-end's estimated fair value. Interest expense on long-term debt is recorded using the effective interest method based on estimated future interest rates and cash flows.

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

As of December 31, 2013 compared to December 31, 2012

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

	December 31, 2013	December 31, 2012	Increase (Decrease)	% Change
Cash	\$ 9,969	\$ 12,711	\$ (2,742)	(22)%
Restricted cash	1,467	3,230	(1,763)	(55)
Mortgage loans held-for-sale	129,191	118,786	10,405	9
Mortgage servicing rights	35,981	10,703	25,278	236
Securitized mortgage trust assets	5,513,166	5,810,506	(297,340)	(5)
Other assets (2)	28,551	30,652	(2,101)	(7)
Total assets	\$ 5,718,325	\$ 5,986,588	\$ (268,263)	(4)%
Warehouse borrowings	\$ 119,634	\$ 107,604	\$ 12,030	11%
Convertible notes	20,000		20,000	n/a
Notes payable		3,451	(3,451)	(100)
Long-term debt (\$71,120 par)	15,871	12,731	3,140	25
Repurchase reserve (1)	9,478	10,562	(1,084)	(10)
Securitized mortgage trust liabilities	5,502,585	5,794,656	(292,071)	(5)
Other liabilities (2)	24,886	27,741	(2,855)	(10)
Total liabilities	5,692,454	5,956,745	(264,291)	(4)
Total IMH stockholders' equity	25,871	28,960	(3,089)	(11)
Noncontrolling interest		883	(883)	(100)
Total equity	25,871	29,843	(3,972)	(13)
Total liabilities and stockholders' equity	\$ 5,718,325	\$ 5,986,588	\$ (268,263)	(4)%

(1) \$5.5 million and \$8.2 million of the repurchase reserve is included within discontinued operations at December 31, 2013 and 2012, respectively.

(2)

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Included within other assets and liabilities are the assets and liabilities of the discontinued operations.

At December 31, 2013 and 2012, net trust assets and liabilities were as follows:

	December 31, 2013	December 31, 2012	Increase (Decrease)	% Change
Total trust assets	\$ 5,513,166	\$ 5,810,506	\$ (297,340)	(5)%
Total trust liabilities	5,502,585	5,794,656	(292,071)	(5)
Residual interests in securitizations	\$ 10,581	\$ 15,850	\$ (5,269)	(33)%

At December 31, 2013, cash decreased to \$10.0 million from \$12.7 million at December 31, 2012. The primary sources of cash between periods were \$20.0 million from the issuance of the Convertible Notes, \$62.1 million in fees generated from the mortgage lending operations and real estate services (net of non-cash fair value adjustments), \$6.8 million from residual interests in securitizations and \$3.0 million in borrowings on the line of credit. Offsetting the sources of cash were continuing operating expenses totaling \$86.4 million (net of non-cash depreciation expense), payments on the notes payable of \$3.7 million (including \$1.5 million which came from the related reserve account), \$1.0 million in interest

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payments on the Convertible Notes and settlements of repurchase requests associated with loans sold by the discontinued non-conforming mortgage operations of approximately \$4.0 million.

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and net derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was \$10.6 million at December 31, 2013, compared to \$15.9 million at December 31, 2012. During 2013, we decreased the investor yield requirements for securitized mortgage borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. The decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings resulted in an increase in the estimated fair value of these trust assets and liabilities.

Mortgage loans held-for-sale increased \$10.4 million to \$129.2 million at December 31, 2013 as compared to \$118.8 million at December 31, 2012. During 2013, we had \$2.5 billion in originations and loan sales. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

Mortgage servicing rights increased \$25.3 million to \$36.0 million at December 31, 2013 as compared to \$10.7 million at December 31, 2012. The increase is due to an increase in our mortgage servicing portfolio from servicing retained loan sales of \$2.4 billion during 2013, partially offset by the sale of servicing rights of \$401.9 million during 2013. Additionally, the increase is due to a fair value adjustment of \$6.5 million primarily due to the increase in interest rates since the middle of the second quarter of 2013. At December 31, 2013, we serviced \$3.1 billion in unpaid principal balance (UPB) for others as compared to \$1.5 billion at December 31, 2012.

Warehouse borrowings increased \$12.0 million to \$119.6 million at December 31, 2013 as compared to \$107.6 million at December 31, 2012. The increase is due to an increase in mortgage loans held-for-sale at year end. During 2013, we increased our total borrowing capacity to \$265.0 million at December 31, 2013 as compared to \$217.5 million at December 31, 2012 due to the expansion of our mortgage lending operations during the year.

During 2013, the notes payable balance decreased by \$3.5 million as we paid-off the note payable related to the structured debt agreement collateralized by the residual interests in securitizations. The residuals have been released back to us allowing the monthly cash flows from the residuals to be remitted directly to us.

