

IMPAC MORTGAGE HOLDINGS INC

Form 10-Q

May 16, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from to .

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Maryland
(State or other jurisdiction of
incorporation or organization)

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

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

There were 7,789,946 shares of common stock outstanding as of May 13, 2011.

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IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

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CERTIFICATIONS

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	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	\$ 7,750	\$ 11,507
Restricted cash	2,507	1,495
Trust assets		
Investment securities available-for-sale	415	645
Securitized mortgage collateral	6,053,766	6,011,675
Derivative assets	37	40
Real estate owned	74,709	92,708
Total trust assets	6,128,927	6,105,068
Mortgage loans held-for-sale	31,888	4,283
Finance receivables	3,911	
Assets of discontinued operations	296	373
Other assets	30,515	31,213
Total assets	\$ 6,205,794	\$ 6,153,939
LIABILITIES		
Trust liabilities		
Securitized mortgage borrowings	\$ 6,056,577	\$ 6,012,745
Derivative liabilities	46,243	65,916
Total trust liabilities	6,102,820	6,078,661
Warehouse borrowings	34,266	4,057
Long-term debt	12,030	11,728
Notes payable	4,763	6,874
Liabilities of discontinued operations	12,004	13,053
Other liabilities	13,155	11,869
Total liabilities	6,179,038	6,126,242
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Series A junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued or outstanding		
Series B 9.375% redeemable preferred stock, \$0.01 par value; liquidation value \$16,904; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of	7	7

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March 31, 2011 and December 31, 2010, respectively

Series C 9.125% redeemable preferred stock, \$0.01 par value; liquidation value \$35,389; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	14	14
Common stock, \$0.01 par value; 200,000,000 shares authorized; 7,788,546 and 7,787,546 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	78	78
Additional paid-in capital	1,076,451	1,076,375
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(228,545)	(227,558)
Net accumulated deficit	(1,051,065)	(1,050,078)
Total Impac Mortgage Holdings, Inc. stockholders' equity	25,485	26,396
Noncontrolling interests	1,271	1,301
Total equity	26,756	27,697
Total liabilities and stockholders' equity	\$ 6,205,794	\$ 6,153,939

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010
INTEREST INCOME	\$ 218,082	\$ 279,876
INTEREST EXPENSE	216,547	279,106
Net interest income	1,535	770
NON-INTEREST INCOME:		
Change in fair value of net trust assets, excluding REO	4,896	7,372
Losses from REO	(4,249)	(1,108)
Non-interest income - net trust assets	647	6,264
Change in fair value of long-term debt	238	(291)
Mortgage and real estate services fees	11,690	10,950
Other	295	80
Total non-interest income	12,870	17,003
NON-INTEREST EXPENSE:		
General and administrative	4,579	4,778
Personnel expense	10,766	9,681
Total non-interest expense	15,345	14,459
(Loss) earnings from continuing operations before income taxes	(940)	3,314
Income tax expense from continuing operations	12	85
(Loss) earnings from continuing operations	(952)	3,229
(Loss) earnings from discontinued operations, net of tax	(350)	2,386
Net (loss) earnings	(1,302)	5,615
Net loss attributable to noncontrolling interests	315	303
Net (loss) earnings attributable to IMH	\$ (987)	\$ 5,918
(Loss) earnings per common share - basic:		
(Loss) earnings from continuing operations attributable to IMH	\$ (0.08)	\$ 0.46
(Loss) earnings from discontinued operations	(0.04)	0.31
Net (loss) earnings per share available to common stockholders	\$ (0.12)	\$ 0.77
(Loss) earnings per common share - diluted:		
(Loss) earnings from continuing operations attributable to IMH	\$ (0.08)	\$ 0.42
(Loss) earnings from discontinued operations	(0.04)	0.29
Net (loss) earnings per share available to common stockholders	\$ (0.12)	\$ 0.71

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	\$ (1,302)	\$ 5,615
Losses from real estate owned	4,249	1,108
Change in fair value of mortgage servicing rights	99	
Gain on sale of loans	(646)	
Origination of mortgage loans held-for-sale	(53,444)	
Sale and principal reduction on mortgage loans held-for-sale	26,768	
Change in fair value of net trust assets, excluding REO	(21,950)	(43,300)
Change in fair value of long-term debt	(238)	291
Accretion of interest income and expense	87,158	125,906
Change in REO impairment reserve	(10,305)	(5,951)
Stock-based compensation	76	350
Net change in restricted cash	(1,012)	
Net cash used in operating activities of discontinued operations	(1,076)	(1,204)
Net change in other assets and liabilities	(1,907)	(5,107)
Net cash provided by operating activities	26,470	77,708
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	178,988	185,917
Net change in mortgages held-for-investment	3	6
Maturity of short-term investments		5,000
Purchase of premises and equipment	(351)	(436)
Net principal change on investment securities available-for-sale	56	70
Proceeds from the sale of real estate owned	49,736	63,563
Net cash provided by investing activities of discontinued operations		864
Net cash provided by investing activities	228,432	254,984
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of warehouse borrowings	(32,169)	
Borrowings under warehouse agreement	62,378	
Repayment of securitized mortgage borrowings	(287,146)	(329,986)
Principal payments on notes payable	(1,826)	(4,224)
Net cash used in financing activities	(258,763)	(334,210)
Net change in cash and cash equivalents	(3,861)	(1,518)
Cash and cash equivalents at beginning of period	11,620	25,850
Cash and cash equivalents at end of period - Continuing Operations	7,750	23,023
Cash and cash equivalents at end of period - Discontinued Operations	9	1,309
Total cash and cash equivalents at end of period	\$ 7,759	\$ 24,332
NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):		

