

IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
May 17, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from to .

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Maryland

33-0675505

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(State or other jurisdiction of
incorporation or organization)

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

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

There were 7,728,146 shares of common stock outstanding as of May 17, 2010.

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	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	\$ 23,023	\$ 25,678
Restricted cash	1,253	1,253
Short-term investments		5,002
Trust assets		
Investment securities available-for-sale	670	813
Securitized mortgage collateral	6,366,855	5,666,122
Derivative assets	50	146
Real estate owned	128,411	142,364
Total trust assets	6,495,986	5,809,445
Assets of discontinued operations	4,743	4,480
Other assets	29,418	27,054
Total assets	\$ 6,554,423	\$ 5,872,912
LIABILITIES		
Trust liabilities		
Securitized mortgage borrowings	\$ 6,351,890	\$ 5,659,865
Derivative liabilities	117,926	126,603
Total trust liabilities	6,469,816	5,786,468
Long-term debt	10,732	9,773
Note payable	26,836	31,060
Liabilities of discontinued operations	17,938	19,152
Other liabilities	7,401	11,026
Total liabilities	6,532,723	5,857,479
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Series A junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued and outstanding		
Series B 9.375% redeemable preferred stock, \$0.01 par value; liquidation value \$16,639; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of March 31, 2010 and December 31, 2009, respectively	7	7
	14	14

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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
March 31, 2010 and December 31, 2009, respectively

Common stock, \$0.01 par value; 200,000,000 shares authorized; 7,698,146 shares issued and
outstanding as of March 31, 2010 and December 31, 2009, respectively

	77	77
Additional paid-in capital	1,076,056	1,075,707
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(231,934)	(237,852)
Net accumulated deficit	(1,054,454)	(1,060,372)
Total stockholders' equity	21,700	15,433
Total liabilities and stockholders' equity	\$ 6,554,423	\$ 5,872,912

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended March 31,	
	2010	2009
INTEREST INCOME	\$ 279,876	\$ 712,649
INTEREST EXPENSE	279,106	709,007
Net interest income	770	3,642
NON-INTEREST INCOME:		
Change in fair value of net trust assets, excluding REO	7,372	132,930
Losses from real estate owned	(1,108)	(128,201)
Non-interest income - net trust assets	6,264	4,729
Change in fair value of long-term debt	(291)	12
Mortgage and real estate services fees	11,325	5,520
Other	8	(12)
Total non-interest income	17,306	10,249
NON-INTEREST EXPENSE:		
General and administrative	4,778	4,339
Personnel expense	9,681	6,278
Total non-interest expense	14,459	10,617
Earnings from continuing operations before income taxes	3,617	3,274
Income tax expense from continuing operations	85	1,998
Earnings from continuing operations	3,532	1,276
Earnings (loss) from discontinued operations, net of tax	2,386	(2,395)
Earnings (loss) available to common stockholders before cumulative redeemable non-declared preferred stock dividend (Note 4)	\$ 5,918	\$ (1,119)
Earnings (loss) per common share - basic:		
Earnings from continuing operations	\$ 0.46	\$ 0.17
Earnings (loss) from discontinued operations	0.31	(0.32)
Earnings (loss) per share available to common stockholders before cumulative redeemable non-declared preferred stock dividend (Note 4)	\$ 0.77	\$ (0.15)
Earnings (loss) per common share - diluted:		
Earnings from continuing operations	\$ 0.42	\$ 0.17
Earnings (loss) from discontinued operations	0.29	(0.32)
Earnings (loss) per share available to common stockholders before cumulative redeemable non-declared preferred stock dividend (Note 4)	\$ 0.71	\$ (0.15)

