

IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
August 12, 2014
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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 June 30, 2014

or

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

For the transition period from to .

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Maryland
(State or other jurisdiction of
incorporation or organization)

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

1950 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 9,401,822 shares of common stock outstanding as of August 8, 2014.

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IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

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(in thousands, except share data)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 21,091	\$ 9,969
Restricted cash	1,907	1,467
Mortgage loans held-for-sale	120,285	129,191
Mortgage servicing rights	16,166	35,981
Securitized mortgage trust assets	5,530,444	5,513,166
Assets of discontinued operations	1,050	2,277
Other assets	29,037	26,274
Total assets	\$ 5,719,980	\$ 5,718,325
LIABILITIES		
Warehouse borrowings	\$ 111,227	\$ 119,634
Convertible notes	20,000	20,000
Long-term debt	17,555	15,871
Securitized mortgage trust liabilities	5,515,578	5,502,585
Liabilities of discontinued operations	6,646	12,883
Other liabilities	23,197	21,481
Total liabilities	5,694,203	5,692,454
Commitments and contingencies (See Note 12)		
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 June 30, 2014 and December 31, 2013, 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 June 30, 2014 and December 31, 2013, respectively	14	14
Common stock, \$0.01 par value; 200,000,000 shares authorized; 9,321,368 and 8,988,910 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	93	90
Additional paid-in capital	1,086,960	1,084,173
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(238,777)	(235,893)

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Net accumulated deficit	(1,061,297)	(1,058,413)
Total stockholders' equity	25,777	25,871
Total liabilities and stockholders' equity	\$ 5,719,980	\$ 5,718,325

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Gain on sale of loans, net	\$ 6,534	\$ 20,458	\$ 11,126	\$ 37,930
Real estate services fees, net	4,360	5,155	8,039	9,583
Servicing income, net	1,291	931	2,859	1,941
(Loss) gain on mortgage servicing rights	(1,564)	2,004	(2,541)	3,182
Other	84	375	1,468	954
Total revenues	10,705	28,923	20,951	53,590
Expenses:				
Personnel expense	9,319	18,891	18,779	36,654
General, administrative and other	4,555	6,484	9,928	13,206
Total expenses	13,874	25,375	28,707	49,860
Other income (expense):				
Interest income	68,962	77,526	140,982	166,656
Interest expense	(69,058)	(77,733)	(141,391)	(166,419)
Change in fair value of long-term debt	226	(478)	(424)	(527)
Change in fair value of net trust assets, including trust REO gains (losses)	4,711	(607)	7,749	(2,106)
Total other income (expense)	4,841	(1,292)	6,916	(2,396)
Earnings (loss) from continuing operations before income taxes	1,672	2,256	(840)	1,334
Income tax expense (benefit) from continuing operations	756	32	1,098	(1,056)
Net earnings (loss) from continuing operations	916	2,224	(1,938)	2,390
Loss from discontinued operations, net of tax	(834)	(933)	(946)	(1,774)
Net earnings (loss)	82	1,291	(2,884)	616
Net earnings attributable to noncontrolling interest		(73)		(136)
Net earnings (loss) attributable to common stockholders	\$ 82	\$ 1,218	\$ (2,884)	\$ 480
Earnings (loss) per common share - basic:				
Earnings (loss) from continuing operations attributable to IMH	\$ 0.10	\$ 0.25	\$ (0.21)	\$ 0.27
Loss from discontinued operations	(0.09)	(0.11)	(0.10)	(0.21)
Net earnings (loss) per share available to common stockholders	\$ 0.01	\$ 0.14	\$ (0.31)	\$ 0.06
Earnings (loss) per common share - diluted:				
Earnings (loss) from continuing operations attributable to IMH	\$ 0.10	\$ 0.24	\$ (0.21)	\$ 0.27
Loss from discontinued operations	(0.09)	(0.10)	(0.10)	(0.19)
Net earnings (loss) per share available to common stockholders	\$ 0.01	\$ 0.14	\$ (0.31)	\$ 0.08

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net (loss) earnings	\$	(2,884)	\$	616
Gain on sale of MSR's		(1,182)		(116)
Change in fair value of mortgage servicing rights		3,723		(3,066)
Gain on sale of AmeriHome		(1,208)		
Gain on sale of loans		(8,746)		(42,536)
Change in fair value of mortgage loans held-for-sale		(2,809)		5,671
Change in fair value of derivatives lending, net		(85)		(2,046)
Provision for repurchases		514		982
Origination of mortgage loans held-for-sale		(814,781)		(1,417,171)
Sale and principal reduction on mortgage loans held-for-sale		826,917		1,375,416
Gains from REO		(9,024)		(5,556)
Change in fair value of net trust assets, excluding REO		(1,327)		4,215
Change in fair value of long-term debt		424		527
Accretion of interest income and expense		93,418		112,219
Change in REO impairment reserve		6,307		2,068
Amortization of debt issuance costs and discount on note payable		24		7
Stock-based compensation		810		816
Net change in restricted cash		(440)		1,735
Net cash used in operating activities of discontinued operations		(4,075)		(6,661)
Net change in other assets and liabilities		2,257		(2,061)
Net cash provided by operating activities		87,833		25,059

CASH FLOWS FROM INVESTING ACTIVITIES:

Net change in securitized mortgage collateral		305,305		386,089
Proceeds from the sale of mortgage servicing rights		18,153		3,104
Finance receivable advances to customers		(19,251)		
Repayments of finance receivables		15,277		
Net change in mortgages held-for-investment		3		(17)
Purchase of premises and equipment		(15)		(368)
Net principal change on investment securities available-for-sale		46		46
Proceeds from the sale of REO		18,467		29,346
Proceeds from the sale of AmeriHome		10,200		
Net cash provided by investing activities		348,185		418,200

CASH FLOWS FROM FINANCING ACTIVITIES:

Repayment of warehouse borrowings		(755,437)		(1,283,441)
Borrowings under warehouse agreement		747,030		1,353,115
Repayment of line of credit		(10,500)		(5,500)
Borrowings under line of credit		11,500		5,500
Repayment of securitized mortgage borrowings		(416,216)		(524,813)
Issuance of Convertible Notes				20,000

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Principal payments on notes payable			(3,371)
Principal payments on capital lease	(370)		(282)
Capitalized debt issuance costs			(259)
Proceeds from exercise of stock options	32		143
Net cash used in financing activities	(423,961)		(438,908)
Net change in cash and cash equivalents	12,057		4,351
Cash and cash equivalents at beginning of year	9,969		12,755
Cash and cash equivalents at end of period - continuing operations	21,091		17,067
Cash and cash equivalents at end of period - discontinued operations	935		39
Cash and cash equivalents at end of period	\$ 22,026	\$	17,106
NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):			
Transfer of securitized mortgage collateral to real estate owned	\$ 16,456	\$	21,689
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	8,325		11,275
Common stock issued upon legal settlement	1,948		2,135
Increase in ownership of AmeriHome			46
Acquisition of equipment purchased through capital leases	453		418

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Summary of Business and Financial Statement Presentation

Business Summary

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

The Company's continuing operations include mortgage lending and real estate services conducted by IRES and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets). The discontinued operations include the former non-conforming mortgage operations conducted by IFC and subsidiaries.

The information set forth in these notes is presented on a continuing operations basis, unless otherwise stated.

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 and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013, 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.

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

Recent Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. The Company will be required to adopt this ASU beginning with the quarter ending March 31, 2015. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

Table of Contents**Note 2. Mortgage Loans Held-for-Sale**

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

	June 30, 2014	December 31, 2013
Government (1)	\$ 66,486	\$ 81,292
Conventional (2)	47,394	44,303
Fair value adjustment	6,405	3,596
Total mortgage loans held-for-sale	\$ 120,285	\$ 129,191

(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 Fannie Mae and Freddie Mac.

Gain on loans held-for-sale (LHFS) is comprised of the following for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Gain on sale of mortgage loans	\$ 18,963	\$ 21,575	\$ 32,760	\$ 43,776
Premium from servicing retained loan sales	4,562	6,412	8,325	11,275
Unrealized gains from derivative financial instruments	423	3,064	85	2,046
Realized (losses) gains from derivative financial instruments	(3,972)	8,492	(6,143)	10,637
Mark to market gain (loss) on LHFS	2,270	(5,536)	2,809	(5,671)
Direct origination expenses, net	(15,457)	(12,959)	(26,196)	(23,151)
Provision for repurchases	(255)	(590)	(514)	(982)
Total gain on sale of loans, net	\$ 6,534	\$ 20,458	\$ 11,126	\$ 37,930

Note 3. 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 positive cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the unpaid principal balances (UPB) of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees such as late charges, collateral reconveyance charges, nonsufficient fund fees and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance

payments.

The following table summarizes the activity of MSRs for the six months ending June 30, 2014 and 2013:

	June 30, 2014	June 30, 2013
Balance at beginning of period	\$ 35,981	\$ 10,703
Additions from servicing retained loan sales	8,325	11,275
Reductions from bulk sales	(16,971)	(2,988)
Reduction from sale of AmeriHome	(7,446)	
Changes in fair value (1)	(3,723)	3,066
Fair value of MSRs at end of period	\$ 16,166	\$ 22,056

(1) Changes in fair value are included within other total revenues in the consolidated statements of operations.

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At June 30, 2014 and December 31, 2013, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	June 30, 2014	December 31, 2013
Government	\$ 483,715	\$ 1,203,478
Conventional	2,131,685	1,837,475
2010 Acquisition of AmeriHome (1)		87,693
Servicing sold but not transferred	(1,043,454)	
Total loans serviced	\$ 1,571,946	\$ 3,128,646

(1) Represents servicing portfolio acquired in the 2010 acquisition of AmeriHome and includes government and conventional loans originated by AmeriHome prior to the Company's acquisition. During March 2014, the Company sold AmeriHome. See Note 14. *Sale of AmeriHome* for more details.

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 8. 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	June 30, 2014
Fair value of MSRs	\$ 16,166
Prepayment Speed:	
Decrease in fair value from 100 basis point (bp) adverse change	(585)
Decrease in fair value from 200 bp adverse change	(1,166)
Discount Rate:	
Decrease in fair value from 100 bp adverse change	(587)
Decrease in fair value from 200 bp adverse change	(1,135)

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) gain on mortgage servicing rights are comprised of the following for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2014		2013		2014		2013	
	\$	1,198	\$	155	\$	1,182	\$	116

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Gain on sale of mortgage servicing rights						
Change in fair value of mortgage servicing rights	(2,762)	1,849	(3,723)	3,066		
(Loss) gain on mortgage servicing rights	\$ (1,564)	\$ 2,004	\$ (2,541)	\$ 3,182		

During the three months ended June 30, 2014, the Company sold \$1.0 billion in UPB of servicing at a gain of \$1.2 million. The Company also recorded change in fair value loss of \$2.8 million for the remaining unsold mortgage servicing rights at June 30, 2014. The change in fair value was primarily due to the decline in mortgage rates in the second quarter.

Table of Contents**Note 4. Warehouse Borrowings**

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

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

	Maximum Borrowing Capacity	Balance Outstanding At	
		June 30, 2014	December 31, 2013
Short-term borrowings:			
Repurchase agreement 1 (1)	\$ 100,000	\$ 33,771	\$ 50,794
Repurchase agreement 2 (2)	40,000	14,899	19,493
Repurchase agreement 3 (3)	50,000	11,244	15,592
Repurchase agreement 4 (4)	125,000	51,313	33,755
Total short-term borrowings	\$ 315,000	\$ 111,227	\$ 119,634

(1) In June 2014, the maturity was extended to June 2015 and the maximum borrowing capacity increased from \$75.0 million to \$100.0 million.

(2) In June 2014, the maturity was extended to May 2015.

(3) In June 2014, the maturity was extended to September 2014.

(4) As part of the agreement, the Company has a \$40 million sublimit for re-warehousing.

Note 5. Convertible Notes

In April 2013, the Company entered into a Note Purchase Agreement with the purchasers named therein (Noteholders), whereby the Company issued \$20.0 million in original aggregate principal amount of Convertible Promissory Notes Due 2018 (Convertible Notes). The Convertible Notes mature on or before April 30, 2018 and accrue interest at a rate of 7.5% per annum, to be paid quarterly.

Note 6. Line of Credit Agreement

In June 2014, the Company, through its subsidiaries, amended the \$4.0 million working capital line of credit agreement with a national bank at an interest rate of one-month LIBOR plus 3.50% extending the expiration to June 2015. Under the terms of the agreement the Company and its subsidiaries are required to maintain various financial and other covenants. There was a \$4.0 million outstanding balance on the working capital

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line of credit as of June 30, 2014, which is included in other liabilities in the accompanying consolidated balance sheets.

Note 7. Securitized Mortgage Trusts

Trust Assets

Trust assets, which are recorded at fair value, are comprised of the following at June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013
Securitized mortgage collateral	\$ 5,510,741	\$	5,494,152
Real estate owned	19,612		18,906
Investment securities available-for-sale	91		108
Total trust assets	\$ 5,530,444	\$	5,513,166

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Trust liabilities, which are recorded at fair value, are comprised of the following at June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
Securitized mortgage borrowings	\$	5,507,629	\$	5,492,371
Derivative liabilities		7,949		10,214
Total trust liabilities	\$	5,515,578	\$	5,502,585

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

Changes in fair value of net trust assets, including trust REO gains (losses) are comprised of the following for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2014		2013		2014		2013	
Change in fair value of net trust assets, excluding REO	\$	1,769	\$	(2,953)	\$	(1,275)	\$	(7,662)
Gains from REO		2,942		2,346		9,024		5,556
Change in fair value of net trust assets, including trust REO gains (losses)	\$	4,711	\$	(607)	\$	7,749	\$	(2,106)

Note 8. 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.

The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	Carrying Amount	June 30, 2014 Estimated Fair Value			Carrying Amount	December 31, 2013 Estimated Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	\$ 21,091	\$ 21,091	\$	\$	\$ 9,969	\$ 9,969	\$	\$

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Restricted cash	1,907	1,907		1,467	1,467	
Mortgage loans held-for-sale	120,285		120,285		129,191	129,191
Finance receivables	4,305		4,305			
Mortgage servicing rights	16,166			16,166	35,981	35,981
Derivative assets, lending, net	3,073			3,073	1,992	1,079 913
Investment securities available-for-sale	91		91		108	108
Securitized mortgage collateral	5,510,741		5,510,741		5,494,152	5,494,152

Liabilities

Warehouse borrowings	\$ 111,227	\$	\$ 111,227	\$	\$ 119,634	\$	\$ 119,634	\$
Convertible notes	20,000			20,000	20,000			20,000
Long-term debt	17,555			17,555	15,871			15,871
Securitized mortgage borrowings	5,507,629			5,507,629	5,492,371			5,492,371
Derivative liabilities, securitized trusts	7,949			7,949	10,214			10,214
Derivative liabilities, lending, net	1,007		1,007					
Line of credit	4,000		4,000		3,000		3,000	

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.

