IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
November 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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)

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

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 16,015,983 shares of common stock outstanding as of November 4, 2016.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1.CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 58,902	$ 32,409
Restricted cash	9,928	3,474
Mortgage loans held-for-sale	849,521	310,191
Finance receivables	78,653	36,368
Mortgage servicing rights	87,413	36,425
Securitized mortgage trust assets	4,169,519	4,594,534
Goodwill	104,938	104,938
Intangible assets, net	26,827	29,975
Deferred tax asset, net	24,420	24,420
Other assets	49,712	38,118
Total assets	$ 5,459,833	$ 5,210,852
LIABILITIES		
Warehouse borrowings	$ 880,111	$ 325,616
Term financing	29,871	29,716
Convertible notes	24,962	44,819
Contingent consideration	59,896	48,079
Long-term debt	39,835	31,898
Securitized mortgage trust liabilities	4,151,389	4,580,326
Other liabilities	60,088	35,908
Total liabilities	5,246,152	5,096,362
Commitments and contingencies (See Note 14)		
STOCKHOLDERS' EQUITY		
Series A-1 junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued or outstanding	—	—
Series B 9.375% redeemable preferred stock, $0.01 par value; liquidation value $16,640; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	7	7
Series C 9.125% redeemable preferred stock, $0.01 par value; liquidation value $35,127; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	14	14

Common stock, $0.01 par value; 200,000,000 shares authorized; 16,015,649 and 10,326,520 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	160	103
Additional paid-in capital	1,167,707	1,098,302
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(131,687)	(161,416)
Net accumulated deficit	(954,207)	(983,936)
Total stockholders’ equity	213,681	114,490
Total liabilities and stockholders’ equity	$ 5,459,833	$ 5,210,852

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Gain on sale of loans, net	$ 113,158	$ 47,274	$ 245,849	$ 133,018
Real estate services fees, net	2,678	2,775	6,773	7,872
Servicing income, net	3,789	2,432	8,680	4,083
Loss on mortgage servicing rights	(15,857)	(4,818)	(41,249)	(14,176)
Other	225	(11)	453	283
Total revenues	103,993	47,652	220,506	131,080
Expenses:				
Personnel expense	38,467	21,315	93,025	56,883
Business promotion	10,350	10,735	30,828	19,628
General, administrative and other	7,736	7,100	23,742	20,479
Accretion of contingent consideration	1,591	2,424	5,244	5,471
Change in fair value of contingent consideration	23,215	(16,897)	34,569	(28,223)
Total expenses	81,359	24,677	187,408	74,238
Operating income:	22,634	22,975	33,098	56,842
Other income (expense):				
Interest income	64,932	70,301	201,561	210,177
Interest expense	(63,628)	(70,182)	(199,525)	(208,042)
Change in fair value of long-term debt	(8,641)	—	(7,286)	(8,661)
Change in fair value of net trust assets, including trust REO gains (losses)	1,071	(3,004)	2,609	(3,078)
Total other expense	(6,266)	(2,885)	(2,641)	(9,604)
Earnings before income taxes	16,368	20,090	30,457	47,238
Income tax (benefit) expense	(130)	781	728	(22,852)
Net earnings	$ 16,498	$ 19,309	$ 29,729	$ 70,090
Earnings per common share :				
Basic	$ 1.28	$ 1.89	$ 2.43	$ 7.00
Diluted	1.18	1.48	2.27	5.61

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

(Unaudited)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Total Stockholders' Equity
Balance, December 31, 2015	2,070,678	$ 21	10,326,520	$ 103	$ 1,098,302	$ (822,520)	$ (161,416)	$ 114,490
Proceeds and tax benefit from exercise of stock options	—	—	38,620	1	209	—	—	210
Stock based compensation	—	—	—	—	1,647	—	—	1,647
Common stock issuance, net	—	—	3,811,429	38	47,567	—	—	47,605
Convertible note share issuance	—	—	1,839,080	18	19,982	—	—	20,000
Net earnings	—	—	—	—	—	—	29,729	29,729
Balance, September 30, 2016	2,070,678	$ 21	16,015,649	$ 160	$ 1,167,707	$ (822,520)	$ (131,687)	$ 213,681

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Nine Months Ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 29,729	$ 70,090
Loss on sale of mortgage servicing rights	10,610	6,193
Change in fair value of mortgage servicing rights	32,048	7,983
Gain on sale of mortgage loans	(212,696)	(115,578)
Change in fair value of mortgage loans held-for-sale	(19,572)	(9,030)
Change in fair value of derivatives lending, net	(14,618)	(8,755)
Provision for repurchases	778	340
Origination of mortgage loans held-for-sale	(9,813,665)	(7,319,723)
Sale and principal reduction on mortgage loans held-for-sale	9,414,794	7,146,796
Losses from REO	5,971	4,899
Change in fair value of net trust assets, excluding REO	(10,273)	(4,977)
Change in fair value of long-term debt	7,286	8,661
Accretion of interest income and expense	96,036	111,400
Amortization of intangible and other assets	3,577	2,384
Accretion of contingent consideration	5,244	5,471
Change in fair value of contingent consideration	34,569	(28,223)
Amortization of debt issuance costs and discount on note payable	398	248
Stock-based compensation	1,647	1,076
Impairment of deferred charge	815	1,054
Change in deferred tax assets	—	(24,420)
Change in REO impairment reserve	—	1,655
Net change in restricted cash	(6,454)	(3,409)
Net change in other assets and liabilities	18,687	8,647
Net cash used in operating activities	(415,089)	(137,218)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	461,063	479,565
Proceeds from the sale of mortgage servicing rights	5,153	23,079
Finance receivable advances to customers	(672,885)	(523,005)
Repayments of finance receivables	630,600	490,029
Net change in mortgages held-for-investment	45	46
Purchase of premises and equipment	(147)	93
Net principal change on investment securities available-for-sale	47	83
Acquisition of CashCall Mortgage	—	(5,000)
Proceeds from the sale of REO	32,275	24,210
Net cash provided by investing activities	456,151	489,100
CASH FLOWS FROM FINANCING ACTIVITIES:		

Net proceeds from issuance of common stock	47,605	—
Issuance of convertible notes	—	25,000
Issuance of term financing	—	30,000
Repayment of warehouse borrowings	(8,988,778)	(6,884,047)
Borrowings under warehouse agreement	9,543,273	7,135,002
Repayment of line of credit	—	(11,000)
Borrowings under line of credit	—	7,000
Repayment of short-term borrowing	—	(15,000)
Short-term borrowing	—	15,000
Repayment of securitized mortgage borrowings	(588,390)	(614,505)
Payment of acquisition related contingent consideration	(27,996)	(32,423)
Principal payments on short-term debt	—	(6,000)
Principal payments on capital lease	(393)	(616)
Debt issuance costs	(100)	(500)
Proceeds from exercise of stock options	210	643
Net cash used in financing activities	(14,569)	(351,446)
Net change in cash and cash equivalents	26,493	436
Cash and cash equivalents at beginning of period	32,409	10,073
Cash and cash equivalents at end of period	$ 58,902	$ 10,509
NON-CASH TRANSACTIONS :		
Transfer of securitized mortgage collateral to real estate owned	$ 32,719	$ 30,307
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	91,809	76,119
Common stock issued upon conversion of debt	20,000	—
Acquisition of equipment purchased through capital leases	551	413
Acquisition related goodwill asset related to CashCall	—	104,586
Acquisition related intangible assets related to CashCall	—	33,122
Acquisition related contingent consideration liability related to CashCall	—	124,592
Common stock issued related to CashCall acquisition	—	6,150

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1.—Summary of Business and Financial Statement Presentation

Business Summary

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

The Company's operations include the mortgage lending operations and real estate services conducted by IRES and IMC and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets) conducted by IMH. Beginning in the first quarter of 2015, the mortgage lending operations include the activities of the CashCall Mortgage operations (CCM) (See Note 2. – Acquisition of CashCall Mortgage.)

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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, 2015, filed with the United States Securities and Exchange Commission (SEC).