Repurchase reserve liability decreased to \$9.5 million at December 31, 2013 as compared to \$10.6 million at December 31, 2012. During 2013, we paid approximately \$4.0 million to settle previous repurchase claims related to our discontinued operations. We recorded \$1.3 million in provision for repurchases during 2013 as our discontinued operations received additional repurchase requests from Fannie Mae. At December 31, 2013, the repurchase reserve within discontinued operations was \$5.5 million as compared to \$8.2 million at December 31, 2012. Additionally, we have approximately \$4.0 million in repurchase reserves related to the loans sold by the continuing mortgage lending operation since early 2011. We have received a minimal amount of repurchase requests for loans sold by the continuing mortgage lending operation.

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Book value per common share was \$(2.88) as of December 31, 2013, as compared to \$(2.59) as of December 31, 2012 (inclusive of the remaining \$51.8 million of liquidation preference on our preferred stock).

The changes in total assets and liabilities are primarily attributable to decreases in our trust assets and trust liabilities as summarized below.

	December 31, 2013	December 31, 2012	Increase (Decrease)	% Change
Securitized mortgage collateral	\$ 5,494,152	\$ 5,787,884	\$ (293,732)	(5)%
Other trust assets	19,014	22,622	(3,608)	(16)
Total trust assets	5,513,166	5,810,506	(297,340)	(5)
Securitized mortgage borrowings	\$ 5,492,371	\$ 5,777,456	\$ (285,085)	(5)%
Other trust liabilities	10,214	17,200	(6,986)	(41)
Total trust liabilities	5,502,585	5,794,656	(292,071)	(5)
Residual interests in securitizations	\$ 10,581	\$ 15,850	\$ (5,269)	(33)%

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the year ended December 31, 2013, we decreased the investor yield requirements for certain securitized mortgage borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. The decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings resulted in an increase in the value of these trust assets and liabilities. However, offsetting the increase was principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings.

The estimated fair value of securitized mortgage collateral decreased \$293.7 million during 2013, primarily due to reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral, partially offset by an increase in fair value due to a reduction in investor yield requirements. Additionally, other trust assets decreased \$3.6 million during 2013, primarily due to decreases in REO from liquidations of \$45.7 million. Partially offsetting the decrease was \$38.2 million in REO foreclosures and a \$3.9 million increase in the net realizable value (NRV) of REO.

The estimated fair value of securitized mortgage borrowings decreased \$285.1 million during 2013, primarily caused by reductions in principal balances from principal payments during the period for single-family and multi-family collateral, partially offset by an increase in fair value due to a reduction in investor yield requirements. The \$7.0 million reduction in other trust liabilities during 2013 was primarily due to \$6.3 million in derivative cash payments from the securitization trusts, and a \$574 thousand decrease in derivative fair value resulting from changes in forward LIBOR interest rates.

In previous years, we securitized mortgage loans by transferring originated and acquired residential single-family mortgage loans and multi-family commercial loans (the "transferred assets") into non-recourse bankruptcy remote trusts which in turn issued tranches of bonds to investors supported only by the cash flows of the transferred assets. Because the assets and liabilities in the securitizations are nonrecourse to us, the bondholders cannot look to us for repayment of their bonds in

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the event of a shortfall. These securitizations were structured to include interest rate derivatives. We retained the residual interest in each trust, and in most cases would perform the master servicing function. A trustee and servicer, unrelated to us, was named for each securitization. Cash flows from the loans (the loan payments as well as liquidation of foreclosed real estate properties) collected by the loan sub-servicer are remitted to us, the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The sub-servicer collects loan payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO.

In accordance with GAAP, we are required to consolidate all but one of these trusts (as we are not the master servicer on this one trust) on our statement of financial condition and results of operations. For the one trust we did not consolidate, the residual interest is reported as investment securities available-for-sale. For the trusts we did consolidate, the loans are included in the statement of financial condition as "securitized mortgage collateral", the foreclosed loans are included in the statement of financial condition as "real estate owned" and the various bond tranches owned by investors are included in the statement of financial condition as "securitized mortgage borrowings." Any interest rate derivatives remaining in the trusts are included in our statement of financial condition as "derivative assets" or "derivative liabilities," respectively. To the extent there is excess overcollateralization (as defined in the securitization agreements) in these securitization trusts, we receive cash flows from the excess interest collected monthly from the residual interest we own. Because (i) we elected the fair value option on the securitized mortgage collateral, securitized mortgage borrowings, (ii) derivative assets/liabilities are carried at fair value as required by GAAP, and (iii) real estate owned is reflected at net realizable value (NRV), which closely approximates fair market value, the net of the trust assets and trust liabilities represents the estimated fair value of the residual interests we own.

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

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

To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization (after taking

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into consideration any derivatives in the securitization). During 2013 and 2012, based on the trend of improving bond prices and declining yields, we adjusted the acceptable range of expected yields for some of our earlier vintage securitizations.