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

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, mortgage loans held-for-sale, and call and put options.

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

Finance receivables borrowings carrying amounts approximates 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.

Line of credit carrying amount approximates fair value due to the short-term nature of the liability and does not present unanticipated interest rate or credit concerns.

Fair Value Hierarchy

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

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

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

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

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, securitized mortgage collateral and borrowings, net derivative liabilities, securitized trusts, long-term debt, interest rate lock commitments (IRLCs) and mortgage servicing rights as Level 3 fair value measurements. Level 3 assets and liabilities were 98% and 99% and 98% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at June 30, 2014 and December 31, 2013.

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 six months ended June 30, 2014.

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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 June 30, 2014 and December 31, 2013, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	Level 1	June 30, 2014 Level 2	Level 3	Level 1	December 31, 2013 Level 2	Level 3
Assets						
Investment securities available-for-sale	\$	\$	\$ 91	\$	\$	\$ 108
Mortgage loans held-for-sale		120,285			129,191	
Derivative assets, lending, net (1)			3,073		1,079	913
Mortgage servicing rights			16,166			35,981
Securitized mortgage collateral			5,510,741			5,494,152
Total assets at fair value	\$	\$ 120,285	\$ 5,530,071	\$	\$ 130,270	\$ 5,531,154
Liabilities						
Securitized mortgage borrowings	\$	\$	\$ 5,507,629	\$	\$	\$ 5,492,371
Derivative liabilities, securitized trusts (2)			7,949			10,214
Long-term debt			17,555			15,871
Derivative liabilities, lending, net (3)		1,007				
Total liabilities at fair value	\$	\$ 1,007	\$ 5,533,133	\$	\$	\$ 5,518,456

(1) At June 30, 2014, derivative assets, lending, net included \$3.1 million in IRLCs associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2013, derivative assets, lending, net included \$913 thousand in IRLCs and \$1.1 million in hedging instruments, respectively, associated with the Company's mortgage lending operations, and is included in other assets and other liabilities in the accompanying consolidated balance sheets.

(2) At June 30, 2014, derivative liabilities, securitized trusts, included \$7.9 million in interest rate swaps and caps, included within trust liabilities. At December 31, 2013, derivative liabilities, securitized trusts, included \$10.2 million in interest rate swaps and caps, included within trust liabilities.

(3) At June 30, 2014, derivative liabilities, lending, included \$1.0 million in hedging instruments associated with the Company's mortgage lending operations and is included in other liabilities in the accompanying consolidated balance sheets.

The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2014 and 2013:

	Level 3 Recurring Fair Value Measurements For the three months ended June 30, 2014						
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt
Fair value, March 31, 2014	\$ 104	\$ 5,460,516	\$ (5,461,058)	\$ (9,145)	\$ 25,079	\$ 1,415	\$ (17,235)

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Total gains (losses) included in earnings:									
Interest income (1)	6	11,140							
Interest expense (1)			(54,953)						(546)
Change in fair value	16	207,509	(205,491)	(265)	(2,762)	1,658			226
Total gains (losses) included in earnings	22	218,649	(260,444)	(265)	(2,762)	1,658			(320)
Transfers in and/or out of Level 3									
Purchases, issuances and settlements									
Purchases									
Issuances						4,562			
Settlements	(35)	(168,424)	213,873	1,461	(10,713)				
Fair value, June 30, 2014	\$ 91	\$ 5,510,741	\$ (5,507,629)	\$ (7,949)	\$ 16,166	\$ 3,073	\$ (17,555)		
Unrealized gains (losses) still held (2)	\$ 81	\$ (1,473,345)	\$ 3,618,576	\$ (7,464)	\$ 16,166	\$ 3,073	\$ 53,208		

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$1.2 million for the three months ended June 30, 2014. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at June 30, 2014.

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**Level 3 Recurring Fair Value Measurements
For the three months ended June 30, 2013**

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Call option	Put option	Long-term debt
Fair value, March 31, 2013	\$ 160	\$ 5,824,111	\$ (5,819,460)	\$ (15,387)	\$ 15,599	\$ 3,579	\$ 479	\$	\$ (13,336)
Total gains (losses) included in earnings:									
Interest income (1)	8	5,740							
Interest expense (1)			(60,486)						(585)
Change in fair value	(47)	4,266	(7,594)	422	1,849	(3,279)			(478)
Total gains (losses) included in earnings	(39)	10,006	(68,080)	422	1,849	(3,279)			(1,063)
Transfers in and/or out of Level 3									
Purchases, issuances and settlements									
Purchases									
Issuances					6,412				
Settlements	(11)	(194,131)	255,791	1,689	(1,804)				
Fair value, June 30, 2013	\$ 110	\$ 5,639,986	\$ (5,631,749)	\$ (13,276)	\$ 22,056	\$ 300	\$ 479	\$	\$ (14,399)
Unrealized gains (losses) still held (2)	\$ 64	\$ (2,251,607)	\$ 4,381,060	\$ (12,629)	\$ 22,056	\$ 300	\$ 479	\$	\$ 56,364

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$1.3 million for the three months ended June 30, 2013. 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 June 30, 2013.

**Level 3 Recurring Fair Value Measurements
For the six months ended June 30, 2014**

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt
Fair value, December 31, 2013	\$ 108	\$ 5,494,152	\$ (5,492,371)	\$ (10,214)	\$ 35,981	\$ 913	\$ (15,871)
Total gains (losses) included in earnings:							
Interest income (1)	13	20,956					
Interest expense (1)			(113,127)				(1,260)
Change in fair value	16	317,394	(318,259)	(426)	(3,723)	2,171	(424)
Total gains (losses) included in earnings	29	338,350	(431,386)	(426)	(3,723)	2,171	(1,684)
Transfers in and/or out of Level 3							

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Purchases, issuances and settlements

Purchases											
Issuances								8,325			
Settlements	(46)	(321,761)	416,128	2,691	(24,417)	(11)					
Fair value, June 30, 2014	\$ 91	\$ 5,510,741	\$ (5,507,629)	\$ (7,949)	\$ 16,166	\$ 3,073	\$ (17,555)				

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$2.2 million for the six months ended June 30, 2014. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

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	Level 3 Recurring Fair Value Measurements For the six months ended June 30, 2013									
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Call option	Put option	Long-term debt	
Fair value, December 31, 2012	\$ 110	\$ 5,787,884	\$ (5,777,456)	\$ (17,163)	\$ 10,703	\$ 3,970	\$ 368	\$ (1)	\$ (12,731)	
Total gains (losses) included in earnings:										
Interest income (1)	19	21,152								
Interest expense (1)			(132,249)						(1,141)	
Change in fair value	27	238,728	(246,799)	382	3,066	(3,670)	111	1	(527)	
Total (losses) gains included in earnings	46	259,880	(379,048)	382	3,066	(3,670)	111	1	(1,668)	
Transfers in and/or out of Level 3										
Purchases, issuances and settlements										
Purchases										
Issuances					11,275					
Settlements	(46)	(407,778)	524,755	3,505	(2,988)					
Fair value, June 30, 2013	\$ 110	\$ 5,639,986	\$ (5,631,749)	\$ (13,276)	\$ 22,056	\$ 300	\$ 479	\$	\$ (14,399)	

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$3.1 million for the six months ended June 30, 2013. 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 June 30, 2014:

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs
Assets and liabilities backed by real estate				
Investment securities available-for-sale,	\$ 91	DCF	Discount rates	3.4 - 25.0%
Securitized mortgage collateral, and	5,510,741		Prepayment rates	0.8 - 29.5%
Securitized mortgage borrowings	(5,507,629)		Default rates	0.6 - 17.3%
			Loss severities	7.0 - 58.4%
Other assets and liabilities				
Mortgage servicing rights	\$ 16,166	DCF	Discount rate	9.6 - 10.7%
			Prepayment rates	6.0 - 14.6%
Derivative liabilities, net, securitized trusts	(7,949)	DCF	1M forward LIBOR	0.2 - 4.1%
Derivative assets - IRLCs, net	3,073	Market pricing	Pull -through rate	36.0 - 98.0%
Long-term debt	(17,555)	DCF	Discount rate	23.5%
Lease liability	(1,889)	DCF	Discount rate	12.0%

DCF = Discounted Cash Flow

1M = 1 Month

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

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The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three and six months ended June 30, 2014 and 2013:

	Recurring Fair Value Measurements Change in Fair Value Included in Net Earnings For the three months ended June 30, 2014						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 6	\$	\$ 16	\$	\$	\$	\$ 22
Securitized mortgage collateral	11,140		207,509				218,649
Securitized mortgage borrowings		(54,953)	(205,491)				(260,444)
Mortgage servicing rights					(2,762)		(2,762)
Derivative liabilities, net, securitized trusts			(265)(2)				(265)
Long-term debt		(546)		226			(320)
Mortgage loans held-for-sale						2,270	2,270
Derivative assets - IRLCs						1,658	1,658
Derivative liabilities - Hedging Instruments						(1,235)	(1,235)
Total	\$ 11,146	\$ (55,499)	\$ 1,769	\$ 226	\$ (2,762)	\$ 2,693	\$ (42,427)

(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 \$1.1 million in changes in the fair value of derivative instruments, offset by \$1.4 million in cash payments from the securitization trusts for the three months ended June 30, 2014.

	Recurring Fair Value Measurements Change in Fair Value Included in Net Loss For the three months ended June 30, 2013						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 8	\$	\$ (47)	\$	\$	\$	\$ (39)
Securitized mortgage collateral	5,740		4,266				10,006
Securitized mortgage borrowings		(60,486)	(7,594)				(68,080)
Mortgage servicing rights					1,849		1,849
Derivative liabilities, net, securitized trusts			422(2)				422
Long-term debt		(585)		(478)			(1,063)
Mortgage loans held-for-sale						(5,536)	(5,536)
Derivative assets - IRLCs						(3,279)	(3,279)

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Derivative liabilities - Hedging Instruments								6,343	6,343					
Total	\$	5,748	\$	(61,071)	\$	(2,953)	\$	(478)	\$	1,849	\$	(2,472)	\$	(59,377)

(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 \$2.1 million in change in the fair value of derivative instruments, offset by \$1.7 million in cash payments from the securitization trusts for the three months ended June 30, 2013.

	Recurring Fair Value Measurements							Gain on sale of loans, net	Total					
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Changes in Fair Value Included in Net Earnings For the six months ended June 30, 2014								
	Change in Fair Value of													
Investment securities available-for-sale	\$	13	\$	16	\$		\$		\$	29				
Securitized mortgage collateral		20,956		317,394						338,350				
Securitized mortgage borrowings				(113,127)		(318,259)				(431,386)				
Mortgage servicing rights							(3,723)			(3,723)				
Derivative liabilities, net, securitized trusts				(426)	(2)					(426)				
Long-term debt				(1,260)		(424)				(1,684)				
Mortgage loans held-for-sale								2,809		2,809				
Derivative assets - IRLCs								2,171		2,171				
Derivative liabilities - Hedging Instruments								(2,086)		(2,086)				
Total	\$	20,969	\$	(114,387)	\$	(1,275)(3)	\$	(424)	\$	(3,723)	\$	2,894	\$	(95,946)

(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 \$2.2 million in changes in the fair value of derivative instruments, offset by \$2.6 million in cash payments from the securitization trusts for the six months ended June 30, 2014.

(3) For the six months ended June 30, 2014, change in the fair value of net trust assets, excluding REO was \$(1.3) million. Excluded from the \$1.3 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$2.6 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

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	Recurring Fair Value Measurements Changes in Fair Value Included in Net Earnings For the six months ended June 30, 2013						
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 19	\$	\$ 27	\$	\$	\$	\$ 46
Securitized mortgage collateral	21,152		238,728				259,880
Securitized mortgage borrowings		(132,249)	(246,799)				(379,048)
Mortgage servicing rights					3,066		3,066
Call option					111		111
Put option					1		1
Derivative liabilities, net, securitized trusts			382(2)				382
Long-term debt		(1,141)		(527)			(1,668)
Mortgage loans held-for-sale						(5,671)	(5,671)
Derivative assets - IRLCs						(3,670)	(3,670)
Derivative liabilities - Hedging Instruments						5,716	5,716
Total	\$ 21,171	\$ (133,390)	\$ (7,662)(3)	\$ (527)	\$ 3,178	\$ (3,625)	\$ (120,855)

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

(2) Included in this amount is \$3.8 million in changes in the fair value of derivative instruments, offset by \$3.4 million in cash payments from the securitization trusts for the six months ended June 30, 2013.

(3) For the six months ended June 30, 2013, change in the fair value of net trust assets, excluding REO was \$(7.7) million. Excluded from the \$4.2 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$3.5 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 June 30, 2014 and December 31, 2013 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 June 30, 2014.

Mortgage servicing rights The Company elected to carry its entire 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

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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 June 30, 2014.

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 June 30, 2014.

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Securitized mortgage collateral The Company elected to carry all of its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of June 30, 2014, securitized mortgage collateral had an unpaid principal balance of \$7.0 billion, compared to an estimated fair value on the Company's balance sheet of \$5.5 billion. The aggregate unpaid principal balance exceeds the fair value by \$1.5 billion at June 30, 2014. As of June 30, 2014, the unpaid principal balance of loans 90 days or more past due was \$1.2 billion compared to an estimated fair value of \$0.7 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by \$0.5 billion at June 30, 2014. Securitized mortgage collateral is considered a Level 3 measurement at June 30, 2014.

Securitized mortgage borrowings The Company elected to carry all of its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of June 30, 2014, securitized mortgage borrowings had an outstanding principal balance of \$7.0 billion, net of \$2.2 billion in bond losses, compared to an estimated fair value of \$5.5 billion. The aggregate outstanding principal balance exceeds the fair value by \$1.5 billion at June 30, 2014. Securitized mortgage borrowings are considered a Level 3 measurement at June 30, 2014.

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 June 30, 2014, long-term debt had an unpaid principal balance of \$70.5 million compared to an estimated fair value of \$17.6 million. The aggregate unpaid principal balance exceeds the fair value by \$52.9 million at June 30, 2014. The long-term debt is considered a Level 3 measurement at June 30, 2014.

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 June 30, 2014, the notional balance of derivative assets and liabilities, securitized trusts was \$109.5 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 June 30, 2014.

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

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June 30, 2014.

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 June 30, 2014.

