IMPAC MORTGAGE HOLDINGS INC
Form 10-K
March 15, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File Number: 1 14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475 3600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	NYSE American
Preferred Stock Purchase Rights	NYSE American

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10 K or any amendment to this Form 10 K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Emerging growth company			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 29, 2018, the aggregate market value of the voting stock held by non affiliates of the registrant was approximately $97.8 million, based on the closing sales price of common stock on the NYSE American on June 29, 2018. For purposes of the calculation only, all directors and executive officers and beneficial holders of more than 10% of the stock of the registrant have been deemed affiliates. There were 21,177,327 shares of common stock outstanding as of March 8, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Annual Report on Form 10-K.

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IMPAC MORTGAGE HOLDINGS, INC.

2018 FORM 10 K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

Impac Mortgage Holdings, Inc., sometimes referred to herein as the “Company,” “we,” “our” or “us,” is a Maryland corporation incorporated in August 1995 and includes the following subsidiaries: Integrated Real Estate Service Corporation, (IRES), IMH Assets Corp. and Impac Funding Corporation. Impac Mortgage Corp. (IMC) a subsidiary of IRES, conducts our mortgage lending and real estate services operations.

Forward Looking Statements

This report on Form 10 K contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward looking terminology, such as “may,” “will,” “believe,” “expect,” “likely,” “should,” “could,” “seem to,” “anticipate,” “plan,” “intend,” “project,” “assume,” or similar terms or variations on those terms negative of those terms. The forward looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: successful development, marketing, sale and financing of new and existing financial products; expansion of NonQM loan originations and conventional and government-insured loan programs; ability to successfully diversify our loan products; ; ability to successfully sell loans to third-party investors; volatility in the mortgage industry; unexpected interest rate fluctuations and margin compression; performance of third-party sub-servicers; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity and satisfy financial convents requirements; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; ability to successfully create cost and product efficiencies through new technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing through lending and repurchase facilities, debt or equity funding, strategic relationships or otherwise; the terms of any financing, whether debt or equity, that we do obtain and our expected use of proceeds from any financing; increase in loan repurchase requests and ability to adequately settle repurchase obligations; failure to create brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies; 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 Item 1A. “Risk Factors” and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report. 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.

Available Information

Our internet website address is www.impaccompanies.com. We make available our annual reports on Form 10 K, quarterly reports on Form 10 Q, current reports on Form 8 K and proxy statements for our annual stockholders’ meetings, as well as any amendments to those reports, free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. You can learn more about us by reviewing our SEC filings on our website by clicking on “Investor

Relations—Stockholder Relations" located on our home page and proceeding to "SEC Filings." We also make available on our website, under "Corporate Governance," charters for the audit, compensation, and governance and nominating committees of our board of directors, our Code of Business Conduct and Ethics, our Corporate Governance Guidelines and other company information, including amendments to such documents and waivers, if any, to our Code of Business Conduct and Ethics. These documents will also be furnished, free of charge, upon written request to Impac Mortgage Holdings, Inc., Attention: Stockholder Relations, 19500 Jamboree Road, Irvine, California 92612.
The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including our Company.

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Our Company

We were founded in 1995 and are an established nationwide independent residential mortgage lender which originates, sells and services residential mortgage loans. We originate non-qualified mortgages (NonQM), conventional mortgage loans eligible for sale to U.S. government sponsored enterprises, (GSEs), including Fannie Mae, Freddie Mac (conventional loans), and government insured mortgage loans eligible for government securities issued through Ginnie Mae (government loans).

During the first quarter of 2018, our previous Chairman and CEO Joseph Tomkinson, announced that he would be retiring as of July 31, 2018. As part of this announcement, the Board of Directors appointed George Mangiaracina as President and subsequently Chairman and CEO upon Mr. Tomkinson's retirement. As part of this transition, we announced additional changes to our senior management team and Board of Directors in 2018.

Segments

Our business activities are organized and presented in three primary operating segments: Mortgage Lending, Real Estate Services and the Long Term Mortgage Portfolio. Our mortgage lending segment provides mortgage lending products through three lending channels, retail, wholesale and correspondent and opportunistically retain mortgage servicing rights. Our real estate services segment performs master servicing and provides loss mitigation services for primarily our securitized long-term mortgage portfolio. And, our long-term mortgage portfolio consists of residual interests in securitization trusts. A description of each operating segment is presented below with further details and discussions of each segment's results of operations presented in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

In addition to the segments described above, we also have a corporate segment, which supports all of the operating segments. The corporate segment includes unallocated corporate and other administrative costs as described below.

Mortgage Lending

We are focused on expanding our mortgage lending platform which provides conventional and government insured mortgage loans as well as providing innovative products to meet the needs of borrowers not met by traditional conventional and government products. Our mortgage lending operation generates origination and processing fees, net of origination costs, at the time of origination as well as gains or unexpected losses when the loans are sold to third party investors, including the GSEs and Ginnie Mae. We retain mortgage servicing rights from the sale of mortgage loans and earn servicing fees, net of sub servicer costs, from our mortgage servicing portfolio. From time to time, we sell mortgage servicing rights from our servicing portfolio.

During 2014, we rolled out and began originating NonQM loans. NonQM mortgages are generally loans that do not meet the qualified mortgage (QM) guidelines set out by the Consumer Financial Protection Bureau (CFPB). We believe there is an underserved mortgage market for borrowers with good credit who may not meet the NonQM guidelines, for example self-employed borrowers. As the demand by consumers for the NonQM product grows we expect the investor appetite will increase for the NonQM mortgages. A NonQM borrower is generally less sensitive to interest rates and generally does not have the same income documentation that a conforming loan borrower does, nonetheless the borrower is still required to meet the "ability to repay" guidelines.

As a nationwide mortgage lender, we are approved to originate and service Fannie Mae, Freddie Mac and Ginnie Mae eligible loans. We primarily originate, sell and service conventional, conforming agency and government insured residential mortgage loans originated or acquired through our three channels: Retail (consumer direct), Correspondent and Wholesale.

- Retail (consumer direct) channel - CashCall Mortgage (CCM), operates as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan agents. As a centralized retail call center, loan applications are received and taken by loan agents directly from consumers and through the internet.
- Wholesale channel - Originates loans sourced through mortgage brokers.
- Correspondent channel - Acquires closed loans from approved correspondent sellers.

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Our mortgage lending activities primarily consist of the origination, sale and servicing of conventional loans eligible for sale to Fannie Mae and Freddie Mac, government insured loans eligible for Ginnie Mae securities issuance as well as NonQM. We currently originate and fund mortgages through our wholly owned subsidiary, IMC. In order to originate mortgage loans we must be able to finance them and hold them on our balance sheet until such loans are sold. In order to do this we must have lines of credit with banks (called warehouse lines) that allow us the short term funding required.

The following table presents selected data from our mortgage lending operations for the years ended December 31, 2018 and 2017:

(in millions)	2018	2017
Originations	$ 3,839.6	$ 7,111.7
Servicing Portfolio	6,218.1	16,330.1
Mortgage servicing rights	64.7	154.4
Servicing fees, net	37.3	31.9

Our origination volumes decreased 46% in 2018 to $3.8 billion as compared to $7.1 billion in 2017. Of the $3.8 billion in total originations in 2018, approximately $1.8 billion, or 48%, was originated through the retail channel. In contrast, during 2017, our retail originations contributed 65% to our total origination volume. From January 2017 through the fourth quarter of 2018, interest rates have increased significantly from the historically low interest rate environment the previous years, causing a sharp drop in refinance volume which has been the predominance of our retail originations.

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

Our mortgage servicing portfolio decreased in 2018 primarily due to a shift in strategy during the third and fourth quarters of 2018 to direct our efforts on repositioning the Company by focusing on our core NonQM lending business and strengthen our liquidity position. During the fourth quarter of 2018, we completed two servicing sales of approximately $10.5 billion in unpaid principal balance (UPB) of FNMA and GNMA mortgage servicing rights (MSR).

Each of our three origination channels, Retail, Wholesale and Correspondent, produces similar mortgage loan products and applies similar underwriting standards.

	For the year ended December 31,			
(in millions)	2018	%	2017	%
Originations by Channel:				
Retail	$ 1,842.2	48 %	$ 4,611.5	65 %
Correspondent	1,119.5	29	1,420.4	20
Wholesale	877.9	23	1,079.8	15

Total originations	$ 3,839.6	100%	$ 7,111.7	100%

Retail—Our retail channel today consists of our consumer direct call center CCM, a leading originator which was previously based in Orange, California. During the fourth quarter of 2018 we relocated the consumer direct call center from the office in Orange into our corporate office in Irvine, California. This transition was part of our plan to streamline the operations and reposition the consumer direct platform to be more competitive in a challenging lending market.

The retail channel utilizes a high volume, rapid response time funding model with a focus on providing exceptional customer service. The acquisition of CCM's residential lending platform in 2015 added a centralized retail call center to IMC's current business to business origination channels and provides additional capacity to process increased origination volumes of expanded products including our NonQM loan programs and government insured Ginnie Mae programs, while profitably creating servicing assets for IMC.

When loans are originated on a retail basis, the origination documentation is completed inclusive of customer disclosures and other aspects of the lending process and funding of the transaction is completed internally. Our call center representatives contact borrowers through either inbound or outbound marketing campaigns sourced from our digital marketing campaigns, TV and radio ads, purchase money and refinance mortgage leads, including leads sourced from

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customer referrals and retention of customers in the servicing portfolio that are seeking to refinance or purchase a property. For the year ended December 31, 2018, we closed $1.8 billion of loans in this origination channel, which equaled 48% of total originations, as compared to $4.6 billion or 65% of total originations during 2017.

Correspondent—Our correspondent channel represents mortgage loans acquired from our correspondent sellers. Our correspondent channel has historically targeted a market of small banks, credit unions and small mortgage banking firms. Prior to accepting loans from correspondent sellers, each seller is underwritten to determine if it meets financial and other guidelines. Our review of each prospective seller includes obtaining a third party due diligence report that verifies licensing, insurance coverage, quality of recent Federal Housing Administration (FHA) originations and provides information on any industry sanctions that might exist. In addition, each seller is required to sign our correspondent seller agreement that contains certain representations and warranties from the seller allowing us to require the seller to repurchase a loan sold to us for various reasons including (i) ineligibility for sale to GSEs, (ii) early payment default, (iii) early pay off or (iv) if the loan is uninsurable by a government agency.

In our correspondent channel, the correspondent seller originates and closes the loan. After the loan is originated, the correspondent seller provides the needed documentation and information to us to review and determine if it meets our underwriting guidelines. The loan is acquired by us only after we approve it for purchase. We focus on customer service for our clients by facilitating prompt review by our due diligence team, providing bid pricing on both newly originated and seasoned portfolios, enabling clients to deliver one loan at a time on a flow basis and providing clients with expedited funding timelines. We purchase NonQM loans, conventional loans eligible for sale to the GSEs and government insured loans eligible for Ginnie Mae securities. For the year ended December 31, 2018, we closed loans totaling $1.1 billion in the correspondent origination channel, which equaled 29% of total originations, compared to $1.4, billion or 20%, of total originations during 2017.

Wholesale—In a wholesale transaction, our account executives work directly with mortgage brokers who originate and document loans for delivery to our operational center where we underwrite and fund the mortgage loan. Each loan is underwritten to our underwriting standards and, if approved, the borrower is sent new disclosures under our name and the loan is funded in the name of Impac Mortgage.

Prior to accepting loans from mortgage brokers, each mortgage broker is required to meet our guidelines for minimum experience, credit score and net worth. We also obtain a third party due diligence report for each prospective broker that verifies licensing and provides information on any industry sanctions that might exist. In addition, each mortgage broker is required to sign our broker agreement that contains certain representations and warranties from the brokers. For the year ended December 31, 2018, we closed loans totaling $877.9 million in this origination channel, which equaled 23% of total originations, as compared to $1.1 billion, or 15%, of total originations during 2017.

Since 2011, we have provided loans to customers predominantly in the Western U.S. with California, Washington and Arizona comprising 67.7% of originations in 2018. Currently, we provide nationwide lending with our retail call center, correspondent sellers and mortgage brokers.

Loan Types

Our loan products primarily include conventional loans eligible for sale to Fannie Mae and Freddie Mac and loans eligible for government insurance by FHA, Veteran's Administration (VA) and U.S. Department of Agriculture (USDA) and NonQM. The FHA, VA and USDA loans are government-insured loans eligible for Ginnie Mae securities issuance. We have established strict lending guidelines, including determining the prospective borrowers' ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable levels. We continue to refine our guidelines to expand our reach to the underserved market of credit worthy borrowers who can fully document and substantiate an ability to repay mortgage loans, but unable to obtain financing through traditional programs (QM loans), for example self-employed borrowers. In conjunction with establishing strict lending guidelines, we have also established investor relationships which provide us with an exit strategy for these nonconforming loans. In 2018, one of our strategic relationships closed two private label securitizations with AAA ratings by two ratings agencies, which were both 100% backed by our NonQM collateral. In 2018, our NonQM origination volume increased to $1.3 billion with an average Fair Isaac Company credit score (FICO) of 725 and a weighted average loan to value ratio (LTV) of 68%. In 2017, our NonQM origination volume was $891.2 million with an average Fair Isaac Company credit score (FICO) of 723 and a weighted average loan to value ratio (LTV) of 64%.

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The following table indicates the breakdown of our originations by loan type for the periods indicated:

(in millions)	For the year ended December 31, 2018	2017
Originations by Loan Type:		
Government-insured	$ 1,275.5	$ 1,991.4
Conventional	1,263.2	4,229.1
NonQM	1,300.9	891.2
Total originations	$ 3,839.6	$ 7,111.7

Loan Sales—Selling Loans to GSEs, Issuing Ginnie Mae Securities and Selling Loans on a Whole Loan Basis

We sell the mortgage loans to the secondary market, including sales to the GSEs and issuing securities through Ginnie Mae. We opportunistically sell loans on a servicing retained basis where the loan is sold to an investor such as Freddie Mac, and we retain the right to service that loan, called mortgage servicing rights (MSRs). We securitize government-insured loans by issuing Ginnie Mae securities through a process whereby a pool of loans is transferred to Ginnie Mae as collateral for a government-insured mortgage backed security. Traditionally, we have not sold a significant amount of residential mortgage loans on a whole loan basis where the investor also acquires the servicing rights. In 2018, we began to do more whole loans sales in an effort to expand our take out investor base for NonQM loans and balance our investment in MSRs with our liquidity needs.