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

Management has made a number of material estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Material estimates subject to change include the fair value estimates of assets acquired and liabilities assumed in the acquisition of CCM as discussed in Note 2. — Acquisition of CashCall Mortgage. Additionally, other items affected by such estimates and assumptions include the valuation of trust assets and trust liabilities, contingencies, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt, mortgage servicing rights, mortgage loans held-for-sale and derivative instruments, including interest rate lock commitments (IRLC). Actual results could differ from those estimates and assumptions.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, "Interest—Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. In August 2015, ASU

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2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, was issued to address ASU 2015-03 as it relates to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. We adopted this change retrospectively on January 1, 2016, which resulted in a $465 thousand reclassification from other assets to Term Financing and Convertible Notes on December 31, 2015. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”. The update amends the guidance in Accounting Standards Codification 230, Statement of Cash Flows , and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

Note 2.—Acquisition of CashCall Mortgage

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

Pursuant to the Asset Purchase Agreement, and subject to the terms and conditions contained therein, the purchase price consists of a fixed component and a contingent component. The fixed component includes (i) the aggregate payment of $10 million in cash, payable in installments through January 2016 and (ii) 494,017 newly issued unregistered shares of the Company. The contingent component consists of a three year earn-out provision beginning on the effective date (January 2, 2015) of 100% of pre-tax net earnings of CCM for January and February of 2015, 65% of the pre-tax net earnings for the next 10 months of 2015, 55% of pre-tax 2016 net earnings and 45% of pre-tax 2017 net earnings. During the three and nine months ended September 30, 2016, consideration paid to CashCall, Inc. was $2.5 million pursuant to the fixed component of the Asset Purchase Agreement and $14.9 million and $28.0 million, respectively, pursuant to the earn-out provision.

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

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

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

(1) Included within the contingent consideration is $1.4 million of Business Appreciation Rights, as defined above.
The CCM acquisition was accounted for under the acquisition method of accounting pursuant to FASB Accounting Standards Codification (ASC) 805, Business Combinations. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The Company made significant estimates and exercised significant judgment in estimating fair values of the acquired assets and assumed liabilities. The application of the acquisition method of accounting resulted in tax deductible goodwill of $104.6 million. The acquisition closed on March 31, 2015; however, the effective date of the transaction was January 2, 2015. From the effective date to the date of the close, IMC was entitled to and recognized the net earnings of the loans originated by CCM. Acquisition related costs of $0.3 million were expensed as incurred. The expenses were comprised primarily of legal and professional fees.

Unaudited Pro Forma Results of Operations

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

	For the Three and Nine Months Ended September 30, 2015	
Revenues	$ 47,652	$ 149,480
Other expense	(2,885)	(9,394)
Expenses	(28,864)	(106,707)

Pretax net earnings	$ 15,903	$ 33,379

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Note 3.—Mortgage Loans Held-for-Sale

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

	September 30, 2016	December 31, 2015
Government (1)	$ 160,863	$ 104,576
Conventional (2)	616,071	170,519
Other (3)	42,158	24,239
Fair value adjustment (4)	30,429	10,857
Total mortgage loans held for sale	$ 849,521	$ 310,191

(1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).
(2) Includes loans eligible for sale to Federal National Mortgage Association (Fannie Mae or FNMA) and Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC).
(3) Includes NonQM and Jumbo loans.
(4) Changes in fair value are included in the statements of operations.

Gain on mortgage loans held-for-sale (LHFS), included in gain on sale of loans, net in the consolidated statement of operations, is comprised of the following for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Gain on sale of mortgage loans	$ 109,059	$ 59,753	$ 252,084	$ 179,894
Premium from servicing retained loan sales	40,890	23,384	91,809	76,119
Unrealized gains from derivative financial instruments	5,836	955	14,294	8,754
Realized losses from derivative financial instruments	(3,098)	(6,747)	(18,687)	(8,453)
Mark to market gain on LHFS	5,300	6,678	19,572	9,030
Direct origination expenses, net	(44,902)	(37,729)	(112,445)	(131,986)
Recovery (provision) for repurchases	73	980	(778)	(340)
Total gain on sale of loans, net	$ 113,158	$ 47,274	$ 245,849	$ 133,018

Note 4.—Mortgage Servicing Rights

The Company retains mortgage servicing rights (MSRs) from its sales of certain mortgage loans. MSRs are reported at fair value based on the income derived from the net projected cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the UPB of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees, such as late charges, collateral reconveyance charges and nonsufficient fund fees, and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance payments.

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The following table summarizes the activity of MSRs for the nine months ended September 30, 2016 and year ended December 31, 2015:

	September 30, 2016	December 31, 2015
Balance at beginning of period	$ 36,425	$ 24,418
Additions from servicing retained loan sales	91,809	98,103
Reductions from bulk sales	(8,773)	(75,157)
Changes in fair value (1)	(32,048)	(10,939)
Fair value of MSRs at end of period	$ 87,413	$ 36,425

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

At September 30, 2016 and December 31, 2015, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	September 30, 2016	December 31, 2015
Government insured (1)	$ 948,532	$ 675,744
Conventional (2)	8,311,402	2,799,758
NonQM	190,760	95,157
Total loans serviced	$ 9,450,694	$ 3,570,659

(1) As of September 30, 2016, the Government insured servicing rights have been pledged as collateral as part of the Term Financing. (See Note 7. — Term Financing.)

(2) As of September 30, 2016, the Conventional servicing rights have been pledged as collateral and subject to acknowledgement agreements with FNMA and FHLMC as part of the Term Financing. (See Note 7. — Term Financing.)

The table below illustrates hypothetical changes in fair values of MSRs, caused by assumed immediate changes to key assumptions that are used to determine fair value. See Note 10.—Fair Value of Financial Instruments for a description of the key assumptions used to determine the fair value of MSRs.

Mortgage Servicing Rights Sensitivity Analysis	September 30, 2016
Fair value of MSRs	$ 87,413
Prepayment Speed:	
Decrease in fair value from 10% adverse change	(3,785)
Decrease in fair value from 20% adverse change	(7,289)
Decrease in fair value from 30% adverse change	(10,536)
Discount Rate:	
Decrease in fair value from 10% adverse change	(3,009)

Decrease in fair value from 20% adverse change	(5,820)
Decrease in fair value from 30% adverse change	(8,452)

Sensitivities are hypothetical changes in fair value and cannot be extrapolated because the relationship of changes in assumptions to changes in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption, whereas a change in one factor may result in changes to another. Accordingly, no assurance can be given that actual results would be consistent with the results of these estimates. As a result, actual future changes in MSR values may differ significantly from those displayed above.

Loss on mortgage servicing rights is comprised of the following for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Change in fair value of mortgage servicing rights	$ (8,224)	$ (4,347)	$ (32,048)	$ (7,983)
Loss on sale of mortgage servicing rights	(7,532)	(471)	(10,610)	(6,193)
Realized and unrealized (losses) gains from hedging instruments	(101)	—	1,409	—
Loss on mortgage servicing rights	$ (15,857)	$ (4,818)	$ (41,249)	$ (14,176)

In the third quarter of 2016, the Company recorded $8.2 million in change in fair value of mortgage servicing rights, including $9.4 million in MSR MTM losses due to prepayments offset by a MTM gain at September 30, 2016 of $1.2 million, as a result of a slight increase in rates during September.

During the third quarter of 2016, the Company entered into an agreement to modify previous MSR sales agreements for three loan pools with a certain investor whereby such investor would allow the Company to solicit borrowers in the previously sold loan pools. Under the agreement, the Company agreed to extend the prepayment protection terms and to reimburse the investor up to 100% of the price paid by the investor for the mortgage servicing rights for any loans in the previously sold pools that paid off in full. The agreement terminates on July 31, 2018, or upon the Company giving 90 days notice to seller. In the third quarter of 2016, the loss on mortgage servicing rights of $7.5 million includes a $2.8 million charge for third quarter 2016 refinance activity and the remaining balance is primarily related to a reserve for potential future estimated premium recapture charges.

The following is a summary of certain components of servicing income, net as reported in the Company's consolidated statements of operations for the three and nine months ended September 30, 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Contractual servicing fees	$ 4,755	$ 3,014	$ 10,981	$ 5,702
Late and ancillary fees	41	33	115	91

Note 5.—Goodwill and Intangible Assets

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Other intangible assets with definite lives include trademarks, customer relationships, and non-compete agreements. In the first quarter of 2015, the Company acquired CCM and recorded $104.6 million of goodwill and intangible assets of $33.1 million, consisting of $17.2 million for trademark, $10.2 million for customer relationships and $5.7 million for a non-compete agreement with the former owner of CCM. The purchase price allocation was prepared with the assistance of a third party valuation firm.

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

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Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization but are instead assessed for impairment on an ongoing basis. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss, if any, is measured as the excess of carrying value of the goodwill over the implied fair value of the goodwill and would be recorded in other expense in the consolidated statements of operations. Intangible assets with definite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed.