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

	Notional Balance		Total Gains (Losses) (1)			
	June 30, 2014	June 30, 2013	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013
Derivative - IRLC s	\$ 170,058	\$ 286,436	\$ 1,658	\$ (3,279)	\$ 2,171	\$ (3,670)
Derivative - TBA s	201,848	259,196	(5,207)	14,835	(8,229)	16,353

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

Call/Put option As part of the initial acquisition of AmeriHome, the purchase agreement included a call option to purchase an additional 39% of AmeriHome and a put option which allows the noncontrolling interest holder to sell his then remaining 49% of AmeriHome to the Company in the event the Company does not exercise the call option. In June 2012 and January 2013, the Company and the noncontrolling interest holder entered into agreements to transfer an additional 27.5% and 1.5% ownership, respectively, of AmeriHome to the Company in exchange for the settlement of balances owed from the noncontrolling interest holder related to the Company for capital contributions made by the Company to AmeriHome and indemnification provisions included in the purchase agreement. In July 2013, the Company acquired the remaining 20% ownership of AmeriHome from the noncontrolling interest holder for \$350 thousand in cash and \$1.1 million in IMH common stock. As of December 31, 2013, the Company owned 100% of AmeriHome. The estimated fair values of the call and put options were based on models incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. AmeriHome was sold in March 2014. See Note 14. Sale of AmeriHome for more details.

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 June 30, 2014 and 2013, respectively:

	Nonrecurring Fair Value Measurements			Total Gains (Losses) (3)	
	Level 1	Level 2	Level 3	For the Three Months Ended June 30, 2014	For the Six Months Ended June 30, 2014
REO (1)	\$	\$ 1,430	\$	2,942	\$ 9,024
Lease liability (2)			(1,889)	(59)	(628)

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(1) Balance represents REO at June 30, 2014 which has been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three and six months ended June 30, 2014, the \$2.9 million and \$9.0 million gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

(2) For the three and six months ended June 30, 2014, the Company recorded \$59 thousand and \$628 thousand in impairment, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

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

	Non-recurring Fair Value Measurements			Total Gains (Losses) (3)	
	Level 1	Level 2	Level 3	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2013
REO (1)	\$	\$ 5,536	\$	\$ 2,346	\$ 5,530
Lease liability (2)			(1,841)	(57)	(76)

(1) Balance represents REO at June 30, 2013 which has been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three and six months ended June 30, 2013, the \$2.3 million and \$5.5 million gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

(2) For the three and six months ended June 30, 2013, the Company recorded \$57 thousand and \$76 thousand in impairment, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

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

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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 June 30, 2014.

Lease liability In connection with the discontinuation of our non-conforming lending and commercial operations, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. Additionally, the Company has office space at the continuing operations that is no longer occupied by the Company and we intend to sublease it. The Company has recorded a liability representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company's judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at June 30, 2014.

Note 9. Income Taxes

In January 2013, the Company acquired additional ownership of its AmeriHome subsidiary bringing the Company's controlling interest to 80%. The increase in ownership allowed the Company to include AmeriHome in the IMH federal consolidated tax returns for 2013. During the first quarter of 2013, the Company recorded a \$1.2 million tax benefit resulting from the use of net operating losses (NOL) to offset AmeriHome deferred tax liabilities.

Additionally, for the three and six months ended June 30, 2013 the Company recorded an expense of \$32 thousand and \$140 thousand, respectively, in state income tax expense primarily related to states where the Company does not have NOL carryforwards. For the three and six months ended June 30, 2014, the Company recorded an expense of \$756 thousand and \$1.1 million, respectively, primarily related to alternative minimum taxes associated with taxable income generated from the sale of AmeriHome and mortgage servicing rights. The Company cannot utilize its NOL carryforward on a small portion of its taxable income because statutory limits on the use of NOLs generates an alternative minimum tax liability.

Note 10. Reconciliation of Earnings (Loss) Per Share

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

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator for basic earnings (loss) per share:				
Earnings (loss) from continuing operations	\$ 916	\$ 2,224	\$ (1,938)	\$ 2,390
Net earnings attributable to noncontrolling interest		(73)		(136)
Earnings (loss) from continuing operations attributable to IMH	916	2,151	(1,938)	2,254
Loss from discontinued operations	(834)	(933)	(946)	(1,774)
Net earnings (loss) attributable to IMH common stockholders	\$ 82	\$ 1,218	\$ (2,884)	\$ 480
Numerator for diluted earnings (loss) per share:				
Earnings (loss) from continuing operations attributable to IMH	\$ 916	\$ 2,151	\$ (1,938)	\$ 2,254
Interest expense attributable to convertible notes		261		261
Earnings (loss) from continuing operations attributable to IMH plus interest expense attributable to convertible notes	916	2,412	(1,938)	2,515
Loss from discontinued operations	(834)	(933)	(946)	(1,774)
Net earnings (loss) attributable to IMH common stockholders plus interest expense attributable to convertible notes	\$ 82	\$ 1,479	\$ (2,884)	\$ 741
Denominator for basic earnings (loss) per share (1):				
Basic weighted average common shares outstanding during the year	9,254	8,668	9,158	8,636
Denominator for diluted earnings (loss) per share (1):				
Basic weighted average common shares outstanding during the year	9,254	8,668	9,158	8,636
Net effect of dilutive convertible notes		1,273		640
Net effect of dilutive stock options and DSU s	202	232		241
Diluted weighted average common shares	9,456	10,173	9,158	9,517
Earnings (loss) per common share - basic:				
Earnings (loss) from continuing operations attributable to IMH	\$ 0.10	\$ 0.25	\$ (0.21)	\$ 0.27
Loss from discontinued operations	\$ (0.09)	(0.11)	\$ (0.10)	\$ (0.21)
Net earnings (loss) per share available to common stockholders	\$ 0.01	\$ 0.14	\$ (0.31)	\$ 0.06
Earnings (loss) per common share - diluted:				
Earnings (loss) from continuing operations attributable to IMH	\$ 0.10	\$ 0.24	\$ (0.21)	\$ 0.27
Loss from discontinued operations	(0.09)	(0.10)	(0.10)	(0.19)
Net earnings (loss) per share available to common stockholders	\$ 0.01	\$ 0.14	\$ (0.31)	\$ 0.08

(1) Number of shares presented in thousands.

The anti-dilutive stock options outstanding for the three and six months ended June 30, 2014 were 2.1 million and 2.6 million shares, respectively. The anti-dilutive stock options outstanding for the three and six months ended June 30, 2013 were 271 thousand shares. Included in the anti-dilutive shares for the three and six months ended June 30, 2014 are 1.8 million shares attributable to the Convertible Notes.

Note 11. Segment Reporting

The Company has three primary reporting segments within continuing operations 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.

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Statement of Operations Items for the three months ended June 30, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 6,534	\$	\$	\$	\$ 6,534
Real estate services fees, net		4,360			4,360
Servicing income, net	1,291				1,291
Loss on mortgage servicing rights	(1,564)				(1,564)
Other revenue	43		41		84
Other income (expense)	215		5,031	(405)	4,841
Total expense	(8,608)	(1,534)	(265)	(3,467)	(13,874)
(Loss) earnings from continuing operations before income taxes	\$ (2,089)	\$ 2,826	\$ 4,807	\$ (3,872)	1,672
Income tax expense from continuing operations					756
Earnings from continuing operations					916
Loss from discontinued operations, net of tax					(834)
Net earnings					82
Net earnings attributable to noncontrolling interest					
Net earnings attributable to common stockholders					\$ 82

Statement of Operations Items for the three months ended June 30, 2013:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 20,458	\$	\$	\$	\$ 20,458
Real estate services fees, net		5,155			5,155
Servicing income, net	931				931
Gain on mortgage servicing rights	2,004				2,004
Other revenue			381	(6)	375
Other income (expense)	(148)	5	(874)	(275)	(1,292)
Total expense	(19,882)	(1,818)	(415)	(3,260)	(25,375)
Earnings (loss) from continuing operations before income taxes	\$ 3,363	\$ 3,342	\$ (908)	\$ (3,541)	2,256
Income tax benefit from continuing operations					32
Earnings from continuing operations					2,224
Loss from discontinued operations, net of tax					(933)
Net earnings					1,291
Net earnings attributable to noncontrolling interest					(73)
Net earnings attributable to common stockholders					\$ 1,218

Statement of Operations Items for the six months ended June 30, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 11,126	\$	\$	\$	\$ 11,126
Real estate services fees, net		8,039			8,039
Servicing income, net	2,859				2,859
Loss on mortgage servicing rights	(2,541)				(2,541)
Other revenue	1,257		211		1,468
Other income (expense)	371		7,351	(806)	6,916
Total expense	(17,575)	(3,056)	(506)	(7,570)	(28,707)
(Loss) earnings from continuing operations before income taxes	\$ (4,503)	\$ 4,983	\$ 7,056	\$ (8,376)	(840)
Income tax expense from continuing operations					1,098
Loss from continuing operations					(1,938)
Loss from discontinued operations, net of tax					(946)

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Net loss	(2,884)
Net earnings attributable to noncontrolling interest	
Net loss attributable to common stockholders	\$ (2,884)

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Statement of Operations Items for the six months ended June 30, 2013:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 37,930	\$	\$	\$	\$ 37,930
Real estate services fees, net		9,583			9,583
Servicing income, net	1,941				1,941
Gain on mortgage servicing rights	3,182				3,182
Other revenue	113		853	(12)	954
Other income (expense)	(305)	11	(1,807)	(295)	(2,396)
Total expense	(39,389)	(4,032)	(934)	(5,505)	(49,860)
Earnings (loss) from continuing operations before income taxes	\$ 3,472	\$ 5,562	\$ (1,888)	\$ (5,812)	1,334
Income tax benefit from continuing operations					(1,056)
Earnings from continuing operations					2,390
Loss from discontinued operations, net of tax					(1,774)
Net earnings					616
Net earnings attributable to noncontrolling interest					(136)
Net earnings attributable to common stockholders					\$ 480

Balance Sheet Items as of:	Mortgage Lending	Real Estate Services	Long-term Mortgage Portfolio	Corporate and other	Discontinued Operations	Consolidated
Total Assets at June 30, 2014	\$ 167,179	\$ 8,939	\$ 5,542,692	\$ 120	\$ 1,050	\$ 5,719,980
Total Assets at December 31, 2013	\$ 175,419	\$ 8,048	\$ 5,513,222	\$ 19,359	\$ 2,277	\$ 5,718,325

Note 12. Commitments and Contingencies

Legal Proceedings

The Company is a defendant in or a party to 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. At June 30, 2014, the Company has a \$1.9 million accrued liability recorded for such estimated loss exposure as explained below.

Based on the Company's current understanding of these pending legal actions and proceedings, management cannot ascertain whether the 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.

Updates to legal matters for the period ended June 30, 2014 are as follows:

On April 30, 2012 a purported class action was filed entitled *Marentes v. Impac Mortgage Holdings, Inc.*, alleging that certain loan modification activities of the Company constitute an unfair business practice, false advertising and marketing, and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and prejudgment interest. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant and on October 2, 2012, the plaintiff dismissed Impac Mortgage Holdings, Inc., without prejudice. On December 27, 2012, the court granted IFC's motion to dismiss and on May 23, 2014, the court of appeals reversed the dismissal and the Company will file an appropriate response.

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On January 30, 2012, a Summons with Notice was filed entitled Deutsche Zentral-Genossenschaftsbank AG New York Branch, dba DZ Bank AG, New York Branch v. JPMorgan Chase & Co., et al. Named as a defendant in that action is ISAC. On August 3, 2012, a Consolidated Complaint was filed in which the above matter was consolidated with two other cases by the same plaintiff and DG Holding Trust. The Consolidated Complaint alleges misrepresentations in connection with the marketing and sale of mortgage backed securities issued by ISAC that the plaintiff purchased and seeks rescission, damages, prejudgment interest, punitive damages, and attorney's fees in an amount to be proven at trial. Subsequent to the end of the quarter, on July 23, 2014, the parties entered into a settlement agreement whereby ISAC agreed to pay \$120 thousand which is payable in installments.

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

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

Please refer to IMH's report on Form 10-K for the year ended December 31, 2013 and subsequent Form 10-Q filings 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 required it to repurchase loans if the Company breached a representation or warranty given to the loan purchaser.

During the six months ended June 30, 2014, the Company paid approximately \$3.5 million to settle previous repurchase claims related to the discontinued operations. At June 30, 2014, the repurchase reserve within discontinued operations was \$2.2 million as compared to \$5.5 million at December 31, 2013. Additionally, the Company had approximately \$4.1 million at June 30, 2014 and \$4.0 million at December 31, 2013, in repurchase reserves related to the loans sold since early 2011 by the continuing mortgage lending operation.

Short-Term Loan Commitments

The Company uses a portion of the excess 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 June 30, 2014, the warehouse lending operations had committed warehouse lines to non-affiliated customers totaling

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\$26 million and an outstanding balance of \$4.3 million in finance receivables and none as of December 31, 2013. The finance receivables are secured by residential mortgage loans as well as personal guarantees and are included in other assets on the accompanying consolidated balance sheets.

Note 13. Share Based Payments

There were 5,000 and no options granted during the six months ended June 30, 2014 and 2013, respectively.

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The fair value of options granted, which is amortized to expense over the option vesting period, is estimated on the date of grant with the following weighted average assumptions:

	June 30, 2014	
Risk-free interest rate		1.79%
Expected lives (in years)		5.73
Expected volatility (1)		75.93%
Expected dividend yield		0.00%
Fair value per share	\$	4.46

(1) Expected volatilities are based on the volatility of the Company's stock over the expected option term, adjusted for expected mean reversion.

The following table summarizes activity, pricing and other information for the Company's stock options for the six months ended June 30, 2014:

	Number of Shares		Weighted- Average Exercise Price
Options outstanding at beginning of year	787,132	\$	9.07
Options granted	5,000		6.81
Options exercised	(12,458)		2.54
Options forfeited / cancelled	(45,257)		30.26
Options outstanding at end of period	734,417	\$	7.86
Options exercisable at end of period	399,505	\$	4.62

As of June 30, 2014, there was approximately \$1.9 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 1.6 years.

For the six months ended June 30, 2014 and 2013, the aggregate grant-date fair value of stock options granted was approximately \$22 thousand and none, respectively.

The following table summarizes activity, pricing and other information for the Company's DSUs, also referred to as deferred stock units as the issuance of the stock is deferred until termination of service, for the six months ended June 30, 2014:

	Number of	Weighted- Average Grant Date
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	Shares		Fair Value
DSU s outstanding at beginning of year	72,000	\$	8.80
DSU s granted			
DSU s exercised			
DSU s forfeited/cancelled			
DSU s outstanding at end of period	72,000	\$	8.80

As of June 30, 2014, there was approximately \$270 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 1.8 years.

