

IMPAC MORTGAGE HOLDINGS INC
Form 8-K
July 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) **July 28, 2016**

Impac Mortgage Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation)

1-14100
(Commission File Number)

19500 Jamboree Road, Irvine, California
(Address of Principal Executive Offices)

33-0675505
(IRS Employer Identification No.)

92612
(Zip Code)

(949) 475-3600

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(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

 - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

 - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On July 28, 2016, Impac Mortgage Holdings, Inc. (the Company) issued a press release announcing certain financial results for the quarter ended June 30, 2016. A copy of the press release is attached hereto as Exhibit 99.1 and the information therein is incorporated herein by reference.

Item 7.01 Regulation FD Disclosure.

The information under Item 2.02, above, is incorporated herein by reference.

The information reported under Items 2.02 and 7.01 in this Current Report on Form 8-K, including Exhibit 99.1 attached hereto, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 8.01 Other Events.

On July 28, 2016, the Company issued a press release announcing certain financial results for the quarter ended June 30, 2016.

For the second quarter of 2016, operating income, excluding the changes in contingent consideration, increased to \$18.5 million as compared to \$8.4 million in the second quarter of 2015, and \$7.0 million in the first quarter of 2016. For the second quarter of 2016, the Company reported net earnings of \$12.3 million or \$0.92 per diluted common share, as compared to net earnings of \$16.8 million or \$1.33 per diluted common share for the second quarter of 2015, and \$981 thousand or \$0.08 per diluted common share for the first quarter of 2016.

| Results of Operations (in thousands, except share data) (unaudited) | For the Three Months Ended | | | For the Six Months Ended | |
|---|----------------------------|-------------------|------------------|--------------------------|------------------|
| | June 30, 2016 | March 31, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Revenues: | | | | | |
| Gain on sale of loans, net | \$ 78,822 | \$ 53,869 | \$ 48,346 | \$ 132,691 | \$ 85,744 |
| Real estate services fees, net | 1,995 | 2,100 | 2,355 | 4,095 | 5,097 |
| Servicing income, net | 2,803 | 2,088 | 1,017 | 4,891 | 1,652 |
| Loss on mortgage servicing rights | (14,482) | (10,910) | (2,790) | (25,392) | (9,358) |
| Other | 75 | 152 | 156 | 227 | 293 |
| Total revenues | 69,213 | 47,299 | 49,084 | 116,512 | 83,428 |
| Expenses: | | | | | |
| Personnel expense | 30,592 | 23,965 | 24,078 | 54,557 | 35,568 |
| Business promotion | 11,286 | 9,191 | 8,679 | 20,478 | 8,894 |
| General, administrative and other | 8,842 | 7,162 | 7,943 | 16,004 | 13,378 |

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| | | | | | |
|--|--------------|--------------|---------------|---------------|---------------|
| Accretion of contingent consideration | 1,759 | 1,895 | 3,046 | 3,653 | 3,046 |
| Change in fair value of contingent consideration | 8,412 | 2,942 | (11,326) | 11,354 | (11,326) |
| Total expenses | 60,891 | 45,155 | 32,420 | 106,046 | 49,560 |
| Operating income: | 8,322 | 2,144 | 16,664 | 10,466 | 33,868 |
| Other income (expense): | | | | | |
| Net interest (expense) income | 833 | (101) | 959 | 732 | 2,016 |
| Change in fair value of long-term debt | 1,354 | | (1,544) | 1,354 | (8,661) |
| Change in fair value of net trust assets | 2,165 | (627) | 802 | 1,538 | (74) |
| Total other income (expense) | 4,352 | (728) | 217 | 3,624 | (6,719) |
| Net earnings before income taxes | 12,674 | 1,416 | 16,881 | 14,090 | 27,149 |
| Income tax expense (benefit) | 423 | 435 | 71 | 858 | (23,633) |
| Net earnings | \$ 12,251 | \$ 981 | \$ 16,810 | \$ 13,232 | \$ 50,782 |
| Diluted earnings per share | \$ 0.92 | \$ 0.08 | \$ 1.33 | \$ 1.08 | \$ 4.17 |