The following table presents changes in the trust assets and trust liabilities for the year ended December 31, 2013:

	TRUST ASSETS					TRUST LIABILITIES			
	Level 3 Recurring Fair Value Measurements		NRV (1)	Real estate		Level 3 Recurring Fair Value Measurements			Net trust assets
	Investment available-for-sale	Securitized mortgage collateral	Derivative assets	owned	Total trust assets	Securitized mortgage borrowings	Derivative liabilities	Total trust liabilities	
Recorded book value at 12/31/2012	\$ 110	\$5,787,884	\$ 37	\$ 22,475	\$5,810,506	\$(5,777,456)	\$(17,200)	\$(5,794,656)	\$ 15,850
Total gains/(losses) included in earnings:									
Interest income	34	31,562	-	-	31,596	-	-	-	31,596
Interest expense	-	-	-	-	-	(244,796)	-	(244,796)	(244,796)
Change in FV of net trust assets, excluding REO	36	452,084	-	-	452,120 (2)	(465,189)	574	(464,615) (2)	(12,495)
Gains from REO not at FV but at NRV	-	-	-	8,817	8,817 (2)	-	-	-	8,817
Total gains (losses) included in earnings	70	483,646	-	8,817	492,533	(709,985)	574	(709,411)	(216,878)
Transfers in and/or out of level 3	-	-	-	-	-	-	-	-	-
Purchases, issuances and settlements	(72)	(777,378)	(37)	(12,386)	(789,873)	995,070	6,412	1,001,482	211,609
Recorded book value at 12/31/2013	\$ 108	\$5,494,152	\$ -	\$ 18,906	\$5,513,166	\$(5,492,371)	\$(10,214)	\$(5,502,585)	\$ 10,581

-
- (1) Accounted for at net realizable value.
- (2) Represents non-interest income-net trust assets in the consolidated statements of operations for the year ended December 31, 2013.

Inclusive of gains from REO, total trust assets above reflect a net gain of \$460.9 million as a result of an increase in fair value of securitized mortgage collateral of \$452.1 million, gains from REO of \$8.8 million and increases from other trust assets of \$36 thousand. Net losses on trust liabilities were \$464.6 million as a result of \$465.2 million in losses from the increase in fair value of securitized mortgage borrowings, partially offset by gains from derivative liabilities of \$574 thousand. As a result, non-interest income net trust assets totaled a loss of \$3.7 million for the year ended December 31, 2013.

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

	December 31,	
	2013	2012
Net trust assets	\$ 10,581	\$ 15,850
Total trust assets	5,513,166	5,810,506
Net trust assets as a percentage of total trust assets	0.19%	0.27%

For the year ended December 31, 2013, the estimated fair value of the net trust assets slightly declined as a percentage of total trust assets. The decrease was primarily due to the cash received from residual interests (net trust assets).

Since the consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts. Therefore, in the following

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table we have netted trust assets and trust liabilities to present these residual interests more simply. Our residual interests in securitizations are segregated between our single-family (SF) residential and multi-family (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities.

The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at December 31, 2013 and December 31, 2012:

Origination Year	Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2013			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2012		
	SF	MF	Total	SF	MF	Total
2002-2003 (1)	\$ 5,761	\$ 2,184	\$ 7,945	\$ 11,680	\$ 3,144	\$ 14,824
2004	462	2,099	2,561	58	881	939
2005 (2)	-	75	75	-	87	87
2006 (2)	-	-	-	-	-	-
2007 (2)	-	-	-	-	-	-
Total	\$ 6,223	\$ 4,358	\$ 10,581	\$ 11,738	\$ 4,112	\$ 15,850

Weighted avg. prepayment rate	2.7%	12.6%	3.6%	1.9%	8.3%	2.6%
Weighted avg. discount rate	25.4%	20.2%	23.2%	25.0%	20.2%	23.8%

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

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

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions.

The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at December 31, 2013:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	10%	* (3)	5%	9%
2004	17%	1%	5%	6%
2005	24%	2%	5%	5%
2006	42%	7%	6%	5%
2007	43%	2%	5%	5%

- (1) Estimated future losses derived by dividing future projected losses by unpaid principal balances at December 31, 2013.

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- (2) Investor yield requirements represent our estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.
- (3) Represents less than 1%.

Despite the increase in housing prices from December 2012 through December 2013, housing prices are still at levels which has significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

Operational and Market Risks

We are exposed to a variety of market risks which include interest rate risk, credit risk, real estate risk, prepayment risk and liquidity risk.

Interest Rate Risk

Interest Rate Risk Mortgage Lending. We are exposed to interest rate risks relating to our ongoing mortgage lending operations. We use derivative instruments to manage some of our interest rate risk. However, we do not attempt to hedge interest rate risk completely.

Interest rate lock commitments and mortgage loans held-for-sale expose us to interest rate risk. The mortgage lending operations currently utilizes forward sold Fannie Mae and Ginnie Mae mortgage-backed securities to help mitigate changes in interest rates relating to its interest rate lock commitments and mortgage loans held-for-sale, however we do not hedge the interest rate risk associated with the mortgage servicing portfolio.

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

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

We use derivative instruments to manage some of our interest rate risk in our long-term mortgage portfolio. However, we do not attempt to hedge interest rate risk completely. To help mitigate some of the exposure to the effect of changing interest rates on cash flows on securitized mortgage borrowings, we utilize derivative instruments primarily in the form of interest rate swap agreements (swaps) and, to a lesser extent, interest rate cap agreements (caps) and interest rate floor agreements (floors). These derivative instruments are recorded at fair value in the consolidated balance sheets. For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair value measurements include our judgment about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account our 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.