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

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

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount at September 30, 2016	Remaining Life
Intangible assets:				
Trademark	$ 17,251	$ (1,754)	$ 15,497	13.3
Customer relationships	10,170	(2,260)	7,910	5.3
Non-compete agreement	5,701	(2,281)	3,420	2.3
Total intangible assets acquired	$ 33,122	$ (6,295)	$ 26,827	9.5

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount at September 30, 2016	Remaining Life
Other assets:				
Developed software	$ 2,719	$ (859)	$ 1,860	3.3

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Note 6.—Warehouse Borrowings

The Company, through its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are uncommitted facilities used to fund, and are secured by, residential mortgage loans that are held for sale. In accordance with the terms of the Master Repurchase Agreements, the Company is required to maintain cash balances with the lender as additional collateral for the borrowings which are included in restricted cash in the accompanying consolidated balance sheets.

The following table presents certain information on warehouse borrowings and related accrued interest for the periods indicated:

	Maximum Borrowing Capacity	Balance Outstanding At	
		September 30, 2016	December 31, 2015
Short-term borrowings:			
Repurchase agreement 1	$ 150,000	$ 149,498	$ 63,368
Repurchase agreement 2	50,000	49,806	46,673
Repurchase agreement 3 (1)	225,000	157,838	122,242
Repurchase agreement 4	200,000	192,072	83,162
Repurchase agreement 5 (2)	175,000	174,343	10,171
Repurchase agreement 6 (3)	200,000	156,554	—
Total warehouse borrowings	$ 1,000,000	$ 880,111	$ 325,616

(1) As of September 30, 2016 and December 31, 2015, $78.7 million and $36.4 million, respectively, are attributable to financing facility advances made to the Company's warehouse customers. In October 2016, the maturity was extended to December 23, 2016.
(2) In August 2016, the lender granted the Company an increase in the maximum borrowing capacity to $175.0 million with a temporary increase to $200.0 million until September 15, 2016. In April 2016, the maturity date was extended to March 1, 2017.
(3) In September 2016, the lender granted the Company an increase in the maximum borrowing capacity to $200.0 million until maturity date of June 30, 2017.

Note 7.—Term Financing

In June 2015, the Company and its subsidiaries, (IRES, IMC and Impac Warehouse Lending, Inc. (IWLI), collectively the (Borrowers)) entered into a Loan Agreement (Loan Agreement) with a lender (Lender) pursuant to which the Lender provided to the Borrowers a term loan in the aggregate principal amount of $30.0 million (Term Financing) due and payable on December 19, 2016, which may be extended to December 18, 2017 at the Lender's discretion. In connection with the Term Financing, the Borrowers issued to the Lender a Term Note dated June 19, 2015. The Lender may in its discretion make additional advances not to exceed an aggregate amount outstanding of $50.0 million. In June 2016, the maturity of the Term Financing was extended to June 16, 2017 and the Company paid an additional $100 thousand extension fee, which is amortized using the effective yield method over the life of the term financing.

The proceeds from the Term Financing were used to pay off the working capital line of credit with a national bank (approximately $4.0 million) and amounts under an existing master repurchase agreement with the Lender (approximately $3.2 million). The Borrowers also paid the Lender an origination fee of $300 thousand which is amortized using the effective yield method over the life of the term financing.

Interest on the Term Financing is payable monthly and accrues at a rate of LIBOR plus 8.5% per annum. As of September 30, 2016, amounts under the Term Financing may be prepaid at any time without penalty or premium. The Borrowers are subject to mandatory prepayment on the Term Financing based on a borrowing base formula that includes amounts under outstanding warehouse facilities, market value of mortgage servicing rights and residual securities and certain mortgage loans.

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The balance under the Term Financing as of September 30, 2016 and December 31, 2015 was $29.9 million and $29.7 million, respectively, net of debt issuance costs of $129 thousand and $284 thousand, respectively.

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

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

Note 8.—Convertible Notes

In January 2016, pursuant to the terms of the $20.0 million Convertible Promissory Notes issued in April 2013 (the Notes), the Company elected to exercise its option to convert the Notes to common stock. The conversion resulted in the Company issuing an aggregate of 1,839,080 shares of common stock in February 2016, at a conversion price of $10.875 per share. As a result of the transaction, the Company converted $20.0 million of debt into equity and paid interest through April 2016. No gain or loss was recorded as a result of the transaction.

In May 2015, the Company issued an additional $25.0 million Convertible Promissory Notes (2015 Convertible Notes). The 2015 Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. The Company had approximately $50 thousand in transaction costs which are amortized using the effective yield method over the life of the 2015 Convertible Notes.

Noteholders may convert all or a portion of the outstanding principal amount of the 2015 Convertible Notes into shares of the Company's common stock (Conversion Shares) at a rate of $21.50 per share, subject to adjustment for stock splits and dividends (the Conversion Price). The Company has the right to convert the entire outstanding principal of the 2015 Convertible Notes into Conversion Shares at the Conversion Price if the market price per share of the common stock, as measured by the average volume-weighted closing stock price per share of the common stock on the NYSE MKT (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of common stock are listed), reaches the level of $30.10 for any twenty (20) trading days in any period of thirty (30) consecutive trading days after the Closing Date. Upon conversion of the 2015 Convertible Notes by the Company, the entire amount of accrued and unpaid interest (and all other amounts owing) under the 2015 Convertible Notes are immediately due and payable. Furthermore, if the conversion of the 2015 Convertible Notes by the Company occurs prior to the third anniversary of the Closing Date, then the entire amount of interest under the 2015 Convertible Notes through the third anniversary is immediately due and payable. To the extent the Company pays any cash dividends on its shares of common stock prior to conversion of the 2015 Convertible Notes, upon conversion of the 2015 Convertible Notes, the Noteholders will also receive such dividends on an as-converted basis of the 2015 Convertible Notes less the amount of interest paid by the Company prior to such dividend.

Unless an event of default has occurred and is continuing, each purchaser of the Convertible Notes agrees, for the three years after the Closing Date, to vote all Conversion Shares for each of the Company's nominees for election to the Company's board of directors and not to nominate any other candidate for election to the board of directors at any time within such three year period.

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Note 9.—Securitized Mortgage Trusts

Securtized Mortgage Trust Assets

Securitized mortgage trust assets, which are recorded at their estimated fair value (FMV), are comprised of the following at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Securitized mortgage collateral	$ 4,155,457	$ 4,574,919
REO	14,062	19,589
Investment securities available-for-sale	—	26
Total securitized mortgage trust assets	$ 4,169,519	$ 4,594,534

Securitized Mortgage Trust Liabilities

Securitized mortgage trust liabilities, which are recorded at their estimated FMV, are comprised of the following at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Securitized mortgage borrowings	$ 4,151,365	$ 4,578,657
Derivative liabilities	24	1,669
Total securitized mortgage trust liabilities	$ 4,151,389	$ 4,580,326

Changes in fair value of net trust assets, including trust REO losses are comprised of the following for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Change in fair value of net trust assets, excluding REO	$ 2,511	$ (568)	$ 8,580	$ 1,821
Losses from REO	(1,440)	(2,436)	(5,971)	(4,899)
Change in fair value of net trust assets, including trust REO gains (losses)	$ 1,071	$ (3,004)	$ 2,609	$ (3,078)

Note 10.—Fair Value of Financial Instruments

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

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FASB ASC 825 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumption used to estimate such fair values. The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	September 30, 2016				December 31, 2015			
	Carrying	Estimated Fair Value			Carrying	Estimated Fair Value		
	Amount	Level 1	Level 2	Level 3	Amount	Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	$ 58,902	$ 58,902	$ —	$ —	$ 32,409	$ 32,409	$ —	$ —
Restricted cash	9,928	9,928	—	—	3,474	3,474	—	—
Mortgage loans held-for-sale	849,521	—	849,521	—	310,191	—	310,191	—
Finance receivables	78,653	—	78,653	—	36,368	—	36,368	—
Mortgage servicing rights	87,413	—	—	87,413	36,425	—	—	36,425
Derivative assets, lending, net	27,734	—	414	27,320	9,273	—	89	9,184
Investment securities available-for-sale	—	—	—	—	26	—	—	26
Securitized mortgage collateral	4,155,457	—	—	4,155,457	4,574,919	—	—	4,574,919
Liabilities								
Warehouse borrowings	$ 880,111	$ —	$ 880,111	$ —	$ 325,616	$ —	$ 325,616	$ —
Term financing	29,871	—	—	29,871	29,716	—	—	29,716
Convertible notes	24,962	—	—	24,962	44,819	—	—	44,819
Contingent consideration	59,896	—	—	59,896	48,079	—	—	48,079
Long-term debt	39,835	—	—	39,835	31,898	—	—	31,898
Securitized mortgage borrowings	4,151,365	—	—	4,151,365	4,578,657	—	—	4,578,657
Derivative liabilities, securitized trusts	24	—	—	24	1,669	—	—	1,669
Derivative liabilities, lending, net	4,089	—	4,089	—	404	—	404	—

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

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

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

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

Finance receivables carrying amounts approximate fair value due to the short-term nature of the assets and do not present unanticipated interest rate or credit concerns.