Note 14. Sale of AmeriHome

In March 2014, the Company sold AmeriHome for \$10.2 million in cash, recording a gain of approximately \$1.2 million, net of a deferred tax adjustment within other revenues in the consolidated statements of operations. In conjunction with the transaction, as required by Fannie Mae, the Company used \$3.0 million of the proceeds to reduce the legacy repurchase liability with Fannie Mae.

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Note 15. Subsequent Events

On July 22, 2014, the stockholders of Impac Mortgage Holdings, Inc. (the Company) approved an amendment to the Company's 2010 Omnibus Incentive Plan, as amended (the Plan), increasing the number of shares available under the Plan by 300,000 shares. Awards under the Plan may include incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares of common stock, restricted stock units, performance share or unit awards, other stock-based awards and cash-based incentive awards. The increase in shares available under the Plan is designed to enhance the flexibility in granting stock options and other awards to officers, employees, non-employee directors and other key persons and to ensure that the Company can continue to grant stock options and other awards to such persons at levels determined to be appropriate by the Company's compensation committee.

On July 24, 2014, the Company issued an additional 80,000 shares of common stock pursuant to the terms of a Settlement and Release Agreement dated January 10, 2014 with Wilmington Trust Company. Pursuant to the Settlement and Release Agreement, the Company agreed to pay Wilmington an aggregate of \$1.05 million in installments, which can be paid in shares of common stock or cash at the Company's discretion, and the Company may be required to true-up proceeds from the sales of shares with the issuance of additional shares. The Company has previously issued an aggregate of 95,000 shares pursuant to the terms of the Settlement and Release Agreement.

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), 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 the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: our ability to manage effectively our mortgage lending operations and increase mortgage originations; successful development, marketing, sale and financing of new mortgage products, including the non-Qualified Mortgage loan program; 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; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing, the terms of any financing 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, 2013, 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.

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.

Market Update

The U.S. economy continued its gradual recovery during the first half of 2014. While consumer confidence, buoyed by healthy job growth, began to increase during the second quarter of 2014 from the first quarter, it remained flat compared with December 31, 2013. Labor market conditions, household and business spending continue their modest improvement. Despite stronger economic data in various regions, credit market volatility, emerging market and geopolitical concerns continue to weigh on investor sentiment.

Housing markets in the U.S. continue to recover with the strength of recovery varying by market. Housing inventories are at their highest levels in over a year which has helped slow price gains in many regions during the second quarter of 2014. The significant backlog of properties in foreclosure will continue to play a key role in the housing recovery.

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In the U.S., both economic data and corporate earnings were mixed, while the Federal Reserve Board announced further reductions in its bond buying stimulus program and updated its guidance on short-term interest rates, putting less weight on the unemployment rate and indicating that it would look at a broad range of economic indicators in deciding when to start raising short-term interest rates.

Selected Financial Results for the Three and Six Months Ended June 30, 2014 and 2013

	For the Three Months Ended			For the Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:					
Gain on sale of loans, net	\$ 6,534	\$ 4,591	\$ 20,458	\$ 11,126	\$ 37,930
Real estate services fees, net	4,360	3,679	5,155	8,039	9,583
Servicing income, net	1,291	1,569	931	2,859	1,941
(Loss) gain on mortgage servicing rights	(1,564)	(977)	2,004	(2,541)	3,182
Other	84	1,383	375	1,468	954
Total revenues	10,705	10,245	28,923	20,951	53,590
Expenses:					
Personnel expense	9,319	9,460	18,891	18,779	36,654
General, administrative and other	4,555	5,372	6,484	9,928	13,206
Total expenses	13,874	14,832	25,375	28,707	49,860
Other income (expense):					
Net interest (expense) income	(96)	(313)	(207)	(409)	237
Change in fair value of long-term debt	226	(650)	(478)	(424)	(527)
Change in fair value of net trust assets	4,711	3,038	(607)	7,749	(2,106)
Loss from discontinued operations, net of tax	(834)	(112)	(933)	(946)	(1,774)
Total other income (expense)	4,007	1,963	(2,225)	5,970	(4,170)
Net earnings (loss) before income taxes	838	(2,624)	1,323	(1,786)	(440)
Income tax expense (benefit)	756	342	32	1,098	(1,056)
Net earnings (loss)	\$ 82	\$ (2,966)	\$ 1,291	\$ (2,884)	\$ 616
Diluted earnings (loss) per share	\$ 0.01	\$ (0.33)	\$ 0.14	\$ (0.31)	\$ 0.08

Status of Operations*Summary Highlights*

- Mortgage lending volumes increased in the second quarter of 2014 to \$465.2 million from \$353.1 million in the first quarter of 2014 and decreased as compared to \$780.1 million in the second quarter of 2013.
- Mortgage lending revenues and margins increased in the second quarter of 2014 to \$6.5 million, or 140 bps, from \$4.6 million, or 131 bps in the first quarter of 2014, and decreased as compared to \$20.5 million, or 262 bps, in the second quarter of 2013.
- Mortgage servicing income decreased in the second quarter of 2014 to \$1.3 million from \$1.6 million in the first quarter of 2014, due to servicing sold in the first quarter, and increased as compared to \$1.0 million in the second quarter of 2013.

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- Mortgage servicing rights decreased \$19.8 million to \$16.2 million at June 30, 2014 as compared to \$36.0 million at December 31, 2013. The decrease is due to bulk sale transactions of servicing rights totaling \$1.6 billion in unpaid principal balance (UPB), and the sale of AmeriHome, which had servicing rights totaling \$702.1 million in UPB. Partially offsetting the decrease was servicing retained loan sales of \$807.0 million. At June 30, 2014, the servicing portfolio was \$1.6 billion in UPB as compared to \$3.1 billion at December 31, 2013.
- Real estate services revenue increased to \$4.4 million in the second quarter of 2014 as compared to \$3.7 million in the first quarter of 2014 as compared to \$5.2 million in the second quarter of 2013.
- In our long-term mortgage portfolio, based on continued improved performance of the portfolio which was better than expected, we updated certain loss and discount rate assumptions at June 30, 2014 resulting in \$4.8 million increase in the estimated fair value of the portfolio in the second quarter of 2014.
- Expenses decreased in the second quarter of 2014 to \$13.9 million from \$14.8 million in the first quarter of 2014, and as compared to \$25.4 million in the second quarter of 2013.

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(in millions)

June 30, 2014	For the three months ended			June 30, 2013	% Change
	March 31, 2014	% Change			
\$ 465.2	\$ 353.1	32%		\$ 780.1	-40%

The decline in volumes and margins as compared to the prior year was primarily due to the sale of our retail branches at the end of 2013, which operated at a monthly loss of approximately \$700 thousand. Excluding the production from our retail branches, the decline in our origination volumes was 18% in the second quarter of 2014 as compared to second quarter of 2013. Without this retail production, we had a higher concentration of correspondent and wholesale volume, which generally earn lower margins than retail but also incur lower operational costs. During the second quarter of 2014, lending volumes increased as compared to the first quarter of 2014, predominately due to the ongoing low interest rate environment, resulting in a 38% increase in wholesale and correspondent originations. Despite the higher concentration of correspondent and wholesale originations during the second quarter of 2014, mortgage lending margins improved over the first quarter due to a higher concentration of government loans, which have higher margins.

Purchase money transactions as a percentage of overall originations have increased in the second quarter of 2014 to 53%, as compared to 42% in the first quarter of 2014, and 39% in the second quarter of 2013. We believe the increase in purchase money transactions in the last two quarters was primarily a result of our recent focus in sales and operations to provide a better purchase transaction related customer service experience.

Originations by Channel:

(in millions)	For the three months ended June 30,			
	2014	%	2013	%
Wholesale	\$ 180.6	39%	\$ 328.2	42%
Correspondent	271.4	58%	222.4	29%
Retail	13.2	3%	229.5	29%
Total originations	\$ 465.2	100%	\$ 780.1	100%

Originations by Channel:

(in millions)	For the six months ended June 30,			
	2014	%	2013	%
Wholesale	\$ 280.9	34%	\$ 634.7	44%
Correspondent	498.9	61%	378.9	26%
Retail	38.5	5%	440.3	30%
Total originations	\$ 818.3	100%	\$ 1,453.9	100%

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During the second quarter of 2014, the Company continued its strategy to increase the correspondent and wholesale channel originations. In the second quarter of 2014, although wholesale originations declined, our wholesale and correspondent channels, combined, contributed 97% of total originations as compared to 71% in the second quarter of 2013. Contributing to the large quarter over quarter percentage increase was the reduction in retail originations in 2014 due to the sale of the retail branches in December 2013.

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We continue to build our wholesale and correspondent channels. We have added sales staff and streamlined our operations in an effort to provide quality customer service to attract broker and correspondent seller clients and to increase the volume of loans submitted from repeat customers. With our sales, marketing, and operational efforts during the second quarter of 2014, our pipeline has increased in excess of \$500 million subsequent to the end of the second quarter, which is expected to result in an increase in originations in the third quarter.

Mortgage servicing portfolio

(in millions)

June 30, 2014	For the three months ended			June 30, 2013	% Change
	December 31, 2013	% Change			
\$ 1,571.9	\$ 3,128.6	-50%	\$ 2,110.2	-26%	

The mortgage servicing portfolio decreased to \$1.6 billion at June 30, 2014, a 50% decrease from March 31, 2014. The decrease is primarily due to bulk sales of servicing rights totaling \$1.6 billion in UPB and the sale of AmeriHome, which had servicing rights totaling \$702.1 million in UPB. As previously announced, in the first quarter of 2014, we planned to sell up to \$1.3 billion in servicing in the first half of 2014. This decision was based on the current market conditions that offered attractive pricing. The sale of servicing in the second quarter of 2014 generated \$11.0 million in cash proceeds, with additional proceeds of \$1.2 million to be received at the time when the servicing is transferred during the third quarter. Net servicing income in the second quarter of 2014 decreased to \$1.3 million as compared to \$1.6 million in the first quarter of 2014 due to the aforementioned sale of servicing and the sale of AmeriHome.

The following table includes information about our mortgage servicing portfolio:

(in millions)	At June 30, 2014	% 60+ days delinquent (1)	At December 31, 2013	% 60+ days delinquent (1)
Fannie Mae	\$ 795.9	0.14%	\$ 1,520.2	0.19%
Freddie Mac	292.3	0.15%	317.2	0.28%
Ginnie Mae	483.7	0.99%	1,203.5	1.28%
Total owned servicing portfolio	\$ 1,571.9	0.31%	\$ 3,040.9	0.65%
Acquired Portfolio (2)		0.00%	87.7	9.86%
Total servicing portfolio	\$ 1,571.9	0.31%	\$ 3,128.6	1.57%

(1) Based on loan count.

(2) Represents servicing portfolio acquired in 2010 acquisition of AmeriHome. AmeriHome was sold during the first quarter of 2014.

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

Originations by Loan Type:

(in millions)	June 30, 2014		For the three months ended			
		%	March 31, 2014	%	June 30, 2013	%
Government (1)	191.7	41%	\$ 117.8	33%	\$ 212.7	27%
Conventional (2)	254.4	55%	227.4	65%	558.4	72%
Other	19.1	4%	7.9	2%	9.0	1%
Total originations	\$ 465.2	100%	\$ 353.1	100%	\$ 780.1	100%

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

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

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(in millions)	For the six months ended			
	June 30, 2014	%	June 30, 2013	%
Government (1)	\$ 309.5	38%	\$ 393.8	27%
Conventional (2)	481.8	59%	1,044.5	72%
Other	27.0	3%	15.6	1%
Total originations	\$ 818.3	100%	\$ 1,453.9	100%

Originations by Purpose:

(in millions)	For the three months ended June 30,			
	2014	%	2013	%
Refinance	\$ 220.2	47%	\$ 477.6	61%
Purchase	245.0	53%	302.5	39%
Total originations	\$ 465.2	100%	\$ 780.1	100%

Originations by Purpose:

(in millions)	For the six months ended June 30,			
	2014	%	2013	%
Refinance	\$ 424.4	52%	\$ 962.8	66%
Purchase	393.9	48%	491.1	34%
Total originations	\$ 818.3	100%	\$ 1,453.9	100%

During the first six months of 2014, we have been developing non-Qualified Mortgage (QM) loan programs, being marketed as AltQM, along with qualified mortgages not eligible for delivery to the GSEs, which were introduced to the market in July 2014. We have also been developing relationships with other institutions in an effort to forge a strategic alliance to provide financing sources and exit strategy alternatives for the non-qualified mortgages that we generate. In conjunction with launching these new AltQM products, we are establishing a strategic investor relationship which will provide balance sheet capacity to fund these non-conforming loans. We believe there is an underserved mortgage market for borrowers with good credit who may not meet the new QM guidelines set out by the Consumer Financial Protection Bureau (CFPB). In our opinion, as the demand by consumers for a non-QM product grows and the investor appetite increases, non-QM mortgages will be in more demand. 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.

Furthermore, with our excess warehouse borrowing capacity, we are seeking ways to utilize the excess borrowing capacity by making re-warehousing available to our current wholesale brokers and existing correspondent sellers to expand volumes and better serve customers and the borrowers. We presently use a portion of our excess capacity to provide re-warehouse facilities to customers. During the first six months of 2014, we increased our outstanding commitments to customers to \$26 million and subsequent to quarter end have increased commitments to \$30.0 million. The average outstanding balance of the re-warehouse facilities was approximately \$2.3 million in the second quarter of 2014.

In the second half of 2014, we anticipate a continued increase in overall originations as well as our operational efficiencies. The Company will work to increase originations through its business to business channels, by expanding our sales forces, and by hiring experienced lending sales personnel for our wholesale and correspondent channels and increasing efficiencies and service to our customers. By leveraging our re-warehousing division, we hope to increase the capture rate of our approved correspondent sellers business as well as expand our active customer base to include new customers seeking warehouse lines.

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

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Our residual interests in securitizations (represented by the difference between total trust assets and total trust liabilities), have recently performed better than expected. Additionally, estimated bond prices continued to improve and corresponding yields have decreased. The decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings resulted in an increase in the estimated fair value of these trust assets and liabilities. The cash received from the residual interests was approximately \$5.7 million in the second quarter of 2014, a significant increase over our expectations. Based on improved performance and other market data received regarding yield assumptions and discount rates, we lowered future loss assumptions as well as yield and discount rate assumptions in estimating the fair value of the long-term mortgage portfolio. This resulted in an increase in estimated fair value of residual interests of \$3.3 million to \$14.9 million at June 30, 2014 as compared to \$11.6 million at March 31, 2014.