Additionally, during the fourth quarter of 2017, Fannie Mae sufficiently limited the manner and volume for our deliveries of eligible loans such that we elected to cease deliveries to them and we expanded our whole loan investor base for these loans. During 2018, we completed servicing released loan sales to these whole loan investors and expect to continue to utilize these alternative exit strategies for Fannie Mae eligible loans. We continue to take steps to manage our prepayment speeds to be more consistent with our industry comparables and to reestablish the full confidence and delivery mechanisms to our investor base. We remain an approved Seller and Servicer with Fannie Mae and Freddie Mac.

The following table indicates the breakdown of our loan sales to GSEs, issuance of Ginnie Mae securities and loans sold to investors on a whole loan basis for the periods as indicated:

(in millions)	For the year ended December 31, 2018	2017
Fannie Mae	$ —	$ 2,052.4
Freddie Mac	878.2	2,149.7
Ginnie Mae	1,512.0	1,879.0
Total servicing retained sales	2,390.2	6,081.1
Other (servicing released)	1,664.2	854.9
Total loan sales	$ 4,054.4	$ 6,936.0

Mortgage Servicing

Upon our sale of loans to GSEs or the issuance of securities through Ginnie Mae, we generally retain the mortgage servicing rights with respect to the mortgage loans. We also sell loans on a servicing released basis to secondary market investors where we do not retain the servicing rights. When we retain servicing rights, we are entitled to receive a servicing fee which is collected from interest payments made by the borrower and paid to us on a monthly basis equal to a specified percentage, typically between 0.25% and 0.44% per annum of the outstanding principal balance of the loans. We may also be entitled to receive additional servicing compensation, such as late payment fees and earn additional income through the use of non interest bearing escrows. As a mortgage servicer, we are required to advance certain amounts to meet the contractual loan servicing requirements for certain investors. We may advance principal, interest, property taxes and insurance for borrowers that have become delinquent, plus any other costs to preserve the property. Also, we will advance funds to maintain, repair and market foreclosed real estate properties. Such advances are typically repaid when the loan becomes current or repaid from the proceeds generated from the sale of the property subsequent to foreclosure.

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We have hired a nationally recognized residential servicer to sub service the servicing portfolio. Although we use a sub servicer to provide primary servicing and certain default servicing functions, our servicing surveillance team, which is experienced in loss mitigation and real estate recovery, monitors and surveys the performance of the loans and sub servicer. We generally earn a servicing fee on each loan, but we also incur the cost of the sub servicer as well as the internal servicing surveillance team. Incurring the cost of both a sub servicer and an internal surveillance team reduces the net revenues we earn from the mortgage servicing portfolio; however, we believe it reduces our risk by minimizing delinquencies and repurchase risk.

During 2018, despite the mortgage servicing portfolio decreasing to $6.2 billion as of December 31, 2018 from $16.3 billion at the end of 2017, it generated net servicing income of $37.3 million and $31.9 million, in 2018 and 2017, respectively. The decrease was the result of two servicing sales of approximately $10.5 billion in UPB of FNMA and GNMA MSRs completed during the fourth quarter of 2018. Servicing fees, net will decrease substantially in 2019 as a result of the aforementioned servicing sales during the fourth quarter of 2018.

We may sell mortgage servicing rights to fund the expansion of origination volumes, balance the capital invested in mortgage servicing with liquidity which has and will result in a decrease in our mortgage servicing portfolio. We may continue to monetize mortgage servicing rights as needed in the future. Furthermore, the value of mortgage servicing rights are affected by increases and decreases in mortgage interest rates. Therefore, volatility in mortgage rates generally causes volatility in the value of mortgage servicing rights.

Risk Management

We are exposed to various business risks which may significantly impact our financials. Our risk management framework and governance structure is intended to provide oversight and ongoing management of the risks inherent in our business activities and create a culture of risk awareness. Our Compliance and Risk Management oversees governance processes and monitoring of these risks including the establishment of risk strategy and documentation of risk policies and controls. Compliance and Risk Management work in partnership with the business to provide oversight of enterprise risk management and controls. This includes establishing enterprise-level risk management policies, appropriate governance activities and creating risk transparency through risk reporting. For further discussion on operational and market risks, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Operational and Market Risks."

Underwriting

We primarily originate residential first mortgage loans for sale that conform to the respective underwriting guidelines established by Fannie Mae, Freddie Mac, FHA, VA and USDA. Our mortgage loans are underwritten individually on a loan by loan basis. Each mortgage loan originated from our retail and wholesale channel are underwritten by one of our underwriters or by a third party contract underwriter using our underwriting guidelines. Each mortgage loan originated from our correspondent channel is reviewed internally or by a third party underwriting company to determine if the borrower meets our underwriting guidelines.

Our criteria for underwriting generally include, but are not limited to, full documentation of borrower's income, assets, other relevant financial information, the specific agency's eligible loan to value ratios (LTV), borrower's debt to income ratio and full appraisals when required. Variances from any of these standards are permitted only to the extent allowable under the specific program requirements. Our underwriting procedures for all retail and wholesale loans require the use of a GSE automated underwriting system (AUS). Our underwriting procedures for all correspondent loans that have been originated by a correspondent seller includes a file review verifying that the borrower's credit and the collateral meet our applicable program guidelines and an appropriate AUS report has been completed. We also confirm the loan is compliant with regulatory guidelines. In addition, we perform quality control procedures on selected pools prior to our acquisition of the loan.

Quality Control

Prior to funding, retail and wholesale loans are reviewed internally by our quality control department to verify the loan conforms to our program guidelines and meets state and federal compliance guidelines. Prior to the acquisition of a correspondent loan, we perform quality control procedures on selected pools. Management reviews the reports prior to the acquisition of any correspondent loan. We also perform post origination quality controls procedures on at least 10% of

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all mortgage loans funded or acquired. Additionally, we closely monitor the servicing performance of loans retained in our mortgage servicing portfolio to identify any opportunities to improve our underwriting process or procedures and identify any issues with mortgage brokers or correspondent sellers. Findings are summarized monthly and the appropriate changes are implemented.

Hedging

We are exposed to interest rate risks relating to our mortgage lending operations. We use derivative instruments to manage some of our interest rate risk; however, we do not attempt to hedge interest rate risk completely. For further discussion on interest rate risk and hedging, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Operation and Market Risks."

Data Security

Sensitive borrower information, such as name, address and social security number is included in nearly all mortgage loan files. We seek to keep this information secure for every borrower. To do so, our policy requires all sensitive borrower data to be transmitted to us through our secure website portal which allows all of our customers, correspondent sellers, mortgage brokers and individual borrowers to send data to us securely in an encrypted manner. For a discussion of cybersecurity risk see Item 1A. "Risk Factors - Cybersecurity risks, cyber incidents and technology failures may adversely affect our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results."

Real Estate Services

In 2008, we established our Real Estate Services segment to provide solutions to the distressed mortgage and real estate markets. We provide loss mitigation and real estate services primarily on our own long term mortgage portfolio, including default surveillance, loan modification services, short sale services (where a lender agrees to take less than the balance owed from the borrower), real estate owned (REO) surveillance and disposition services and monitoring, reconciling and reporting services for residential and multifamily mortgage portfolios. The activities and related revenues have declined in recent years, and we expect these revenues to gradually decline over time as our long term mortgage portfolio declines. These operations are conducted by IMC.

Long Term Mortgage Portfolio

The long term mortgage portfolio primarily consists of residual interests in the securitization trusts reflected as trust assets and liabilities in our consolidated balance sheets that hold non conforming mortgage loans originated between 2002 and 2007. Since we are no longer adding new mortgage loans to the long term mortgage portfolio, the long term mortgage portfolio continues to decrease and is a smaller component of our overall operating results.

Our long term mortgage portfolio consists of our residual interests in securitizations represented on our consolidated balance sheet as the difference between total trust assets and total trust liabilities. Our long term mortgage portfolio includes adjustable rate and, to a lesser extent, fixed rate Alt A single family residential mortgages and commercial (primarily multifamily residential loans) mortgages that were acquired and originated primarily by our discontinued, non conforming mortgage lending operations and retained in our long term portfolio before 2008. Alt A mortgages are primarily first lien mortgages made to borrowers whose credit was generally within established Fannie Mae and Freddie Mac guidelines but have loan characteristics that make them non conforming under those guidelines.

In previous years, we securitized mortgage loans by transferring originated residential single family mortgage loans and multifamily 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 are the master servicer. A trustee and servicer, unrelated to us, was named for each securitization. Cash flows from the loans (the loan payments and liquidation of foreclosed real estate properties) collected by the loan servicer are remitted to us, the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The 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.

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Commercial mortgages in our long term mortgage portfolio are primarily adjustable rate mortgages with initial fixed interest rate periods of two, three, five, seven and ten years that subsequently convert to adjustable rate mortgages (hybrid ARMs), and are primarily secured with multi family residential real estate. Commercial mortgages have provided greater asset diversification on our consolidated balance sheet as borrowers of commercial mortgages typically have higher credit scores and commercial mortgages typically have lower LTVs.

Before 2007, we securitized mortgage loans in the form of collateralized mortgage obligations, or CMOs, which were consolidated and accounted for as secured borrowings for financial statement purposes. Securitized mortgages in the form of real estate mortgage investment conduits, or REMICs, were either consolidated or unconsolidated depending on the design of the securitization structure. We consolidated the variable interest entity, or VIE, as the primary beneficiary of the sole residual interest in each securitization trust where we also performed the master servicing. Amounts consolidated were included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets. At December 31, 2018, our residual interests in securitizations (represented by the difference between total trust assets and total trust liabilities) increased to $17.4 million, compared to $17.3 million at December 31, 2017.

Since 2007, we have not added any mortgage loans to our long term mortgage portfolio.

For additional information regarding the long term mortgage portfolio refer to Item 7. “Management’s Discussion and Analysis of Financial Condition,” and Note 9. “Securitized Mortgage Trusts” in the notes to the consolidated financial statements.

Master Servicing

Until 2007, we were retaining master servicing rights on substantially all of our non conforming single family residential and commercial mortgage acquisitions and originations that were sold through securitizations. Since 2008, we have not retained any additional master servicing rights, but have continued to be the master servicer of previously retained master servicing rights.

The function of a master servicer includes collecting loan payments from loan servicers and remitting loan payments, less master servicing fees receivable and other fees, to a trustee or other purchaser for each series of mortgage backed securities or mortgages master serviced. In addition, as master servicer, we monitor compliance with the servicing guidelines and perform or contract with third parties to perform all functions not adequately performed by any loan servicer. The master servicer is also required to advance funds, or cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages, but only to the extent that it is determined that such advances are recoverable either from the borrower or from the liquidation of the property.

Master servicing fees are generally 0.03% per annum on the unpaid principal balance of the mortgages serviced. As a master servicer, we also earn income or incur expense on principal and interest payments received from borrowers until those payments are remitted to the investors of those mortgages. Fees from the master servicing portfolio have declined significantly due to a decrease in principal balances since the end of 2008, which in turn affects the amount we earn on balances held in custodial accounts. At December 31, 2018, we were the master servicer for approximately 16,330 mortgages with an UPB of approximately $4.1 billion of which $798 million of those loans were 60 or more days delinquent. At December 31, 2018, we were also the master servicer for unconsolidated securitizations (included in the total master servicing portfolio above) totaling approximately $486 million in unpaid principal balance of which $202 million of those loans were 60 or more days delinquent. Fees earned from master servicing are separate from those earned from mortgage servicing which are generated from servicing rights from new originations since 2011.

Corporate

This segment includes all corporate services groups including information technology, human resources, legal, facilities, accounting, treasury and corporate administration. This corporate services group supports all operating segments. A portion of these costs are allocated to the operating segments based on certain allocation methods. These corporate services groups are centralized to be efficient and avoid any duplicate cost burdens. Specific costs associated with being a publicly traded company are not allocated and remain in this segment.

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The corporate segment also includes debt expense related to the Convertible Notes due in 2020, term financing which was repaid in 2017, as well as capital leases. Debt service expense is not allocated and remains in this segment. We have taken advantage of very low financing rates and entered into capital lease arrangements to finance the purchase of equipment, mostly computer equipment, used in all three segments. The interest expense associated with the capital leases is not allocated and remains in this segment.

Regulation

The U.S. mortgage industry is heavily regulated. Our mortgage lending operations, as well as our real estate services, are subject to federal, state and local laws that regulate and restrict the manner in which we operate in the residential mortgage industry. Plus, mortgage bankers and brokers in our wholesale production channel and correspondents from which we purchase loans are also subject to regulation, which may have an effect on our business and the mortgage loans we are able to fund or acquire. Compliance with regulations in the mortgage industry requires us to incur costs and expenses in our operations. To the extent we, or others with which we conduct business, do not comply with applicable laws and regulations, we may be subject to fines, reimbursements and other penalties. The laws and regulations that we are subject to include the following:

- the Federal Truth in Lending Act (known as TILA) and Regulation Z promulgated there under, which require certain disclosures to the borrowers regarding the terms of the loans and require substantial changes in compensation that can be paid to brokers and loan originators;
- the Equal Credit Opportunity Act and Regulation B promulgated there under, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- the Fair Housing Act, which prohibits discrimination in housing on the basis of race, color, national origin, religion, sex, familial status, or handicap, in housing related transactions;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower’s credit experience;
- the Fair and Accurate Credit Transaction Act, which regulates credit reporting and use of credit information in making unsolicited offers of credit;
- the Gramm Leach Bliley Act, which imposes requirements on all lenders with respect to their collection and use of nonpublic financial information and requires them to maintain the security of that information;
- the Real Estate Settlement Procedures Act (known as RESPA) and Regulation X, promulgated thereunder, outlaws kickbacks that increase the cost of settlement services;
- the Home Mortgage Disclosure Act, which requires the reporting of public loan data;
- the Telephone Consumer Protection Act and the Can Spam Act, which regulate commercial solicitations via telephone, fax, and the Internet;
- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws;
- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions;
- the Fair Debt Collection Practices Act, which prohibits unfair debt collection practices; and
- the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, which establishes national minimum standards for mortgage licensees.