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At December 31, 2013, derivative liabilities were \$10.2 million and reflect the securitization trust's liability to pay third-party counterparties based on the estimated value to settle the derivative instruments. Cash payments on these derivative instruments are based on notional amounts that are decreasing over time. Excluding the effects of other factors such as portfolio delinquency and loss severities within the securitization trusts, as the notional amount of these derivative instruments decrease over time, payments to counterparties in the current interest rate environment are reduced, thereby potentially increasing cash flows on our residual interests in securitizations. Conversely, increases in interest rates from current levels could potentially reduce overall cash flows on our residual interests in securitizations. Since our consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts.

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

Credit Risk

We provide representations and warranties to purchasers and insurers of the loans sold that typically are in place for the life of the loan. In the event of a breach of these representations and warranties, we may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by us unless we have recourse to our correspondent seller.

We maintain a reserve for losses on loans repurchased or indemnified as a result of breaches of representations and warranties on our sold loans. Our estimate is based on our most recent data regarding loan repurchases and indemnity payments, actual losses on repurchased loans, and recovery history, among other factors. Our assumptions are affected by factors both internal and external in nature. Internal factors include, among other things, level of loan sales, the expectation of credit loss on repurchases and indemnifications, our success rate at appealing repurchase demands and our ability to recover any losses from third parties. External factors that may affect our estimate includes, among other things, the overall economic condition in the housing market, the economic condition of borrowers, the political environment at investor agencies and the overall U.S. and world economy. Many of the factors are beyond our control and may lead to judgments that are susceptible to change.

Counterparty Credit Risk. We are exposed to counterparty credit risk in the event of non-performance by counterparties to various agreements. We monitor the credit ratings of our counterparties and currently do not anticipate losses due to counterparty non-performance.

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

Using historical losses, current portfolio statistics and market conditions and available market data, we have estimated future loan losses on the long-term mortgage portfolio, which are included in the fair value adjustment to our securitized mortgage collateral. While the credit performance for the

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loans has been clearly far worse than our initial expectations when the loans were originated, the ultimate level of realized losses will largely be influenced by events that will likely unfold over the next several years, including the recovery of the housing market and overall strength of the economy. If market conditions continue to deteriorate in excess of our expectations, we may need to recognize additional fair value reductions to our securitized mortgage collateral, which may also affect the value of the related securitized mortgage borrowings and residual interests.

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

Real Estate Risk

Residential property values are subject to volatility and may be negatively affected by numerous factors, including, but not limited to, national, regional and local economic conditions such as unemployment and interest rate environment; local real estate conditions including housing inventory and foreclosures; and demographic factors. Decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could cause us to suffer losses.

Prepayment Risk

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

Prepayment speed is a measurement of how quickly UPB is reduced. Items reducing UPB include normal monthly loan principal payments, loan refinancings, voluntary property sales and involuntary property sales such as foreclosures or short sales. Prepayment speed impacts future servicing fees, fair value of mortgage servicing rights and float income. When prepayment speed increases, our servicing fees decrease faster than projected due to the shortened life of a portfolio. Faster prepayment speeds will cause our mortgage servicing rights fair value to decrease.

Liquidity Risk

We are exposed to liquidity risks relating to our ongoing mortgage lending operations. We primarily fund our mortgage lending originations through warehouse facilities with third-party lenders. We primarily use facilities with national and regional banks. The warehouse facilities are secured by and used to fund single-family residential mortgage loans. In addition, the warehouse lenders require cash to be posted as additional collateral to secure the borrowings. In order to mitigate the liquidity risk

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associated with warehouse borrowings, we attempt to sell our mortgage loans within 10-15 days from acquisition or origination.

Long-Term Portfolio Credit Quality

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days late or greater, foreclosures and delinquent bankruptcies were \$1.7 billion or 22.4% of the long-term mortgage portfolio as of December 31, 2013, as compared to \$2.0 billion or 22.8% as of December 31, 2012.

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

	December 31, 2013	Total Collateral %	December 31, 2012	Total Collateral %
<u>Mortgage loans held-for-sale and investment</u>				
60 - 89 days delinquent	\$ -	*	\$ -	*
90 or more days delinquent	-	*	-	*
Foreclosures (1)	-	*	366	*
Total 60+ days delinquent mortgage loans held-for-sale and investment (2)	-	*	366	*
<u>Securitized mortgage collateral</u>				
60 - 89 days delinquent	\$ 180,002	2.4%	\$ 180,260	2.1%
90 or more days delinquent	580,318	7.6%	649,800	7.4%
Foreclosures (1)	605,201	7.9%	790,293	9.0%
Delinquent bankruptcies (3)	340,102	4.5%	370,827	4.2%
Total 60+ days delinquent long-term mortgage portfolio	1,705,623	22.4%	1,991,180	22.8%
Total 60 or more days delinquent	\$ 1,705,623	22.4%	\$ 1,991,546	22.8%
Total collateral	\$ 7,610,999	100%	\$ 8,735,991	100%

-
- * Less than 0.1%
- (1) Represents properties in the process of foreclosure.
- (2) Represents legacy mortgage loans held-for-sale included in discontinued operations in the consolidated balance sheets.
- (3) Represents bankruptcies that are 30 days or more delinquent.