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

Convertible notes are recorded at amortized cost. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

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Term financing structured debt has a maturity of less than one year. The term financing is recorded at amortized cost. The carrying amount approximates fair value due to the short-term nature of the liability and does not present unanticipated interest rate or credit concerns.

Fair Value Hierarchy

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

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

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

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

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, mortgage servicing rights, securitized mortgage collateral and borrowings, derivative assets and liabilities (trust and IRLCs), and long-term debt as Level 3 fair value measurements. Level 3 assets and liabilities measured at fair value on a recurring basis were approximately 83% and 99% and 94% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at September 30, 2016 and December 31, 2015.

Recurring Fair Value Measurements

The Company assesses the financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three and nine months ended September 30, 2016.

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The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at September 30, 2016 and December 31, 2015, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	September 30, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment securities available-for-sale	$ —	$ —	$ —	$ —	$ —	$ 26
Mortgage loans held-for-sale	—	849,521	—	—	310,191	—
Derivative assets, lending, net (1)	—	414	27,320	—	89	9,184
Mortgage servicing rights	—	—	87,413	—	—	36,425
Securitized mortgage collateral	—	—	4,155,457	—	—	4,574,919
Total assets at fair value	$ —	$ 849,935	$ 4,270,190	$ —	$ 310,280	$ 4,620,554
Liabilities						
Securitized mortgage borrowings	$ —	$ —	$ 4,151,365	$ —	$ —	$ 4,578,657
Derivative liabilities, securitized trusts (2)	—	—	24	—	—	1,669
Long-term debt	—	—	39,835	—	—	31,898
Contingent consideration	—	—	59,896	—	—	48,079
Derivative liabilities, lending, net (3)	—	4,089	—	—	404	—
Total liabilities at fair value	$ —	$ 4,089	$ 4,251,120	$ —	$ 404	$ 4,660,303

(1) At September 30, 2016, derivative assets, lending, net included $27.3 million in IRLCs and $414 thousand in Hedging Intruments, respectively, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2015, derivative assets, lending, net included $9.2 million in IRLCs and $89 thousand in Hedging Instruments associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheet.

(2) At September 30, 2016 and December 31, 2015, derivative liabilities, securitized trusts, are included within trust liabilities in the accompanying consolidated balance sheets.

(3) At September 30, 2016 and December 31, 2015, derivative liabilities, lending, net are included in other liabilities in the accompanying consolidated balance sheets.

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The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2016 and 2015:

Level 3 Recurring Fair Value Measurements
For the Three Months Ended September 30, 2016

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration
Fair value, June 30, 2016	$ 21	$ 4,290,994	$ (4,288,585)	$ (354)	$ 54,747	$ 19,303	$ (30,990)	$ (49,986)
Total gains (losses) included in earnings:								
Interest income (1)	—	13,336	—	—	—	—	—	—
Interest expense (1)	—	—	(43,956)	—	—	—	(204)	—
Change in fair value	(21)	35,225	(32,644)	(49)	(8,224)	8,017	(8,641)	(24,806)
Total gains (losses) included in earnings	(21)	48,561	(76,600)	(49)	(8,224)	8,017	(8,845)	(24,806)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements:								
Purchases	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	40,890	—	—	—
Settlements	—	(184,098)	213,820	379	—	—	—	14,896
Fair value, September 30, 2016	$ —	$ 4,155,457	$ (4,151,365)	$ (24)	$ 87,413	$ 27,320	$ (39,835)	$ (59,896)
Unrealized gains (losses) still held (2)	$ —	$ (967,291)	$ 3,129,974	$ 9	$ 87,413	$ 27,320	$ 30,928	$ (59,896)

(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. Net interest income, including cash received and paid, was $2.6 million for the three months ended September 30, 2016. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at September 30, 2016.

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Level 3 Recurring Fair Value Measurements
For the Three Months Ended September 30, 2015

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration	Warrant
Fair value, June 30, 2015	$ 81	$ 4,979,433	$ (4,977,150)	$ (3,509)	$ 44,244	$ 8,406	$ (31,438)	$ (91,407)	$ 165
Total gains (losses) included in earnings:									
Interest income (1)	2	18,930	—	—	—	—	—	—	—
Interest expense (1)	—	—	(53,552)	—	—	—	(225)	—	—
Change in fair value	(7)	(13,485)	13,051	(127)	(4,347)	4,613	—	14,473	(165)
Total (losses) gains included in earnings	(5)	5,445	(40,501)	(127)	(4,347)	4,613	(225)	14,473	(165)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—	—
Purchases, issuances and settlements:									
Purchases	—	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	23,384	—	—	—	—
Settlements	(26)	(188,473)	221,251	1,012	—	—	—	8,142	—
Fair value, September 30, 2015	$ 50	$ 4,796,405	$ (4,796,400)	$ (2,624)	$ 63,281	$ 13,019	$ (31,663)	$ (68,792)	$ —
Unrealized gains (losses) still held (2)	$ 50	$ (1,143,833)	$ 3,287,018	$ (2,390)	$ 63,281	$ 13,019	$ 39,100	$ (68,792)	$ —

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was $2.0 million for the three months ended September 30, 2015. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at September 30, 2015.

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The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and 2015:

Level 3 Recurring Fair Value Measurements
For the Nine Months Ended September 30, 2016

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration
Fair value, December 31, 2015	$ 26	$ 4,574,919	$ (4,578,657)	$ (1,669)	$ 36,425	$ 9,184	$ (31,898)	$ (48,079)
Total gains (losses) included in earnings:								
Interest income (1)	2	46,540	—	—	—	—	—	—
Interest expense (1)	—	—	(141,927)	—	—	—	(651)	—
Change in fair value	19	27,780	(19,020)	(199)	(32,048)	18,136	(7,286)	(39,813)
Total gains (losses) included in earnings	21	74,320	(160,947)	(199)	(32,048)	18,136	(7,937)	(39,813)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements:								
Purchases	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	91,809	—	—	—
Settlements	(47)	(493,782)	588,239	1,844	(8,773)	—	—	27,996
Fair value, September 30, 2016	$ —	$ 4,155,457	$ (4,151,365)	$ (24)	$ 87,413	$ 27,320	$ (39,835)	$ (59,896)

(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. Net interest income, including cash received and paid, was $7.3 million for nine months ended September 30, 2016. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

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

(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. Net interest income, including cash received and paid, was $6.3 million for the nine months ended September 30, 2015. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and non-recurring basis at September 30, 2016:

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
Assets and liabilities backed by real estate					
Securitized mortgage collateral, and	$ 4,155,457		Prepayment rates	2.5 - 23.1 %	6.7 %
Securitized mortgage borrowings	(4,151,365)		Default rates	0.2 - 10.4 %	2.4 %
			Loss severities	0.8 - 82.2 %	42.6 %

Other assets and liabilities							
Mortgage servicing rights	$ 87,413	DCF	Discount rate	9.0 - 14.0	%	9.5	%
			Prepayment rates	5.1 - 84.6	%	12.5	%
Derivative liabilities, net, securitized trusts	(24)	DCF	1M forward LIBOR	0.5 - 1.9	%	N/A	
Derivative assets - IRLCs, net	27,320	Market pricing	Pull-through rate	13.6 - 99.9	%	85.5	%
Long-term debt	(39,835)	DCF	Discount rate	11.0	%	11.0	%
Contingent consideration	(59,896)	DCF	Discount rate	16.6	%	16.6	%
			Margins	1.3 - 2.5	%	2.1	%
			Probability of outcomes (1)	25.0 - 50.0	%	33.4	%

DCF = Discounted Cash Flow

1M = 1 Month

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

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For assets and liabilities backed by real estate, a significant increase in discount rates, default rates or loss severities would result in a significantly lower estimated fair value. The effect of changes in prepayment speeds would have differing effects depending on the seniority or other characteristics of the instrument. For other assets and liabilities, a significant increase in discount rates would result in a significantly lower estimated fair value. A significant increase in one-month LIBOR would result in a significantly higher estimated fair value for derivative liabilities, net, securitized trusts. The Company believes that the imprecision of an estimate could be significant.