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In addition, the Dodd Frank Wall Street Reform and Consumer Protection Act is a sweeping overhaul of the financial regulatory system. The Dodd Frank Act increased regulation of the mortgage industry, including: generally prohibiting lenders from making residential mortgage loans unless a good faith determination is made of a borrower's creditworthiness based on verified and documented information; requiring the CFPB to enact regulations to help assure that consumers are provided with timely and understandable information about residential mortgage loans that protect them against unfair, deceptive and abusive practices; and requiring federal regulators to establish minimum national underwriting guidelines for residential mortgages that lenders will be allowed to securitize without retaining any of the loans' default risk.

Our mortgage lending operations is an approved Housing and Urban Development (HUD) lender, a Ginnie Mae approved issuer and servicer and an approved seller/servicer of Fannie Mae and Freddie Mac. As such, we are required to submit annually to Fannie Mae, Freddie Mac, and HUD, as applicable, audited financial statements, or the equivalent, according to the financial reporting requirements of each regulatory entity for its sellers/servicers. Our lending activities are also subject to examination by Fannie Mae, Ginnie Mae, Freddie Mac, HUD, CFPB and state regulatory agencies at any time to assure compliance with applicable regulations, policies and procedures. Also refer to "Regulatory Risks" under Item 1A. Risk Factors for a further discussion of regulations that may affect us.

Competition

We operate in a highly competitive industry that could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continued consolidation or expansion. Our competitors include banks, thrifts, credit unions, real estate brokerage firms, mortgage brokers, fintech companies and mortgage banking companies. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates, lending limits and customer convenience. To compete effectively, we must have a very high level of operational, technological, and managerial expertise, as well as access to capital at a competitive cost. Many of our competitors are larger than we are and have access to greater financial resources than we do, which can place us at a competitive disadvantage. In addition, many of our largest competitors are banks or affiliated with banking institutions, the advantages of which include, but are not limited to, the ability to hold new mortgage loan originations in an investment portfolio and having access to financing with more favorable terms than we do, including lower funding costs with bank deposits as a source of liquidity.

Our real estate services segment competes with firms that provide similar services, including loan modification companies, real estate asset management and disposition companies and real estate brokerage firms. 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 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.

Risk factors, as outlined below, provide additional information related to risks associated with competition in the mortgage industry.

Employees

As of December 31, 2018, we had a total of 417 employees. Management believes that relations with our employees are good. We are not a party to any collective bargaining agreements.

ITEM 1A. RISK FACTORS

Some of the following risk factors relate to a discussion of our assets. For additional information on our asset categories refer to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as the accompanying notes to the consolidated financial statements.

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Risks Related To Our Businesses

Our long term success is primarily dependent on our ability to increase the profitability of our mortgage originations.

We believe that a key driver for our Company will be increasing the profitability of our mortgage lending operations. Our success is dependent on many factors such as the documentation and data capture technology, increasing our loan origination operational capacities, increasing our mortgage origination efficiencies, attracting qualified employees, ability to maintain our approvals and sell or securitize loans with Fannie Mae, Freddie Mac, Ginnie Mae and other investors, ability to increase our mortgage servicing portfolio, the ability to obtain adequate warehouse borrowing capacity, the ability to adequately maintain loan quality and manage the risk of losses from loan repurchases, the changing regulatory environment for mortgage lending and the ability to fund our originations.

If we are unable to generate sufficient net earnings from our mortgage lending operations, we may be unable to satisfy our future operating costs and liabilities, including repayment of our debt obligations.

Mortgage market conditions have had and may continue to have a material adverse effect on our earnings and financial condition.

Volatility in the real estate market, as well as inflation, energy costs, mortgage compliance, geopolitical issues and the availability and cost of credit, may contribute to increased volatility and diminished expectations for the mortgage markets. The mortgage market has been severely affected by changes in the lending landscape. Previous unprecedented disruptions and deterioration of the mortgage market have had, and may continue to have, an adverse effect on our results of operations and financial condition.

As a result of higher interest rates, a decline in refinancing transactions, current economic conditions, the mortgage regulatory environment and other factors it is projected by some mortgage organizations that mortgage originations during 2019 may be at lower volumes than 2018. As a result, we may experience reduced volumes and reduced income unless we are able to garner a greater market share of originations or sufficiently reduce costs. In addition, volatility in mortgage interest rates could cause volatility in the value of our mortgage servicing rights, resulting in volatile or adverse financial results.

Our performance may be adversely affected by the performance of parties who service or sub service our mortgage loans.

We contract with third parties for the servicing of our mortgage loans in our long term mortgage portfolio, for which we are the master servicer, and the servicing portfolio in our mortgage lending operations. We are also contracting with third parties for the servicing of our non-qualified mortgage loan portfolio. Although we use third-party servicers, we retain primary responsibility to insure the loans are serviced meeting contractual and regulatory requirements. Our operations, performance and liabilities are subject to risks associated with inadequate or untimely servicing. With respect to non-qualified mortgage loans, our inability to onboard correctly or timely could adversely affect the value of the related servicing rights held by us. If a servicer defaults or fails to perform to certain standards then this can be deemed to be a default or failure by us to perform those duties or functions. If we, or our sub servicers, commit a material breach of our obligations as a servicer or master servicer, we may be subject to damages or termination if the breach is not cured within a specified period of time following notice, causing us to lose servicing rights income. In addition, we may be required to indemnify the investor or securitization trustee against losses from any failure by us, as master servicer or on behalf of the sub servicer, to perform the servicing obligations properly. If, as a result of a servicer or sub servicer's failure to perform adequately, we were terminated as servicer by an investor, trustee or master servicer, the value of any servicing or master servicing rights held by us could be adversely affected. Also, this could affect the cash flow generated by our servicing rights portfolio.

We are also contracting with third parties for the servicing of our non-qualified mortgage loan portfolio. This will be a new third party relationship for the organization and the first time that the organization is servicing its non-qualified mortgage loans. While the servicing requirements of non-qualified mortgage loans are the same as those for traditional qualified mortgages, the customer base has different needs. Managing through the onboarding of these new servicing relationships will be a focus of the Company in this upcoming year. If, as a result of this sub-servicer's failure to perform adequately, or our inability to onboard correctly or timely, the value of these servicing rights held by us could be adversely affected. Also, this could affect the cash flow generated by this portion of our servicing portfolio.

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Poor performance by a sub servicer may result in greater than expected delinquencies and foreclosures and losses on our mortgage loans or, in the case of our long term mortgage portfolio, in our resulting exposure to investors, bond holders, bond insurers or others to whom we are responsible for the performance of our loan sub servicers. As master servicer in our securitizations we are responsible for the duties, responsibilities and actions of the subservicers. Their actions, or lack thereof, may impose liability upon us from third party claims. A substantial increase in our delinquency or foreclosure rate could adversely affect our ability to access the capital and secondary markets for our financing needs. With respect to our long term mortgage portfolio, greater delinquencies would adversely affect the value of our cash flows and residual interests, if any, we hold in connection with that securitization.

The value of mortgage servicing rights are dependent upon various factors, including, but not limited to, the adequate performance of the servicing function by our sub servicer, the responsibilities imposed on us by the investors of our loans for which we hold the servicing rights, interest rates, the cost of our sub servicers, loan prepayments and delinquencies. As these factors and others vary, the value of our mortgage servicing rights may fluctuate which may affect our ability to meet financial covenants, maintain credit facilities, expand our operations and generate income from our operations.

If we are unable to satisfy our debt obligations or to meet or maintain the necessary financial covenant requirements with lenders or satisfy, or obtain waivers from, the continuing covenants, this could have a material adverse effect on our financial condition and results of operations.

We have significant debt obligations including:

- $25.0 million Convertible Promissory Notes due May 2020;
- Junior Subordinated Notes with an outstanding principal balance of $62.0 million at December 31, 2018; and
- Warehouse facilities with third party lenders which are secured by and used to fund residential mortgage loans until such loans are sold.

Our ability to make scheduled payments on our debt obligations depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt. If we are unable to generate cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be unfavorable to us or highly dilutive, any of which may be material to the holders of our common stock. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could have a material adverse effect on our financial condition and results of operations. Additionally, if we are unable to sell loans timely to repay the warehouse lenders prior to required curtailments, our liquidity may be adversely affected.

Furthermore, our credit and warehouse facilities contain covenants, including requirements to maintain a certain minimum net worth, liquidity, litigation judgment thresholds, debt ratios, profitability levels and other customary debt covenants. A breach of the covenants can result in an event of default under our facilities and as such allows the lender to pursue certain remedies, which may constitute a cross default under other agreements. At December 31, 2018, we were not in compliance with certain financial covenants under one of our warehouse facilities and received the necessary waiver.

We may not realize all of the anticipated benefits of our acquisitions, which could adversely affect our business, financial condition and results of operations.

Historically, we have completed material acquisitions and may in the future look for opportunities to grow our business through acquisitions of businesses and assets. The performance of the businesses and assets we acquire through acquisitions may not match the historical performance of our other assets. Nor can we assure you that the businesses and assets we may acquire will perform at levels meeting our expectations. We may find that we overpaid for the acquired business or assets or that the economic conditions underlying our acquisition decision have changed. In order to finance an acquisition we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or we could raise additional equity capital, which could dilute the interests of our existing shareholders. It may also take several quarters or longer for us to fully integrate newly acquired business and assets into our business, during which period our results of operations and financial condition may be negatively affected. If the integration process is not conducted successfully and with minimal effect on the acquired business, we may not realize the anticipated economic benefits of particular

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acquisitions within our expected timeframe. We may not be able to achieve the synergies we anticipate from acquired businesses, and we may not be able to grow acquired businesses in the manner we anticipate. In fact, the businesses we acquire could decrease in size, even if the integration process is successful. Further, certain one-time expenses associated with such acquisitions may have a negative impact on our results of operations and financial condition.

We cannot assure you that acquisitions will not adversely affect our results of operations and financial condition. The risks associated with acquisitions include, among others:

- unanticipated issues in integrating information, communications and other systems;
- unanticipated incompatibility in lending, purchasing, logistics, marketing and administration methods;
- direct and indirect costs and liabilities;
- not retaining key employees;
- the diversion of management's attention from ongoing business concerns;
- compliance and regulatory scrutiny; and
- goodwill impairment.

Our product offering may expose us to a higher risk of delinquencies, regulatory risks, foreclosures and losses adversely affecting our earnings and financial condition.

We originate and acquire various types of residential mortgage products, which include NonQM and non-conforming loan products. Unlike Qualified Mortgages, NonQM loans do not benefit from a presumption that the borrower has the ability to repay the loan. We understand that these types of products may be relatively 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.

NonQM loans are mortgages that generally did not qualify for purchase by government sponsored agencies such as Fannie Mae and Freddie Mac. Credit risks associated with all these mortgages may be greater than those associated with conforming mortgages. Mortgages made to these borrowers may entail a higher risk of delinquency and higher losses than mortgages made to borrowers who utilize conventional mortgage sources. Delinquency, foreclosures and losses generally increase during economic slowdowns or recessions. The actual risk of delinquencies, foreclosures and losses on mortgages made to these borrowers may be higher under current economic conditions than those in the past. Additionally, the combination of different underwriting criteria and higher rates of interest leads to greater risk, including higher prepayment rates and higher delinquency rates and /or credit losses. These also include loans that are interest only. If there is a decline in real estate values, as previously seen, borrowers may default on these types of loans since they have not reduced their principal balances, which, therefore, could exceed the value of their property. In addition, a reduction in property values would also cause an increase in the loan to value (LTV) ratio for that loan which could have the effect of reducing the value of the property collateralized by that loan, reducing the borrowers' equity in their homes to a level that would increase the risk of default. If we have sold the loan or the servicing of the loan, this may violate the representations and warranties we made in such a sale and impose upon us an obligation to repurchase the loan. In addition, if we expand our products beyond residential mortgages to other types of consumer lending products, we may encounter additional risks associated with these products.

Cybersecurity risks, cyber incidents and technology failures may adversely affect our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of theft of certain personally identifiable information of consumers, misappropriating assets, stealing confidential information, corrupting data or causing operational disruption.

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The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our investor relationships.

As our reliance on rapidly changing technology has increased, so have the risks posed to its information systems, both proprietary and those provided to us by third-party service providers. System disruptions and failures caused by fire, power loss, telecommunications outages, unauthorized intrusion, computer viruses and disabling devices, natural disasters and other similar events may interrupt or delay our ability to provide services to our customers.

Despite our efforts to ensure the integrity of our systems, our investment in significant physical and technological security measures, employee training, contractual precautions and business continuity plans, and our implementation of policies and procedures designed to help mitigate cybersecurity risks and cyber intrusions, there can be no assurance that any such cyber intrusions will not occur or, if they do occur, that they will be adequately addressed. We also may not be able to anticipate or implement effective preventive measures against all security breaches, especially because the methods of attack change frequently or may not be recognized until after such attack has been launched, and because security attacks can originate from a wide variety of sources, including third parties such as persons involved with organized crime or associated with external service providers. We are also held accountable for the actions and inactions of our third-party vendors regarding cybersecurity and other consumer-related matters.

Any of the foregoing events could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, additional regulatory scrutiny, significant litigation exposure and harm to our reputation, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations.

We may become, and in some cases are, a defendant in lawsuits, some of which may be class action matters, and we may not prevail in these matters; We recently received an adverse ruling which may have a material adverse effect on our financial condition or results of operations.

Individual and class action lawsuits and regulatory actions alleging improper marketing practices, abusive loan terms and fees, disclosure violations and other matters are risks faced by all mortgage originators. We are a defendant in purported class actions pending in different states and could be named in other matters. Some of the actions allege generally that the loan originator (whether or not Impac) improperly charged fees in violation of various state lending or consumer protection laws in connection with mortgages that we acquired while others allege that our lending or servicing practice was a statutory violation, an unlawful business practice, an unfair business practice or a breach of a contract. They generally seek unspecified compensatory damages, punitive damages, pre- and post-judgment interest, costs and expenses and rescission of the mortgages, as well as a return of any improperly collected fees. We will incur defense costs and other expenses in connection with the lawsuits, and we cannot assure you that the ultimate outcome of these or other actions will not have a material adverse effect on our financial condition or results of operations. In addition to the expense and burden incurred in defending any of these actions and any damages that we may suffer, our management's efforts and attention may be diverted from the ordinary business operations in order to address these claims. We may also issue shares of common stock to settle outstanding obligations and liabilities which could also affect the market price of our common stock. Plus, we may be deemed in default of our warehouse lines if a judgment for money that exceeds specified thresholds is rendered against us. If the final resolution of this litigation is unfavorable to us in any of these actions, our financial condition, results of operations and cash flows might be materially adversely affected.