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The following table summarizes securitized mortgage collateral, mortgage loans held-for-investment, mortgage loans held-for-sale and real estate owned, that were non-performing for

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continuing and discontinued operations combined as of the dates indicated (excludes 60-89 days delinquent):

	December 31, 2013	Total Collateral %	December 31, 2012	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 1,525,621	20.0%	\$ 1,811,286	20.7%
Real estate owned	18,921	0.3%	22,511	0.3%
Total non-performing assets	\$ 1,544,542	20.3%	\$ 1,833,797	21.0%

Non-performing assets consist of non-performing loans (mortgages that are 90 or more days delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is the Company's policy to place a mortgage on nonaccrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of December 31, 2013, non-performing assets (unpaid principal balance of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 20.3%. At December 31, 2012, non-performing assets to total collateral was 21.0%. Non-performing assets decreased by approximately \$289.3 million at December 31, 2013 as compared to December 31, 2012. At December 31, 2013, the estimated fair value of non-performing assets (representing the fair value of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) was \$536.8 million or 9.4% of total assets. At December 31, 2012, the estimated fair value of non-performing assets was \$578.0 million or 9.7% of total assets.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in our estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as gains or losses from real estate owned in the consolidated statements of operations. REO, for continuing and discontinued operations, at December 31, 2013 decreased \$3.6 million or 16% from December 31, 2012, as a result of liquidations and a decrease in foreclosures associated with foreclosure delays.

We realized losses on the sale of REO in the amount of \$35 thousand for 2013, compared to gains of \$30 thousand for the comparable 2012 periods. Additionally, for the year ended December 31, 2013, we recorded an increase of the net realizable value of the REO in the amount of \$8.8 million as compared a decrease of NRV (subsequent write-downs) of \$13.3 million for the comparable 2012 period. Increases and write-downs of the net realizable value reflect increases or declines in value of the REO subsequent to foreclosure date, but prior to the date of sale.

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

	December 31,	
	2013	2012
REO	\$ 23,601	\$ 31,116
Impairment (1)	(4,680)	(8,605)
Ending balance	\$ 18,921	\$ 22,511
REO inside trusts	\$ 18,906	\$ 22,475
REO outside trusts	15	36
Total	\$ 18,921	\$ 22,511

(1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.

In calculating the cash flows to assess the fair value of the securitized mortgage collateral, we estimate the future losses embedded in our loan portfolio. In evaluating the adequacy of these losses, management takes many factors into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The data is also broken down by collection status. Our estimate of losses for these loans is developed by estimating both the rate of default of the loans and the amount of loss severity in the event of default. The rate of default is assigned to the loans based on their attributes (*e.g.*, original loan-to-value, borrower credit score, documentation type, geographic location, etc.) and collection status. The rate of default is based on analysis of migration of loans from each aging category. The loss severity is determined by estimating the net proceeds from the ultimate sale of the foreclosed property. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the future loan losses.

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

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Results of Operations

For the year ended December 31, 2013 compared to the year ended December 31, 2012

	For the year ended December 31,			
	2013	2012	Increase (Decrease)	% Change
Revenues	\$ 86,483	\$ 96,092	\$ (9,609)	(10)%
Expenses	(88,074)	(76,876)	(11,198)	(15)
Net interest (expense) income	(86)	1,819	(1,905)	(105)
Change in fair value of long-term debt	(687)	1,145	(1,832)	(160)
Change in fair value of net trust assets, including trust REO gains (losses)	(3,678)	(7,891)	4,213	53
Income tax benefit (expense) from continuing operations	1,031	(1,244)	2,275	183
Net (loss) earnings from continuing operations	(5,011)	13,045	(18,056)	(138)
Loss from discontinued operations, net	(3,037)	(15,549)	12,512	80
Net loss	(8,048)	(2,504)	(5,544)	(221)
Net earnings attributable to noncontrolling interest (1)	(136)	(871)	735	84
Net loss attributable to IMH	\$ (8,184)	\$ (3,375)	\$ (4,809)	(142)%
Loss per share available to common stockholders basic and diluted	\$ (0.94)	\$ (0.42)	\$ (0.52)	(125)%

(1)

For the year ended December 31, 2013 and 2012, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome Mortgage Corporation (a subsidiary of IRES) that we did not wholly-own, before we acquired 100% ownership of AmeriHome in 2013.