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

Liquidity and Capital Resources

During the first six months of 2014, we funded our operations primarily from mortgage lending revenues and real estate services fees, net, which include gains on sale of loans, net, and other mortgage related income, portfolio loss mitigation and real estate services fees, net, primarily generated from our long-term mortgage portfolio, and cash flows from our residual interests in securitizations. Additionally, we funded mortgage loan production using warehouse facilities which are repaid once the loan is sold. Furthermore, we utilized the proceeds from the sale of AmeriHome, the sale of mortgage servicing rights and borrowings under the line of credit as additional sources of liquidity.

As previously announced, in March 2014 we generated additional liquidity with the sale of AmeriHome for \$10.2 million in cash. In conjunction with the transaction, as required by Fannie Mae, we used \$3.0 million of the proceeds to reduce our legacy repurchase liability with Fannie Mae. Additionally, during the six months ended June 30, 2014, we sold \$1.6 billion in UPB of mortgage servicing generating \$16.8 million in cash and a \$1.9 million receivable.

Our results of operations and liquidity are materially affected by conditions in the markets for mortgages and mortgage-related assets, as well as the broader financial markets and the general economy. Concerns over economic recession, geopolitical issues, unemployment, the availability and cost of financing, the mortgage market and real estate market conditions contribute to increased volatility and diminished expectations for the economy and markets. Volatility and uncertainty in the marketplace may make it more difficult for us to obtain financing on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

We believe that current cash balances, cash flows from our mortgage lending operations, real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs. However, we believe the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions, mortgage REITs and other finance companies which have offices in our market area as well as operations throughout the United States. We compete for loans principally on the basis of the interest rates and loan fees we charge, the types of loans we originate and the quality of services we provide to borrowers. Additionally, competition for loss mitigation servicing, loan modification services and other portfolio services has increased due to the difficult mortgage environment, credit tightening and a recovering economy. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability to provide mortgage and real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows

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from our residual interests in securitizations are sensitive to delinquencies, defaults and credit losses associated with the securitized loans. Losses in excess of current estimates will reduce the residual interest cash receipts from our long-term mortgage portfolio.

While we continue to pay our obligations as they become due, the ability to continue to meet our current and long-term obligations is dependent upon many factors, particularly our ability to successfully operate our mortgage lending segment, real estate services segment and realizing cash flows from the long-term mortgage portfolio. Our future financial performance and success are dependent in large part upon the ability to expand our mortgage lending platform and profitability.

Table of Contents**Critical Accounting Policies**

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the effect of changing market conditions and/or consumer behavior. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include those issues included in Management's Discussion and Analysis of Results of Operations in IMH's report on Form 10-K for the year ended December 31, 2013. Such policies have not changed during 2014.

Financial Condition and Results of Operations**Financial Condition**

As of June 30, 2014 compared to December 31, 2013

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

	June 30, 2014	December 31, 2013	Increase (Decrease)	% Change
Cash	\$ 21,091	\$ 9,969	\$ 11,122	112%
Restricted cash	1,907	1,467	440	30
Mortgage loans held-for-sale	120,285	129,191	(8,906)	(7)
Mortgage servicing rights	16,166	35,981	(19,815)	(55)
Securitized mortgage trust assets	5,530,444	5,513,166	17,278	0
Other assets (2)	30,087	28,551	1,536	5
Total assets	\$ 5,719,980	\$ 5,718,325	\$ 1,655	0%
Warehouse borrowings	\$ 111,227	\$ 119,634	\$ (8,407)	(7)%
Convertible notes	20,000	20,000		n/a
Long-term debt (\$71,120 par)	17,555	15,871	1,684	11
Repurchase reserve (1)	6,335	9,478	(3,143)	(33)
Securitized mortgage trust liabilities	5,515,578	5,502,585	12,993	0
Other liabilities (2)	23,508	24,886	(1,378)	(6)
Total liabilities	5,694,203	5,692,454	1,749	0
Total equity	25,777	25,871	(94)	(0)
Total liabilities and stockholders equity	\$ 5,719,980	\$ 5,718,325	\$ 1,655	0%

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- (1) \$4.1 million and \$5.5 million of the repurchase reserve was within discontinued operations at June 30, 2014 and December 31, 2013.
- (2) Included within other assets and liabilities are the assets and liabilities of discontinued operations.

At June 30, 2014, cash increased to \$21.1 million from \$10.0 million at December 31, 2013. The primary sources of cash between periods were \$16.8 million from the sale of mortgage servicing rights, \$13.5 million in fees generated from the mortgage lending operations and real estate services (net of non-cash fair value adjustments), \$10.2 million from the sale of AmeriHome, \$5.7 million from residual interests in securitizations and \$1.0 million in borrowings on the line of credit. Offsetting the sources of cash were continuing operating expenses totaling \$26.9 million (net of non-cash depreciation expense), \$3.0 million in interest payments on the Convertible Notes and long-term debt and settlements of repurchase requests associated with loans sold by the discontinued non-conforming mortgage operations of approximately \$3.5 million.

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Mortgage loans held-for-sale decreased \$8.9 million to \$120.3 million at June 30, 2014 as compared to \$129.2 million at December 31, 2013. The decrease was due to \$818.3 million in originations offset by \$828.4 million in loan sales. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

Mortgage servicing rights decreased \$19.8 million to \$16.2 million at June 30, 2014 as compared to \$36.0 million at December 31, 2013. The decrease was due to bulk sales of servicing rights totaling \$1.6 billion in UPB, the sale of AmeriHome, which had servicing rights totaling \$702.1 million in UPB as well as a mark-to-market reduction in fair value of \$3.7 million. Partially offsetting the decrease was servicing retained loan sales of \$807.0 million. At June 30, 2014, we serviced \$1.6 billion in UPB for others as compared to \$3.1 billion at December 31, 2013.

Warehouse borrowings decreased \$8.4 million to \$111.2 million at June 30, 2014 as compared to \$119.6 million at December 31, 2013. The decrease was due to a decrease in mortgage loans held-for-sale at June 30, 2014 partially offset by an increase in finance receivables of \$4.3 million. During the first six months of 2014, we increased our total borrowing capacity to \$315.0 million as compared to \$265.0 million at December 31, 2013.

Repurchase reserve liability decreased to \$6.3 million at June 30, 2014 as compared to \$9.5 million at December 31, 2013. During the six months ended June 30, 2014, we paid approximately \$3.5 million to settle previous repurchase claims related to our discontinued operations. At June 30, 2014, the repurchase reserve within discontinued operations was \$2.2 million as compared to \$5.5 million at December 31, 2013. Additionally, we have approximately \$4.1 million in repurchase reserves related to the loans sold by the continuing mortgage lending operation since early 2011. We have received a minimal amount of repurchase requests for loans sold by the continuing mortgage lending operation.

At June 30, 2014 and December 31, 2013, net trust assets and liabilities were as follows:

	June 30, 2014	December 31, 2013	Increase (Decrease)	%
				Change
Total trust assets	\$ 5,530,444	\$ 5,513,166	\$ 17,278	0%
Total trust liabilities	5,515,578	5,502,585	12,993	0
Residual interests in securitizations	\$ 14,866	\$ 10,581	\$ 4,285	40%

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was \$14.9 million at June 30, 2014, compared to \$10.6 million at December 31, 2013. During the first six months of 2014, the securitized trusts continued to perform better than expected due to reduced losses resulting in increased residual cash flows. In response to the continued trend of higher than expected residual cash flows as a result of the improved performance and reduced losses of the securitized trusts, we decreased future loss assumptions. Additionally, we decreased the investor yield requirements for securitized mortgage borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. The decrease in investor yield requirements also led to a reduction in yield assumptions on securitized mortgage collateral and discount rate assumptions on residual

interests. The decrease in future loss assumptions, investor yield assumptions and discount rates resulted in an increase in the estimated fair value of these trust assets and liabilities of \$4.3 million.

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

	June 30, 2014	December 31, 2013	Increase (Decrease)	% Change
Securitized mortgage collateral	\$ 5,510,741	\$ 5,494,152	\$ 16,589	0%
Other trust assets	19,703	19,014	689	4
Total trust assets	5,530,444	5,513,166	17,278	0
Securitized mortgage borrowings	\$ 5,507,629	\$ 5,492,371	\$ 15,258	0%
Other trust liabilities	7,949	10,214	(2,265)	(22)
Total trust liabilities	5,515,578	5,502,585	12,993	0
Residual interests in securitizations	\$ 14,866	\$ 10,581	\$ 4,285	40%

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the six months ended June 30, 2014, actual and forecasted losses have continued to decrease with a considerable improvement during the second quarter of 2014. During the six months ended June 30, 2014, we decreased the investor yield requirements for certain securitized mortgage collateral and borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. Additionally, during the first six months of 2014, we lowered the discount rate on certain residual interest vintages. The decrease in loss and loss assumptions, decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings as well as decreased discount rates resulted in an increase in the value of these trust assets and liabilities resulting in an increase in the value of our residual interests. However, offsetting the increase was principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings.

- The estimated fair value of securitized mortgage collateral increased \$16.6 million during the first six months of 2014, primarily due to a decrease in loss and severity assumptions and a decrease in investor yield requirements, partially offset by reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral. Additionally, other trust assets increased \$689 thousand during the first six months of 2014, primarily due to \$16.5 million in REO foreclosures and a \$9.0 million increase in the net realizable value (NRV) of REO. Partially offsetting the increase were decreases in REO from liquidations of \$18.5 million.
- The estimated fair value of securitized mortgage borrowings increased \$15.3 million during the first six months of 2014, primarily due to a decrease in loss and severity assumptions and a decrease in investor yield requirements, partially offset by reductions in principal balances from principal payments during the period for single-family and multi-family collateral. The \$2.3 million reduction in other trust liabilities during the first six months of 2014 was primarily due to \$2.7 million in derivative cash payments from the securitization trusts, and a \$426 thousand increase in derivative fair value resulting from changes in forward LIBOR interest rates.

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

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

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

To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization (after taking into consideration any derivatives in the securitization). As previously discussed, during the first six months of 2014, we adjusted the acceptable range of expected yields and discount rates for some of our earlier vintage securitizations. Based on improving bond prices and declining yields in the Company's securitization trusts and better than expected residual cash flows as well as conversations with market participants, the Company lowered certain residual discount rates during the first six months of 2014.

The following table presents changes in the trust assets and trust liabilities for the six months ended June 30, 2014:

	TRUST ASSETS				TRUST LIABILITIES			
	Level 3 Recurring Fair Value Measurements		NRV (1)		Level 3 Recurring Fair Value Measurements			
	Investment securities available-for-sale	Securitized mortgage collateral	Real estate owned	Total trust assets	Securitized mortgage borrowings	Derivative liabilities	Total trust liabilities	Net trust assets
Recorded book value at 12/31/2013	\$ 108	\$ 5,494,152	\$ 18,906	\$ 5,513,166	\$ (5,492,371)	\$ (10,214)	\$ (5,502,585)	\$ 10,581
Total gains/(losses) included in earnings:								
Interest income	13	20,956		20,969				20,969
Interest expense					(113,127)		(113,127)	(113,127)
Change in FV of net trust assets, excluding REO	16	317,394		317,410(2)	(318,259)	(426)	(318,685)(2)	(1,275)
Gains from REO - not at FV but at NRV			9,024	9,024(2)				9,024
Total gains (losses) included in earnings	29	338,350	9,024	347,403	(431,386)	(426)	(431,812)	(84,409)
Transfers in and/or out of level 3								
Purchases, issuances and settlements	(46)	(321,761)	(8,318)	(330,125)	416,128	2,691	418,819	88,694
Recorded book value at 6/30/2014	\$ 91	\$ 5,510,741	\$ 19,612	\$ 5,530,444	\$ (5,507,629)	\$ (7,949)	\$ (5,515,578)	\$ 14,866

(1) Accounted for at net realizable value.

(2) Represents non-interest income-net trust assets in the consolidated statements of operations for the six months ended June 30, 2014.

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Inclusive of gains from REO, total trust assets above reflect a net gain of \$326.4 million as a result of an increase in fair value of securitized mortgage collateral of \$317.4 million, gains from REO of \$9.0 million and increases from other trust assets of \$16 thousand. Net losses on trust liabilities were \$318.7 million as a result of \$318.3 million in losses from the increase in fair value of securitized mortgage borrowings and losses from derivative liabilities of \$426 thousand. As a result, non-interest income net trust assets totaled a gain of \$7.7 million for the six months ended June 30, 2014.

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

	June 30, 2014	December 31, 2013
Net trust assets	\$ 14,866	\$ 10,581
Total trust assets	5,530,444	5,513,166
Net trust assets as a percentage of total trust assets	0.27%	0.19%

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For the six months ended June 30, 2014, the estimated fair value of the net trust assets increased as a percentage of total trust assets. The increase was primarily due to the reduction in loss assumptions as well as the decrease in discount rate assumptions for residual interests as discussed above.

Since the consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts. Therefore, in the following table we have netted trust assets and trust liabilities to present these residual interests more simply. Our residual interests in securitizations are segregated between our single-family (SF) residential and multi-family (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities.

The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at June 30, 2014 and December 31, 2013:

Origination Year	Estimated Fair Value of Residual Interests by Vintage Year at June 30, 2014			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2013		
	SF	MF	Total	SF	MF	Total
2002-2003 (1)	\$ 8,735	\$ 2,000	\$ 10,735	\$ 5,761	\$ 2,184	\$ 7,945
2004	1,886	1,671	3,557	462	2,099	2,561
2005 (2)		356	356		75	75
2006 (2)		218	218			
2007 (2)						
Total	\$ 10,621	\$ 4,245	\$ 14,866	\$ 6,223	\$ 4,358	\$ 10,581
Weighted avg. prepayment rate	3.6%	11.8%	4.3%	2.7%	12.6%	3.6%
Weighted avg. discount rate	20.9%	20.0%	20.6%	25.4%	20.2%	23.2%

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

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

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions. As previously discussed, based on recent better than expected performance, during the first six months of 2014, residual interest discount rates for the single-family (SF) vintages were lowered to a range of 20% to 35% (20.9% weighted average) from 25% to 40% (25.4% weighted average) and the multi-family (MF) vintages were lowered to 20% from 20% to 35% (20.2% weighted average). The combined SF and MF weighted average discount rate for the quarter ended June 30, 2014 dropped to 20.6% from 23.2% at December 31, 2013.

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The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at June 30, 2014:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	8%	*(3)	5%	9%
2004	8%	0%	5%	6%
2005	13%	2%	5%	5%
2006	23%	5%	6%	5%
2007	25%	2%	5%	5%

-
- (1) Estimated future losses derived by dividing future projected losses by unpaid principal balances at June 30, 2014.
- (2) Investor yield requirements represent our estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.
- (3) Represents less than 1%.