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Earnings from continuing operations	\$ 3,532	\$ 1,276
Losses from real estate owned	1,108	128,201
Amortization and impairment of deferred charge, net		1,998
Change in fair value of net trust assets, excluding REO	(43,300)	(190,793)
Change in fair value of long-term debt	291	(12)
Accretion of interest income and expense	125,906	197,003
Stock-based compensation	350	779
Net change in other assets and liabilities	(11,361)	(12,716)
Net cash provided by (used in) operating activities of discontinued operations	1,182	(2,773)
Net cash provided by operating activities	77,708	122,963
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	185,917	197,532
Net change in mortgages held-for-investment	6	390
Purchase of premises and equipment	(436)	(194)
Maturity (purchase) of short-term investments	5,000	(5,041)
Net principal change on investment securities available-for-sale	70	1,746
Proceeds from the sale of real estate owned	63,563	161,332
Net cash provided by investing activities of discontinued operations	864	2,657
Net cash provided by investing activities	254,984	358,422
CASH FLOWS FROM FINANCING ACTIVITIES:		
Settlement of trust preferred securities		(3,750)
Principal payments on notes payable	(4,224)	
Repayment of securitized mortgage borrowings	(329,986)	(479,081)
Net cash used in financing activities of discontinued operations		(6,209)
Net cash used in financing activities	(334,210)	(489,040)
Net change in cash and cash equivalents	(1,518)	(7,655)
Cash and cash equivalents at beginning of period	25,850	46,228
Cash and cash equivalents at end of period - Continuing Operations	23,023	38,313
Cash and cash equivalents at end of period - Discontinued Operations	1,309	260
Total cash and cash equivalents at end of period	\$ 24,332	\$ 38,573
NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):		
Transfer of loans held-for-sale and held-for-investment to real estate owned	\$	\$ 3,821
Transfer of securitized mortgage collateral to real estate owned	41,894	118,851
Net effect of consolidation of net trust assets from adoption of accounting principle	119,631	
Net effect of consolidation of net trust liabilities from adoption of accounting principle	(119,631)	

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Summary of Business, Significant Accounting Policies and Legal Proceedings

Business Summary

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

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

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

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009, filed with the United States Securities and Exchange Commission (SEC).

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

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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, the valuation of repurchase liabilities related to sold loans, the valuation of long-term debt and the valuation of loans held-for-sale. Actual results could differ from those estimates and assumptions.

Recently Adopted Accounting Pronouncements

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-9 Amendments to Certain Recognition and Disclosure Requirements (ASU 2010-9). The ASU amends FASB Accounting Standards Codification Topic 855 Subsequent Events to address certain implementation issues related to an entity's requirement to perform and disclose subsequent events procedures. ASU 2010-9 requires (a) SEC filers and (b) conduit debt obligors for conduit debt securities that are traded in a public market to evaluate subsequent events through the date the financial statements are issued. All other entities are required to evaluate subsequent events through the date the financial statements are available to be issued. ASU 2010-9 exempts SEC filers from disclosing the date through which subsequent events have been evaluated. For the Company, ASU 2010-9 is effective immediately for financial statements that are to be issued or revised. The adoption of ASU 2010-9 did not have an impact on the Company's consolidated financial statements.

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

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets An Amendment of FASB Statement 140 which eliminates the concept of QSPEs and provides additional criteria transferors must use to evaluate transfers of financial assets. This standard modifies certain guidance contained in FASB ASC 860 Transfers and Servicing and is adopted into the Codification through the issuance of ASU 2009-16 Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets. In order to determine whether a transfer is accounted for as a sale, the transferor must assess whether it and all of its consolidated entities have surrendered control of the financial assets. The standard also requires financial assets and liabilities retained from a transfer accounted for as a sale to be initially recognized at fair value. The Company adopted this standard effective January 1, 2010 with no impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), which amends several key consolidation provisions related to VIEs. This standard amends guidance contained in FASB ASC 810 Consolidation and is adopted into the Codification through the issuance of ASU 2009-17 Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. Former QSPEs will be evaluated for consolidation based on the provisions of FASB ASC 810-10-25, which changes the approach to determining a VIE's primary beneficiary and requires companies to more frequently reassess whether they must consolidate or deconsolidate VIEs. The accounting standard requires a qualitative, rather than quantitative, analysis to determine the primary beneficiary of a VIE for consolidation purposes. The primary beneficiary of a VIE is the enterprise that has (a) the power to direct the VIE activities that most significantly affect the VIE's economic performance, and (b) the right to receive benefits of the VIE that could potentially be significant to the VIE or the obligation to absorb losses of the VIE that could potentially be significant to the VIE. This standard is effective for fiscal years and interim periods beginning after November 15, 2009 and applies to all current QSPEs and VIEs, and all VIEs created after the effective date. In accordance with this standard, the Company may consolidate QSPEs and VIEs at carrying value or elect the fair value option. The Company intends to elect the fair value option, in which all of the financial assets and liabilities of certain designated QSPEs and VIEs would be recorded at fair value upon the adoption of this standard and continue to be recorded at fair value thereafter with changes in fair value reported in earnings.

In connection with the adoption of this standard on January 1, 2010, the Company consolidated \$253.7 million of trust assets and trust liabilities at fair value. Additionally, the Company deconsolidated \$134.1 million of trust assets and liabilities at fair value. The following is a summary of the impact of adopting the new consolidation provisions of FASB ASC 810.