We are subject to a purported class action lawsuit relating to our Series B Preferred Stock in which holders are seeking cumulative dividends, unpaid dividends, certain restrictions on our actions, including the ability to pay common stock dividends, and the election of two directors by the preferred holders. In December 2017, we received an unfavorable court ruling that the rights, preferences and terms of the Series B Preferred Stock prior to the 2009 closing of the tender offer and consent solicitation remain in effect, that the 2009 amendments were ineffective, and the 2004 rights remain in effect. We intend to appeal the decision. If not reversed, the decision affects the rights of the Series B holders to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at a rate of 9.375% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.34375 per share) payable on a quarterly basis. Further, plaintiffs have presented post-decision arguments that Impac is required to pay three quarters of dividends to Series B stockholders and to accrue all unpaid dividends. In addition, under the Series B Preferred Stock terms prior to the 2009 amendments, whenever dividends are in arrears for six or more quarters, whether or not consecutive, the Series

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B Preferred Stock will be entitled to call a special meeting for the election of two additional directors. The 2004 rights also provide for certain other voting rights prior to amendment of any provisions of our charter so as to materially and adversely affect the Series B Preferred Stock, or approve a merger or similar transaction unless the Series B Preferred Stock remain outstanding and materially unchanged. We would also be prohibited from paying any dividend on our common stock until dividends on the Series B Preferred Stock are paid in full. Appeal of the court ruling will continue the cost and expense related to defending this lawsuit and diversion of our management's efforts and attention from ordinary business operations in order to address the claims. This court ruling and the possible judgment may have a material adverse effect on our financial condition or results of operations.

Our hedging strategies implemented by our mortgage lending operations may not be successful in mitigating our risks associated with the market movement of interest rates.

We use various derivative financial instruments to provide a level of protection against interest rate risks in our mortgage lending operations, but no hedging strategy can protect us completely. When interest rates change, we expect to record a gain or loss on derivatives which would be offset by an inverse change in the value of mortgage loans held for sale, our held mortgage servicing rights, forward sale and interest rate lock commitments. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. There have been periods, and it is likely that there will be periods in the future, during which we will not have offsetting gains or losses in mortgage loans, mortgage servicing rights, forward sale and interest rate lock commitment values after accounting for our derivative financial instruments. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies, improperly executed and recorded transactions or inaccurate assumptions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses.

A decrease in our mortgage origination volume could adversely affect our mortgage servicing portfolio.

Origination volume is subject to multiple factors, including changes in interest rates, market and economic conditions and availability of government programs. Our origination volume has declined and may continue to decline if interest rates increase or if we cannot replace this volume with other loan origination channels such as new customer acquisitions or purchase money loans. If we are unable to maintain our mortgage originations volume then our business, financial condition and results of operations could be adversely affected.

A decline in the unpaid principal balance of the servicing portfolio and the related estimated fair value of the MSRs could adversely affect our net earnings, financial condition, future servicing fees and our ability to borrow on our MSR financing facilities.

The servicing portfolio and the value of the related MSRs are sensitive to changes in prevailing interest rates:

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a decrease in interest rates may increase prepayment speeds which may lead to (i) increased amortization expense; (ii) decrease in servicing fees; and (iii) decrease in the value of our MSRs;

- an increase in interest rates, together with an increase in monthly payments when an adjustable mortgage loan's interest rate adjusts upward from an initial fixed rate or a low introductory rate, may cause increased delinquency, default and foreclosure. Increased mortgage defaults and foreclosures may adversely affect our business as they increase our expenses and reduce the number of mortgages we service.

Our servicing portfolio is subject to "run off", meaning that mortgage loans serviced by us may be prepaid prior to maturity or repaid through standard amortization of principal. As a result, our ability to maintain the size of our servicing portfolio depends on our ability to retain the right to service the existing residential mortgages or to originate additional mortgages. Significant "run off" could result in decreasing the estimated value of the MSRs, which could have an adverse impact our net earnings.

Our MSR financing facilities generally allow us to borrow up to 60% of the estimated fair value of MSRs. A decline in value of the MSRs could limit our ability to borrow on these facilities. Limitations on borrowings on these

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financing facilities imposed by the amount of eligible collateral pledged could affect the borrowing capacity of the facility, which could have an adverse impact on our financial condition.

Our ability to utilize our net operating losses and certain other tax attributes may be limited.

At the end of our 2018 taxable year, we had federal and California net operating loss (NOL) carry forwards of approximately $564.6 million and $386.0 million, respectively. Federal NOLs begin to expire in 2027 and California NOLs begin to expire in 2028. We may not generate sufficient taxable income in future periods to be able to realize fully the tax benefits of our NOL carry forwards. Although, under existing tax rules, we are generally allowed to use those NOL carry forwards to offset taxable income in subsequent taxable years, our ability to use those NOL carry forwards to offset income may be severely limited to the extent that we experience an ownership change within the meaning of Section 382 of the Internal Revenue Code. These provisions could also limit our ability to deduct certain losses (built in losses) we recognize after an ownership change with respect to assets we own at the time of the ownership change. In general, an ownership change, as defined by Section 382, results from transactions increasing ownership of certain stockholders or public groups in our stock by more than 50% over a three year period. In addition, the generation of taxable income from cancellation of debt may further reduce the NOL. Any limitation on our NOL carry forwards that could be used to offset taxable income would adversely affect our liquidity and cash flow, as and when we become profitable. In 2013, we enacted a NOL rights plan, approved by stockholders, which is designed to mitigate the risk of losing net operating loss carry forwards and certain other tax attributes from being limited in reducing future income taxes. On July 19, 2016, our stockholders approved an amendment to our Rights Plan extending the expiration date to September 2, 2019. An NOL rights plan does not prevent a change of control transaction but instead strongly discourages it.

Representations and warranties made by us in our loan sales, servicing rights sales and securitizations may subject us to liability.

In connection with our loan and/or servicing rights sales to third parties and our prior securitizations, we transferred mortgages and/or servicing rights to third parties or, to a lesser extent, into a trust in exchange for cash and, in the case of a securitized mortgage, residual certificates issued by the trust. The trustee, purchaser, bondholder, guarantor or other entities involved in the sales or issuance of the securities (which may include bond insurers) may have recourse to us with respect to the breach of the representations and warranties made by us at the time such mortgages and/or servicing rights are transferred or when the securities are sold. We attempt to mitigate the potential recourse from such purchasers by seeking remedies from correspondent sellers and wholesale brokers who originated the mortgages if we did not originate the loan. However, many of the entities we acquired loans from in the past are no longer in business or may not be able to financially cover the losses. Furthermore, if we discover, prior to the sale or transfer of a loan, that there is any fraud or misrepresentation with respect to the mortgage and the originator fails to repurchase the mortgage, then we may not be able to sell the mortgage or we may have to sell the mortgage at a discount. Changes in the timing, processes and procedures of our primary investors' review of loans which they purchase from us may affect the number of loans that are rejected, the timing of our loan sales, or the frequency of repurchase demands issued to us. Also, similar changes by mortgage insurers who agree to insure loans may also affect the frequency and timing of our loan sales. As a result, the effectiveness of our loan sales, our repurchase reserves and our profitability may be adversely affected as we may have to sell loans at a discount.

Inability to successfully complete securitizations, or if we experience delayed mortgage loan sales or securitization closings, could result in a liquidity shortage which would adversely affect our operating results.

We are exploring utilizing securitizations for our NonQM portfolio to generate cash proceeds to repay borrowings and replenish our borrowing capacity. If there is a delay in a securitization closing or any reduction in our ability to complete securitizations we may be required to utilize other sources of financing, which, if available at all, may not be on similar terms. In addition, delays in closing mortgage sales or securitizations of our mortgages increase our risk by exposing us to credit and interest rate risks for this extended period of time. Several factors could affect our ability to complete securitizations of our mortgages, including:

· conditions in the securities and secondary markets;

· credit quality of the mortgages acquired or originated through our mortgage operations;

· volume of our mortgage loan acquisitions and originations;

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· our ability to obtain credit enhancements; and

· lack of investors purchasing higher risk components of the securities.

If we are unable to sell a sufficient number of mortgages at a premium or profitably securitize a significant number of our mortgages in a particular financial reporting period, then we could experience lower net earnings or a loss for that period, which could have a material adverse effect on our operations. We cannot assure you that we will be able to continue to profitably securitize or sell our loans on a whole loan basis, or at all.

Litigation in the mortgage industry related to securitizations against issuers, sellers, servicers, originators, underwriters and others may adversely affect our business operations.

As defaults, delinquencies, foreclosures, and losses in the real estate market continue, there have been lawsuits by various investors, insurers, underwriters and others against various participants in securitizations, such as sponsors, depositors, underwriters, servicers and loan sellers. Some lawsuits have alleged that the mortgage loans had origination defects, that there were misrepresentations made about the mortgage loans and that the parties failed to properly disclose the quality of the mortgage loans or repurchase defective loans wherein servicing standards were not maintained or that there were other misrepresentations or false representations. Historically, we both securitized and sold mortgage loans to third parties that may have been deposited or included in pools for securitizations. As a result, we may incur significant legal and other expenses in defending against claims and litigation and we may be required to pay settlement costs, damages, penalties or other charges which could adversely affect our financial results.

The geographic concentration of our mortgages increases our exposure to risks in those areas.

We do not set limitations on the percentage of mortgages composed of properties located in any one area (whether by state, zip code or other geographic measure). Concentration in any one area increases our exposure to the economic and natural hazard risks associated with that area. A majority of our mortgage acquisitions and originations and mortgages held in our long term mortgage portfolio are secured by properties in California and, to a lesser extent, Florida, Washington and Arizona. These states have previously experienced, and may experience in the future, economic downturns and California and Florida have also suffered the effects of certain natural hazards. During past economic downturns, real estate values in California and Florida have decreased drastically, which could have a material adverse effect on our results of operations or financial condition. In addition, Florida is among several states with higher than average costs for investors in circumstances of mortgage default and foreclosure, since the foreclosure process takes significantly longer than average. Accordingly, to the extent the mortgages we originate or are held in our long term mortgage portfolio experience defaults or foreclosures in that area, we may be exposed to higher losses.

Furthermore, if borrowers are not insured for natural disasters, which are typically not covered by standard hazard insurance policies, then they may not be able to repair the property or may stop paying their mortgages if the property is damaged. This would cause increased foreclosures and decrease our ability to recover losses on properties affected by such disasters. This would have a material adverse effect on our results of operations or financial condition.

Our vendor relationships subject us to a variety of risks.

We have significant vendors that, among other things, provide us with financial, technology and other services to support our mortgage loan servicing and origination businesses. Some of these outsourced services, such as technology, could have a material effect on our business and operations if our third party provider was unable to, or failed to, properly provide such services. With respect to vendors engaged to perform activities required by servicing criteria, we have elected to take responsibility for assessing compliance with the applicable servicing criteria for the applicable vendor and are required to have procedures in place to provide reasonable assurance that the vendor's activities comply in all material respects with servicing criteria applicable to the vendor, including but not limited to, monitoring compliance with our predetermined policies and procedures and monitoring the status of payment processing operations. In the event that a vendor's activities do not comply with the servicing criteria, it could negatively impact our servicing agreements. In addition, if our current vendors were to stop providing services to us on acceptable terms, including as a result of one or more vendor bankruptcies due to poor economic conditions, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms, or at all. Further, we may incur significant costs to resolve any such disruptions in service and this could adversely affect our business, financial condition and results of operations.

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Additionally, in April 2012 the CFPB issued CFPB Bulletin 2012 03 which states that supervised banks and non banks could be held liable for actions of their service providers. As a result, we could be exposed to liability, CFPB enforcement actions or other administrative penalties if the vendors with whom we do business violate consumer protection laws.

We may not be able to access financing sources on favorable terms, or at all, which could adversely affect our ability to implement and operate our business as planned.

Future financing sources may include borrowings in the form of credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private equity and debt issuances and derivative instruments, in addition to transactions or asset specific funding arrangements. Our access to sources of financing depends upon a number of factors some of which we have little or no control, including general market conditions, resources and policies or lenders. Under current market conditions, many forms of structured financing arrangements are generally unavailable, which also in the past has limited our ability to borrow under short term warehouse and repurchase agreements that are intended to be refinanced by such financings. In addition, if regulatory capital requirements imposed on our private lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity. Consequently, the expansion of our mortgage lending operations may be dictated by the cost and availability of financing, specifically warehouse facilities. Depending on market conditions at the relevant time, we may have to rely more heavily on additional equity issuances, which may be dilutive to our shareholders, or on less efficient forms of debt financing that require a larger portion of our cash flow from operations, thereby reducing funds available for our operations and future business opportunities. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which could negatively affect our results of operations. If our access to such funds are restricted or are on terms that are materially changed, we may not be able to continue those operations which may affect our income and loan origination volumes.

If we are forced to liquidate, we may have few unpledged assets for distribution to unsecured creditors or equity holders.

In the event we were forced to liquidate and distribute our assets, our common stockholders would share in our assets only after we satisfy any amounts we owe to our creditors and preferred equity holders. The majority of our assets are either collateral for specific borrowings or pledged as collateral for secured liabilities. Additionally, there is volatility and significant judgement with respect to the valuation of a significant portion our assets and liabilities. If our liquidation or dissolution were attributable to our inability to profitably operate our business, then it is likely that we would have material liabilities at the time of liquidation or dissolution. Accordingly, we cannot provide any assurance that sufficient assets will remain available after the payment of our creditors and preferred equity holders to enable common stockholders to receive any liquidation distribution with respect to any common stock.

Growth may place significant demands on our management and our infrastructure.

For our operations to continue to grow in size, scope and complexity, we will need to improve and upgrade our systems and infrastructure to meet the demands and maintain efficiency of our business. Growth could strain our ability to maintain reliable service levels, develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train and retain highly skilled personnel. Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business would be harmed.

Loss of our current executive officers or other key management could significantly harm our business.