The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three and nine months ended September 30, 2016 and 2015:

Recurring Fair Value Measurements
Changes in Fair Value Included in Net Earnings
For the Three Months Ended September 30, 2016

			Change in Fair Value of				
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on sale of loans, net	Total
Investment securities available-for-sale	$ —	$ —	$ (21)	$ —	$ —	$ —	$ (21)
Securitized mortgage collateral	13,336	—	35,225	—	—	—	48,561
Securitized mortgage borrowings	—	(43,956)	(32,644)	—	—	—	(76,600)
Derivative liabilities, net, securitized trusts	—	—	(49) (2)	—	—	—	(49)
Long-term debt	—	(204)	—	(8,641)	—	—	(8,845)
Mortgage servicing rights (3)	—	—	—	—	(8,224)	—	(8,224)
Contingent consideration	—	—	—	—	(24,806)	—	(24,806)
Mortgage loans held-for-sale	—	—	—	—	—	5,300	5,300
Derivative assets — IRLCs	—	—	—	—	—	8,017	8,017
Derivative liabilities — Hedging Instruments	—	—	—	—	—	(2,277)	(2,277)
Total	$ 13,336	$ (44,160)	$ 2,511	$ (8,641)	$ (33,030)	$ 11,040	$ (58,944)

(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 $280 thousand in changes in the fair value of derivative instruments, offset by $329 thousand in cash payments from the securitization trusts for the three months ended September 30, 2016.
(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

Recurring Fair Value Measurements
Changes in Fair Value Included in Net Earnings
For the Three Months Ended September 30, 2015

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

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
(2) Included in this amount is $835 thousand in change in the fair value of derivative instruments, offset by $963 thousand in cash payments from the securitization trusts for the three months ended September 30, 2015.

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

Recurring Fair Value Measurements
Changes in Fair Value Included in Net Earnings
For the Nine Months Ended September 30, 2016

			Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets		Long-term Debt	Other Revenue and Expense	Gain on sale of loans, net	Total	
Investment securities available-for-sale	$ 2	$ —	$ 19		$ —	$ —	$ —	$ 21	
Securitized mortgage collateral	46,540	—	27,780		—	—	—	74,320	
Securitized mortgage borrowings	—	(141,927)	(19,020)		—	—	—	(160,947)	
Derivative liabilities, net, securitized trusts	—	—	(199)	(2)	—	—	—	(199)	
Long-term debt	—	(651)	—		(7,286)	—	—	(7,937)	
Mortgage servicing rights (3)	—	—	—		—	(32,048)	—	(32,048)	
Contingent consideration	—	—	—		—	(39,813)	—	(39,813)	
Mortgage loans held-for-sale	—	—	—		—	—	19,572	19,572	
Derivative assets — IRLCs	—	—	—		—	—	18,136	18,136	
Derivative liabilities — Hedging Instruments	—	—	—		—	—	(3,518)	(3,518)	
Total	$ 46,542	$ (142,578)	$ 8,580	(4)	$ (7,286)	$ (71,861)	$ 34,190	$ (132,413)	

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
(2) Included in this amount is $1.5 million in change in the fair value of derivative instruments, offset by $1.7 million in cash payments from the securitization trusts for the nine months ended September 30, 2016.
(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.
(4) For the nine months ended September 30, 2016, change in the fair value of net trust assets, excluding REO was $8.6 million. Excluded from the $10.3 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is $1.7 million in cash payments from the securitization trusts related to the Company’s net derivative liabilities.

Recurring Fair Value Measurements
Changes in Fair Value Included in Net Earnings
For the Nine Months Ended September 30, 2015

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

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
(2) Included in this amount is $2.7 million in change in the fair value of derivative instruments, offset by $3.2 million in cash payments from the securitization trusts for the nine months ended September 30, 2015.
(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

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(4) For the nine months ended September 30, 2015, change in the fair value of net trust assets, excluding REO was $1.8 million. Excluded from the $5.0 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is $3.2 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

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

Investment securities available-for-sale—Investment securities available-for-sale are carried at fair value. The investment securities consist primarily of non-investment grade mortgage-backed securities. The fair value of the investment securities is measured based upon the Company's expectation of inputs that other market participants would use. Such assumptions include judgments about the underlying collateral, prepayment speeds, future credit losses, forward interest rates and certain other factors. Given the lack of observable market data as of September 30, 2016 and December 31, 2015 relating to these securities, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants' assumptions. Investment securities available-for-sale is considered a Level 3 measurement at September 30, 2016.

Mortgage servicing rights—The Company elected to carry its mortgage servicing rights arising from its mortgage loan origination operation at estimated fair value. The fair value of mortgage servicing rights is based upon market prices for similar instruments and a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at September 30, 2016.

Mortgage loans held-for-sale—The Company elected to carry its mortgage loans held-for-sale originated or acquired at estimated fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at September 30, 2016.

Securitized mortgage collateral—The Company elected to carry its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of September 30, 2016, securitized mortgage collateral had UPB of $5.1 billion, compared to an estimated fair value on the Company's balance sheet of $4.2 billion. The aggregate UPB exceeds the fair value by $0.9 billion at September 30, 2016. As of September 30, 2016, the UPB of loans 90 days or more past due was $0.7 billion compared to an estimated fair value of $0.3 billion. The aggregate UPB of loans 90 days or more past due exceed the fair value by $0.4 billion at September 30, 2016. Securitized mortgage collateral is considered a Level 3 measurement at September 30, 2016.

Securitized mortgage borrowings—The Company elected to carry its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of September 30, 2016, securitized mortgage borrowings had an outstanding principal balance of $5.1 billion, net of $2.2 billion in bond losses, compared to an estimated fair value of $4.2 billion. The aggregate outstanding principal balance exceeds the fair value by $0.9 billion at September 30, 2016. Securitized mortgage borrowings are considered a Level 3 measurement at September 30, 2016.

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Contingent consideration—Contingent consideration is applicable to the acquisition of CCM and is estimated and recorded at fair value at the acquisition date as part of purchase price consideration. Additionally, each reporting period, the Company estimates the change in fair value of the contingent consideration and any change in fair value is recognized in the Company's consolidated statements of operations if it is determined to not be a measurement period adjustment. The estimate of the fair value of contingent consideration requires significant judgment and assumptions to be made about future operating results, discount rates and probabilities of various projected operating result scenarios. During the three months ended September 30, 2016, the change in fair value of contingent consideration was related to an increase in projected volumes and earnings of CCM. Future revisions to these assumptions could materially change the estimated fair value of contingent consideration and materially affect the Company's financial results. Contingent consideration is considered a Level 3 measurement at September 30, 2016.

Long-term debt—The Company elected to carry all of its long-term debt (consisting of trust preferred securities and junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of September 30, 2016, long-term debt had UPB of $70.5 million compared to an estimated fair value of $39.8 million. The aggregate UPB exceeds the fair value by $31.7 million at September 30, 2016. The long-term debt is considered a Level 3 measurement at September 30, 2016.

Derivative assets and liabilities, Securitized trusts—For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair values measurements include the Company's judgments about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account the Company's own credit standing, to the extent applicable; thus, the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract. As of September 30, 2016, the notional balance of derivative assets and liabilities, securitized trusts was $5.1 million. These derivatives are included in the consolidated securitization trusts, which are nonrecourse to the Company, and thus the economic risk from these derivatives is limited to the Company's residual interests in the securitization trusts. Derivative assets and liabilities, securitized trusts are considered a Level 3 measurement at September 30, 2016.

Derivative assets and liabilities, Lending—The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivatives include IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. The derivatives also include hedging instruments (typically TBA MBS) used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending originations as well as mortgage servicing rights. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at September 30, 2016.

The fair value of the Hedging Instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date. Therefore, the Hedging Instruments are classified as a Level 2 measurement at September 30, 2016.

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

	Notional Amount		Total Gains (Losses) (1) For the Three Months Ended		Total Gains (Losses) (1) For the Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	2015	September 30, 2016	2015
Derivative – IRLC's	$ 1,207,565	$ 664,890	$ 8,017	$ 4,613	$ 18,136	$ 10,135
Derivative – TBA MBS	882,760	550,210	(5,279)	(10,405)	(22,529)	(9,834)

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

Warrant— Upon entering an arrangement to facilitate the Company’s ability to offer Non-QM mortgage products, a warrant to purchase up to 9.9% of Impac Mortgage Corp. was issued. The warrant expired in August 2015 and was not exercised. The estimated fair value of the warrant was based on a model incorporating various assumptions including expected future book value of Impac Mortgage Corp., the probability of the warrant being exercised, volatility, expected term and certain other factors.