Revenues

	For the year ended December 31,			
	2013	2012	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 55,302	\$ 72,719	\$ (17,417)	(24)%
Real estate services fees, net	19,370	21,218	(1,848)	(9)
Servicing income, net	4,240	1,198	3,042	254
Other revenues	7,571	957	6,614	691
Total revenues	\$ 86,483	\$ 96,092	\$ (9,609)	(10)%

Gain on sale of loans, net. For the year ended December 31, 2013, gain on sale of loans, net was \$55.3 million or 2.17% compared to \$72.7 million or 3.01% in the comparable 2012 period. The \$17.4 million decrease is primarily related to a \$44.2 million decrease in premiums received from the sale of mortgage loans and a \$6.6 million decrease in mark-to-market gains on loans held-for-sale, partially offset by \$26.3 million increase in realized and unrealized gains on derivative financial instruments, a \$5.8 million increase in premiums from servicing retained loan sales and a \$1.3 million decrease in net direct loan origination expenses. The decrease in gain on sale of loans, net was due to tighter lending spreads and gain on sale margins associated with \$2.5 billion and \$2.5 billion of loans originated and

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sold, respectively, during the year ended December 31, 2013, as compared to \$2.4 billion and \$2.3 billion of loans originated and sold, respectively, during the same period in 2012.

Real estate services fees, net. For the year ended December 31, 2013, real estate services fees, net were \$19.4 million compared to \$21.2 million in the comparable 2012 period. The \$1.8 million decrease was primarily the result of the decline in loans and the balance of the long-term mortgage portfolio.

Servicing income, net. For the year ended December 31, 2013, servicing income, net was \$4.2 million compared to \$1.2 million in the comparable 2012 period. The increase in servicing income, net was primarily the result of the servicing portfolio increasing 120% to an average balance of \$2.2 billion for the year ended December 31, 2013 as compared to an average balance of \$1.0 billion for the same period in 2012. During 2013, we retained servicing rights on \$2.4 billion in loan sales. Additionally, servicing income, net increased due to a reduction in loss mitigation costs. Servicing income, net includes certain loss mitigation costs associated with the acquired servicing portfolio from the 2010 acquisition of AmeriHome for defaulted loans, foreclosures and bankruptcies.

Other revenues. For the year ended December 31, 2013, other revenues were \$7.6 million compared to \$957 thousand in the comparable 2012 period. The increase in other revenues was the result of \$6.5 million in mark-to-market gains on MSRs during 2013 as compared to mark-to-market losses of \$600 thousand during the comparable 2012 period. The increase in mark-to-market adjustment on the MSRs is primarily the result of the increase in interest rates since the middle of the second quarter of 2013 resulting in slower prepayment speeds.

Expenses

	For the year ended December 31,			
	2013	2012	Increase (Decrease)	% Change
Personnel expense	\$ 62,883	\$ 56,916	\$ 5,967	10%
General, administrative and other	14,805	11,498	3,307	29
Occupancy expense	6,432	5,674	758	13
Legal and professional expense	3,954	2,788	1,166	42
Total expenses	\$ 88,074	\$ 76,876	\$ 11,198	15%

Total expenses were \$88.1 million for the year ended December 31, 2013, compared to \$76.9 million for the comparable period of 2012. Personnel expenses increased \$6.0 million to \$62.9 million during 2013 primarily attributable to an increase in salaries and other personnel related costs associated with the increase in average number of employees during 2013 as compared to 2012 associated with the mortgage lending operations. Loan origination volumes declined significantly in the latter half of 2013 as interest rates began to rise in May 2013. The increase in personnel expense was a result of excess personnel employed during the second half of 2013 as volumes declined.

General, administrative and other expenses increased to \$14.8 million for the year ended December 31, 2013, compared to \$11.5 million for the same period in 2012. The \$3.3 million increase was primarily related to marketing, insurance, licensing and other expenses attributable to the expansion of our mortgage lending platform.

Legal and professional expense increased to \$4.0 million for the year ended December 31, 2013, compared to \$2.8 million for the same period in 2012. The \$1.2 million increase was primarily related to legal costs associated with a non-operational \$700 thousand legal settlement expense recorded during the first quarter of 2013.

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	For the year ended December 31,			
	2013	2012	Increase (Decrease)	% Change
Interest income	\$ 310,391	\$ 478,647	\$ (168,256)	(35)%
Interest expense	(310,477)	(476,828)	166,351	35
Change in fair value of long-term debt	(687)	1,145	(1,832)	(160)
Change in fair value of net trust assets, including trust REO gains (losses)	(3,678)	(7,891)	4,213	53
Total other expense	\$ (4,451)	\$ (4,927)	\$ 476	10%

Net Interest (Expense) Income

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, mortgage loans held-for-sale and investment securities available-for-sale, or collectively, "mortgage assets," and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings secured by mortgage assets, which include securitized mortgage borrowings and warehouse borrowings and to a lesser extent, interest expense paid on long-term debt, Convertible Notes, notes payable and line of credit. Interest income and interest expense during the period primarily represents the effective yield, based on the fair value of the trust assets and liabilities.