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Transfer of securitized mortgage collateral to real estate owned	\$	25,735	\$	41,894
Net effect of consolidation of net trust assets from adoption of accounting principle				119,631
Net effect of consolidation of net trust liabilities from adoption of accounting principle				(119,631)

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Summary of Business, Market Conditions, Status of Operations, Liquidity, and Financial Statement Presentation

Business Summary

Impac Mortgage Holdings, Inc. (the Company or IMH) is a Maryland corporation incorporated in August 1995 and has the following subsidiaries: Integrated Real Estate Service Corporation (IRES), IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG) and Impac Funding Corporation (IFC).

The Company's continuing operations include the long-term mortgage portfolio (residual interests in securitizations determined as total trust assets minus total trust liabilities in the consolidated balance sheets) and the mortgage and real estate fee-based business activities conducted by IRES. The discontinued operations include the former non-conforming mortgage and retail operations conducted by IFC and subsidiaries, and warehouse lending operations conducted by IWLG.

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

Market Update, Status of Operations and Liquidity

Beginning in the third quarter of 2010 and continuing through the first quarter of 2011, we continue to see home price declines in many markets as the homebuyer tax credit expired and housing prices remained under pressure due to elevated foreclosure levels. In addition, foreclosure delays as a result of reviews into foreclosure practices of some prominent loan servicers in the fourth quarter of 2010, among other market conditions may result in continued downward pressure on home prices for the foreseeable future.

Mortgage lending and credit market conditions remained soft through the first quarter of 2011 due primarily to an increase in mortgage rates and weak economy. Existing uncertainties surrounding the housing market, economy and regulatory environment will continue to present challenges for the Company. The ongoing economic stress or further deterioration of general economic conditions could prolong or increase borrower defaults leading to deteriorating performance of our long-term mortgage portfolio.

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In March 2011, the Company expanded its mortgage lending operations by moving into the Pacific Northwest and Gulf Coast Regions, opening regional production offices in Lake Oswego, Oregon, and Baton Rouge, Louisiana. In addition to the Company's mortgage lending operations in Irvine, California, this expansion gives the Company origination capabilities throughout the entire West Coast and Gulf Coast regions with additional regional operation centers and retail and wholesale locations. As part of this expansion, the Company invested approximately \$2.0 million in its mortgage lending operations infrastructure, consisting principally of additional personnel and occupancy costs (included in total non-interest expense in the consolidated statement of operations). Also during the quarter ended March 31, 2011, the Company obtained an additional warehouse borrowing facility of \$20.0 million bringing total warehouse borrowing capacity to \$73.5 million at March 31, 2011. Through both retail and wholesale channels, the Company funded \$53.4 million in mortgage loans during the quarter ended March 31, 2011 of primarily government sponsored and conventional loans eligible for sale to Ginnie Mae, Fannie Mae and Freddie Mac, respectively.

The ability to meet the Company's long-term liquidity requirements is subject to several factors, such as generating fees from the mortgage and real estate business activities and realizing cash flows from the long-term mortgage portfolio. The Company's future financial performance and success are dependent in large part upon the ability to grow the mortgage and real estate business activities, including providing services to third parties and expanding the mortgage lending operations. The Company believes that current cash balances, cash flows from mortgage and real estate services fees generated from the long-term mortgage portfolio, and residual interest cash flows from the long-term mortgage portfolio are adequate for the current operating needs. However, the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. The Company's ability to successfully compete in the mortgage and real estate services industry may be challenging as its business activities have been established in the last few years and many competitors have recently entered or have established businesses delivering similar services. Additionally, the mortgage lending environment is extremely competitive and highly regulated. The future success of the mortgage lending operations will depend on a number of factors, including the ability to procure adequate financing to fund loan production, maintaining associated financial covenants of lenders, how well the Company competes, housing market conditions, economic recovery and financial regulatory reform. If the Company is unsuccessful, the Company may be unable to satisfy the future operating costs and liabilities, including repayment of the note payable and long-term debt. To be successful in expanding the business and providing adequate returns to the shareholders, the Company may seek financing in the form of debt or equity capital.

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Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These interim period condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the United States Securities and Exchange Commission (SEC).

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

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. The items affected by such estimates and assumptions include the valuation of trust assets and trust liabilities, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt and mortgage loans held-for-sale. Actual results could differ from those estimates and assumptions.

Recently Adopted Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-6 Improving Disclosures About Fair Value Measurements (ASU 2010-6). The ASU amends Codification Topic 820 Fair Value Measurements and Disclosures to add new disclosure requirements for transfers into and out of Levels 1 and 2 fair value measurements, as well as separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements. ASU 2010-6 also clarifies existing fair value disclosures regarding the level of disaggregation and inputs and valuation techniques used to measure fair value. ASU 2010-6 is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. ASU 2010-6 only adds new disclosure requirements and as a result, its adoption did not have an impact on the Company's consolidated financial statements.