Nonrecurring Fair Value Measurements

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

The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at September 30, 2016 and 2015, respectively:

	Nonrecurring Fair Value Measurements September 30, 2016			Total Gains (Losses) (1) For the Three Months Ended September 30, 2016	Total Gains (Losses) (1) For the Nine Months Ended September 30, 2016
	Level 1	Level 2	Level 3		
REO (2)	$ —	$ 1,664	$ —	$ (1,440)	$ (5,971)
Deferred charge (3)	—	—	9,148	(200)	(815)

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

(2) Balance represents REO at September 30, 2016 which has been impaired subsequent to foreclosure. For the three and nine months ended September 30, 2016, the $1.4 million and $6.0 million loss, respectively, represents additional impairment write-downs attributable to higher expected loss severities on properties held during the period which resulted in a decrease to the net realizable value (NRV).

(3) For the three and nine months ended September 30, 2016, the Company recorded $200 thousand and $815 thousand in income tax expense resulting from impairment write-downs of deferred charge based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

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

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

(2) Balance represents REO at September 30, 2015 which has been impaired subsequent to foreclosure. For the three and nine months ended September 30, 2015, the $2.4 million and $4.9 million loss, respectively, represents additional impairment write-downs attributable to higher expected loss severities on properties held during the period which resulted in a decrease to the NRV.
(3) For the three and nine months ended September 30, 2015, the Company recorded $14 thousand and $53 thousand expense, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.
(4) For the three and nine months ended September 30, 2015, the Company recorded $421 thousand and $1.1 million in income tax expense resulting from impairment write-downs of deferred charge based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

Real estate owned—REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO balance representing REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at September 30, 2016.

Lease liability— In January 2016, an amendment to the Company's lease became effective modifying certain terms as well as extending the lease to 2024. The modification of the lease effectively eliminated the shortfall the Company had been recording as lease impairment attributable to the office space the Company was subletting associated with the previously discontinued operations. This liability was considered a Level 3 measurement at September 30, 2015.

Deferred charge— Deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The Company evaluates the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. If the deferred charge is determined to be impaired, it is recognized as a component of income tax expense. For the the three and nine months ended September 30, 2016, the Company recorded $200 thousand and $815 thousand, respectively, in income tax expense resulting from deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral. Deferred charge is considered a Level 3 measurement at September 30, 2016.

Note 11.—Income Taxes

The Company calculates its quarterly tax provision pursuant to the guidelines in ASC 740 Income Taxes. ASC 740 requires companies to estimate the annual effective tax rate for current year ordinary income. In calculating the effective tax rate, permanent differences between financial reporting and taxable income are factored into the calculation, but temporary differences are not. The estimated annual effective tax rate represents the best estimate of the tax provision in relation to the best estimate of pre-tax ordinary income or loss. The estimated annual effective tax rate is then applied to year-to-date ordinary income or loss to calculate the year-to-date interim tax provision.

The Company recorded income tax benefit of $130 thousand and an expense of $728 thousand for the the three and nine months ended September 30, 2016 primarily the result of a return to provision adjustment for the 2015 tax return booked in the third quarter, amortization of the deferred charge, federal alternative minimum tax (AMT), and state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT. For the the three and nine months ended September 30, 2015, the Company recorded income tax expense (benefit) of $781 thousand and ($22.9) million, respectively. For the three months ended September 30, 2015, the Company recorded amortization of the deferred charge and an increase in current income tax provision based upon an estimated increase in federal AMT and state income taxes. For the nine months ended September 30, 2015, the Company recorded a benefit of $24.4 million primarily the result of a reversal of valuation allowance partially offset by

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AMT, amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT. The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge is amortized and/or impaired, which does not result in any tax liability to be paid. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statements of operations.

Note 12.—Reconciliation of Earnings Per Share

Basic net earnings per share is computed by dividing net earnings available to common stockholders (numerator) by the weighted average number of vested, common shares outstanding during the period (denominator). Diluted net earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method. Dilutive potential common shares include shares issuable upon conversion of Convertible Notes, dilutive effect of outstanding stock options and deferred stock units (DSUs).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator for basic earnings per share:				
Net earnings	$ 16,498	$ 19,309	$ 29,729	$ 70,090
Numerator for diluted earnings per share:				
Net earnings	$ 16,498	$ 19,309	$ 29,729	$ 70,090
Interest expense attributable to convertible notes	457	844	1,997	1,875
Net earnings plus interest expense attributable to convertible notes	$ 16,955	$ 20,153	$ 31,726	$ 71,965
Denominator for basic earnings per share (1):				
Basic weighted average common shares outstanding during the period	12,920	10,242	12,241	10,019
Denominator for diluted earnings per share (1):				
Basic weighted average common shares outstanding during the period	12,920	10,242	12,241	10,019
Net effect of dilutive convertible notes	1,163	3,002	1,426	2,461
Net effect of dilutive stock options and DSU's	320	354	306	357
Diluted weighted average common shares	14,403	13,598	13,973	12,837
Net earnings per common share:				
Basic	$ 1.28	$ 1.89	$ 2.43	$ 7.00
Diluted	$ 1.18	$ 1.48	$ 2.27	$ 5.61

(1) Number of shares presented in thousands.

For the three and nine months ended September 30, 2016 there were 842 thousand anti-dilutive stock options outstanding. There were 367 thousand anti-dilutive stock options outstanding for the three and nine months ended September 30, 2015.

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Note 13.—Segment Reporting

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

Statement of Operations Items for the Three Months Ended September 30, 2016:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 113,158	$ —	$ —	$ —	$ 113,158
Real estate services fees, net	—	2,678	—	—	2,678
Servicing income, net	3,789	—	—	—	3,789
Loss on mortgage servicing rights	(15,857)	—	—	—	(15,857)
Other revenue	18	—	71	136	225
Accretion of contingent consideration	(1,591)	—	—	—	(1,591)
Change in fair value of contingent consideration	(23,215)	—	—	—	(23,215)
Other expense	(53,884)	(2,005)	(102)	(562)	(56,553)
Other income (expense)	1,092	—	(6,075)	(1,283)	(6,266)
Net earnings (loss) before income taxes	$ 23,510	$ 673	$ (6,106)	$ (1,709)	16,368
Income tax (benefit)					(130)
Net earnings					$ 16,498

Statement of Operations Items for the Three Months Ended September 30, 2015:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 47,274	$ —	$ —	$ —	$ 47,274
Real estate services fees, net	—	2,775	—	—	2,775
Servicing income, net	2,432	—	—	—	2,432
Loss on mortgage servicing rights	(4,818)	—	—	—	(4,818)
Other revenue	(145)	—	79	55	(11)
Accretion of contingent consideration	(2,424)	—	—	—	(2,424)
Change in fair value of contingent consideration	16,897	—	—	—	16,897
Other expense	(35,827)	(1,447)	(263)	(1,613)	(39,150)
Other income (expense)	658	—	(1,936)	(1,607)	(2,885)
Net earnings (loss) before income taxes	$ 24,047	$ 1,328	$ (2,120)	$ (3,165)	$ 20,090
Income tax expense					781
Net earnings					$ 19,309

Statement of Operations Items for the Nine Months Ended September 30, 2016:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 245,849	$ —	$ —	$ —	$ 245,849
Real estate services fees, net	—	6,773	—	—	6,773
Servicing income, net	8,680	—	—	—	8,680
Loss on mortgage servicing rights	(41,249)	—	—	—	(41,249)
Other revenue	70	—	183	200	453
Accretion of contingent consideration	(5,244)	—	—	—	(5,244)
Change in fair value of contingent consideration	(34,569)	—	—	—	(34,569)
Other expense	(138,269)	(5,228)	(347)	(3,751)	(147,595)
Other income (expense)	2,148	—	(418)	(4,371)	(2,641)
Net earnings (loss) before income taxes	$ 37,416	$ 1,545	$ (582)	$ (7,922)	30,457
Income tax expense					728
Net earnings					$ 29,729

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Statement of Operations Items for the Nine Months Ended September 30, 2015:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 133,018	$ —	$ —	$ —	$ 133,018
Real estate services fees, net	—	7,872	—	—	7,872
Servicing income, net	4,083	—	—	—	4,083
Loss on mortgage servicing rights	(14,176)	—	—	—	(14,176)
Other revenue	(25)	—	203	105	283
Accretion of contingent consideration	(5,471)	—	—	—	(5,471)
Change in fair value of contingent consideration	28,223	—	—	—	28,223
Other expense	(86,099)	(4,422)	(611)	(5,858)	(96,990)
Other income (expense)	1,673	—	(8,281)	(2,996)	(9,604)
Net earnings (loss) before income taxes	$ 61,226	$ 3,450	$ (8,689)	$ (8,749)	$ 47,238
Income tax benefit					(22,852)
Net earnings					$ 70,090

Balance Sheet Items as of:	Mortgage Lending	Real Estate Services	Long-term Mortgage Portfolio	Corporate and other	Consolidated
Total Assets at September 30, 2016 (1)	$ 1,215,652	$ 4,915	$ 4,178,938	$ 60,328	$ 5,459,833
Total Assets at December 31, 2015(1)	$ 573,648	$ 3,933	$ 4,604,701	$ 28,570	$ 5,210,852

(1) All segment asset balances exclude intercompany balances.