	(prior to adoption) December 31, 2009		Variable Interest Entities		(after adoption) January 1, 2010	
			Consolidated	Deconsolidated		
Investment securities available-for-sale	\$	813	\$ (298)	\$	\$	515
Securitized mortgage collateral		5,666,122	249,523	(132,615)		5,783,030
REO		142,364	4,499	(1,478)		145,385
Securitized mortgage borrowings		(5,649,865)	(244,683)	134,065		(5,760,483)
Derivative liabilities, net		(126,457)	(9,041)	28		(135,470)
Net trust assets	\$	32,977			\$	32,977

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There was no overall impact on stockholders' equity as a result of the consolidation and deconsolidation of these trust assets and liabilities on January 1, 2010.

Income Taxes and Deferred Charge

Effective January 1, 2009, the Company revoked its election to be taxed as a REIT. As a result of revoking this election, the Company is subject to income taxes as a regular (Subchapter C) corporation.

The Company recorded income tax expense of \$85 thousand and \$2.0 million for the three months ended March 31, 2010 and 2009, respectively. The income tax expense for 2009 is primarily the result of the amount of the deferred charge amortized and/or impaired resulting from credit losses, which does not result in any tax liability required to be paid, as well as minor state income tax liabilities. The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statement of operations over the estimated life of the mortgages retained in the securitized mortgage collateral.

As of December 31, 2009, the Company had estimated federal and California net operating loss carryforwards in the amount of \$838.0 million and \$819.5 million, respectively, of which \$276.4 million (federal) relate to discontinued operations. Federal and state net operating loss (NOL) carryforwards begin to expire in 2020 and 2013, respectively. The Company recorded a full valuation allowance against the deferred tax assets as it believes that as of March 31, 2010 it is more likely than not that the deferred tax assets will not be recoverable.

During the fourth quarter of 2009, the Company received a federal income tax refund in the amount of \$8.9 million as a result of an election to carryback a NOL five years pursuant to 2009 federal legislation, *The Worker, Homeownership, and Business Assistance Act of 2009*. The Company files income tax returns in the U.S. federal and various state jurisdictions. The Company is subject to routine income tax audits in the various jurisdictions. A subsidiary of the Company is currently under examination by the Internal Revenue Service for tax year 2008. Management believes that there are no unresolved issues or claims likely to be material to our financial position. As of March 31, 2010, the Company has no material uncertain tax positions.

Legal Proceedings

The Company is party to litigation and claims which arise in the ordinary course of business.

On November 9, 2007, and separately on August 25, 2008, two matters were filed against IFC in Orange County in the Superior Court of California, as case nos. 07CC11612 and 00110553, respectively, by Citimortgage, Inc., alleging claims for breach of contract and damages based upon representations and warranties made in conjunction with whole loan sales. These actions seek combined damages in excess of \$7.5 million. In April 2010, these matters were settled for a confidential amount that was included in the Company's repurchase reserve at March 31, 2010.

On June 28, 2008, a matter was filed against IFC in the Circuit Court of the Eighteenth Judicial District, Dupage County in Illinois, as case no. 2008L000721, by TR Mid America Plaza Corp., seeking damages for breach of contract (a lease agreement) in excess of \$1.1 million plus such amount as determined through the date of judgment and payment of attorneys fees and costs. This matter has been completed through a trial on March 26, 2010 and the Company is responsible for an immaterial amount.

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On October 2, 2001, a complaint captioned Deborah Searcy, Shirley Walker, et al. v. Impac Funding Corporation, Impac Mortgage Holdings, Inc. et. al. was filed in the Wayne County Circuit Court, State of Michigan, as a purported class action lawsuit alleging that the defendants violated Michigan's Secondary Mortgage Loan Act, Credit Reform Act and Consumer Protection Act. We have recently been advised that the matter was dismissed on July 12, 2006.

Please refer to IMH's report on Form 10-K for the year ended December 31, 2009 for a description of other litigation and claims.

Note 2. Fair Value of Financial Instruments

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

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

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

	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Assets</u>				
Cash and cash equivalents	\$ 23,023	\$ 23,023	\$ 25,678	\$ 25,678
Restricted cash	1,253	1,253	1,253	1,253
Short-term investments			5,002	5,002
Investment securities available-for-sale	670	670	813	813
Securitized mortgage collateral	6,366,855	6,366,855	5,666,122	5,666,122
Derivative assets	50	50	146	146
<u>Liabilities</u>				
Securitized mortgage borrowings	6,351,890	6,351,890	5,659,865	5,659,865
Derivative liabilities	117,926	117,926	126,603	126,603
Long-term debt	10,732	10,732	9,773	9,773
Note payable	26,836	24,938	31,060	27,789

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

The carrying amount of cash and cash equivalents and restricted cash approximates fair value. The fair value of short-term investments was determined using quoted prices in active markets.