Income Taxes and Deferred Charge

The Company recorded income tax expense of \$12 thousand and \$85 thousand for the three months ended March 31, 2011 and 2010, respectively. The income tax expense for 2011 and 2010 is the result of state income taxes primarily from states where the Company does not have net operating loss carryforwards.

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As of December 31, 2010, the Company had estimated federal and California net operating loss carryforwards of approximately \$490.6 million and \$492.1 million, respectively, of which \$271.7 million (federal) relate to discontinued operations. During the year ended December 31, 2010, estimated net operating loss carryforwards were reduced as a result of the Company generating taxable income from cancellation of debt for approximately \$426.2 million of securitized mortgage borrowings. Federal and state net operating loss (NOL) carryforwards begin to expire in 2020 and 2017, respectively. California net operating loss carryforwards have been suspended by the state until 2012, thus the expiration begins in 2017. The Company recorded a full valuation allowance against the deferred tax assets as it believes that as of March 31, 2011 it is more likely than not that the deferred tax assets will not be recoverable.

During the fourth quarter of 2009, the Company received a federal income tax refund in the amount of \$8.9 million as a result of an election to carryback NOLs five years pursuant to 2009 federal legislation, *The Worker, Homeownership, and Business Assistance Act of 2009*. The Company files income tax returns in the U.S. federal and various state jurisdictions. The Company is subject to routine income tax audits in the various jurisdictions. A subsidiary of the Company is currently under examination by the Internal Revenue Service for tax year 2008. Management believes that there are no unresolved issues or claims likely to be material to our financial position. As of March 31, 2011, the Company has no material uncertain tax positions.

The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statement of operations over the estimated life of the mortgages retained in the securitized mortgage collateral. There was no amortization of deferred charge during the three months ended March 31, 2011.

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Legal Proceedings

On May 6, 2011 a case entitled Massachusetts Mutual Life Insurance Company v Impac Funding Corporation, et al was filed in the United States District Court for the District of Massachusetts as Case No. 3:11-cv-30127. The complaint names Impac Funding Corporation and Impac Secured Assets Corporation along with two of their officers as defendants. The action alleges violations of the Massachusetts Uniform Securities Act and the plaintiff seeks rescission or damages for their purchase of bonds from two securitization trusts issued by the Defendants. The plaintiff alleges that the loans deposited into the trusts did not meet the representations made in the offering documents when they purchased their bonds.

On or about April 20, 2011, an action was filed in the Superior Court of the Commonwealth of Massachusetts as case No. B.L.S. 11-1533 entitled Federal Home Loan bank of Boston v. Ally financial Inc., et al. Named as defendants in that action are IMH Assets Corp, Impac Funding Corporation, Impac Mortgage Holdings, Inc. and Impac Secured Assets Corp. The complaint alleges misrepresentations in connection with 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.

On or about May 10, 2011 a purported class action complaint was filed in the United States District court, Central district of California as Case No. SACV11-00717 entitled Norma B. Power Trust, individually and on Behalf of All Others Similarly Situated v Impac Mortgage Holdings, Inc., et al. The action alleges that the Defendants filed unauthorized false, invalid amendments to the Company's corporate charter with regards to the holders of series B Preferred Stock and Series C Preferred Stock. The action seeks recovery under Section 10(b) of the Exchange Act and Rule 10b-5, Section 13(a) of the Exchange Act, Rules 12b-20, 13a-1 and 13a-11. It also seeks recovery under Rule 14(e) and Section 20(a) of the Exchange Act. The Plaintiff seeks compensatory damages, costs, expenses, attorney's fees and rescission.

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

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

Please refer to IMH's report on Form 10-K for the year ended December 31, 2010 for a description of litigation and claims.

Note 2. Fair Value of Financial Instruments

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

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

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	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 7,750	\$ 7,750	\$ 11,507	\$ 11,507
Restricted cash	2,507	2,507	1,495	1,495
Investment securities				
available-for-sale	415	415	645	645
Securitized mortgage collateral	6,053,766	6,053,766	6,011,675	6,011,675
Derivative assets	37	37	40	40
Mortgage servicing rights	1,340	1,340	1,439	1,439
Mortgage loans held-for-sale	31,888	31,888	4,283	4,283
Call option	483	483	706	706
Liabilities				
Securitized mortgage borrowings	6,056,577	6,056,577	6,012,745	6,012,745
Derivative liabilities	46,243	46,243	65,916	65,916
Long-term debt	12,030	12,030	11,728	11,728
Warehouse borrowings	34,266	34,266	4,057	4,057
Notes payable	4,763	4,716	6,874	6,818
Put option	61	61	61	61

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

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

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

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

Note payable is recorded at amortized cost. Notes payable includes notes with maturities ranging from less than a year to three years. For notes with maturities of less than a year, the estimated fair value approximates carrying value due to the short-term nature of the liabilities. Notes with maturities greater than a year, the estimated fair value is determined using a discounted cash flow model using market rates. The estimated fair value is less than the carrying value as certain notes are non-interest bearing.

Fair Value Hierarchy

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

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

- Level 1 Quoted prices (unadjusted) in active markets for identical instruments or liabilities that an entity has the ability to assess at measurement date.