The following tables summarize average balance, interest and weighted average yield on interest-earning assets and interest-bearing liabilities, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our

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securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the year ended December 31,					
	2013			2012		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<u>ASSETS</u>						
Securitized mortgage collateral	\$ 5,640,115	\$ 305,837	5.42%	\$ 5,595,769	\$ 475,845	8.50%
Mortgage loans held-for-sale	116,701	4,482	3.84%	84,131	2,723	3.24%
Other	13,751	72	0.52%	5,072	79	1.56%
Total interest-earning assets	\$ 5,770,567	\$ 310,391	5.38%	\$ 5,684,972	\$ 478,647	8.42%
 <u>LIABILITIES</u>						
Securitized mortgage borrowings	\$ 5,633,007	\$ 300,606	5.34%	\$ 5,592,676	\$ 467,953	8.37%
Warehouse borrowings	111,335	4,472	4.02%	79,707	3,350	4.20%
Long-term debt	14,261	4,050	28.40%	12,136	3,929	32.37%
Convertible notes	13,534	1,046	7.73%	-	-	0.00%
Note payable	886	303	34.20%	5,768	1,596	27.67%
Total interest-bearing liabilities	\$ 5,773,023	\$ 310,477	5.38%	\$ 5,690,287	\$ 476,828	8.38%
 Net Interest Spread (1)		\$ (86)	0.00%		\$ 1,819	0.04%
Net Interest Margin (2)			0.00%			0.03%

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest income spread decreased \$1.9 million for the year ended December 31, 2013 primarily attributable to a decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio and an increase in interest expense associated with the issuance of the Convertible Notes during the second quarter of 2013. The decrease was partially offset by a decrease in interest expense on the note payable. As a result, net interest margin decreased from 0.03% for the year ended December 31, 2012 to 0.0% for the year ended December 31, 2013.

During the year ended December 31, 2013, the yield on interest-earning assets decreased to 5.38% from 8.42% in the comparable 2012 period. The yield on interest-bearing liabilities decreased to 5.38% for the year ended December 31, 2013 from 8.38% for the comparable 2012 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings

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and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond prices received from pricing services and other market participants have increased over the past few quarters as investor's demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in

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fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

Change in the fair value of long-term debt

Change in the fair value of long-term debt was a loss of \$687 thousand for the year ended December 31, 2013, compared to a gain of \$1.1 million for the comparable 2012 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was the result of an increase in forward LIBOR interest rates. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by the Company, which considers the Company's own credit risk, including consideration of settlements with trust preferred debt holders and discounted cash flow analyses.

Change in fair value of net trust assets, including trust REO gains (losses)

	For the year ended	
	December 31,	
	2013	2012
Change in fair value of net trust assets, excluding REO	\$ (12,495)	\$ 5,335
Gains (losses) from REO	8,817	(13,226)
Change in fair value of net trust assets, including trust REO gains (losses)	\$ (3,678)	\$ (7,891)

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$3.7 million for the year ended December 31, 2013, compared to a loss of \$7.9 million in the comparable 2012 period. The change in fair value of net trust assets, including REO was due to \$12.5 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates. Partially offsetting the loss was an \$8.8 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

For the year ended December 31, 2012, the (\$7.9) million change in fair value of net trust assets, including REO was due to \$13.2 million in additional impairment write-downs during the period attributed to higher expected loss severities on properties held during the period. Partially offsetting the REO losses were changes in fair value of securitized mortgage collateral, securitized mortgage borrowings and investment securities available-for sale primarily related to a decrease in loss assumptions and a reduction in future interest rates.

Income Taxes

In accordance with FASB ASC 810-10-45-8, we record a deferred charge representing 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 deferred charge is included in other assets in the consolidated balance sheets and impairments are recognized as a component of income tax expense in the consolidated statements of operations. We did not have any impairment of deferred charge in 2013.

We recorded income tax (benefit) expense of \$(1.0) million and \$1.2 million for the years ended December 31, 2013 and 2012, respectively. The income tax benefit for 2013 is the result of the inclusion

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of AmeriHome in the IMH federal income tax return filing due to IMH's increased ownership of Amerihome during the first quarter of 2013. Additionally, federal alternative minimum tax was expensed during 2013. State income taxes are primarily from states where the Company does not have net operating loss carryforwards. The income tax expense for 2012 was the result of deferred income tax for Amerihome which was an unconsolidated tax subsidiary as well as state income taxes primarily from states where the Company does not have net operating loss carryforwards.

We are subject to federal income taxes as a regular (Subchapter C) corporation and file a consolidated U.S. federal income tax return for qualifying subsidiaries.

We have significant NOL carry-forwards from prior years. At December 31, 2013, we have recognized a full valuation allowance against these NOL carry-forwards in our consolidated balance sheets.