We depend on the diligence, skill and experience of our senior executives. We believe that our future results will also depend in part upon our attracting and retaining highly skilled and qualified management. We seek to compensate our executive officers, as well as other employees, through competitive salaries, bonuses and other incentive plans, but there can be no assurance that these programs will allow us to retain key management executives or hire new key employees. The loss of senior executive officers and key management could have a material adverse effect on our operations because other officers may not have the experience and expertise to readily replace these individuals. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting or retaining such personnel. The loss of, and changes in, key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and results of operations.

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Our risk management policies and procedures may not be effective.

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established policies and procedures intended to identify, monitor and manage the types of risk to which we are subject, including credit risk, market and interest rate risk, liquidity risk, cyber risk, regulatory, legal and reputational risk. Although we have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future, these policies and procedures, as well as our risk management techniques such as our hedging strategies, may not be fully effective. There may also be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. As regulations and markets in which we operate continue to evolve, our risk management framework may not always keep sufficient pace with those changes. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and could be materially adversely affected.

If we fail to maintain effective systems of internal control over financial reporting and disclosure controls and procedures, we may not be able to report our financial results accurately or prevent fraud, which could cause current and potential stockholders to lose confidence in our financial reporting, adversely affect the trading price of our securities or harm our operating results.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and operate successfully as a public company. We cannot be certain that our efforts to improve or maintain our internal control over financial reporting and disclosure controls and procedures will be successful or that we will be able to maintain adequate controls over our financial processes and reporting in the future. Any failure to develop or maintain effective controls or difficulties encountered in their implementation or other effective improvement of our internal control over financial reporting and disclosure controls and procedures could harm our operating results, or cause us to fail to meet our reporting obligations. If we are unable to adequately establish or maintain our internal control over financial reporting, our external auditors will not be able to issue an unqualified opinion on the effectiveness of our internal control over financial reporting. In the past, we have reported, and may discover in the future, material weaknesses in our internal control over financial reporting.

Ineffective internal control over financial reporting and disclosure controls and procedures could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our securities or affect our ability to access the capital markets and could result in regulatory proceedings against us by, among others, the SEC. In addition, a material weakness in internal control over financial reporting, which may lead to deficiencies in the preparation of financial statements, could lead to litigation claims against us. The defense of any such claims may cause the diversion of management’s attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation, even if resolved in our favor, could cause us to incur significant legal and other expenses or cause delays in our public reporting. Such events could harm our business, affect our ability to raise capital and adversely affect the trading price of our securities.

Risks Related to Regulation

Loss of our approvals with, or the potential limitation or wind down of, the role Ginnie Mae, Fannie Mae and Freddie Mac play in the residential mortgage backed security (MBS) market could adversely affect our business, operations and financial condition.

We originate loans eligible for sale to Fannie Mae, Freddie Mac, government insured or guaranteed loans, such as FHA, VA and USDA loans, and loans eligible for Ginnie Mae securities issuance. We also service loans sold to the GSEs and other investors. We believe that having the ability to both sell loans directly to these agencies and issue Ginnie Mae securities gives us an advantage in the overall mortgage origination market. The government may limit over time the role of the GSEs in guaranteeing mortgages and purchasing mortgage loans, as well as proposals to implement reforms relating to borrowers, lenders, and investors in the mortgage market, including reducing the maximum size of a loan that the GSEs can purchase, phasing in a minimum down payment requirement for borrowers, changing underwriting standards, and increasing accountability and transparency in the securitization process. The GSEs may also limit the amount of loans a company can sell to them based upon the company's net worth or the performance of loans sold to them. This could negatively impact our financial condition, net earnings and growth.

We also service loans on behalf of Fannie Mae and Freddie Mac, as well as loans that have been delivered into securitization programs sponsored by Ginnie Mae in connection with the issuance of agency guaranteed mortgage backed securities. These entities establish the base service fee to compensate us for servicing loans as well as the assessment of fines and penalties that may be imposed upon us for failing to meet servicing standards.

The extent and timing of any regulatory reform regarding the GSEs and the home mortgage market, as well as any effect on Impac's business operations and financial results, are uncertain. It is important for us to sell or securitize the loans we originate and, when doing so, maintain the option to also sell the related MSRs associated with these loans. Some investors have raised concerns about the high prepayment speeds of our loans generated through our retail channel and this has resulted and could further result in adverse pricing or delays in our ability to sell or securitize loans and related MSRs on a timely and profitable basis. During the fourth quarter of 2017, Fannie Mae sufficiently limited the manner and volume for our deliveries of eligible loans such that we elected to cease deliveries to them and we expanded our whole loan investor base for these loans. During 2018, we completed servicing released loan sales to these whole loan investors and expect to continue to utilize these alternative exit strategies for Fannie Mae eligible loans. We continue to take steps to manage our prepayment speeds to be more consistent with our industry comparables and to reestablish the full confidence and delivery mechanisms to our investor base. We remain an approved Seller and Servicer with Fannie Mae and Freddie Mac. If the agencies cease to exist, wind down, or otherwise significantly change their business operations or if we lose our approved seller/servicer status with the GSEs, the GSE's limit the amount of loans we can sell to them, or we otherwise are unable to sell loans to them there could be a material adverse effect on our mortgage lending operations, financial condition, results of operations and cash flows.

Regulatory laws affecting our operations, or interpretations of them, may affect our mortgage lending operations.

Existing laws, regulations, or regulatory policies and changes thereto or to the way they are interpreted can affect whether and to what extent we may be able to expand our mortgage lending activities and compliance with such requirements could expose us to fines, penalties or licensing restrictions that could affect our operations. Many states and local governments and the Federal government have enacted or may enact laws or regulations that restrict or prohibit some provisions in some programs or businesses that we currently participate in or plan to participate in the future. As such, we cannot be sure that in the future we will be able to engage in activities that were similar to those we engaged or participated in in the past thereby limiting our ability to commence new operations. As a result, we might be at a competitive disadvantage which would affect our operations and profitability.

We are subject to federal, state and local laws and regulations related to the mortgage industry that generally regulate interest rates and other charges, require certain disclosures, and require applicable licensing. In addition, other state and local laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of our loans. Violations of certain provisions of these federal and state laws and regulations may limit our ability to collect all or part of the principal of or interest on the loans and in addition could subject us to damages, could result in the mortgagors rescinding the loans whether held by us or subsequent holders of the loans, or could cause us to repurchase the loan and thereby suffer a loss on the transaction. In addition, such violations could subject us to fines and penalties imposed by state and federal regulators and cause us to be in default under our credit and repurchase lines and could result in the loss of licenses held by us.

The regulatory changes in loan originator compensation, qualified mortgage requirements and other regulatory restrictions may put us at a competitive disadvantage to our competitors. Since some banks and financial institutions are not subject to the same regulatory changes as mortgage lenders, they could have an advantage over independent mortgage lenders. As a result of the nature of our operations, our capital, costs, source of funds and other similar factors may affect our ability to maintain and grow lending.

The Consumer Financial Protection Bureau has implemented rules and interpretations with strict residential mortgage loan compliance and underwriting standards as called for in the Dodd Frank Act. The Act imposes significant liability for violation of those underwriting standards, and offers certain protection from that liability only for loans that comply with tight limitations and that do not contain certain alternative features (like balloon payments or interest only provisions). Those requirements and subsequent changes may affect our ability to originate residential mortgage loans or the profitability of those operations.

Additionally, the Mortgage Reform and Anti Predatory Lending Act ("Mortgage Act") imposes a number of additional requirements on lenders and servicers of residential mortgage loans by amending certain existing provisions and adding new sections to TILA, RESPA, and other federal laws. This includes the TILA RESPA Integrated Disclosure requirements and new disclosure requirements, fee limitations and timing requirements in most of our loan products. The Mortgage Act also broadly prohibits unfair, deceptive or abusive acts or practices, and knowingly or recklessly providing substantial assistance to a covered person in violation of that prohibition. The penalties for noncompliance with any of these laws are also significantly increased by the Mortgage Act, which could lead to an increase in lawsuits against mortgage lenders and servicers or could lead to fines, penalties licensing restrictions or la loss of licenses which could restrict our ability to expand or continue lending in certain states.

Risks Related to Our Common Stock

Our share prices have been and may continue to be volatile and the trading of our shares may be limited.

The market price of our securities has been volatile. We cannot guarantee that a consistently active trading market for our securities will continue. In addition, there can be no assurances that such markets will continue or that any shares which may be purchased may be sold without incurring a loss. Any such market price variation of our shares may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for the shares in the future. The market price of our securities is likely to continue to be highly volatile and could be significantly affected by factors including:

- unanticipated fluctuations in our operating results;
- general market and mortgage industry conditions;
- mortgage and real estate fees;
- delinquencies and defaults on outstanding mortgages;
- loss severities on loans and REO;
- prepayments on mortgages;
- the regulatory environment and results of our mortgage originations;
- mark to market adjustments related to the fair value of loans held for sale, mortgage servicing rights, long term debt and derivatives;
- interest rates; and
- litigation.

In addition, significant price and volume fluctuations in the stock market have particularly affected the market prices for the securities of mortgage companies such as ours. Furthermore, general conditions in the mortgage industry may adversely affect the market price of our securities. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our securities. If our results of operations fail to meet the expectations of security analysts or investors in a future quarter, the market price of our securities could also be materially adversely affected and we may experience difficulty in raising capital.

Issuances of additional shares of our common stock may adversely affect its market price and significantly dilute stockholders.

In order to support our business objectives, we may raise capital through the sale of equity or convertible securities. The issuance or sale, or the proposed sale, of substantial amounts of our common stock in the public market could materially adversely affect the market price of our common stock or other outstanding securities. We do not know the actual or perceived effect of these issuances, the timing of any offerings or issuances of securities, the potential dilution of the book value or earnings per share of our securities then outstanding and the effect on the market price of our securities then outstanding.

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We do not expect to pay dividends in the foreseeable future and we may be restricted in paying dividends on our common stock.

We do not anticipate paying any dividends on our common stock in the foreseeable future as we intend to retain any future earnings for funding growth. In addition, our existing and any future warehouse facilities may contain covenants prohibiting dividend payments upon an occurrence of a default or otherwise. Furthermore, if we do not succeed in appealing and reversing an adverse judgment on the purposed class action relating to our Series B Preferred stock and we are required to pay dividends on the Series B Preferred stock, we will be prohibited from paying dividends on our common stock until such preferred stock dividends are paid. As a result, you should not rely on an investment in our stock if you require dividend income. Capital appreciation, if any, of our stock may be your sole source of gain for the foreseeable future.

Our principal stockholders beneficially own a large portion of our stock, and accordingly, may have control over stockholder matters and sales may adversely affect the market price of our common stock.

As of February 28, 2019, Todd M. Pickup and Richard H. Pickup, a director of the Company, and their respective affiliates beneficially owned approximately 13.6% and 26.1%, respectively, of our outstanding common stock. Their beneficial ownership includes 465,116 shares and 639,535 shares of our common stock that Todd Pickup and Richard Pickup, respectively, has the right to acquire at any time by converting the outstanding principal balance of Convertible Notes Due 2020, at the initial conversion price of $21.50 per share. As of February 28, 2019, Thomas B. Akin and his affiliate beneficially owned approximately 13.2% of our outstanding common stock. These stockholders could exercise significant influence over our Company. Such ownership may have the effect of control over substantially all matters requiring stockholder approval, including the election of directors. Furthermore, such ownership and control may have the effect of delaying or preventing a change in control of our Company, impeding a merger, consolidation, takeover or other business combination involving our Company or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company. We do not expect that these stockholders will vote together as a group. In addition, sales of significant amounts of shares held by these stockholders, or the prospect of these sales, could adversely affect the market price of our common stock.

Provisions in our charter documents and Maryland law, as well as our NOL Rights Plan, impose limitations that may delay or prevent our acquisition by a third party.

Our charter and bylaws contain provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions include, among other things, advance notice for raising business issues or making nominations at meetings and blank check preferred stock that allows our board of directors, without stockholder approval, to designate and issue additional series of preferred stock with rights and terms as our board of directors may determine, including rights to dividends and proceeds in a liquidation that are senior to our common stock.

We are also subject to certain provisions of the Maryland General Corporation Law, which could delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the price for their common stock or may otherwise be in the best interests of our stockholders. This includes the “business combinations” statute that prohibits transactions between a Maryland corporation and “interested stockholders,” which is any person who beneficially owns 10% or more of the voting power of our then outstanding voting stock for a period of five years unless the board of directors approved the transaction prior to the party’s becoming an interested stockholder. The five year period runs from the most recent date on which the interested stockholder became an interested stockholder. The law also requires a super majority stockholder vote for such transactions after the end of the five year period.

Maryland law also provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two thirds of the shares eligible to vote. The control share acquisition statute would not apply to shares acquired in a merger, consolidation or share exchange if we were a party to the transaction. The control share acquisition statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

We have also adopted a Tax Benefits Preservations Rights Agreement, also known as an NOL rights plan, pursuant to which each share of common stock also has a "right" attached to it. Although the NOL rights plan was adopted

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to help preserve the value of certain deferred tax benefits, including those generated by net operating losses, it also has the effect of deterring or delaying an acquisition of our Company by a third party. The rights are not exercisable except upon the occurrence of certain takeover related events—most importantly, the acquisition by a third party (the "Acquiring Person") of more than 4.99% of our outstanding voting shares. Once triggered, the rights entitle the stockholders, other than the Acquiring Person, to certain "flip in", "flip over" and exchange rights. The effect of triggering the rights is to expose the Acquiring Person to severe dilution of its ownership interest, as the shares of our common stock (or any surviving corporation) are offered to all of the stockholders other than the Acquiring Person at a steep discount to their market value. On July 19, 2016, our stockholders approved an amendment to the Company's Rights Plan extending the expiration date to September 2, 2019. We have in the past, and may in the future, grant waivers to the limitations imposed by our Tax Benefits Preservations Rights Agreement. This may affect the holdings of those shareholders who obtained the waivers and may affect the protection of, and hence the ability to make use of, our NOL's.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our primary executive and administrative offices are located at 19500 Jamboree Road, Irvine, California 92612 where we have a premises lease expiring in September 2024. The premises consist of four floors where we occupy approximately 119,600 square feet with a weighted annual rental rate of $35.11 per square foot, which amount increases every 12 months.

In October 2018, we vacated the office in Orange, California and the remaining lease obligation was paid off in December 2018.