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

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

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, securitized mortgage collateral and borrowings, net derivative liabilities, long-term debt, mortgage servicing rights, and call and put options as Level 3 fair value measurements. Level 3 assets and liabilities were 99% and 100%, respectively, of total assets and total liabilities measured at estimated fair value at March 31, 2011 and December 31, 2010.

Recurring Fair Value Measurements

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three months ended March 31, 2011.

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at March 31, 2011 and December 31, 2010, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	March 31, 2011			December 31, 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<u>Assets</u>						
Investment securities						
available-for-sale	\$	\$	\$ 415	\$	\$	\$ 645
Mortgage loans held-for-sale		31,888			4,283	
Mortgage servicing rights (1)			1,340			1,439
Call option (1)			483			706
Securitized mortgage collateral			6,053,766			6,011,675
Total assets at fair value	\$	\$ 31,888	\$ 6,056,004	\$	\$ 4,283	\$ 6,014,465
<u>Liabilities</u>						

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Securitized mortgage borrowings	\$	\$	\$	6,056,577	\$	\$	\$	6,012,745
Derivative liabilities, net (2)				46,205				65,876
Long-term debt				12,030				11,728
Put option (3)				61				61
Total liabilities at fair value	\$	\$	\$	6,114,873	\$	\$	\$	6,090,410

(1) Included in other assets in the accompanying balance sheets.

(2) At March 31, 2011, derivative liabilities, net included \$37 thousand in derivative assets and \$46.2 million in derivative liabilities, included within trust assets and trust liabilities, respectively. At December 31, 2010, derivative liabilities, net included \$40 thousand in derivative assets and \$65.9 million in derivative liabilities, included within trust assets and trust liabilities, respectively.

(3) Included in other liabilities in the accompanying balance sheets.

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The following tables present a reconciliation for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2011 and 2010:

	Level 3 Recurring Fair Value Measurements For the three months ended March 31, 2011								
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Put Option	Long-term debt	
Fair value, December 31, 2010	\$ 645	\$ 6,011,675	\$ (6,012,745)	\$ (65,876)	\$ 1,439	\$ 706	\$ (61)	\$ (11,728)	
Total gains (losses) included in earnings:									
Interest income (1)	28	107,369							
Interest expense (1)			(194,015)					(540)	
Change in fair value	(202)	139,446	(137,278)	2,930	(99)	(223)		238	
Total gains (losses) included in earnings	(174)	246,815	(331,293)	2,930	(99)	(223)		(302)	
Transfers in and/or out of Level 3									
Purchases, issuances and settlements									
Purchases									
Issuances									
Settlements	(56)	(204,724)	287,461	16,741					
Fair value, March 31, 2011	\$ 415	\$ 6,053,766	\$ (6,056,577)	\$ (46,205)	\$ 1,340	\$ 483	\$ (61)	\$ (12,030)	
Unrealized gains (losses) still held (2)	\$ 202	\$ (4,342,090)	\$ 6,222,257	\$ (46,475)	\$	\$	\$	\$ 58,733	

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The total net interest income, including cash received and paid, was \$1.5 million for the three months ended March 31, 2011, as reflected in the accompanying consolidated statement of operations.

(2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at March 31, 2011.

	Level 3 Recurring Fair Value Measurements For the three months ended March 31, 2010				
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt
Fair value, December 31, 2009	\$ 813	\$ 5,666,122	\$ (5,659,865)	\$ (126,457)	\$ (9,773)
Total gains (losses) included in earnings:					
Interest income (1)	47	130,229			
Interest expense (1)				(255,513)	(668)
Change in fair value	178	681,408	(656,199)	(18,015)	(291)
Total gains (losses) included in earnings	225	811,637	(911,712)	(18,015)	(959)
Adoption of ASU 2009-17 (2)	(298)	116,907	(110,618)	(9,013)	
Transfers in and/or out of Level 3					
Purchases, issuances and settlements					

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Purchases

Issuances

Settlements

Fair value, March 31, 2010	\$	(70)	\$	(227,811)	\$	330,305	\$	35,609	\$	(10,732)
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Unrealized (losses) gains still held

(3)	\$	368	\$	(5,491,407)	\$	7,093,620	\$	(119,405)	\$	60,031
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(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The total net interest income, including cash received and paid, was \$770 thousand for the three months ended March 31, 2010, as reflected in the accompanying consolidated statement of operations.

(2) Amounts represent the consolidation and deconsolidation of trust assets and liabilities as a result of the adoption of ASU 2009-17 on January 1, 2010. See Note 1. Summary of Market Conditions and Liquidity, Business and Financial Statement Presentation including Significant Accounting Policies in our Annual Report on Form 10K for the year ended December 31, 2010 for the impact of the adoption of ASU 2009-17 on our consolidated financial statements.

(3) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held at March 31, 2010.

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The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three months ended March 31, 2011 and 2010:

	Recurring Fair Value Measurements					Total
	Changes in Fair Value Included in Net Earnings					
	For the three months ended March 31, 2011					
	Change in Fair Value of		Other non-interest			
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	income	
Investment securities available-for-sale	\$ 28	\$	\$ (202)	\$	\$	\$ (174)
Securitized mortgage collateral	107,369		139,446			246,815
Securitized mortgage borrowings		(194,015)	(137,278)			(331,293)
Mortgage servicing rights					(99)	(99)
Call option					(223)	(223)
Put option						
Derivative instruments, net			2,930(2)			2,930
Long-term debt		(540)		238		(302)
Total	\$ 107,397	\$ (194,555)	\$ 4,896(3)	\$ 238	\$ (322)	\$ (82,346)

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

(2) Included in this amount is \$20.0 million in changes in the fair value of derivative instruments, offset by \$17.1 million in cash payments from the securitization trusts for the three months ended March 31, 2011.