Note 14.—Commitments and Contingencies

Legal Proceedings

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

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

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

The Company is a party to other litigation and claims which are normal in the course of our operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. The Company believes that it has meritorious defenses to the claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company's financial position and results of operations.

Please refer to IMH's report on Form 10-K for the year ended December 31, 2015 for a description of litigation and claims.

Repurchase Reserve

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

The following table summarizes the repurchase reserve activity related to previously sold loans for the nine months ended September 30, 2016 and year ended December 31, 2015:

	September 30, 2016	December 31, 2015
Beginning balance	$ 5,236	$ 5,714
Provision for repurchases	778	1,012
Settlements	120	(1,490)
Total repurchase reserve	$ 6,134	$ 5,236

Short-Term Loan Commitments

The Company uses a portion of its warehouse borrowing capacity to provide secured short-term revolving financing to small and medium-size mortgage originators to finance mortgage loans from the closing of the mortgage loans until sold to investors (Finance Receivables). As of September 30, 2016, the warehouse lending operations had warehouse lines to non-affiliated customers totaling $156.5 million, of which there was an outstanding balance of $78.7 million in finance receivables compared to $36.4 million as of December 31, 2015. The finance receivables are generally secured by residential mortgage loans as well as personal guarantees.

Note 15.—Equity and Share Based Payments

Equity

As further described in Note 8. – Convertible Notes, in January 2016, the Company elected to exercise its option to convert the Notes to common stock. The conversion resulted in the Company issuing an aggregate of 1,839,080 shares of common stock at a conversion price of $10.875 per share.

The Company initiated an equity offering program (EOP) on December 3, 2015 by filing a prospectus supplement with the Securities and Exchange Comission (SEC) under its shelf registration. The EOP allows the Company to offer and sell, from time to time, up to $25.0 million of its common stock in negotiated transactions or transactions that are deemed to be "at the market offerings", as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NYSE MKT or sales made to or through a market maker other than on an exchange.

During the nine months ended September 30, 2016, the Company sold 361,429 shares of its common stock through the EOP at an average price of $14.05 per share, for which it received proceeds of $5.0 million, net of $102 thousand in sales commission.

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On September 15, 2016, the Company entered into an underwriting agreement (Underwriting Agreement) with JMP Securities LLC (Underwriter) pursuant to which the Company sold 3,000,000 shares of common stock at a public offering price of $13.00 per share. In addition, under the terms of the Underwriting Agreement, the Underwriter exercised its right to purchase an additional 450,000 shares of common stock. The shares were sold pursuant to a prospectus, dated May 28, 2015, and a prospectus supplement, dated September 15, 2016, in connection with a takedown from the Company's shelf registration statement on Form S-3 (File No. 333-204513) (Registration Statement), declared effective by the U.S. SEC on June 16, 2015.

The net proceeds to the Company from the offering were approximately $42.6 million after deducting underwriting discounts and commissions and estimated aggregate offering expenses of $200 thousand. The Company intends to use the net proceeds from the offering for general corporate purpose, including working capital and development costs, such as retention of servicing on new originations and to grow market share and geographic scope within the CashCall Mortgage retail channel, as well as continued growth in the correspondent and wholesale lending channels.

Share Based Payments

There were 342,000 stock options granted during the three and nine months ended September 30, 2016.

The following table summarizes activity, pricing and other information for the Company's stock options for the nine months ended September 30, 2016:

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at beginning of period	1,115,280	$ 11.85
Options granted	342,000	17.40
Options exercised	(38,620)	5.45
Options forfeited/cancelled	(20,583)	15.67
Options outstanding at end of period	1,398,077	13.33
Options exercisable at end of period	710,239	$ 10.20

As of September 30, 2016, there was approximately $4.1 million of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 2.2 years.

There were 342,000 and 405,800 options granted during the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, the aggregate grant-date fair value of stock options granted was $2.7 million and approximately $3.8 million, respectively.

The following table summarizes activity, pricing and other information for the Company's DSU's, also referred to as deferred stock units as the issuance of the stock is deferred until termination of service, for the nine months ended September 30, 2016:

	Number of Shares	Weighted-Average Grant Date Fair Value
DSU's outstanding at beginning of period	80,750	$ 9.36
DSU's granted	5,000	17.40
DSU's exercised	—	—
DSU's forfeited/cancelled	—	—
DSU's outstanding at end of period	85,750	$ 9.83

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As of September 30, 2016, there was approximately $81 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 2.8 years.

Note 16.—Subsequent Events

In October 2016, the Company, through IRES and its subsidiaries, entered into a Mortgage Loan Participation Sale Agreement with a lender providing a $100 million facility. This facility provides liquidity for recently sold mortgage-backed securities up to the mortgage-backed securities settlement date. The interest rate relating to this agreement is LIBOR plus 1.5% subject to a floor of 1.5% and expires in October 2017. Under the terms of this facility, IRES and its subsidiaries are required to maintain various financial and other covenants.

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

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

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

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

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "likely," "should," "could," "seem to," "anticipate," "plan," "intend," "project," "assume," or similar terms or variations on those terms negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: failure to achieve the benefits expected from the acquisition of the CashCall Mortgage operations, 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 mortgage products, including expansion of non-Qualified Mortgage originations and government loan programs; ability to successfully diversify our loan products; ability to increase our market share and geographic footprint in the various residential mortgage businesses; ability to manage and opportunistically sell more MSRs; 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 "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, 2015, and other reports we file under the Securities Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Mortgage Industry and Discussion of Relevant Fiscal Periods

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

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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.

Selected Financial Results

	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues:					
Gain on sale of loans, net	$ 113,158	$ 78,822	$ 47,274	$ 245,849	$ 133,018
Real estate services fees, net	2,678	1,995	2,775	6,773	7,872
Servicing income, net	3,789	2,803	2,432	8,680	4,083
Loss on mortgage servicing rights	(15,857)	(14,482)	(4,818)	(41,249)	(14,176)
Other	225	75	(11)	453	283
Total revenues	103,993	69,213	47,652	220,506	131,080
Expenses:					
Personnel expense	38,467	30,592	21,315	93,025	56,883
Business promotion	10,350	11,286	10,735	30,828	19,628
General, administrative and other	7,736	8,842	7,100	23,742	20,479
Accretion of contingent consideration	1,591	1,759	2,424	5,244	5,471
Change in fair value of contingent consideration	23,215	8,412	(16,897)	34,569	(28,223)
Total expenses	81,359	60,891	24,677	187,408	74,238
Operating income:	22,634	8,322	22,975	33,098	56,842
Other income (expense):					
Net interest income	1,304	833	119	2,036	2,135
Change in fair value of long-term debt	(8,641)	1,354	—	(7,286)	(8,661)
Change in fair value of net trust assets	1,071	2,165	(3,004)	2,609	(3,078)
Total other (expense) income	(6,266)	4,352	(2,885)	(2,641)	(9,604)
Net earnings before income taxes	16,368	12,674	20,090	30,457	47,238
Income tax (benefit) expense	(130)	423	781	728	(22,852)
Net earnings	$ 16,498	$ 12,251	$ 19,309	$ 29,729	$ 70,090
Diluted weighted average common shares	14,403	13,863	13,598	13,973	12,837
Diluted earnings per share	$ 1.18	$ 0.92	$ 1.48	$ 2.27	$ 5.61

Status of Operations

Summary Highlights

- We successfully raised capital issuing 3.4 million shares of common stock at a public offering price of $13.00 per share generating net proceeds of $42.6 million.
- Mortgage lending volumes increased in the third quarter of 2016 to $4.2 billion from $3.2 billion in the second quarter of 2016 and $2.3 billion in the third quarter of 2015.
- Mortgage servicing portfolio increased to $9.5 billion at September 30, 2016 from $6.6 billion at June 30, 2016 and $3.6 billion at December 31, 2015.
- Mortgage servicing rights increased to $87.4 million at September 30, 2016 from $54.7 million at June 30, 2016 and $36.4 million at December 31, 2015.