Despite the increase in housing prices from December 2012 through June 2014, housing prices in many parts of the country are still at levels which has significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

Long-Term Mortgage Portfolio Credit Quality

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days delinquent or greater, foreclosures and delinquent bankruptcies were \$1.6 billion or 21.7% of the long-term mortgage portfolio as of June 30, 2014.

The following table summarizes the gross UPB of loans in our mortgage portfolio, included in securitized mortgage collateral, for continuing that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

	June 30, 2014	Total Collateral %	December 31, 2013	Total Collateral %
<u>Securitized mortgage collateral</u>				
60 - 89 days delinquent	\$ 149,830	2.1%	\$ 180,002	2.4%
90 or more days delinquent	515,998	7.2%	580,318	7.6%

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Foreclosures (1)	569,073	7.9%	605,201	7.9%
Delinquent bankruptcies (2)	326,616	4.5%	340,102	4.5%
Total 60+ days delinquent long-term mortgage portfolio	1,561,517	21.7%	1,705,623	22.4%
Total 60 or more days delinquent	\$ 1,561,517	21.7%	\$ 1,705,623	22.4%
Total collateral	\$ 7,184,666	100%	\$ 7,610,999	100%

(1) Represents properties in the process of foreclosure.

(2) Represents bankruptcies that are 30 days or more delinquent.

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The following table summarizes the gross securitized mortgage collateral and REO (at NRV), that were non-performing for continuing operations as of the dates indicated (excludes 60-89 days delinquent):

	June 30, 2014	Total Collateral %	December 31, 2013	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 1,411,687	19.6%	\$ 1,525,621	20.0%
Real estate owned	19,627	0.3%	18,921	0.3%
Total non-performing assets	\$ 1,431,314	19.9%	\$ 1,544,542	20.3%

Non-performing assets consist of non-performing loans (mortgages that are 90 or more days delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is the Company's policy to place a mortgage on nonaccrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of June 30, 2014, non-performing assets (unpaid principal balance of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 19.9%. At December 31, 2013, non-performing assets to total collateral was 20.3%. Non-performing assets decreased by approximately \$113.2 million at June 30, 2014 as compared to December 31, 2013. At June 30, 2014, the estimated fair value of non-performing assets (representing the fair value of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) was \$501.2 million or 8.8% of total assets. At December 31, 2013, the estimated fair value of non-performing assets was \$536.8 million or 9.4% of total assets.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in our estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as gains or losses from real estate owned in the consolidated statements of operations. REO, for continuing and discontinued operations, at June 30, 2014 increased \$706 thousand or 4% to \$19.6 million from \$18.9 million at December 31, 2013, as a result of an increase of the net realizable value of the REO.

For the three and six months ended June 30, 2014, we recorded an increase in net realizable value of the REO in the amount of \$2.9 million and \$9.0 million, respectively, compared to an increase of \$2.3 million and \$5.6 million for the comparable 2013 period. Increases in net realizable value reflect increases in value of the REO subsequent to foreclosure date, but prior to the date of sale.

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

	June 30, 2014	December 31, 2013
REO	\$ 21,590	\$ 23,601
Impairment (1)	(1,963)	(4,680)
Ending balance	\$ 19,627	\$ 18,921

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REO inside trusts	\$	19,612	\$	18,906
REO outside trusts		15		15
Total	\$	19,627	\$	18,921

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

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

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

Results of Operations

For the Three and Six Months Ended June 30, 2014 compared to the Three and Six Months Ended June 30, 2013

	For the Three Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Revenues	\$ 10,705	\$ 28,923	\$ (18,218)	(63)%
Expenses	(13,874)	(25,375)	11,501	45
Net interest (expense) income	(96)	(207)	111	54
Change in fair value of long-term debt	226	(478)	704	147
Change in fair value of net trust assets, including trust REO gains (losses)	4,711	(607)	5,318	876
Income tax expense from continuing operations	(756)	(32)	(724)	(2,263)
Net earnings from continuing operations	916	2,224	(1,308)	(59)
Loss from discontinued operations, net	(834)	(933)	99	11
Net earnings	82	1,291	(1,209)	(94)
Net earnings attributable to noncontrolling interest (1)		(73)	73	100
Net earnings attributable to IMH	\$ 82	\$ 1,218	\$ (1,136)	(93)
Earnings per share available to common stockholders - basic				
	\$ 0.01	\$ 0.14	\$ (0.13)	(93)%
Earnings per share available to common stockholders - diluted				
	\$ 0.01	\$ 0.14	\$ (0.13)	(93)%

(1) For the three months ended June 30, 2013, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome that we did not wholly-own.

	For the Six Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Revenues	\$ 20,951	\$ 53,590	\$ (32,639)	(61)%
Expenses	(28,707)	(49,860)	21,153	42
Net interest (expense) income	(409)	237	(646)	(273)
Change in fair value of long-term debt	(424)	(527)	103	20
Change in fair value of net trust assets, including trust REO gains (losses)	7,749	(2,106)	9,855	468

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Income tax (expense) benefit from continuing operations	(1,098)	1,056	(2,154)	(204)
Net (loss) earnings from continuing operations	(1,938)	2,390	(4,328)	(181)
Loss from discontinued operations, net	(946)	(1,774)	828	47
Net (loss) earnings	(2,884)	616	(3,500)	(568)
Net earnings attributable to noncontrolling interest (1)		(136)	136	100
Net (loss) earnings attributable to IMH	\$ (2,884)	\$ 480	\$ (3,364)	(701)%
(Loss) earnings per share available to common stockholders - basic	\$ (0.31)	\$ 0.06	\$ (0.37)	(612)%
(Loss) earnings per share available to common stockholders - diluted	\$ (0.31)	\$ 0.08	\$ (0.39)	(474)%

(1) For the six months ended June 30, 2013, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome that we did not wholly-own.

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	For the Three Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 6,534	\$ 20,458	\$ (13,924)	(68)%
Real estate services fees, net	4,360	5,155	(795)	(15)
Servicing income, net	1,291	931	360	39
(Loss) gain on mortgage servicing rights	(1,564)	2,004	(3,568)	(178)
Other revenues	84	375	(291)	(78)
Total revenues	\$ 10,705	\$ 28,923	\$ (18,218)	(63)%

Gain on sale of loans, net. For the three months ended June 30, 2014, gain on sale of loans, net were \$6.5 million compared to \$20.5 million in the comparable 2013 period. The \$13.9 million decrease is primarily related to a \$15.1 million decrease in realized and unrealized losses on derivative financial instruments, a \$2.6 million decrease in premiums received from the sale of mortgage loans, a \$2.5 million increase in net direct loan origination expenses and a \$1.9 million decrease in premiums from servicing retained loan sales, partially offset by a \$7.8 million increase in mark-to-market gains. The overall decrease in gain on sale of loans, net was due to a reduction in mortgage loan origination and sale volumes as well as tighter lending spreads and gain on sale margins associated with \$465.2 million and \$449.5 million of loans originated and sold, respectively, during the three months ended June 30, 2014, as compared to \$780.1 million and \$704.7 million of loans originated and sold, respectively, during the same period in 2013.

(Loss) gain on mortgage servicing rights. For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of \$1.6 million compared to revenue of \$2.0 million in the comparable 2013 period. For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a (\$2.8) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to \$1.8 million for the same period in 2013. Partially offsetting the change in fair value was a \$1.2 million gain on the sale of mortgage servicing rights during the three months ended June 30, 2014, as compared to \$155 thousand during the same period in 2013.

Real estate services fees, net. For the three months ended June 30, 2014, real estate services fees, net were \$4.4 million compared to \$5.2 million in the comparable 2013 period. The \$795 thousand decrease was primarily the result of a decrease in transactions related to the decline in loans and the balance of the long-term mortgage portfolio.

Servicing gain and loss, net. For the three months ended June 30, 2014, servicing gain and loss, net was an expense of \$1.6 million compared to revenue of \$2.0 million in the comparable 2013 period. For the three months ended June 30, 2014, the mark-to-market mortgage servicing rights expense was primarily the result of an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period.

Other revenues. For the three months ended June 30, 2014, other revenue was \$84 thousand compared to \$375 thousand for the comparable 2013 period. The decrease in other revenue was due to a \$300 thousand reduction in investment income.

For the Six Months Ended June 30,

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	2014	2013	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 11,126	\$ 37,930	\$ (26,804)	(71)%
Real estate services fees, net	8,039	9,583	(1,544)	(16)
Servicing income, net	2,859	1,941	918	47
(Loss) gain on mortgage servicing rights	(2,541)	3,182	(5,723)	(180)
Other revenues	1,468	954	514	54
Total revenues	\$ 20,951	\$ 53,590	\$ (32,639)	(61)%

Gain on sale of loans, net. For the six months ended June 30, 2014, gain on sale of loans, net were \$11.1 million compared to \$37.9 million in the comparable 2013 period. The \$26.8 million decrease is primarily related to a \$18.7 million decrease in realized and unrealized losses on derivative financial instruments, an \$11.0 million decrease in premiums received from the sale of mortgage loans, a \$3.0 million decrease in premiums from servicing retained loan sales and a \$3.0 million increase in net direct loan origination expenses, partially offset by a \$8.5 million increase in mark-to-market gains. The overall decrease in gain on sale of loans, net was due to a reduction in mortgage loan origination and sale volumes as well as tighter lending spreads and gain on sale margins associated with \$818.3 million and \$828.4 million of loans originated and sold, respectively, during the six months ended June 30, 2014, as compared to \$1.5 billion and \$1.3 billion of loans originated and sold, respectively, during the same period in 2013.

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Servicing income, net. For the six months ended June 30, 2014, servicing income, net was \$2.9 million compared to \$1.9 million in the comparable 2013 period. The increase in servicing income, net was the result of the servicing portfolio increasing 55% to an average balance of \$2.7 billion for the six months ended June 30, 2014 as compared to an average balance of \$1.7 billion for the six months ended June 30, 2013. During 2014, we sold \$1.6 billion in UPB of servicing rights and sold AmeriHome, which had servicing rights of \$702.1 million in UPB. Additionally, during the second quarter of 2014, we retained servicing rights on \$807.0 million in loans sales.

Real estate services fees, net. For the six months ended June 30, 2014, real estate services fees, net were \$8.0 million compared to \$9.6 million in the comparable 2013 period. The \$1.6 million decrease was primarily the result of a decrease in transactions related to the decline in loans and the balance of the long-term mortgage portfolio.

(Loss) gain on mortgage servicing rights. For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of \$2.5 million compared to revenue of \$3.2 million in the comparable 2013 period. For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a (\$3.7) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to \$3.1 million for the same period in 2013. Partially offsetting the change in fair value was a \$1.2 million gain on the sale of mortgage servicing rights during the six months ended June 30, 2014, as compared to \$116 thousand during the same period in 2013.

Other revenues. For the six months ended June 30, 2014, other revenue was \$1.5 million compared to \$954 thousand for the comparable 2013 period. The increase in other revenue was due to the sale of AmeriHome during the first quarter of 2014 resulting in a \$1.2 million gain, partially offset by a \$600 thousand reduction in investment income.

Expenses

	For the Three Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Personnel expense	\$ 9,319	\$ 18,891	\$ (9,572)	(51)%
General, administrative and other	4,555	6,484	(1,929)	(30)
Total expenses	\$ 13,874	\$ 25,375	\$ (11,501)	(45)%

Total expenses were \$13.9 million for the three months ended June 30, 2014, compared to \$25.4 million for the comparable period of 2013. Personnel expense decreased \$9.6 million to \$9.3 million for the three months ended June 30, 2014. The decrease is primarily due to a reduction in personnel related costs due to a decrease in employees and a decrease in commission expense due to a reduction in loan origination volumes and a shift to correspondent and wholesale lending resulting in lower commission expense. In the fourth quarter of 2013, we sold our retail branch offices and consolidated our lending fulfillment centers reducing staffing to a level appropriate for our lending volumes. At June 30, 2014 the average number of employees declined to 290 during the three months ended June 30, 2014 as compared to 650 for the three months ended June 30, 2013.

General, administrative and other expenses decreased to \$4.6 million for the three months ended June 30, 2014, compared to \$6.5 million for the same period in 2013. The decrease was primarily related to a \$1.2 million decline in marketing and other expenses and a \$407 thousand

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reduction in occupancy expense attributable to reduced lending volumes as well as the closure of the retail branches in the fourth quarter of 2013.

	For the Six Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Personnel expense	\$ 18,779	\$ 36,654	\$ (17,875)	(49)%
General, administrative and other	9,928	13,206	(3,278)	(25)
Total expenses	\$ 28,707	\$ 49,860	\$ (21,153)	(42)%

Total expenses were \$28.7 million for the six months ended June 30, 2014, compared to \$49.9 million for the comparable period of 2013. Personnel expense decreased \$17.9 million to \$18.8 million for the six months ended June 30, 2014. The decrease is primarily due to a reduction in personnel related costs due to a decrease in employees and a decrease in commission expense due to a reduction in loan origination volumes and a shift to correspondent and wholesale lending resulting in lower commission expense. In the fourth quarter of 2013, we sold our retail branch offices and consolidated our lending fulfillment centers reducing staffing to a level appropriate for our lending volumes. At June 30, 2014 the average number of employees declined to 295 during the six months ended June 30, 2014 as compared to 631 for the six months ended June 30, 2013.

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General, administrative and other expenses decreased to \$9.9 million for the six months ended June 30, 2014, compared to \$13.2 million for the same period in 2013. The decrease was primarily related to a \$2.0 million decline in marketing and other expenses and a \$911 thousand reduction in legal and professional fees attributable to reduced lending volumes as well as the closure of the retail branches in the fourth quarter of 2013. The reduction in legal and professional fees is primarily due to a non-operational \$700 thousand legal settlement expense recorded during the first quarter of 2013.

Net Interest (Expense) Income

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

The following tables summarize average balance, interest and weighted average yield on interest-earning assets and interest-bearing liabilities, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the Three Months Ended June 30,					
	2014			2013		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<u>ASSETS</u>						
Securitized mortgage collateral	\$ 5,485,629	\$ 67,784	4.94%	\$ 5,732,048	\$ 76,256	5.32%
Mortgage loans held-for-sale	110,643	1,141	4.12%	145,063	1,252	3.45%
Other	13,507	37	1.10%	16,687	18	0.43%
Total interest-earning assets	\$ 5,609,779	\$ 68,962	4.92%	\$ 5,893,798	\$ 77,526	5.26%
<u>LIABILITIES</u>						
Securitized mortgage borrowings	\$ 5,484,344	\$ 66,623	4.86%	\$ 5,725,605	\$ 74,963	5.24%
Warehouse borrowings	106,993	953	3.56%	138,181	1,397	4.04%
Long-term debt	17,395	1,074	24.70%	13,867	986	28.44%
Convertible Notes	20,000	387	7.74%	13,846	265	7.66%
Note payable			0.00%	711	104	58.51%
Other	2,841	21	2.96%	1,293	18	5.57%
Total interest-bearing liabilities	\$ 5,631,573	\$ 69,058	4.91%	\$ 5,893,503	\$ 77,733	5.28%
Net Interest Spread (1)		\$ (96)	0.02%		\$ (207)	-0.02%
Net Interest Margin (2)			-0.01%			-0.01%

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

Net interest spread increased \$111 thousand for the quarter ended June 30, 2014 primarily attributable to an increase in the net interest spread between loans held-for-sale and warehouse borrowings and a decrease in interest expense on notes payable. The increase was partially offset by a decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio, an increase in interest expense associated with the long-term debt and an increase in interest expense associated with the issuance of the Convertible Notes during the second quarter of 2013. As a result, net interest margin remained flat at -0.01% for the quarters ended June 30, 2014 and 2013.