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Net earnings includes fair value adjustments for changes in the contingent consideration, long-term debt and net trust assets. The contingent consideration is related to the CashCall Mortgage (CCM) acquisition transaction, while the other fair value adjustments are related to our legacy portfolio. These fair value adjustments are non-cash items and are not related to current operating results. Although we are required by GAAP to record a change in fair value and accretion of the contingent consideration, management believes operating income excluding contingent consideration changes and the related accretion is more useful to discuss the ongoing and future operations of the Company. The table below shows operating income excluding these items:

| Operating income (loss) (in thousands) | For the Three Months Ended | | | For the Six Months Ended | |
|---|----------------------------|-------------------|------------------|--------------------------|------------------|
| | June 30, 2016 | March 31, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Operating income (loss): | \$ 8,322 | \$ 2,144 | \$ 16,664 | \$ 10,466 | \$ 33,868 |
| Accretion of contingent consideration | 1,759 | 1,895 | 3,046 | 3,653 | 3,046 |
| Change in fair value of contingent consideration | 8,412 | 2,942 | (11,326) | 11,354 | (11,326) |
| Operating income excluding changes in contingent consideration | \$ 18,493 | \$ 6,981 | \$ 8,384 | \$ 25,473 | \$ 25,588 |

Operating income, excluding the changes in contingent consideration, increased to \$18.5 million for the second quarter of 2016 as compared to \$8.4 million in the second quarter of 2015, and \$7.0 million in the first quarter of 2016. The increase was primarily due to an increase in gain on sale of loans from a 38% increase in volume (as discussed below) combined with a 14 basis point bps increase in gain on sale margins to 243 bps in the quarter compared to the first quarter of 2016 and compared to 186 bps in the second quarter of 2015. This increase in gain on sale of loans was offset primarily by an increase in loss on mortgage servicing rights (MSR), in the second quarter. The loss on mortgage servicing rights was primarily due to prepayments in the portfolio and a mark-to-market loss associated with a decrease in prevailing mortgage rates in June of 2016. Counterbalancing the higher prepayments in the Company's MSR portfolio during the second quarter, were MSR retention rates greater than 80%. In future periods, if interest rates increase there would likely be an increase in the estimated fair value of MSRs. In addition, operating expenses increased about 26% to support the 38% increase in mortgage volume.

| Selected Operational Data (in millions) | Q2 2016 | Q1 2016 | % Change | Q2 2015 | % Change |
|--|-------------------|-------------------|-------------|-------------------|-------------|
| Retail Originations | \$ 2,493.0 | \$ 1,653.0 | 51% | \$ 1,547.6 | 61% |
| Correspondent Originations | \$ 419.9 | \$ 376.9 | 11% | \$ 640.2 | -34% |
| Wholesale Originations | \$ 334.5 | \$ 319.3 | 5% | \$ 416.5 | -20% |
| Total Originations | \$ 3,247.4 | \$ 2,349.2 | 38% | \$ 2,604.3 | 25% |

During the second quarter of 2016, total originations increased 38% to \$3.2 billion as compared to \$2.3 billion in the first quarter of 2016. In the second quarter of 2016, retail originations continued to be the main driver of total originations representing approximately 77% or \$2.5 billion in total originations.

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| Summary Balance Sheet (in thousands) | June 30, 2016 (Unaudited) | December 31, 2015 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Cash | \$ 19,736 | \$ 32,409 |
| Mortgage loans held-for-sale | 683,687 | 310,191 |
| Finance receivables | 56,388 | 36,368 |
| Mortgage servicing rights | 54,747 | 36,425 |
| Securitized mortgage trust assets | 4,305,071 | 4,594,534 |
| Goodwill and intangibles | 132,814 | 134,913 |
| Deferred tax asset | 24,420 | 24,420 |
| Other assets | 50,044 | 41,592 |
| Total assets | \$ 5,326,907 | \$ 5,210,852 |
| LIABILITIES & EQUITY | | |
| Warehouse borrowings | \$ 699,377 | \$ 325,616 |
| Debt | 85,707 | 106,433 |
| Securitized mortgage trust liabilities | 4,288,939 | 4,580,326 |
| Contingent consideration | 49,986 | 48,079 |
| Other liabilities | 49,434 | 35,908 |
| Total liabilities | 5,173,443 | 5,096,362 |
| Total equity | 153,464 | 114,490 |
| Total liabilities and stockholders equity | \$ 5,326,907 | \$ 5,210,852 |