ITEM 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 16 – Commitments and Contingencies in the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, which information is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

Our common stock is currently listed on the NYSE American under the symbol "IMH".

The following table summarizes the high and low sales prices for our common stock for the periods indicated:

	2018			2017		
	High	Low	Close	High	Low	Close
First Quarter	11.38	7.18	7.90	15.23	12.04	12.46
Second Quarter	10.45	7.41	9.53	17.40	12.11	15.13
Third Quarter	10.14	6.58	7.49	15.69	12.20	13.06
Fourth Quarter	7.54	2.93	3.78	13.85	9.92	10.16

On March 7, 2019, the last quoted price of our common stock on the NYSE American was $3.90 per share. As of March 7, 2019, there were 182 holders of record, including holders who are nominees for an undetermined number of beneficial owners, of our common stock.

Our Board of Directors authorizes in its discretion the payment of cash dividends on its common stock, subject to an ongoing review of our profitability, liquidity and future operating cash requirements. We and some of our subsidiaries are subject to restrictions under our warehouse borrowings and long term debt agreements on our ability to pay dividends if there is an event of default or otherwise. Plus, certain debt arrangements require the maintenance of ratios and contain restrictive financial covenants that could limit our ability, and the ability of our subsidiaries, to pay dividends. Furthermore, if we do not succeed in appealing and reversing an adverse judgment on the purported class action relating to our Series B Preferred stock and we are required to pay dividends on the Series B Preferred stock, we will be prohibited from paying dividends on our common stock until such preferred stock dividends are paid. The Board of Directors did not declare cash dividends on our common stock during the years ended December 31, 2018 and 2017. We do not expect to declare or pay any cash dividends on our common stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations contain 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. Refer to Item 1. "Business—Forward Looking Statements" for a complete description of forward looking statements. Refer to Item 1. "Business" for information on our businesses and operating segments.

Amounts are presented in thousands, except per share data or as otherwise indicated.

Market Conditions

The U.S. economy continued to grow during 2018. U.S. Gross Domestic Product ("GDP") for 2018 is expected to show a higher annual growth rate than 2017's GDP annual growth rate, while inflation in 2018 averaged near the Federal Reserve Boards (FRB) target inflation rate. During 2018, the FRB continued reducing its holdings of U.S. Treasury bonds and mortgage-backed securities and, in December 2018, the FRB increased short-term interest rates by 25 basis points, the fourth such rate increase of the year. However, the FRB has indicated that any further increases in short-term interest rates will depend on future economic conditions. The U.S. economy added over 2.6 million jobs during 2018 and the total unemployment rate fell to 3.9 percent at December 2018 as compared with 4.1 percent at December 2017.

Although the U.S. economy continued to grow, uncertainty concerning the future economic environment, including anticipated slower growth, increased significantly during the fourth quarter. The sustainability of economic growth will be determined by numerous other variables including consumer sentiment, energy prices, credit market volatility, employment levels and housing market conditions which will impact corporate earnings and the capital markets. Concerns over higher interest rates, inflation, domestic and global policy issues, U.S. trade policy and geopolitical events as well as the implications of those events on the markets in general further add to global uncertainty. Higher interest rates, in combination with global economic conditions, fiscal and monetary policy and the level of regulatory and government scrutiny of financial institutions will continue to impact our results in 2019 and beyond.

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Selected Financial Results for 2018 and 2017

	For the Three Months Ended			For the Year Ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Revenues:					
Gain on sale of loans, net	$ 12,854	$ 13,673	$ 19,545	$ 66,750	$ 136,147
Servicing fees, net	7,807	10,124	8,327	37,257	31,902
Loss on mortgage servicing rights, net	(6,303)	(5,192)	(17,721)	(3,625)	(35,880)
Real estate services fees, net	1,192	711	1,364	4,327	5,856
Other	15	71	140	291	680
Total revenues	15,565	19,387	11,655	105,000	138,705
Expenses:					
Personnel expense	13,661	16,061	20,294	64,143	89,647
Business promotion	3,854	4,351	9,532	26,936	40,276
General, administrative and other	8,323	7,897	12,580	35,339	37,424
Intangible asset impairment	—	4,897	—	18,347	—
Goodwill impairment	—	29,925	351	104,587	351
Accretion of contingent consideration	—	—	109	—	2,058
Change in fair value of contingent consideration	—	—	(2,273)	—	(13,326)
Total expenses	25,838	63,131	40,593	249,352	156,430
Operating loss:	(10,273)	(43,744)	(28,938)	(144,352)	(17,725)
Other income (expense):					
Net interest income	540	411	1,253	2,517	4,343
Loss on extinguishment of debt	—	—	—	—	(1,265)
Change in fair value of long-term debt	3,281	(785)	(292)	3,978	(2,949)
Change in fair value of net trust assets	687	(1,315)	(365)	(2,549)	6,213
Total other (expense) income	4,508	(1,689)	596	3,946	6,342
Net loss before income taxes	(5,765)	(45,433)	(28,342)	(140,406)	(11,383)
Income tax expense	676	12	16,563	5,004	20,138
Net loss	$ (6,441)	$ (45,445)	$ (44,905)	$ (145,410)	$ (31,521)
Other comprehensive loss:					
Change in fair value of instrument specific credit risk	(1,201)	25	—	(3,141)	—
Total comprehensive loss	$ (7,642)	$ (45,420)	$ (44,905)	$ (148,551)	$ (31,521)
Diluted weighted average common shares	21,116	21,071	20,949	21,026	19,438
Diluted loss per share	$ (0.31)	$ (2.16)	$ (2.14)	$ (6.92)	$ (1.62)

Status of Operations

For the year ended 2018, net loss was $145.4 million, or $6.92 per diluted common share, as compared to net loss of $31.5 million, or $1.62 per diluted common share in 2017. For the quarter ended December 31, 2018, net loss was $6.4 million, or $0.31 per diluted common share, as compared to net loss of $44.9 million, or $2.14 per diluted common share in the fourth quarter of 2017, and net loss of $45.4 million, or $2.16 per diluted common share, in the third quarter of 2018.

Net loss increased due to a decline in revenue from gain on sale of loans, net as a result of a decrease in origination volumes as well as a reduction in margins. Gain on sale margins decreased by 17 basis point (bps) to 174 bps in 2018, as compared to 191 bps in 2017 reflecting margin compression resulting from the historically low interest rate environment, in which we were able to generate significantly larger volume with wider gain on sale margins. Total originations declined to $3.8 billion in 2018 from $7.1 billion in 2017. Additionally, as a result of the continued downward pressure in the mortgage origination market causing further compression of margins and declines in volume, combined with the shift in the consumer direct strategy implemented by our new management team in the second quarter, CashCall Mortgage (CCM) experienced a significant decline in origination volume. As a result, we recorded a $122.9 million impairment charge related to $18.3 million in intangible asset impairment and $104.6 million in goodwill impairment during 2018, as further described below. The decline in revenue and impairment charges were partially offset by decreases in personnel, business promotion and general and administrative expenses for the year ended December 31, 2018 as compared to the year ended December 31, 2017. For a more detailed discussion on financial results, see Results of Operations below.

Non-GAAP Financial Measures

Net loss includes fair value adjustments for changes in the contingent consideration (which ended in December

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2017), long-term debt and net trust assets as well as impairment charges for intangible assets and goodwill. The contingent consideration and impairment charges are related to the CCM acquisition transaction, while the other fair value adjustments are related to our legacy portfolio. These fair value adjustments and impairment charges are non-cash items which management believes should be excluded to provide a more useful discussion of our ongoing and future operations.

Adjusted operating loss, excluding the changes in contingent consideration and impairment charges (adjusted operating loss), is not considered an accounting principle generally accepted in the United States of America (non-GAAP) financial measurement; see the discussion and reconciliation on non-GAAP financial measures below.

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

Adjusted operating loss (as defined above) was $21.4 million, or $1.02 per diluted common share, for 2018, as compared to a loss of $29.0 million, or $1.49 per diluted common share in 2017. Adjusted operating loss was $10.3 million, or $0.49 per diluted common share, for the quarter ended December 31, 2018 as compared to loss of $31.1 million, or $1.48 per diluted common share in the fourth quarter of 2017, and loss of $8.9 million, or $0.42 per diluted common share, in the third quarter of 2018.

Adjusted operating loss for 2018 decreased despite the increase in decline in revenue from gain on sale of loans, net as a result of a decrease in origination volumes as well as a reduction in margins. The decrease in adjusted operating loss was due to a reduction in personnel, business promotion and general and administrative expenses for the year ended December 31, 2018 as compared to the year ended December 31, 2017.

	For the Three Months Ended			For the Year Ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net loss:	$ (6,441)	$ (45,445)	$ (44,905)	$ (145,410)	$ (31,521)
Total other (income) expense	(4,508)	1,689	(596)	(3,946)	(6,342)
Income tax expense	676	12	16,563	5,004	20,138
Operating loss:	$ (10,273)	$ (43,744)	$ (28,938)	$ (144,352)	$ (17,725)
Intangible asset impairment	—	4,897	—	18,347	—
Goodwill impairment	—	29,925	351	104,587	351

Accretion of contingent consideration	—	—	109	—	2,058
Change in fair value of contingent consideration	—	—	(2,273)	—	(13,326)
Adjusted operating loss	$ (10,273)	$ (8,922)	$ (30,751)	$ (21,418)	$ (28,642)
Diluted weighted average common shares	21,116	21,071	20,949	21,026	19,438
Diluted adjusted operating loss per share	$ (0.49)	$ (0.42)	$ (1.47)	$ (1.02)	$ (1.47)
Diluted loss per share	$ (0.31)	$ (2.16)	$ (2.14)	$ (6.92)	$ (1.62)
Adjustments:					
Total other (income) expense (1)	(0.21)	0.08	(0.03)	(0.18)	(0.33)
Income tax expense	0.03	0.01	0.78	0.24	1.04
Intangible asset impairment	—	0.23	—	0.87	—
Goodwill impairment	—	1.42	0.02	4.97	0.02
Accretion of contingent consideration	—	—	0.01	—	0.11
Change in fair value of contingent consideration	—	—	(0.11)	—	(0.69)
Diluted adjusted operating loss per share	$ (0.49)	$ (0.42)	$ (1.47)	$ (1.02)	$ (1.47)

(1) Except for when anti-dilutive, convertible debt interest expense, net of tax, is included for calculating diluted EPS and is excluded for purposes of reconciling GAAP diluted EPS to non-GAAP diluted adjusted operating loss per share.

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Summary Highlights

- NonQM mortgage origination volumes increased to $397.4 million in the fourth quarter of 2018 and $1.3 billion in 2018 as compared to $235.0 million in the fourth quarter of 2017 and $891.2 million in 2017.
- Mortgage servicing portfolio increased to a high of $16.8 billion during the third quarter of 2018; sold $10.5 billion in unpaid principal balance (UPB) of Fannie Mae and Ginnie Mae mortgage servicing rights (MSRs) during the fourth quarter of 2018, ending with a $6.2 billion mortgage servicing portfolio at December 31, 2018 compared to $16.3 billion at December 31, 2017.
- Servicing fees, net increased to $37.3 million during the year ended December 31, 2018 as compared to $31.9 million during 2017.
- Operating expenses (personnel, business promotion and general, administrative and other) for 2018 decreased to $126.4 million from $167.7 million in 2017.
- Invested $1.0 million in the capital structure of two private securitizations which were 100% backed by Impac NonQM collateral.
- In our long term mortgage portfolio, the residual interests generated cash flows of $681 thousand in the fourth quarter of 2018 and $5.1 million in 2018, as compared to $786 thousand in the third quarter of 2018 and $12.7 million in 2017.

Mortgage Lending

During the year ended 2018, total originations decreased 46% to $3.8 billion as compared to $7.1 billion in 2017. Retail originations continued to be the largest channel of originations representing 48%, or $1.8 billion, of total originations in 2018. Despite the 46% decrease in originations in 2018, our third party origination channels (TPO) (Correspondent and Wholesale) only decreased 20%. TPO originations were $2.0 billion in 2018, which represented 52% of total originations as compared to $2.5 billion and 35% of total originations in 2017.

For the fourth quarter of 2018, our total originations decreased to $0.6 billion, a 62% decrease, as compared to $1.7 billion for the fourth quarter of 2017. The decrease in originations from 2017 was a result of higher interest rates into the fourth quarter of 2018 as compared to the historically low interest rate environment during the previous year, causing a sharp drop in refinance volume.

	For the year ended December 31,			
(in millions)	2018	%	2017	%
Originations by Channel:				
Retail	$ 1,842.2	48 %	$ 4,611.5	65 %
Correspondent	1,119.5	29	1,420.4	20
Wholesale	877.9	23	1,079.8	15

Total originations	$ 3,839.6	100 %	$ 7,111.7	100 %

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

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Originations by Loan Type:

	For the Year Ended December 31,	
(in millions)	2018	2017
Conventional	$ 1,263.2	$ 4,229.1
Government (1)	1,275.5	1,991.4
NonQM	1,300.9	891.2
Total originations	$ 3,839.6	$ 7,111.7
Weighted average FICO (2)	707	711
Weighted average LTV (3)	73.8%	71.6%
Weighted average Coupon	4.75%	4.47%
Avg. Loan size (in thousands)	$ 313.2	$ 304.7

(1) Includes government insured loans including FHA, VA and USDA.
(2) FICO—Fair Isaac Company credit score.
(3) LTV—loan to value—measures ratio of loan balance to estimated property value based upon third party appraisal.

Originating conventional and government insured loans and having the ability to sell loans direct to GSEs and issue Ginnie Mae securities is a critical aspect to our business with regard to products, pricing, operational efficiencies and overall recruitment of high quality loan originators. As interest rates have risen, non-agency originations have become a more significant portion of our originations. In a higher interest rate environment, we believe the non-agency loan product becomes a more desirable product, as it caters more towards the purchase money market, reducing our dependency on the refinance market, and its guidelines allow for more qualified borrowers to be approved. We believe this product will also help in expanding the volumes in our correspondent and wholesale channels.

We continue to believe there is an underserved mortgage market for borrowers with good credit who may not meet the qualified mortgage (QM) guidelines set out by the Consumer Financial Protection Bureau (CFPB). NonQM borrowers generally have a good credit history but income documentation that does not allow them to qualify for an agency loan, such as a self-employed borrower. We have established strict lending guidelines, including determining the prospective borrowers' ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable levels. We continue to refine our guidelines to expand our reach to the underserved market of credit worthy borrowers who can fully document and substantiate an ability to repay mortgage loans, but unable to obtain financing through traditional programs (QM loans).