(3) For the three months ended March 31, 2011, change in the fair value of trust assets, excluding REO was \$4.9 million. Excluded from the \$22.0 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$17.1 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

	Recurring Fair Value Measurements					Total
	Changes in Fair Value Included in Net Loss					
	For the three months ended March 31, 2010					
	Change in Fair Value of		Other non-interest			
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	income	
Investment securities available-for-sale	\$ 47	\$	\$ 178	\$	\$	\$ 225
Securitized mortgage collateral	130,229		681,408			811,637
Securitized mortgage borrowings		(255,513)	(656,199)			(911,712)
Derivative instruments, net			(18,015)(2)			(18,015)
Long-term debt		(668)		(291)		(959)
Total	\$ 130,276	\$ (256,181)	\$ 7,372(3)	\$ (291)	\$	\$ (118,824)

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in this amount is \$17.9 million in changes in the fair value of derivative instruments, offset by \$35.9 million in cash payments from the securitization trusts for the three months ended March 31, 2010.
- (3) For the three months ended March 31, 2010, change in the fair value of net trust assets, excluding REO was \$7.4 million. Excluded from the \$43.3 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$35.9 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

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

Investment securities available-for-sale The Company elected to carry all of its investment securities available-for-sale at fair value. The investment securities consist primarily of non-investment grade mortgage-backed securities. The fair value of the investment securities is measured based upon the Company's expectation of inputs that other market participants would use. Such assumptions include judgments about the underlying collateral, prepayment speeds, future credit losses, forward interest rates and certain other factors. Given the market disruption and lack of observable market data as of March 31, 2011 and December 31, 2010, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants' assumptions.

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Mortgage servicing rights The Company elected to carry all of its mortgage servicing rights arising from its newly acquired mortgage lending operation at fair value. The fair value of mortgage servicing rights is based upon an internal discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at March 31, 2011.

Mortgage loans held-for-sale The Company elected to carry its mortgage loans held-for-sale originated from its recently formed residential mortgage lending platform at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for conforming mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at March 31, 2011.

Call option As part of the acquisition of AmeriHome Mortgage Corporation (AmeriHome) as more fully discussed in Note 18. *Business Combinations* of our Annual Report on Form 10-K for the year ended December 31, 2010, the purchase agreement included a call option to purchase an additional 39% of AmeriHome. The estimated fair value is based on a multinomial model incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. The call option is considered a Level 3 measurement at March 31, 2011.

Put option As part of the acquisition of AmeriHome, a put option which allows the noncontrolling interest holder to sell his remaining 49% of AmeriHome to the Company in the event the Company does not exercise the call option discussed above. The estimated fair value is based on a multinomial model incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. The put option is considered a Level 3 measurement at March 31, 2011.

Securitized mortgage collateral The Company elected to carry all of its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows with observable market participant assumptions where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2011, securitized mortgage collateral had an unpaid principal balance of \$10.4 billion, compared to an estimated fair value of \$6.1 billion. The aggregate unpaid principal balance exceeds the fair value by \$4.3 billion at March 31, 2011. As of March 31, 2011, the unpaid principal balance of loans 90 days or more past due was \$1.8 billion compared to an estimated fair value of \$0.5 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by \$1.3 billion at March 31, 2011.

Securitized mortgage borrowings The Company elected to carry all of its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2011, securitized mortgage borrowings had an outstanding principal balance of \$10.6 billion compared to an estimated fair value of \$6.1 billion. The aggregate outstanding principal balance exceeds the fair value by \$4.5 billion at March 31, 2011.

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Long-term debt The Company elected to carry all of its long-term debt (consisting of trust preferred securities and junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of March 31, 2011, long-term debt had an unpaid principal balance of \$70.5 million compared to an estimated fair value of \$12.0 million. The aggregate unpaid principal balance exceeds the fair value by \$58.5 million at March 31, 2011.

Derivative assets and liabilities For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair values measurements include the Company's judgments about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account the Company's own credit standing, to the extent applicable; thus, the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract.

Nonrecurring Fair Value Measurements

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements under FASB ASC 820-10.

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The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at March 31, 2011 and 2010, respectively:

	Nonrecurring Fair Value Measurements March 31, 2011			Total Gains (Losses) For the Three Months Ended March 31, 2011 (5)	
	Level 1	Level 2	Level 3		
REO (1)	\$	\$ 62,656	\$	\$	(4,247)
Lease liability (2)				(2,246)	(217)
Deferred charge (3)				13,144	
Intangible assets (4)				1,479	

(1) Amounts are included in continuing operations. For the three months ended March 31, 2011, the \$4.3 million loss related to additional impairment write-downs during the period is within continuing operations.

(2) Amounts are included in discontinued operations. For the three months ended March 31, 2011, the Company recorded \$217 thousand in losses resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

(3) Amounts are included in continuing operations. For the three months ended March 31, 2011, the Company recorded zero in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

(4) Amount is included in other assets in the accompanying consolidated balance sheets.