| Selected Operational Data (in millions) | 6/30/2016 | 3/31/2016 | % | 6/30/2015 | % |
|--|------------|------------|--------|------------|--------|
| | | | Change | | Change |
| Mortgage Servicing Portfolio | \$ 6,641.5 | \$ 5,161.0 | 29% | \$ 3,570.7 | 86% |

As of June 30, 2016, the Company's mortgage servicing portfolio increased to \$6.6 billion, a 29% increase from March 31, 2016, which increased our retained MSR's to \$54.7 million at June 30, 2016 as compared to \$44.3 million at March 31, 2016.

The contingent consideration liability represents the estimated fair value of the expected future earn-out payments to be paid to the seller of the CCM operations which were acquired in the first quarter of 2015. In the second quarter of 2016, we updated assumptions based on current market conditions, resulting in an increase in projected volumes of CCM and in turn a higher estimated value of the contingent consideration to the seller of CCM. As a result, we recorded a change in the fair value of the contingent consideration in the second quarter increasing the contingent consideration liability by \$8.4 million over the remaining earn-out period of six quarters. Even though this projected increase in mortgage volume for CCM is a favorable development, as required by GAAP, it resulted in a corresponding charge to earnings of \$8.4 million in the second quarter of 2016.

Non-GAAP Financial Measures

This release contains a financial measure, operating income excluding contingent consideration changes and the related accretion, that is a non-GAAP measure. We have provided a reconciliation within this release of the non-GAAP financial measure to the most directly comparable GAAP financial measure. Management believes operating income excluding contingent consideration changes and the related accretion is more useful to discuss the ongoing and future operations. This non-GAAP financial measure should be considered in addition to, but not as a substitute for, measures for financial performance prepared in accordance with GAAP that are presented in this release, and the reconciliation to the closest corresponding GAAP measure should be reviewed carefully.

Forward-Looking Statements

This press release 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, capable, will, intends, believe, expect, likely, potentially appear, should, could, seem to, anticipate, expectations, 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: failure to achieve the benefits expected from the acquisition of the CCM operations, including an increase in origination volume generally, increase in each of our origination channels and ability to successfully use the marketing platform to expand volumes of our other loan products; successful development, marketing, sale and financing of new and existing financial products, including expansion of non-Qualified Mortgage originations and conventional and government loan programs; ability to successfully diversify our mortgage products; volatility in the mortgage industry; unexpected interest rate fluctuations and margin compression; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; ability to successfully create cost and product efficiencies through new technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing through lending and repurchase facilities, debt or equity funding, strategic relationships or otherwise; the terms of any financing, whether debt or equity, that we do obtain and our expected use of proceeds from any financing; increase in loan repurchase requests and ability to adequately settle repurchase obligations; failure to create brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies; and our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward looking statements, see the annual and quarterly reports we file with the Securities and Exchange Commission. 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.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

| Exhibit Number | Description |
|-----------------------|------------------------------------|
| 99.1 | Press Release dated July 28, 2016. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

IMPAC MORTGAGE HOLDINGS, INC.

Date: July 29, 2016

| | |
|--------|-------------------------|
| By: | /s/ Todd Taylor |
| Name: | Todd Taylor |
| Title: | Chief Financial Officer |

Exhibit Index

| Exhibit Number | Description |
|---------------------------|------------------------------------|
| 99.1 | Press Release dated July 28, 2016. |