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During the quarter ended June 30, 2014, the yield on interest-earning assets decreased to 4.92% from 5.26% in the comparable 2013 period. The yield on interest-bearing liabilities decreased to 4.91% for the quarter ended June 30, 2014 from 5.28% for the comparable 2013 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond prices received from pricing services and other market participants have increased over the past few quarters as investor's demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

	For the Six Months Ended June 30,					
	2014			2013		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	\$ 5,488,470	\$ 138,867	5.06%	\$ 5,750,660	\$ 164,533	5.72%
Mortgage loans held-for-sale	97,912	2,064	4.22%	121,501	2,083	3.43%
Other	11,994	51	0.85%	13,962	40	0.57%
Total interest-earning assets	\$ 5,598,376	\$ 140,982	5.04%	\$ 5,886,123	\$ 166,656	5.66%
LIABILITIES						
Securitized mortgage borrowings	\$ 5,487,020	\$ 136,670	4.98%	\$ 5,742,889	\$ 161,482	5.62%
Warehouse borrowings	93,644	1,699	3.63%	115,956	2,390	4.12%
Long-term debt	16,887	2,185	25.88%	13,489	1,940	28.76%
Convertible notes	20,000	774	7.74%	6,961	273	7.84%
Note payable			0.00%	1,766	303	34.31%
Other	3,338	63	3.77%	899	31	6.90%
Total interest-bearing liabilities	\$ 5,620,889	\$ 141,391	5.03%	\$ 5,881,960	\$ 166,419	5.66%
Net Interest Spread (1)		\$ (409)	0.01%		\$ 237	0.00%
Net Interest Margin (2)			-0.01%			0.01%

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

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

Net interest spread decreased \$646 thousand for the six months ended June 30, 2014 primarily attributable to a decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio, an increase in interest expense associated with the long-term debt and an increase in interest expense associated with the issuance of the Convertible Notes during the second quarter of 2013. The decrease was partially offset by a decrease in interest expense on the note payable as well as an increase in the net interest spread between loans held-for-sale and warehouse borrowings. As a result, net interest margin decreased from 0.01% for the six months ended June 30, 2013 to -0.01% for the six months ended June 30, 2014.

During the six months ended June 30, 2014, the yield on interest-earning assets decreased to 5.04% from 5.66% in the comparable 2013 period. The yield on interest-bearing liabilities decreased to 5.03% for the six months ended June 30, 2014 from 5.66% for the comparable 2013 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond

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prices received from pricing services and other market participants have increased over the past few quarters as investor's demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

Change in the fair value of long-term debt.

Change in the fair value of long-term debt was a gain of \$226 thousand for the quarter ended June 30, 2014, compared to a loss of \$478 thousand for the comparable 2013 period. The decrease in the estimated fair value of long-term debt was primarily the result of a decrease in forward LIBOR interest rates. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by us, which considers the Company's own credit risk, including consideration of settlements with trust preferred debt holders and discounted cash flow analyses.

Change in the fair value of long-term debt was a loss of \$424 thousand for the six months ended June 30, 2014, compared to a loss of \$527 thousand for the comparable 2013 period. The increase in the estimated fair value of long-term debt was primarily the result of a reduction in discount rate during the first quarter of 2014 as well as an increase in forward LIBOR interest rates as compared to the same period in the prior year.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Change in fair value of net trust assets, excluding REO	\$ 1,769	\$ (2,953)	\$ (1,275)	\$ (7,662)
Gains from REO	2,942	2,346	9,024	5,556
Change in fair value of net trust assets, including trust REO gains (losses)	\$ 4,711	\$ (607)	\$ 7,749	\$ (2,106)

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$4.7 million for the quarter ended June 30, 2014, compared to a loss of \$607 thousand in the comparable 2013 period. The change in fair value of net trust assets, including REO was due to \$1.8 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of decreased collateral losses and severities in the future and lower interest rates. Additionally, the NRV of REO increased \$2.9 million during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

For the quarter ended June 30, 2013, the \$607 thousand loss from change in fair value of net trust assets, including REO was due to \$3.0 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates. Partially offsetting the loss was a \$2.3 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$7.7 million for the six months ended June 30, 2014, compared to a loss of \$2.1 million in the comparable 2013 period. For the six months ended June 30, 2014, the change in fair value of net trust assets, including REO was due to a \$9.0 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period. Partially offsetting the gain was \$1.3 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses and severities in the future and higher interest rates.

For the six months ended June 30, 2013, the \$2.1 million loss from change in fair value of net trust assets, including REO was due to \$7.7 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates. Partially offsetting the loss was a \$5.6 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

Table of Contents*Income Taxes*

We recorded income tax expense of \$756 thousand and \$1.1 million for the three and six months ended June 30, 2014, respectively. We recorded income tax expense (benefit) of \$32 thousand and (\$1.1) million for the three and six months ended June 30, 2013, respectively. The tax expense in 2014 is primarily related to alternative minimum taxes associated with taxable income generated from sale of AmeriHome and mortgage servicing rights. The income tax benefit for 2013 is the result of the inclusion of AmeriHome in the IMH federal and California consolidated tax returns as a result of the Company increasing its ownership in AmeriHome to 80% during the first quarter of 2013.

As of December 31, 2013, the Company had estimated federal and California net operating loss (NOL) carryforwards of approximately \$518.7 million and \$437.0 million, respectively, of which approximately \$293.1 million (federal) related to discontinued operations. Federal and state net operating loss carryforwards begin to expire in 2027 and 2018, respectively.

We have significant NOL carry-forwards from prior years. If there is an improvement in earnings from our continuing operations, we may be able to generate sufficient taxable income in future years to utilize these loss carry-forwards, however, at June 30, 2014; we have recognized a full valuation allowance against our net deferred tax assets. As of June 30, 2014, we have no material uncertain tax positions.

Results of Operations by Business Segment

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

Mortgage Lending

	For the Three Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 6,534	\$ 20,458	\$ (13,924)	(68)%
Servicing income, net	1,291	931	360	39
(Loss) gain on mortgage servicing rights	(1,564)	2,004	(3,568)	(178)
Other	43		43	N/A
Total revenues	6,304	23,393	(17,089)	(73)
Other income (expense)	215	(148)	363	245
Personnel expense	(6,741)	(16,581)	9,840	59
General, administrative and other	(1,867)	(3,301)	1,434	43
Net (loss) earnings before income taxes	\$ (2,089)	\$ 3,363	\$ (5,452)	(162)%

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For the quarter ended June 30, 2014, gain on sale of loans, net were \$6.5 million or 1.40% compared to \$20.5 million or 2.67% in the comparable 2013 period. The \$13.9 million decrease was due to a reduction in mortgage loan origination and sales volumes as well as tighter lending spreads and gain on sale margins associated with \$465.2 million and \$449.5 million of loans originated and sold, respectively, during the three months ended June 30, 2014, as compared to \$780.1 million and \$704.7 million of loans originated and sold, respectively, during the same period in 2013.

For the quarter ended June 30, 2014, servicing income, net was \$1.3 million compared to \$931 thousand in the comparable 2013 period. The increase in servicing income, net was the result of the servicing portfolio increasing 31% to an average quarterly balance of \$2.5 billion for the three months ended June 30, 2014 as compared to an average quarterly balance of \$1.9 billion for the three months ended June 30, 2013. During the second quarter of 2014, we sold \$1.0 billion in UPB of servicing rights and retained servicing rights on \$432.5 million in loans sales.

For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of \$1.6 million compared to revenue of \$2.0 million in the comparable 2013 period. For the three months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a (\$2.8) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to \$1.8 million for the same period in 2013. Partially offsetting the change in fair value was a \$1.2 million gain on the sale of mortgage servicing rights during the three months ended June 30, 2014, as compared to \$155 thousand during the same period in 2013.

Personnel expense decreased \$9.8 million to \$6.7 million for the three months ended June 30, 2014. The decrease is primarily due to the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013, reducing staffing to a level appropriate for our lending volumes. The average number of mortgage lending employees declined to 192 in the second quarter of 2014 as compared to 533 during the same period in 2013. Additionally, the decrease is also related to a reduction in loan origination volumes resulting in a decrease in commission expense.

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The \$1.4 million decrease in general, administrative and other expense is primarily related to reductions in occupancy, legal and professional fees and other marketing costs primarily attributable to a reduction in lending volumes as well as the sale of our retail branches during the fourth quarter of 2013.

	For the Six Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 11,126	\$ 37,930	\$ (26,804)	(71)%
Servicing income, net	2,859	1,941	918	47
(Loss) gain on mortgage servicing rights	(2,541)	3,182	(5,723)	(180)
Other	1,257	113	1,144	1,012
Total revenues	12,701	43,166	(30,465)	(71)
Other income (expense)	371	(305)	676	222
Personnel expense	(13,543)	(31,439)	17,896	57
General, administrative and other	(4,032)	(7,950)	3,918	49
Net earnings before income taxes	\$ (4,503)	\$ 3,472	\$ (7,975)	(230)%

For the six months ended June 30, 2014, gain on sale of loans, net was \$11.1 million or 1.37% compared to \$37.9 million or 2.66% in the comparable 2013 period. The \$26.8 million decrease was due to a reduction in mortgage loan origination and sales volumes as well as tighter lending spreads and gain on sale margins associated with \$818.3 million and \$828.4 million of loans originated and sold, respectively, during the six months ended June 30, 2014, as compared to \$1.5 billion and \$1.3 billion of loans originated and sold, respectively, during the same period in 2013.

For the six months ended June 30, 2014, servicing income, net was \$2.9 million compared to \$1.9 million in the comparable 2013 period. The increase in servicing income, net was the result of the servicing portfolio increasing 55% to an average balance of \$2.7 billion for the six months ended June 30, 2014 as compared to an average balance of \$1.7 billion for the six months ended June 30, 2013. During 2014, we sold \$1.6 billion in UPB of servicing rights and sold AmeriHome, which had servicing rights of \$702.1 million in UPB. Additionally, during the first six months of 2014, we retained servicing rights on \$807.0 million in loans sales.

For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was an expense of \$2.5 million compared to revenue of \$3.2 million in the comparable 2013 period. For the six months ended June 30, 2014, (loss) gain on mortgage servicing rights was primarily the result of a (\$3.7) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to \$3.1 million for the same period in 2013. Partially offsetting the change in fair value was a \$1.2 million gain on the sale of mortgage servicing rights during the six months ended June 30, 2014, as compared to \$116 thousand during the same period in 2013.

For the six months ended June 30, 2014, other revenue was \$1.2 million compared to \$113 thousand for the comparable 2013 period. The increase in other revenue was due to the sale of AmeriHome during the first quarter of 2014 resulting in a \$1.2 million gain.

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Personnel expense decreased \$17.9 million to \$13.5 million for the six months ended June 30, 2014. The decrease is primarily due to the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013, reducing staffing to a level appropriate for our lending volumes. The average number of mortgage lending employees declined to 199 for the first six months of 2014 as compared to 510 during the same period in 2013. Additionally, the decrease is also related to a reduction in loan origination volumes resulting in a decrease in commission expense.

The \$3.4 million decrease in general, administrative and other expense is primarily related to reductions in occupancy, legal and professional fees and other marketing costs primarily attributable to the reduction in lending volumes as well as the sale of our retail branches during the fourth quarter of 2013. The reduction in legal and professional fees is primarily due to a non-operational \$700 thousand legal settlement expense recorded during the first quarter of 2013.

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	For the Three Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Real estate services fees, net	\$ 4,360	\$ 5,155	\$ (795)	(15)%
Other income (expense)		5	(5)	(100)
Personnel expense	(1,357)	(1,568)	211	13
General, administrative and other	(177)	(250)	73	29
Net earnings before income taxes	\$ 2,826	\$ 3,342	\$ (516)	(15)%

For the quarter ended June 30, 2014, real estate services fees, net were \$4.4 million compared to \$5.2 million in the comparable 2013 period. The \$795 thousand decrease in real estate services fees, net was the result of a \$448 thousand decrease in real estate and recovery fees real estate services, \$279 thousand decrease in loss mitigation fees and a \$68 thousand decrease in real estate services.

For the quarter ended June 30, 2014, personnel expense decreased to \$1.4 million as compared to \$1.6 million for the comparable 2013 period. The \$211 thousand decrease is primarily related to a reduction in personnel as well as a reduction in commissions associated with reduced transactions and the decline in loans and balance of the long-term mortgage portfolio.

	For the Six Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Real estate services fees, net	\$ 8,039	\$ 9,583	\$ (1,544)	(16)%
Other income (expense)		11	(11)	(100)
Personnel expense	(2,574)	(3,452)	878	25
General, administrative and other	(482)	(580)	98	17
Net earnings before income taxes	\$ 4,983	\$ 5,562	\$ (579)	(10)%

For the six months ended June 30, 2014, real estate services fees, net were \$8.0 million compared to \$9.6 million in the comparable 2013 period. The \$1.5 million decrease in real estate services fees, net was the result of a \$1.3 million decrease in real estate and recovery fees real estate services and a \$631 thousand decrease in loss mitigation fees partially offset by a \$344 thousand increase in real estate services.

For the six months ended June 30, 2014, personnel expense decreased to \$2.6 million as compared to \$3.5 million for the comparable 2013 period. The \$878 thousand decrease is primarily related to a reduction in personnel as well as a reduction in commissions associated with reduced transactions and the decline in loans and balance of the long-term mortgage portfolio.

Table of Contents*Long-term Mortgage Portfolio*

	For the Three Months Ended June 30,				%
	2014	2013	Increase (Decrease)	Change	
Other revenue	\$ 41	\$ 381	(340)	(89)%	
Personnel expense	(64)	(257)	193	75	
General, administrative and other	(201)	(158)	(43)	(27)	
Total expenses	(265)	(415)	150	36	
Net interest income	94	211	(117)	(55)	
Change in fair value of long-term debt	226	(478)	704	147	
Change in fair value of net trust assets, including trust REO gains (losses)	4,711	(607)	5,318	876	
Total other income (expense)	5,031	(874)	5,905	676	
Net earnings (loss) before income taxes	\$ 4,807	\$ (908)	\$ 5,715	629%	

For the quarter ended June 30, 2014, other revenue totaled \$41 thousand as compared to \$381 thousand for the comparable 2013 period. The \$340 thousand decrease is primarily due to a \$305 thousand decrease in investment earnings.