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

	Non-recurring Fair Value Measurements March 31, 2010			Total Gains For the Three Months Ended March 31, 2010 (6)	
	Level 1	Level 2	Level 3		
Mortgage loans held-for-sale (1)	\$	\$	\$ 3,049	\$	254
REO (2)		95,794			1,028
Lease liability (3)				(3,178)	479
Deferred charge (4)				13,144	
Intangible asset (5)				1,000	

(1) Relates to Alt-A loans held-for-sale included in assets of discontinued operations.

(2) Includes \$95.6 million and \$175 thousand in REO within continuing and discontinued operations, respectively, at March 31, 2010 which had additional impairment write-downs subsequent to the date of foreclosure. For the three months ended March 31, 2010, the \$1.0 million gain during the period included \$672 thousand and \$355 thousand within continuing and discontinued operations, respectively.

(3) Amounts are included in discontinued operations. For the three months ended March 31, 2010, the Company recorded \$485 thousand in gains resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments, respectively.

(4) Amounts are included in continuing operations. For the three months ended March 31, 2010, the Company recorded zero in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the

securitized mortgage collateral.

- (5) Amount is included in other assets in the accompanying consolidated balance sheets.
- (6) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.

Mortgage loans held-for-sale Mortgage loans held-for-sale (included in assets of discontinued operations) for which the fair value option was not elected are carried at the lower of cost or market (LOCOM). When available, such measurements are based upon what secondary markets offer for portfolios with similar characteristics, and are considered Level 2 measurements. If market pricing is not available, such measurements are significantly impacted by the Company's expectations of other market participants' assumptions, and are considered Level 3 measurements. The Company utilizes internal pricing processes to estimate the fair value of these loans, which is based on recent loan sales and estimates of the fair value of the underlying collateral. Loans held-for-sale from the discontinued non-conforming lending division is considered Level 3 fair value measurements at March 31, 2010.

Real estate owned REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at March 31, 2011.

Lease liability In connection with the discontinuation of our non-conforming mortgage, retail mortgage, warehouse lending and commercial operations, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. The Company has recorded a liability, included within discontinued operations, representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company's judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at March 31, 2011.

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Deferred charge Deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The deferred charge is amortized as a component of income tax expense over the estimated life of the mortgages retained in the securitized mortgage collateral. The Company evaluates the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. If the deferred charge is determined to be impaired, it is amortized as a component of income tax expense. Deferred charge is considered a Level 3 measurement at March 31, 2011.

Intangible assets Intangible assets deemed to have an indefinite life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment losses are recognized if carrying amount of an intangible asset exceeds its estimated fair value. Intangible asset, which is included in other assets of continuing operations, is considered a Level 3 measurement at March 31, 2011.

Note 3. Stock Options

There were no options granted during the three months ended March 31, 2011 or 2010, respectively.

The following table summarizes activity, pricing and other information for the Company's stock options for the three months ended March 31, 2011:

	Number of Shares	Weighted- Average Exercise Price (\$)
Options outstanding at January 1, 2011	1,476,704	\$ 6.28
Options granted		
Options exercised	(1,000)	0.53
Options forfeited / cancelled	(58,632)	37.71
Options outstanding at March 31, 2011	1,417,072	\$ 4.98
Options exercisable at March 31, 2011	1,025,534	\$ 5.83

As of March 31, 2011, there was approximately \$820 thousand of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 2.64 years.

The following table summarizes activity, pricing and other information for the Company's restricted stock units (RSU's) for the three months ended March 31, 2011:

Weighted-

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	Number of Shares	Average Grant Date Fair Value
RSU s outstanding at January 1, 2011	24,000	\$ 2.73
RSU s granted		
RSU s exercised		
RSU s forfeited / cancelled		
RSU s outstanding at March 31, 2011	24,000	\$ 2.73

As of March 31, 2011, there was approximately \$58 thousand of total unrecognized compensation cost related to the RSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 2.68 years.

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

	For the Three Months Ended March 31,	
	2011	2010
Numerator for basic earnings (loss) per share:		
(Loss) earnings from continuing operations	\$ (952)	\$ 3,229
Net loss attributable to noncontrolling interest	315	303
(Loss) earnings from continuing operations attributable to IMH	(637)	3,532
(Loss) earnings from discontinued operations	(350)	2,386
(Loss) earnings per share available to common stockholders	\$ (987)	\$ 5,918
Denominator for basic earnings (loss) per share (1):		
Basic weighted average common shares outstanding during the year	7,788	7,698
Denominator for diluted earnings per share (1):		
Basic weighted average common shares outstanding during the year	7,788	7,698
Net effect of dilutive stock options		620
Diluted weighted average common shares	7,788	8,318
(Loss) earnings per common share - basic:		
(Loss) earnings from continuing operations	\$ (0.08)	\$ 0.46
(Loss) earnings from discontinued operations	(0.04)	0.31
(Loss) earnings per share available to common stockholders	\$ (0.12)	\$ 0.77
(Loss) earnings per common share - diluted:		
(Loss) earnings from continuing operations	\$ (0.08)	\$ 0.42
(Loss) earnings from discontinued operations	(0.04)	0.29
(Loss) earnings per share available to common stockholders	\$ (0.12)	\$ 0.71

(1) Number of shares presented in thousands.