In the fourth quarter of 2018, the origination volume of NonQM loans increased to $397.4 million, or 63% of total originations, as compared to $235.0 million, or 14% of total originations, in the fourth quarter of 2017. For the year ended December 31, 2018, the origination volume of NonQM loans increased to $1.3 billion, or 34% of total originations, as compared to $891.2 million, or 13% of total originations, in 2017. In 2018, the retail channel accounted for 26% of NonQM originations while the TPO channels accounted for 74% of NonQM production. In 2017, the retail channel accounted for 32% of NonQM originations, while the TPO channels accounted for 68% of NonQM production.

For the year ended December 31, 2018, refinance volume decreased $2.8 billion, or approximately 53%, as compared to 2017. The decrease was the result of rising mortgage interest rates at the end of 2016 and continuing throughout 2018. To help mitigate against reduced refinance volumes with the increase in mortgage interest rates, we continue to focus on opportunities to increase our origination of purchase money loans, expand our NonQM origination volumes and increase our geographic footprint of our origination platform.

	For the Year Ended December 31,			
(in millions)	2018	%	2017	%
Refinance	$ 2,502.1	65 %	$ 5,336.5	75 %
Purchase	1,337.5	35	1,775.2	25
Total originations	$ 3,839.6	100 %	$ 7,111.7	100 %

As of December 31, 2018, we have approximately 1400 approved wholesale relationships with mortgage brokerage companies and are approved to lend in 47 states. We have approximately 280 approved correspondent relationships with banks, credit unions and mortgage companies and are approved to lend in 50 states, however, currently approximately 68% of our mortgage originations were generated from California, Arizona and Washington.

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Mortgage Servicing

The following table includes information about our mortgage servicing portfolio:

(in millions)	At December 31, 2018	% 60+ days delinquent (1)	At December 31, 2017	% 60+ days delinquent (1)
Fannie Mae	$ —	0.00 %	$ 7,518.2	0.32 %
Freddie Mac	6,165.1	0.25	5,975.3	0.29
Ginnie Mae	51.2	0.53	2,834.7	2.90
Other	1.8	0.00	1.9	16.67
Total servicing portfolio	$ 6,218.1	0.25 %	$ 16,330.1	0.81 %
Number of loans	21,260		57,471	
Weighted average Coupon	3.96%		3.82%	
Weighted average FICO	749		733	
Weighted average LTV	63.2%		67.4%	
Avg. Portfolio balance (in millions)	15,306.1		14,655.0	
Avg. Loan size (in thousands)	$ 292.5		$ 284.1	

(1) Based on loan count.

At December 31 2018, the mortgage servicing portfolio decreased to $6.2 billion as compared to $16.3 billion at December 31, 2017. The decrease was due to a shift in strategy during the third and fourth quarters of 2018 to direct our efforts on repositioning the Company by focusing on our core NonQM lending business and strengthen our liquidity position. During 2018, the mortgage servicing portfolio decreased approximately $10.1 billion as we completed two servicing sales of approximately $10.5 billion in UPB of FNMA and GNMA mortgage servicing rights during the fourth quarter, generating net proceeds of approximately $113.0 million, net of deal costs. Partially offsetting the decrease in UPB of the servicing portfolio was $2.4 billion in servicing retained loan sales during 2018. The servicing portfolio generated net servicing income of $37.3 million and $31.9 million for the years ended December 31, 2018 and 2017, respectively. As a result of the servicing sales in the fourth quarter of 2018, delinquencies within the servicing portfolio decreased to 0.25% for 60+ days delinquent as of December 31, 2018 as compared to 0.81% as of December 31, 2017.

At December 31, 2018, we had six warehouse lender relationships with a total borrowing capacity $900 million. In addition to funding our mortgage loan originations, we also would use a portion of our warehouse borrowing capacity to provide re warehouse facilities to our customers, correspondent sellers and other small mortgage banking companies. Beginning in the third quarter of 2018, we began reducing the re-warehousing facilities to our customers and redirect our focus onto the repositioning of the mortgage lending platform. As of December 31, 2018, we no longer offered these financing lines and had no outstanding re-warehouse lines extended to customers.

Real Estate Services

We provide portfolio loss mitigation and real estate services including real estate owned (REO) surveillance and disposition services, default surveillance and loss recovery services, short sale and real estate brokerage services, portfolio monitoring and reporting services. The source of revenue for this segment is primarily from the long term mortgage portfolio, along with a small number of third party clients as well.

The real estate services segment continues to be profitable and posted net earnings of $2.2 million for the years ended December 31, 2018 and 2017. As the long term mortgage portfolio continues to decline, we expect real estate services and the related revenues to decline.

Long Term Mortgage Portfolio

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

Although we have seen some stabilization and improvement in defaults, and a recent improvement in residual cash flows, the portfolio is expected to continue to suffer losses and may continue for the foreseeable future. Such losses have been included in estimating the fair value of the related securitized mortgage collateral and borrowings.

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For the year ended December 31, 2018, our residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) generated cash flows of $5.1 million as compared to $12.7 million for the year ended December 31, 2017. At December 31, 2018, our residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) increased to $17.4 million compared to $17.3 million at December 31, 2017. The increase in residual fair value at December 31, 2018 was the result of an increase in projected future cash flows due to a reduction in future projected losses.

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

Corporate

The corporate segment includes all corporate services groups, public company costs 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 are allocated to the operating segments. The costs associated with being a public company, unused space for growth as well as the interest expense related to the Convertible Notes and capital leases is not allocated to our operating segments and remains in this segment.

For additional information regarding the corporate segment refer to Results of Operations by Business Segment below.

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 the following:

- fair value of financial instruments;
- variable interest entities and transfers of financial assets and liabilities;
- goodwill and intangible assets;
- net realizable value of REO;
- repurchase reserve;
- interest income and interest expense; and
- income taxes.

Fair Value of Financial Instruments

Financial Accounting Standards Board—Accounting Standards Codification FASB ASC 820 10 35 defines fair value, establishes a framework for measuring fair value and outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). Fair value measurements are categorized into a three level hierarchy based on the extent to which the measurement relies on observable market inputs in measuring fair value. Level 1, which is the highest priority in the fair value hierarchy, is based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 is based on observable market based inputs, other than quoted prices, in active markets for similar assets or liabilities.

Level 3,

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which is the lowest priority in the fair value hierarchy, is based on unobservable inputs. Assets and liabilities are classified within this hierarchy in their entirety based on the lowest level of any input that is significant to the fair value measurement.

The use of fair value to measure our financial instruments is fundamental to our financial statements and is a critical accounting estimate because a substantial portion of our assets and liabilities are recorded at estimated fair value. Financial instruments classified as Level 3 are generally based on unobservable inputs, and the process to determine fair value is generally more subjective and involves a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions, as well as changes in market conditions and interest rates, could have a material effect on our results of operations or financial condition.

Mortgage loans held for sale—We elected to carry our mortgage loans held for sale originated or acquired from the mortgage lending operation at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants.

Mortgage servicing rights—We elected to carry all of our mortgage servicing rights arising from our mortgage lending operation at fair value. The fair value of mortgage servicing rights is based upon a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations.

Derivative financial instruments—We utilize certain derivative instruments in the ordinary course of our business to manage our exposure to changes in interest rates. These derivative instruments include to-be-announced MBS and forward loan sale commitments (TBA MBS or Hedging Instruments). We also issue interest rate lock commitments (IRLCs) to borrowers in connection with single family mortgage loan originations. We recognize all derivative instruments at fair value. 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 current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturities and credit quality, subject to the anticipated loan funding probability (Pull through Rate). 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 and are recorded in other liabilities in the consolidated balance sheet. The initial and subsequent changes in value of IRLCs and forward sale commitments are a component of gain on sale of loans, net in the consolidated statements of operations and comprehensive loss.

Long term debt—Long term debt (consisting of junior subordinated notes) is reported at fair value within the long term mortgage portfolio. These securities are measured based upon an analysis prepared by management, which utilizes a discounted cash flow analysis which takes into consideration our credit risk. Unrealized gains and losses are recognized in earnings in the accompanying consolidated statements of operations and comprehensive loss as change in fair value of long term debt. Our estimate of the fair value of the long term debt requires us to exercise significant judgment as to the timing and amount of the future obligation. Changes in assumptions resulting from changes in our credit risk profile will affect the estimated fair value of the long term debt and those changes are recorded as a component of net earnings. A change in assumptions associated with the improvement in our credit risk profile could result in a significant increase in the estimated fair value of the long term debt which would result in a significant charge to net earnings.

Variable Interest Entities and Transfers of Financial Assets and Liabilities

Historically, we securitized mortgages in the form of collateralized mortgage obligations (CMO), which were consolidated and accounted for as secured borrowings for financial statement purposes. We also securitized mortgages in the form of real estate mortgage investment conduits (REMICs), which were either consolidated or unconsolidated depending on the design of the securitization structure. CMO and certain REMIC securitizations contained structural terms that resulted in the transferee (securitization trust) to not be a qualifying special purpose entity (QSPE), therefore we consolidated the variable interest entity (VIE) as it was the primary beneficiary of the sole residual interest in each securitization trust. Generally, this was achieved by including terms in the securitization agreements that gave us the ability to unilaterally cause the securitization trust to return specific mortgages, other than through a clean up call. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned and securitized mortgage borrowings in the accompanying consolidated balance sheets.

Securitizations that are structured as secured borrowing, we recognize interest income over the life of the securitized mortgage collateral and interest expense incurred for the securitized mortgage borrowings. We refer to these transactions as consolidated securitizations. The mortgage loans collateralizing the debt securities for these financings are included in securitized mortgage trust assets and the debt securities payable to investors in these securitizations are included in securitized mortgage trust liabilities in our consolidated balance sheets.

Investors in the securities issued by the securitization trust have no recourse to our non securitized assets or to us and have no ability to require us to provide additional assets, but rather have recourse only to the assets transferred to the trust. These securitizations are evaluated for consolidation based on the provisions of FASB ASC 810 10 25, which eliminated the concept of a QSPE and changed the approach to determine a securitization trust's primary beneficiary. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned and securitized mortgage borrowings in the accompanying consolidated balance sheets.

Goodwill and Intangible Assets

We account for business combinations using the acquisition method, under which the total consideration transferred (including contingent consideration) is allocated to the fair value of the assets acquired (including identifiable intangible assets) and liabilities assumed. The excess of the consideration transferred over the fair value of the assets acquired and liabilities assumed results in goodwill.

We perform an initial assessment of qualitative factors to determine whether the existence of events and circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In performing the qualitative assessment, we identify and consider the significance of relevant key factors, events, and circumstances that affect the fair value of our reporting units. These factors include external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. We also give consideration to the difference between the reporting unit fair value and carrying value as of the most recent date a fair value measurement was performed. If, after assessing the totality of relevant events and circumstances, we determine that it is more likely than not that the fair value of the reporting unit exceeds its carrying value and there is no indication of impairment, no further testing is performed; however, if we conclude otherwise, the first step of the two-step impairment test is performed by estimating the fair value of the reporting unit and comparing it with its carrying value, including goodwill. If the carrying amount of the goodwill exceeds the fair value, the amount of the impairment is measured as the difference between the carrying amount of the asset and its fair value. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

Intangible assets with finite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed. We review intangible assets for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable, in which case any impairment charge would be recorded to earnings.

Acquisition of CashCall Mortgage

On January 6, 2015, we entered into an Asset Purchase Agreement with CashCall, Inc. (CashCall), an unrelated entity, pursuant to which we agreed to purchase certain assets of CashCall's residential mortgage operations. The CCM acquisition was accounted for under the acquisition method of accounting pursuant to FASB ASC 805. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. We made significant estimates and exercised significant judgment in estimating fair values of the acquired assets and assumed liabilities. We retained the services of a third party to assist in the valuation of the intangible assets. The application of the acquisition method of accounting resulted in tax deductible goodwill of $104.6 million and intangible assets of $33.1 million.

We perform an assessment each year, or whenever events and circumstances indicate that impairment may have occurred, to determine if the estimated the fair value of CCM exceeds its carrying value, which would be an indication that goodwill impairment may exist. In previous years, the estimated fair value of CCM substantially exceeded its carrying

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value. During 2018, we recorded an impairment charge of $104.6 million related to goodwill and $18.3 million related to intangible assets and as of December 31, 2018 there is no goodwill or intangible assets remaining on our consolidated balance sheets. See Note 5.-Goodwill and Intangible Assets of the “Notes to Consolidated Financial Statements” for additional information.

Net Realizable Value (NRV) of REO

We consider the NRV of REO properties in evaluating REO losses. When real estate is acquired in settlement of mortgage loans, or other real estate owned, the mortgage is written down to a percentage of the property’s appraised value, broker’s price opinion or list price less estimated selling costs and including mortgage insurance proceeds expected to be received. Subsequent changes in the NRV of the REO is reflected as a write down of REO and results in additional losses.

Repurchase Reserve

When we sell loans through whole loan sales we are required to make normal and customary representations and warranties about the loans to the purchaser. Our whole loan sale agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale.

Investors may request us to repurchase loans or to indemnify them against losses on certain loans which the investors believe either do not comply with applicable representations or warranties or defaulted shortly after its purchase. Upon completion of its own investigation regarding the investor claims, we repurchase or provide indemnification on certain loans, as appropriate. We maintain a liability reserve for expected losses on dispositions of loans expected to be repurchased or on which indemnification is expected to be provided. We regularly evaluate the adequacy of this repurchase liability reserve based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiations, and other relevant factors including economic conditions.

We record a provision for losses relating to such representations and warranties as part of each loan sale transaction. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimated future defaults and loan repurchase rates and the potential severity of loss in the event of defaults and the probability of reimbursement by the correspondent loan seller. We establish a liability at the time loans are sold and continually update our estimated repurchase liability. The level of the repurchase liability for representations and warranties is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor demand strategies, and other external conditions that may change over the lives of the underlying loans.

Interest Income and Interest Expense

Interest income on securitized mortgage collateral and interest expense on securitized mortgage borrowings are recorded using the effective interest method for the period based on the previous quarter end’s estimated fair value. Interest expense on long term debt is recorded using the effective interest method based on estimated future interest rates and cash flows.