For the quarter ended June 30, 2014, personnel expense was \$64 thousand as compared to \$257 thousand for the comparable 2013 period. The \$193 thousand decrease in personnel expense was primarily due to a decrease in allocated personnel expenses associated with ongoing activities in the long-term mortgage portfolio associated with a decline in loans and balances of the long-term mortgage portfolio.

For the quarter ended June 30, 2014, net interest income totaled \$94 thousand as compared to \$211 thousand for the comparable 2013 period. Net interest income decreased \$117 thousand for the quarter ended June 30, 2014 primarily attributable to a \$132 thousand decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio. Additionally, interest expense on the long-term debt increased \$88 thousand due to an increase in interest rates. Partially offsetting the decrease was a \$103 thousand decrease in interest expense on the note payable due to the repayment of the note in April 2013.

Change in the fair value of long-term debt was a gain of \$226 thousand for the quarter ended June 30, 2014, compared to a loss of \$478 thousand for the comparable 2013 period. The decrease in the estimated fair value of long-term debt was primarily the result of a decrease in forward LIBOR interest rates.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$4.7 million for the quarter ended June 30, 2014, compared to a loss of \$607 thousand in the comparable 2013 period. The change in fair value of net trust assets, including REO was due to \$1.8 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of decreased collateral losses and severities in the future and lower interest rates. Additionally, the NRV of REO increased \$2.9 million during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

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	For the Six Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Other revenue	\$ 211	\$ 853	(642)	(75)%
Personnel expense	(155)	(507)	352	69
General, administrative and other	(351)	(427)	76	18
Total expenses	(506)	(934)	428	46
Net interest (expense) income	26	826	(800)	(97)
Change in fair value of long-term debt	(424)	(527)	103	20
Change in fair value of net trust assets, including trust REO gains (losses)	7,749	(2,106)	9,855	468
Total other income (expense)	7,351	(1,807)	9,158	507
Net earnings (loss) before income taxes	\$ 7,056	\$ (1,888)	\$ 8,944	474%

For the six months ended June 30, 2014, other revenue totaled \$211 thousand as compared to \$853 thousand for the comparable 2013 period. The \$642 thousand decrease is primarily due to a \$614 thousand decrease in investment earnings.

For the six months ended June 30, 2014, personnel expense was \$155 thousand as compared to \$507 thousand for the comparable 2013 period. The \$352 thousand decrease in personnel expense was primarily due to a decrease in allocated personnel expenses associated with ongoing activities in the long-term mortgage portfolio associated with a decline in loans and balances of the long-term mortgage portfolio.

For the six months ended June 30, 2014, net interest income totaled \$26 thousand as compared to \$826 thousand for the comparable 2013 period. Net interest income decreased \$800 thousand for the six months ended June 30, 2014 primarily attributable to an \$854 thousand decrease in net interest spread on the long-term mortgage portfolio due to increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio. Additionally, interest expense on the long-term debt increased \$245 thousand due to an increase in interest rates. Partially offsetting the decrease in net interest income was a \$303 thousand decrease in interest expense on the note payable due to the repayment of the note in April 2013.

Change in the fair value of long-term debt was a loss of \$424 thousand for the six months ended June 30, 2014, compared to a loss of \$527 thousand for the comparable 2013 period. The increase in the estimated fair value of long-term debt was primarily the result of a reduction in discount rate during the first quarter of 2014, partially offset by a decrease in forward LIBOR interest rates at June 30, 2014.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$7.7 million for the six months ended June 30, 2014, compared to a loss of \$2.1 million in the comparable 2013 period. For the six months ended June 30, 2014, the change in fair value of net trust assets, including REO was due to a \$9.0 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period. Partially offsetting the gain was \$1.3 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses and severities in the future and higher interest rates.

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

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	For the Three Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Interest expense	\$ (405)	\$ (276)	(129)	(47)
Other expenses	(3,467)	(3,265)	(202)	(6)
Net loss before income taxes	\$ (3,872)	\$ (3,541)	\$ (331)	(9)%

For the quarter ended June 30, 2014, interest expense increased as compared to the comparable 2013 period primarily due to a \$122 thousand increase in interest expense on the \$20.0 million Convertible Notes issued in April 2013.

For the quarter ended June 30, 2014, expenses increased to \$3.5 million as compared to \$3.3 million for the comparable 2013 period. The increase was due to a net reduction in allocated corporate expenses. Although corporate costs decreased \$724 thousand in the second quarter of 2014 as compared to second quarter of 2013, the sale of the retail branch network and closure of the lending fulfillment center at the end of 2013 resulted in a reduced allocation of certain fixed corporate costs due to reduced headcount primarily in mortgage lending and the associated reductions in business operations. The combination of the two resulted in a net increase in expenses recorded in the corporate segment.

	For the Six Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Interest expense	\$ (806)	\$ (296)	(510)	(172)
Other expenses	(7,570)	(5,516)	(2,054)	(37)
Net loss before income taxes	\$ (8,376)	\$ (5,812)	\$ (2,564)	(44)%

For the six months ended June 30, 2014, interest expense increased as compared to the comparable 2013 period primarily due to a \$500 thousand increase in interest expense on the \$20.0 million Convertible Notes issued in April 2013.

For the six months ended June 30, 2014, expenses increased to \$7.6 million as compared to \$6.2 million for the comparable 2013 period. The increase was primarily due to non-cash lease impairment charge and a net reduction in allocated corporate expenses. With the further consolidation of the mortgage lending and real estate services operations in the first quarter of 2014, the Company recorded a non-cash lease impairment charge of \$548 thousand for the space that we no longer used and expect to sublease in the future. Additionally, the sale of the retail branch network and closure of the lending fulfillment center at the end of 2013 resulted in a reduced allocation of certain fixed corporate costs due to reduced headcount primarily in mortgage lending and the associated reductions in business operations. The combination of the two resulted in a net increase in expenses recorded in the corporate segment.

Discontinued Operations

	For the Three Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Provision for repurchases	\$ (231)	\$ (705)	\$ 474	67%

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General, administrative and other	(603)	(228)	(375)	(164)
Net loss after income taxes	\$ (834)	\$ (933)	\$ 99	11%

We recorded approximately \$231 thousand in provision for repurchases during the quarter ended June 30, 2014 as compared to \$705 thousand for the comparable 2013 period. The decrease is the result of a decrease in estimated repurchase losses during the three months ended June 30, 2014 related to repurchase claims as compared to the same period in 2013.

For the quarter ended June 30, 2014, general, administrative and other expense increased to \$603 thousand as compared to \$228 thousand for the comparable 2013 period. The increase of \$375 thousand between periods is primarily due legal expenses for various matters pertaining to the discontinued non-conforming mortgage operations.

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	For the Six Months Ended June 30,			
	2014	2013	Increase (Decrease)	% Change
Provision for repurchases	\$ (231)	\$ (1,312)	\$ 1,081	82%
General, administrative and other	(715)	(462)	(253)	(55)
Net loss after income taxes	\$ (946)	\$ (1,774)	\$ 828	47%

We recorded approximately \$231 thousand in provision for repurchases during the six months ended June 30, 2014 as compared to \$1.3 million for the comparable 2013 period. During the six months ended June 30, 2014, we paid approximately \$3.5 million to settle previous repurchase claims related to our previously discontinued operations and such amount was charged against the reserve on our consolidated balance sheets.

For the six months ended June 30, 2014, general, administrative and other expense increased to \$715 thousand as compared to \$462 thousand for the comparable 2013 period. During 2014, we incurred approximately \$1.3 million in legal expenses and \$288 thousand in occupancy expense for various matters pertaining to the discontinued non-conforming mortgage operations. Offsetting the legal expenses was a \$950 thousand recovery from a settlement associated with previous litigation settlements.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4: CONTROLS AND PROCEDURES*Evaluation of Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that, as of that date, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the Company's quarter ended June 30, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1: 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.

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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. At June 30, 2014, the Company has a \$1.9 million accrued liability recorded for such estimated loss exposure as explained below.

Based on the Company's current understanding of these pending legal actions and proceedings, management cannot ascertain whether the 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.

Updates to legal matters for the period ended June 30, 2014 are as follows:

On April 30, 2012 a purported class action was filed entitled *Marentes v. Impac Mortgage Holdings, Inc.*, alleging that certain loan modification activities of the Company constitute an unfair business practice, false advertising and marketing, and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and prejudgment interest. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant and on October 2, 2012, the plaintiff dismissed Impac Mortgage Holdings, Inc., without prejudice. On December 27, 2012, the court granted IFC's motion to dismiss and on May 23, 2014, the court of appeals reversed the dismissal and the Company will file an appropriate response.

On January 30, 2012, a Summons with Notice was filed entitled *Deutsche Zentral-Genossenschaftsbank AG New York Branch, dba DZ Bank AG, New York Branch v. JPMorgan Chase & Co., et al.* Named as a defendant in that action is ISAC. On August 3, 2012, a Consolidated Complaint was filed in which the above matter was consolidated with two other cases by the same plaintiff and DG Holding Trust. The Consolidated Complaint alleges misrepresentations in connection with the marketing and sale of mortgage backed securities issued by ISAC that the plaintiff purchased and seeks rescission, damages, prejudgment interest, punitive damages, and attorney's fees in an amount to be proven at trial. Subsequent to the end of the quarter, on July 23, 2014, the parties entered into a settlement agreement whereby ISAC agreed to pay \$120,000, which is payable in installments.

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

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

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Please refer to IMH's report on Form 10-K for the year ended December 31, 2013 and subsequent Form 10-Q filings for a description of litigation and claims.

ITEM 1A: RISK FACTORS

Our Annual Report on Form 10-K for the year ended December 31, 2013, includes a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in that Form 10-K.

New mortgage products that we may offer may expose us to liability.

We originate and acquire various types of residential mortgage products to consumers and our customers. We have begun to offer non-Qualified Mortgage loan products being marketed as AltQM, which, unlike Qualified Mortgages, do not benefit from a presumption that the borrower has the ability to repay the loan. We understand that these types of products are new in today's marketplace and while we have taken great steps to try and mitigate any exposure and insure that we have made a reasonable determination that the borrowers will have the ability to repay the loan, this type of product does have increased risk and exposure to litigation and claims of borrowers. If, however, we were to make a loan as to which we did not satisfy the regulatory standards for ascertaining the borrower's ability to repay the loan, the consequences could include giving the borrower a defense to repayment of the loan, which may prevent us from collecting interest and principal on that loan.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sale of Unregistered Securities

On May 7, 2014, the Company issued 150,000 shares of common stock pursuant to the terms of a Settlement and Release Agreement dated March 11, 2014 with Deutsche Bank National Trust Company, which was approved by the court on April 14, 2014. The issuance was made in reliance upon the exemption from registration under Section 3(a)(10) of the Securities Act of 1933, as amended. Pursuant to the Settlement and Release Agreement, the Company agreed to pay Deutsche Bank an aggregate of \$1.65 million in installments by December 31, 2014, which can be paid in shares of common stock or cash at the Company's discretion, and the Company may be required to true-up proceeds from the sales of shares with the issuance of additional shares.

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On May 7, 2014, the Company issued an additional 10,000 shares of common stock pursuant to the terms of a Settlement and Release Agreement dated January 10, 2014 with Wilmington Trust Company. The issuance was made in reliance upon the exemption from registration under Section 3(a)(10) of the Securities Act of 1933, as amended. Pursuant to the Settlement and Release Agreement, the Company agreed to pay Wilmington an aggregate of \$1.05 million in installments, which can be paid in shares of common stock or cash at the Company's discretion, and the Company may be required to true-up proceeds from the sales of shares with the issuance of additional shares. As previously reported in the Company's Form 10-Q for the period ended March 31, 2014, the Company initially issued to Wilmington 85,000 shares of common stock on March 27, 2014.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

None.

ITEM 5: OTHER INFORMATION

On June 20, 2014, the Company entered into an amendment to the Master Repurchase Agreement with Customers Bank extending the maturity to June 19, 2015, and increasing the borrowing capacity to \$100.0 million.

On June 25, 2014, the warehouse facility under the Master Repurchase Agreement with Everbank was amended extending the expiration date to September 23, 2014.

In June 2014, the maturity date of the Master Purchase Agreement with Alliance Bank was extended to May 2015.

On May 13, 2014, a wholly-owned subsidiary of the Company, entered into a Credit Agreement with Wells Fargo Bank, which replaces and supersedes the previous credit agreement, as amended, dated April 1, 2011, effectively terminating that agreement. The terms of the new Credit Agreement with Wells Fargo are materially the same as the 2011 credit agreement, including the \$4.0 million line of credit. The Credit Agreement also includes certain financial covenants. On June 1, 2014, the parties entered into a First Amendment to the Credit Agreement extending the maturity date to June 1, 2015.

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The information set forth above is included herewith for the purpose of providing the disclosure required under Item 1.01- Entry into a Material Definitive Agreement, Item 1.02 Termination of a Material Definitive Agreement and/or Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant of Form 8-K.

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ITEM 6: EXHIBITS

- (a) Exhibits:
- 10.1 Amendment dated June 27, 2014 to Master Repurchase Agreement with Alliance Bank.
 - 10.2 Ninth Amendment dated June 25, 2014 to Master Repurchase Agreement with Everbank.
 - 10.3 Tenth Amendment dated July 15, 2014 to Master Repurchase Agreement with Everbank.
 - 10.4 Eighth Amendment dated September 3, 2013 to Master Repurchase Agreement with Customers Bank
 - 10.5 Ninth Amendment dated November 14, 2013 to Master Repurchase Agreement with Customers Bank
 - 10.6 Tenth Amendment dated March 4, 2014 to Master Repurchase Agreement with Customers Bank
 - 10.7 Eleventh Amendment dated June 20, 2014 to Master Repurchase Agreement with Customers Bank
 - 10.8 Credit Agreement executed May 13, 2014 and First Amendment with Promissory Note dated June 1, 2014 with Wells Fargo Bank
 - 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 101* The following materials from Impac Mortgage Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Cash Flows, and (4) Notes to Consolidated Financial Statements, tagged as blocks of text.

* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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SIGNATURES

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

IMPAC MORTGAGE HOLDINGS, INC.

/s/ TODD R. TAYLOR

Todd R. Taylor

Chief Financial Officer

(authorized officer of registrant and principal financial officer)

August 12, 2014