For the three months ended March 31, 2011 and 2010, stock options to purchase 1.4 million and 459 thousand shares, respectively, were outstanding but not included in the above weighted average share calculations because they were anti-dilutive.

Note 5. Segment Reporting

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

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	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
Balance sheet items as of March 31, 2011:					
Cash and cash equivalents	\$	\$	8,146	\$ 9	\$ (405) 7,750
Restricted cash	1,012	1,495	91	(91)	2,507
Trust assets	6,128,927				6,128,927
Mortgage loans held-for-sale		31,888			31,888
Other assets	16,320	18,106	196	100	34,722
Total assets	6,146,259	59,635	296	(396)	6,205,794
Total liabilities	6,124,377	43,053	12,004	(396)	6,179,038
Total stockholders equity (deficit)	21,882	16,582	(11,708)		26,756

	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
Balance sheet items as of December 31, 2010:					
Cash and cash equivalents	\$	\$	12,259	\$ 113	\$ (865) 11,507
Restricted cash		1,495	91	(91)	1,495
Trust assets	6,105,068				6,105,068
Mortgage loans held-for-sale		4,283			4,283
Other assets	18,526	12,687	169	204	31,586
Total assets	6,123,594	30,724	373	(752)	6,153,939
Total liabilities	6,101,157	12,784	13,053	(752)	6,126,242
Total stockholders equity (deficit)	22,437	17,940	(12,680)		27,697

	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
Statement of Operations Items for the three months ended March 31, 2011:					
Net interest income	\$ 1,535	\$	\$	\$	\$ 1,535
Non-interest income- net trust assets	647				647
Change in fair value of long-term debt	238				238
Mortgage and real estate services fees		11,690			11,690
Other non-interest (expense) income	(32)	327	(131)	131	295
Non-interest expense and income taxes	(4,270)	(11,087)	(219)	219	(15,357)
(Loss) earnings from continuing operations	\$ (1,882)	\$ 930			(952)
Loss from discontinued operations, net of tax			\$ (350)		(350)
Net loss					\$ (1,302)

	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
Statement of Operations Items for the three months ended March 31, 2010:					
Net interest income	765	5	27	(27)	\$ 770
Non-interest income- net trust assets	6,264				6,264
Change in fair value of long-term debt	(291)				(291)
Mortgage and real estate services fees		10,950			10,950
Other non-interest (expense) income	1	79	2,085	(2,085)	80
Non-interest expense and income taxes	(4,645)	(9,899)	274	(274)	(14,544)
Earnings from continuing operations	\$ 2,094	\$ 1,135			3,229
Earnings from discontinued operations, net of tax			\$ 2,386		2,386
Net earnings					\$ 5,615

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

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The Company, through IRES and its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are used to fund and are secured by residential mortgage loans that are held for sale.

In March 2011, the Company, through IRES and its subsidiaries, entered into a Master Repurchase Agreement with a lender providing a \$20 million warehouse facility (Repurchase Agreement 4). The interest rate relating to this agreement is Prime plus 1.50% and expires March 2012. Under the terms of this warehouse facility, IRES and its subsidiaries are required to maintain various financial and other covenants.

At March 31, 2011, the Company was in compliance with all financial covenants of its four repurchase agreements.

The following table presents certain information on warehouse borrowings for the periods indicated:

	Maximum Borrowing Capacity	Balance Outstanding at	
		March 31, 2011	December 31, 2010
Short-term borrowings:			
Repurchase agreement 1	\$ 25,000	\$ 8,530	\$ 477
Repurchase agreement 2 (1)	3,500	2,112	1,800
Repurchase agreement 3 (2)	25,000	23,010	1,780
Repurchase agreement 4	20,000	614	
Total short-term borrowings	\$ 73,500	\$ 34,266	\$ 4,057

(1) In April 2011, the maturity was extended to May 2011.

(2) The maximum borrowing capacity increased to \$32.5 million in April 2011.

Note 7. Subsequent Events

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

In April 2011, the Company, through its subsidiaries, entered into a \$2.0 million working capital line of credit agreement with a national bank with an interest rate of LIBOR plus 3.5%. The agreement expires in April 2012 and under the terms of the agreement the Company and its subsidiaries are required to maintain various financial and other covenants.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Unless the context otherwise requires, the terms Company, we, us, and our refer to Impac Mortgage Holdings, Inc. (the Company or IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, Integrated Real Estate Service Corporation (IRES), IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG) and Impac Funding Corporation (IFC).

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, likely, should, could, seem to, anticipate, or similar terms or variations on those terms or the negative thereof. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: the ongoing volatility in the mortgage industry; our ability to successfully manage through the current market environment; our ability to meet liquidity needs from current cash flows or generate new sources of revenue; management's ability to successfully manage and grow the Company's mortgage and real estate fee-based business activities; the ability to make interest payments; increases in default rates or loss severities and mortgage related losses; the ability to satisfy conditions (payment and covenants) in the note payable with a major creditor; our ability to obtain additional financing and the terms of any financing that we do obtain; inability to effectively liquidate properties to mitigate losses; increase in loan repurchase requests and ability to adequately settle repurchase obligations; decreases in value of our residual interests that differ from our assumptions; the ability of our common stock to continue trading in an active market; the outcome of litigation or regulatory actions pending against us or other legal contingencies; our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the period ended December 31, 2010, the other reports we file under the Securities and Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Mortgage Industry and Discussion of Relevant Fiscal Periods

The mortgage industry is continually vulnerable to current events that occur in the financial services industry. These events include changes in economic indicators, government regulation, interest rates, price competition, geographic shifts, disposable income, housing prices, market liquidity, market anticipation, and customer perception, as well as others. The factors that affect the industry change rapidly and can be unforeseeable.