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 and long-term debt.

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Note payable is recorded at amortized cost. Fair value of note payable is determined using a discounted cash flow model which factors in expected changes in interest rates and the Company's own credit risk.

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 are unobservable.

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

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, securitized mortgage collateral and borrowings, net derivative liabilities and long-term debt as Level 3 fair value measurements at March 31, 2010 and December 31, 2009. Level 3 assets and liabilities were 100% of total assets and total liabilities measured at estimated fair value at March 31, 2010 and December 31, 2009.

Recurring Fair Value Measurements

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We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three months ended March 31, 2010. The adoption of ASU 2009-17 resulted in the Company consolidating and deconsolidating certain trust assets and liabilities relating to \$119.6 million in net trust assets at fair value as of January 1, 2010. The details of the effect of the adoption of this standard are illustrated in Note 1. Summary of Business, Significant Accounting Policies and Legal Proceedings.

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at March 31, 2010 and December 31, 2009, based on the fair value hierarchy:

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	Recurring Fair Value Measurements					
	Level 1	March 31, 2010 Level 2	Level 3	Level 1	December 31, 2009 Level 2	Level 3
Assets						
Investment securities available-for-sale	\$	\$	\$ 670	\$	\$	\$ 813
Securitized mortgage collateral			6,366,855			5,666,122
Total assets at fair value	\$	\$	\$ 6,367,525	\$	\$	\$ 5,666,935
Liabilities						
Securitized mortgage borrowings	\$	\$	\$ 6,351,890	\$	\$	\$ 5,659,865
Derivative liabilities, net (1)			117,876			126,457
Long-term debt			10,732			9,773
Total liabilities at fair value	\$	\$	\$ 6,480,498	\$	\$	\$ 5,796,095

(1) At March 31, 2010, derivative liabilities, net included \$50 thousand in derivative assets and \$117.9 million in derivative liabilities, included within trust assets and trust liabilities, respectively. At December 31, 2009, derivative liabilities, net included \$146 thousand in derivative assets and \$126.6 million in derivative liabilities, included within trust assets and trust liabilities, respectively.

The following tables present a reconciliation for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2010 and 2009:

	Level 3 Recurring Fair Value Measurements For the three months ended March 31, 2010					
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt	
Fair value, December 31, 2009	\$ 813	\$ 5,666,122	\$ (5,659,865)	\$ (126,457)	\$ (9,773)	
Total gains (losses) included in earnings:						
Interest income (1)	47	130,229				
Interest expense (1)			(255,513)			(668)
Change in fair value of net trust assets, excluding REO	178	681,408	(656,199)	(18,015)		
Change in fair value of long-term debt						(291)
Total gains (losses) included in earnings	225	811,637	(911,712)	(18,015)		(959)
Adoption of ASU 2009-17 (2)	(298)	116,907	(110,618)	(9,013)		
Transfers in and/or out of Level 3						
Purchases, issuances and settlements	(70)	(227,811)	330,305	35,609		
Fair value, March 31, 2010	\$ 670	\$ 6,366,855	\$ (6,351,890)	\$ (117,876)	\$ (10,732)	
Unrealized gains (losses) still held (3)	\$ 368	\$ (5,491,407)	\$ 7,093,620	\$ (119,405)	\$ 60,031	

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- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The total net interest income, including cash received and paid, was \$770 thousand for the three months ended March 31, 2010, as reflected in the accompanying consolidated statement of operations.
- (2) Amounts represent the consolidation and deconsolidation of trust assets and liabilities as a result of the adoption of ASU 2009-17 on January 1, 2010.
- (3) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held at March 31, 2010.

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	Level 3 Recurring Fair Value Measurements For the three months ended March 31, 2009					
	Investment securities available- for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt	
Fair value, December 31, 2008	\$ 2,068	\$ 5,894,424	\$ (6,193,984)	\$ (273,547)	\$ (15,403)	
Total gains (losses) included in earnings:						
Interest income (1)	95	476,709				
Interest expense (1)			(673,807)			
Change in fair value of net trust assets, excluding REO	905	(549,021)	697,203	(16,157)		
Change in fair value of long-term debt						