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For the third quarter of 2016, the Company reported net earnings of $16.5 million or $1.18 per diluted common share, as compared to net earnings of $19.3 million or $1.48 per diluted common share for the third quarter of 2015, and $12.3 million or $0.92 per diluted common share for the second quarter of 2016. For the third quarter of 2016, operating income, excluding the changes in contingent consideration, as shown below, increased to $47.4 million as compared to $8.5 million in the third quarter of 2015, and $18.5 million in the second quarter of 2016.

Net earnings include 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, 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 is more useful to discuss our ongoing and future operations.

We calculate operating income excluding changes in contingent consideration and operating income excluding changes in contingent consideration per share as performance measures, which are considered non-GAAP financial measures, to further aid our investors in understanding and analyzing our core operating results and comparing them among periods. Operating income excluding changes in contingent consideration and operating income excluding changes in contingent consideration per share exclude certain items that we do not consider part of our core operating results. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for net earnings before income taxes, net earnings or diluted EPS prepared in accordance with GAAP. The table below shows operating income excluding these items:

	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net earnings:	$ 16,498	$ 12,251	$ 19,309	$ 29,729	$ 70,090
Total other (expense) income	6,266	(4,352)	2,885	2,641	9,604
Income tax (benefit) expense	(130)	423	781	728	(22,852)
Operating income:	$ 22,634	$ 8,322	$ 22,975	$ 33,098	$ 56,842
Accretion of contingent consideration	1,591	1,759	2,424	5,244	5,471
Change in fair value of contingent consideration	23,215	8,412	(16,897)	34,569	(28,223)
Operating income excluding changes in contingent consideration	$ 47,440	$ 18,493	$ 8,502	$ 72,911	$ 34,090
Diluted weighted average common shares	14,403	13,863	13,598	13,973	12,837
Diluted operating income excluding changes in contingent consideration per share	$ 3.29	$ 1.33	$ 0.63	$ 5.22	$ 2.66
Diluted earnings per share	$ 1.18	$ 0.92	$ 1.48	$ 2.27	$ 5.61
Adjustments:					
Total other (expense) income (1)	0.40	(0.36)	0.15	0.05	0.60
Income tax (benefit) expense	(0.01)	0.03	0.06	0.05	(1.78)
Accretion of contingent consideration	0.11	0.13	0.18	0.38	0.43
Change in fair value of contingent consideration	1.61	0.61	(1.24)	2.47	(2.20)

Diluted operating income excluding changes in contingent consideration per share	$ 3.29	$ 1.33	$ 0.63	$ 5.22	$ 2.66

Operating income, excluding the changes in contingent consideration, increased to $47.4 million or $3.29 per diluted common share for the third quarter of 2016 as compared to $8.5 million or $0.63 per diluted common share in the third quarter of 2015, and $18.5 million or $1.33 per diluted common share in the second quarter of 2016. The $28.9 million increase in operating income in the third quarter of 2016, as compared to the second quarter of 2016, was primarily due to a $34.3 million increase in gain on sale of loans from a 30% increase in volume (as discussed below) combined with a 25 basis point "bps" increase in gain on sale margins to 268 bps in the quarter. This increase in gain on sale of loans was offset primarily by an increase in loss on mortgage servicing rights (MSR) of $15.9 million, in the third quarter, as discussed below.

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 third 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 third quarter increasing the contingent consideration liability by $23.2 million over the remaining earn-out period of five 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 $23.2 million in the third quarter of 2016.

Originations

	For the Three Months Ended				
(in millions)	September 30, 2016	June 30, 2016	% Change	September 30, 2015	% Change
Originations	$ 4,217.0	$ 3,247.4	30 %	$ 2,303.2	83 %

Mortgage lending volumes increased in the third quarter of 2016 to $4.2 billion from $3.2 billion in the second quarter of 2016 and from $2.3 billion in the third quarter of 2015. Of the $4.2 billion in total originations, approximately $3.3 billion, or 78%, was originated through the CCM retail channel.

	For the Three Months Ended				
(in millions)	September 30, 2016	June 30, 2016	% Change	September 30, 2015	% Change
Retail	$ 3,273.7	$ 2,493.0	31 %	$ 1,285.7	155 %
Correspondent	583.2	419.9	39 %	608.5	(4) %
Wholesale	360.1	334.5	8 %	409.0	(12) %
Total originations	$ 4,217.0	$ 3,247.4	30 %	$ 2,303.2	83 %

As a result of the attractive low mortgage interest rates, CCM has continued to be successful focusing on refinance volume. To the extent interest rates stay low, CCM originations will continue to be predominantly refinance concentrated. In the future, if interest rates rise, there may be an eventual decline in refinance volumes. However, we believe that our efforts to expand the national lending footprint, combined with greater emphasis on products offered through our other channels including government insured and NonQM products, may unlock opportunities to greatly diversify CCM's retail loan production and increase our mortgage lending division's total production.

Our loan products primarily include conventional loans eligible for sale to Fannie Mae and Freddie Mac, loans eligible for government insurance (government loans) by the Federal Housing Administration (FHA), Veterans Affairs (VA), United States Department of Agriculture (USDA) and also NonQM mortgages.

Originations by Loan Type:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
(in millions)	2016	2015	% Change	2016	2015	% Change
Conventional	$ 3,707.1	$ 1,713.4	116 %	$ 8,322.9	$ 5,772.9	44 %
Government (1)	439.2	527.5	(17) %	1,281.7	1,421.7	(10) %
Other (2)	70.7	62.3	13 %	209.0	125.7	66 %
Total originations	4,217.0	2,303.2	83 %	9,813.6	7,320.3	34 %

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

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(2) Includes $68.9 million and $203.3 million of NonQM mortgages originated during the the three and nine months ended September 30, 2016, respectively.

We believe there is an underserved mortgage market for borrowers with good credit who may not meet the qualified mortgage (QM) guidelines set out by the Dodd-Frank Wall Street Reform and Consumer Protection Act. During 2014, we rolled out and began originating NonQM loans which increased in volume to $132.4 million during 2015. During the first nine months of 2016, NonQM originations were $203.3 million. Applications for NonQM loans has slowed during the quarter as a result of the current low mortgage interest rate environment. A decline in mortgage interest rates generally increases the volume of conventional refinance products over NonQM loans.

We have recently simplified the origination process for prospective NonQM borrowers. We believe these changes will better meet the needs of credit worthy borrowers unable to obtain mortgage financing through traditional agency or government mortgage programs. We have established strict lending guidelines, including determining the prospective borrowers' ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable levels. We continue to refine our guidelines to expand our reach to the underserved market of credit worthy borrowers who can fully document and substantiate an ability to repay mortgage loans, but unable to obtain financing through traditional programs (QM loans), for example self-employed borrowers Additionally, we relaunched our NonQM loan programs as "The Intelligent NonQM Mortgage, Engineered with Common Sense", to better communicate our NonQM loan value proposition to consumers, brokers, sellers and investors.

In 2014, we established a relationship with an institution that provided us with the initial exit strategy for NonQM loans. Under this arrangement, to date this investor has acquired $229.2 million in NonQM loans. As of the third quarter of 2016, the investor is no longer purchasing NonQM loans, but we continue to have a relationship with them by which they are providing the Company with debt financing. This institution has continued to purchase a small amount of NonQM loans on a flow basis through September 2016, but we expect the sales of NonQM loans to this institution to end in the near future. However, in recent months, we have established new relationships with other investors interested in purchasing NonQM loan products including recent sales in second and third quarters of 2016. We will continue to seek out new investor relationships for these products which we believe will give us more flexibility in originating these loans.

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
(in millions)	2016	%	2015	%	2016	%	2015	%
Refinance	$ 3,756.8	89 %	$ 1,732.9	75 %	$ 8,554.0	87 %	$ 6,000.9	82 %
Purchase	460.2	11 %	570.3	25 %	1,259.6	13 %	1,319.4	18 %
Total originations	$ 4,217.0	100%	$ 2,303.2	100%	$ 9,813.6	100%	$ 7,320.3	100%

During the third quarter of 2016, refinance volume increased approximately $937.4 million or 33% as compared to the second quarter of 2016 and increased $2.0 billion or 117% compared to the third quarter of 2015. This was primarily the result of the recent decline in mortgage interest rates which began during the first quarter of 2016.

To mitigate against reduced refinance volumes with the eventual expected increase in mortgage rates, we are focusing on opportunities that are intended to create diversity in our revenue streams. Our efforts to expand our NonQM volumes as well as increase our geographic footprint of our originations are part of this strategy.

Mortgage servicing portfolio

(in millions)	September 30, 2016	June 30, 2016	% Change	December 31, 2015	% Change	September 30, 2015	%