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

Status of Operations, Liquidity and Capital Resources

Mortgage and Real Estate Services

The mortgage and real estate services have been developed as part of a centralized platform to operate synergistically to maximize revenues and profits. The integrated services platform includes the mortgage lending operations, portfolio loss mitigation and real estate services and title and escrow.

Mortgage Lending Operations In March 2011, the Company expanded its mortgage lending operations by moving into the Pacific Northwest and Gulf Coast Regions, opening regional production offices in Lake Oswego, Oregon, and Baton Rouge, Louisiana. In addition to the Company's mortgage lending operations in Irvine, California, this expansion gives the Company origination capabilities throughout the entire West Coast and Gulf Coast regions with additional regional operation centers and retail and wholesale locations. As part of this expansion, the Company invested approximately \$2 million in its mortgage lending operations infrastructure, consisting principally of additional personnel and occupancy costs (included in total non-interest expense in the consolidated statement of operations). We expect to derive benefits from this investment through increased net revenues from mortgage origination activity, however there can be no assurances that this investment will result in additional net revenues to us. In addition, because the costs associated with our mortgage origination expansion must be expensed in accordance with GAAP, this investment was in part, a reason for the net loss incurred during the quarter ended March 31, 2011.

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During the first quarter of 2011, the Company funded \$53.4 million, sold \$26.3 million and brokered \$3.9 million of loans as compared to a minimal amount of loans brokered in the first quarter of 2010.

In March 2011, the Company, through IRES and its subsidiaries, entered into a Master Repurchase Agreement with a lender providing an additional \$20 million warehouse facility. As of March 31, 2011, the Company had increased its warehouse funding capacity to \$73.5 million. During April 2011 the maximum borrowing capacity of Repurchase Agreement 3 increased to \$32.5 and we obtained approvals from another lender for an additional \$25.0 million in warehouse capacity.

Portfolio Loss Mitigation and Real Estate Services The Company has been able to develop and enhance its service offerings by providing services focusing on loss mitigation and performance of our own long-term mortgage portfolio. The Company portfolio loss mitigation and real estate services include REO surveillance and disposition services, default surveillance and loss recovery services, short sale and real estate brokerage services, loan modifications, portfolio monitoring and reporting services.

Title and Escrow The title insurance company services primarily California and selected national markets providing title insurance, escrow and settlement services to residential mortgage lenders, real estate agents, asset managers and REO companies in the residential real estate market. The services are provided through a proprietary integrated technology platform.

For the three months ended March 31, 2011 and 2010, mortgage and real estate services fees were \$11.7 million and \$11.0 million, respectively, as follows:

	For the Three Months Ended March 31,		
	2011		2010
Monitoring, surveillance and recovery fees		4,557	4,010
Title and escrow		4,308	2,717
Servicing income		1,339	732
Loan modification fees		1,486	3,491
Total mortgage and real estate services fees	\$	11,690	\$ 10,950

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

Long-Term Mortgage Portfolio

At March 31, 2011, our residual interest in securitizations (represented by the difference between trust assets and trust liabilities) decreased to \$26.1 million, compared to \$26.4 million at December 31, 2010. The decrease in residual fair value for the three months ended March 31, 2011

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was primarily due to cash received and changes in the forward LIBOR curve partially offset by decreased loss assumptions.

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

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

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

The following table presents changes in the Company's trust assets and trust liabilities for the three months ended March 31, 2011:

	TRUST ASSETS				TRUST LIABILITIES				Net trust assets and trust liabilities
	Level 3 Recurring Fair Value Measurements Investment securities available-for-sale	Fair Value Measurements Securitized mortgage collateral	Fair Value Measurements Derivative assets	NRV Real estate owned	Level 3 Recurring Fair Value Measurements Total trust assets	Fair Value Measurements Securitized mortgage borrowings	Fair Value Measurements Derivative liabilities	Total trust liabilities	
Recorded book value at 12/31/2010	645	6,011,675	40	92,708	6,105,068	(6,012,745)	(65,916)	(6,078,661)	26,407
Total Gains/(losses) included in earnings:									
Interest income	28	107,369			107,397				107,397
Interest expense						(194,015)		(194,015)	(194,015)
Change in FV of net trust assets, excluding REO	(202)	139,446	(3)		139,241(1)	(137,278)	2,933	(134,345)(1)	4,896
Change in FV of long-term debt									
Losses from REO - not at FV but at NRV				(4,249)	(4,249)(1)				(4,249)
Total gains (losses) included in earnings	(174)	246,815	(3)	(4,249)	242,389	(331,293)	2,933	(328,360)	(85,971)
Purchases issuances and settlements	(56)	(204,724)		(13,750)	(218,530)	287,461			