Results of Operations by Business Segment

Mortgage Lending

Condensed Statements of Operations Data

	For the year ended December 31,				
	2013	2012	Increase (Decrease)	% Change	
Gain on sale of loans, net	\$ 55,302	\$ 72,719	\$ (17,417)	(24)%	
Servicing income, net	4,240	1,198	3,042	254	
Other	6,758	(901)	7,659	850	
Total revenues	66,300	73,016	(6,716)	(9)	
Other income (expense)	4	(673)	677	101	
Personnel expense	(53,618)	(45,080)	(8,538)	(19)	
General, administrative and other	(13,787)	(8,780)	(5,007)	(57)	
Net earnings before income taxes	\$ (1,101)	\$ 18,483	\$ (19,584)	(106)%	

For the year ended December 31, 2013, gain on sale of loans, net were \$55.3 million or 2.17% compared to \$72.7 million or 3.01% in the comparable 2012 period. The \$17.4 million decrease is primarily related to a \$44.2 million decrease in premiums received from the sale of mortgage loans and a \$6.6 million decrease in mark-to-market gains on loans held for sale, partially offset by a \$26.3 million increase in realized and unrealized gains on derivative financial instruments, a \$5.8 million increase in premiums from servicing retained loan sales and a \$1.3 million decrease in net direct loan origination expenses. The decrease in gain on sale of loans, net was due to tighter lending spreads and gain on sale margins associated with \$2.5 billion and \$2.5 billion of loans originated and sold, respectively, during the year ended December 31, 2013, as compared to \$2.4 billion and \$2.3 billion of loans originated and sold, respectively, during the same period in 2012.

For the year ended December 31, 2013, servicing income, net was \$4.2 million compared to \$1.2 million in the comparable 2012 period. The increase in servicing income, net was primarily the result of the servicing portfolio increasing 120% to an average balance of \$2.2 billion for the year ended December 31, 2013 as compared to an average balance of \$1.0 billion for the same period in 2012. During 2013, we retained servicing rights on \$2.4 billion in loan sales. Additionally, servicing income, net increased due to a reduction in loss mitigation costs. Servicing income, net includes certain loss mitigation costs associated with the acquired servicing portfolio from the 2010 acquisition of AmeriHome for defaulted loans, foreclosures and bankruptcies.

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For the year ended December 31, 2013, other revenues were \$6.8 million compared to (\$901) thousand in the comparable 2012 period. The increase in other revenues was the result of \$6.5 million in mark-to-market gains on MSR's during 2013 as compared to mark-to-market losses of \$600 thousand during the comparable 2012 period. The increase in mark-to-market adjustment on the MSR's is primarily the result of the increase in interest rates since the middle of the second quarter of 2013. Additionally, for the year ended December 31, 2013, other revenue included a \$77 thousand gain on the sale of MSR's as compared to a \$(226) thousand loss on the sale of MSR's during the comparable 2012 period.

For the year ended December 31, 2013 personnel expense increased to \$53.6 million as compared to \$45.1 million for the comparable 2012 period. The \$8.5 million increase in personnel expense was primarily due to salaries and benefits cost associated with the increase in average employees to 456 during 2013 as compared to 343 in 2012. During the third and fourth quarter, we reduced operational staff in the mortgage lending segment due to a reduction in loan origination volume. Additionally, during the fourth quarter we centralized our retail originations and consolidated our lending fulfillment centers to further right size our lending platform for the current mortgage lending environment. We will continue to monitor our pipeline and staffing levels to maximize efficiencies and maintain service levels based upon origination volumes.

The \$5.0 million increase in general, administrative and other expense is primarily related to occupancy, professional fees and other costs incurred attributable to the expansion of our mortgage lending platform during the year. In addition, as we strive to increase brand awareness, increase purchase transactions and maximize other mortgage lead sources, we have incurred additional marketing costs. General, administrative and other expense also includes a non-operational \$700 thousand legal settlement expense recorded during the first quarter of 2013.

Real Estate Services

	For the year ended December 31,				
	2013	2012	Increase (Decrease)	% Change	
Real estate services fees, net	\$ 19,370	\$ 21,218	\$ (1,848)	(9)%	
Other income (expense)	19	27	(8)	(30)	
Personnel expense	(5,317)	(7,291)	1,974	27	
General, administrative and other	(822)	(1,373)	551	40	
Net earnings before income taxes	\$ 13,250	\$ 12,581	\$ 669	5%	

For the year ended December 31, 2013, real estate services fees, net were \$19.4 million compared to \$21.2 million in the comparable 2012 period. The \$1.8 million decrease in real estate services fees, net was the result of a \$840 thousand decrease in real estate services, a \$649 thousand decrease in loss mitigation fees and a \$360 thousand decrease in real estate and recovery fees.

For the year ended December 31, 2013, personnel expense decreased to \$5.3 million as compared to \$7.3 million for the comparable 2012 period. The \$2.0 million decrease is primarily related to a reduction in personnel associated with the decline in loans and balance of the long-term mortgage portfolio.

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Long-Term Mortgage Portfolio

	For the year ended December 31,			
	2013	2012	Increase (Decrease)	% Change
Other revenue	\$ 833	\$ 1,904	(1,071)	(56)%
Personnel expense	(1,014)	(799)	(215)	(27)
General, administrative and other	(699)	(581)	(118)	(20)
Total expenses	(1,713)	(1,380)	(333)	(24)
Net interest income	994	2,495	(1,501)	(60)
Change in fair value of long-term debt	(687)	1,145	(1,832)	(160)
Change in fair value of net trust assets, including trust REO losses	(3,678)	(7,891)	4,213	53
Total other income (expense)	(3,371)	(4,251)	880	21
	&			