Income Taxes

Provision for income taxes is calculated using the asset and liability method, which requires the recognition of deferred income taxes. Deferred tax assets and liabilities are recognized and reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in the valuation allowance. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. We provide a valuation allowance against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary

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differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

Financial Condition and Results of Operations

Financial Condition

For the years ended December 31, 2018 and 2017

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

	December 31, 2018	December 31, 2017	Increase (Decrease)	% Change	
ASSETS					
Cash	$ 23,200	$ 33,223	$ (10,023)	(30)	%
Restricted cash	6,989	5,876	1,113	19	
Mortgage loans held-for-sale	353,601	568,781	(215,180)	(38)	
Finance receivables	—	41,777	(41,777)	(100)	
Mortgage servicing rights	64,728	154,405	(89,677)	(58)	
Securitized mortgage trust assets	3,165,590	3,670,550	(504,960)	(14)	
Goodwill	—	104,587	(104,587)	(100)	
Intangibles, net	—	21,582	(21,582)	(100)	
Loans eligible for repurchase from Ginnie Mae	204	47,697	(47,493)	(100)	
Other assets	33,631	33,222	409	1	
Total assets	$ 3,647,943	$ 4,681,700	$ (1,033,757)	(22)	%
LIABILITIES & EQUITY					
Warehouse borrowings	$ 284,137	$ 575,363	$ (291,226)	(51)	%
MSR financings	—	35,133	(35,133)	(100)	
Convertible notes	24,985	24,974	11	0	
Contingent consideration	—	554	(554)	(100)	
Long-term debt (Par value; $62,000)	44,856	44,982	(126)	(0)	
Securitized mortgage trust liabilities	3,148,215	3,653,265	(505,050)	(14)	
Liability for loans eligible for repurchase from Ginnie Mae	204	47,697	(47,493)	(100)	
Repurchase reserve	7,657	6,020	1,637	27	
Other liabilities	27,714	28,565	(851)	(3)	
Total liabilities	3,537,768	4,416,553	(878,785)	(20)	
Total equity	110,175	265,147	(154,972)	(58)	
Total liabilities and stockholders' equity	$ 3,647,943	$ 4,681,700	$ (1,033,757)	(22)	%
Book value per share	$ 5.22	12.66	$ (7.44)	(59)	%
Tangible Book value per share	$ 5.22	6.43	$ (1.21)	(19)	%

At December 31, 2018, cash decreased to $23.2 million from $33.2 million at December 31, 2017. Significant cash outflows affecting the decrease in cash were the $35.1 million repayment of MSR financings, $24.9 million investment in MSRs, paydown of high cost warehouse borrowings and the payment of operating expenses. Partially offsetting the decrease in cash was approximately $113.0 million in proceeds from the sale of MSRs, net of deal costs and $5.1 million in residual interest cash flows.

Mortgage loans held for sale decreased $215.2 million to $353.6 million at December 31, 2018 as compared to $568.8 million at December 31, 2017. The decrease was due to $3.8 billion in originations offset by $4.1 billion 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.

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As of December 31, 2018, finance receivables decreased $41.8 million. Beginning in the third quarter of 2018, we began reducing the re-warehousing facilities to our customers and redirect our focus onto the repositioning of the mortgage lending platform. As of December 31, 2018, there were no outstanding finance receivables.

Mortgage servicing rights decreased $89.7 million to $64.7 million at December 31, 2018 as compared to $154.4 million at December 31, 2017. The decrease was due to $10.5 billion in UPB of MSR sales during the fourth quarter of 2018. Partially offsetting the decrease was servicing retained loan sales of $2.4 billion in UPB and a mark to market increase in fair value of $3.8 million, which includes the change in fair value associated with principal reductions as well as prepayments. At December 31, 2018, we serviced $6.2 billion in UPB for others as compared to $16.3 billion at December 31, 2017.

As part of the CCM acquisition, we recorded goodwill of $104.6 million, which was evaluated on a quarterly basis for impairment. As of December 31, 2017 and March 31, 2018, we performed goodwill impairment evaluations for this reporting unit and determined that there was no impairment. As previously disclosed in our quarterly and annual reports, CCM experienced declines in mortgage refinancing originations and margin compression, primarily a result of sustained increases in market interest rates from a historically low interest rate environment. In addition, the business model of CCM had led to additional margin compression on conventional originations due to adverse demand from investors, as a result of the borrowers' propensity to refinance. During the second quarter of 2018, the CCM brand continued to experience a material loss in value resulting from i) the aforementioned adverse treatment from capital market participants for conventional loans produced by the reporting unit, ii) consumer uncertainty due to the use of a similar brand name by an unaffiliated financial services company and iii) substantial deterioration in brand awareness. In light of these developments, a significant reduction in the anticipated future cash flows and estimated fair value for this reporting unit had occurred during the second and third quarters of 2018. In the second quarter of 2018, we recorded an impairment charge of $74.7 million related to goodwill and $13.4 million related to intangible assets. During the third quarter of 2018, CCM continued to experience a significant decline in origination volume and margin compression in excess of our updated projections from the second quarter of 2018, in addition to continued adverse treatment from capital markets for conventional originations from the reporting unit. As a result, during the third quarter of 2018, we recorded an impairment charge of $29.9 million related to goodwill and $4.9 million related to intangible assets. Despite our shift in strategy and full impairment of the goodwill, the consumer direct channel remains an integral component of our balanced channel distribution capabilities going forward. See Note 5.-Goodwill and Intangible Assets of the "Notes to Consolidated Financial Statements" for additional information.

Loans eligible for repurchase from Ginnie Mae decreased $47.5 million to $204 thousand at December 31, 2018 as compared to $47.7 million at December 31, 2017. The decrease was due to $3.9 billion in UPB of Ginnie Mae mortgage servicing sales during the fourth quarter of 2018. As part of our repurchase reserve, we record a repurchase provision to provide for estimated losses from the sale of all mortgage loans, including these loans. Our Ginnie Mae servicing portfolio decreased to $51.2 million at December 31, 2018 as compared to $2.8 billion at December 31, 2017.

Warehouse borrowings decreased $291.2 million to $284.1 million at December 31, 2018 as compared to $575.4 million at December 31, 2017. The decrease was due to a decrease in mortgage loans held for sale at December 31, 2018. During 2018, we decreased our total borrowing capacity to $900 million as compared to $960.0 million at December 31, 2017.

We have separate agreements with two lenders providing for MSR financing facilities of up to $60.0 million and $40.0 million. The $60.0 million facility allows us to borrow up to 60% of the fair market value of Freddie Mac and Ginnie Mae (subject to an acknowledgment agreement) pledged mortgage servicing rights. The $40.0 million facility allows us to borrow up to 55% of the fair market value of Fannie Mae pledged mortgage servicing rights. Proceeds from the aforementioned MSR sale were used to paydown the MSR financing and high cost warehouse borrowings, and at December 31, 2018, there was no outstanding balance on either MSR financing facility.

Repurchase reserve increased $1.6 million to $7.7 million at December 31, 2018 as compared to $6.0 million as December 31, 2017. The increase was due to a $5.1 million in provision for repurchase as a result of an increase in expected future losses, partially offset by $3.5 million in settlements primarily related to repurchased loans as well as refunds of premiums to investors for early payoffs on loans sold.

During 2018, with the earn-out ending on December 31, 2017, we paid the remaining $554 thousand in contingent consideration payments related to the CCM acquisition for the fourth quarter of 2017.

Book value per share decreased 59% to $5.22 at December 31, 2018 as compared to $12.66 at December 31, 2017. Book value per common share decreased 73% to $2.77 as of December 31, 2018, as compared to $10.19 as of December 31, 2017 (inclusive of the remaining $51.8 million of liquidation preference on our preferred stock). In the event we are not successful in appealing the Preferred B litigation, inclusive of the Preferred B stock cumulative undeclared dividends in arrears of $14.4 million, common book value per share was $2.08.

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

	December 31, 2018	December 31, 2017	Increase (Decrease)	% Change	
Securitized mortgage collateral	$ 3,157,071	$ 3,662,008	$ (504,937)	(14)	%
Other trust assets	8,519	8,542	(23)	(0)	
Total trust assets	3,165,590	3,670,550	(504,960)	(14)	
Securitized mortgage borrowings	$ 3,148,215	$ 3,653,265	$ (505,050)	(14)	%
Total trust liabilities	3,148,215	3,653,265	(505,050)	(14)	
Residual interests in securitizations	$ 17,375	$ 17,285	$ 90	1	%

Since the consolidated securitization trusts are nonrecourse to us, trust assets and liabilities have been netted in the table above to present our interest in these trusts more simply, which are considered the residual interests in 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. 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 $17.4 million at December 31, 2018 compared to $17.3 million at December 31, 2017. The increase in residual fair value was the result of a decrease in loss assumptions as well as recoveries on certain multi-family trusts with residual value.

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 year ended December 31, 2018, actual losses decreased or were in line with forecasted losses for the majority of trusts with residual value. Principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings also contributed to the reduction in trust assets and liabilities.

· The estimated fair value of securitized mortgage collateral decreased $504.9 million during 2018 primarily due to reductions in principal from borrower payments and transfers of loans to REO for single family and multi family collateral. Additionally, other trust assets were $8.5 million at December 31, 2018 and 2017. During 2018, REO increased due to $22.4 million in foreclosures, which was offset by a $21.5 million in decrease in REO from liquidations and a $950 thousand decrease in the NRV of REO.

· The estimated fair value of securitized mortgage borrowings decreased $505.1 million during 2018 primarily due to reductions in principal balances from principal payments during the period for single-family and multi-family collateral as well as a decrease in loss assumptions.

Prior to 2008, 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 sub 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

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payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO. Our real estate services segment also performs mitigation activities for loans within the portfolio.

For the trusts we consolidate, the loans are included in the statement of financial condition as "securitized mortgage trust assets", the foreclosed loans are included in the statement of financial condition as "real estate owned" and the various bond tranches owned by investors are included in the statement of financial condition as "securitized mortgage trust liabilities." To the extent there is excess overcollateralization (as defined in the securitization agreements) in these securitization trusts, we receive cash flows from the excess interest collected monthly from the residual interest we own. Because (i) we elected the fair value option on the securitized mortgage collateral, securitized mortgage borrowings, and (ii) real estate owned is reflected at NRV, which closely approximates fair market value, the net of the trust assets and trust liabilities represents the estimated fair value of the residual interests we own.

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. 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.

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, 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.

The following table presents changes in the trust assets and trust liabilities for the year ended December 31, 2018:

			TRUST LIABILITIES
	Level 3 Recurring Fair Value Measurement	NRV (1)	Level 3 Recurring Fair

	Securitized mortgage collateral	Real estate owned	Total trust assets	Value Measurement Securitized mortgage borrowings	Net trust assets
Recorded book value at December 31, 2017	$ 3,662,008	$ 8,542	$ 3,670,550	$ (3,653,265)	$ 17,285
Total gains/(losses) included in earnings:					
Interest income	28,165	—	28,165	—	28,165
Interest expense	—	—	—	(60,889)	(60,889)
Change in FV of net trust assets, excluding REO (2)	43,272	—	43,272	(44,871)	(1,599)
Losses from REO – not at FV but at NRV (2)	—	(950)	(950)	—	(950)
Total gains (losses) included in earnings	71,437	(950)	70,487	(105,760)	(35,273)
Transfers in and/or out of level 3	—	—	—	—	—
Purchases, issuances and settlements	(576,374)	927	(575,447)	610,810	35,363
Recorded book value at December 31, 2018	$ 3,157,071	$ 8,519	$ 3,165,590	$ (3,148,215)	$ 17,375

(1) Accounted for at net realizable value.

(2) Included in other income (expense) in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2018.

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Inclusive of losses from REO, total trust assets above reflect a net gain of $42.3 million as a result of an increase in fair value from securitized mortgage collateral and other trust assets of $43.3 million partially offset by losses from REO of $950 thousand. Net losses on trust liabilities were $44.9 million from the increase in fair value of securitized mortgage borrowings. As a result, change in fair value of net trust assets, including trust REO gains and losses totaled a decrease of $2.5 million for the year ended December 31, 2018.

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

	December 31, 2018	December 31, 2017
Net trust assets	$ 17,375	$ 17,285
Total trust assets	3,165,590	3,670,550
Net trust assets as a percentage of total trust assets	0.55 %	0.47 %

For the year ended December 31, 2018, the estimated fair value of the net trust assets increased as a percentage of total trust assets. The increase was primarily due to an increase in projected future cash flows due to a decrease in loss assumptions in the 2002-2003 single-family vintage.

Since the consolidated 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 by securitization vintage year and other related assumptions used to derive these values at December 31, 2018 and December 31, 2017:

	Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2018			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2017		
Origination Year	SF	MF	Total	SF	MF	Total
2002-2003 (1)	$ 10,097	$ 617	$ 10,714	$ 8,311	$ 663	$ 8,974
2004	1,554	668	2,222	2,041	970	3,011
2005	2	2	4	54	85	139
2006	—	4,435	4,435	—	5,161	5,161
Total	$ 11,653	$ 5,722	$ 17,375	$ 10,406	$ 6,879	$ 17,285
Weighted avg. prepayment rate	8.2 %	6.2 %	8.0 %	8.0 %	7.2 %	7.9 %
Weighted avg. discount rate	16.3	18.2	16.9	17.0	18.0	17.4

(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.

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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 December 31, 2018:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	4 %	* (3)	6 %	8 %
2004	4	* (3)	5	5
2005	5	* (3)	4	5
2006	7	* (3)	4	4
2007	8	* (3)	5	4

(1) Estimated future losses derived by dividing future projected losses by unpaid principal balances at December 31, 2018.
(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 through December 31, 2018, 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 late or greater, foreclosures and delinquent bankruptcies were $595.5 million or 16.4% of the long term mortgage portfolio as of December 31, 2018, as compared to $821.8 million or 19.1% as of December 31, 2017.

The following table summarizes the unpaid principal balances of loans in our mortgage portfolio, included within securitized mortgage collateral, that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

Securitized mortgage collateral	December 31, 2018	Total Collateral	December 31, 2017	Total Collateral
60 - 89 days delinquent	$ 101,546	2.8 %	$ 112,188	2.6 %
90 or more days delinquent	212,668	5.8	336,525	7.8
Foreclosures (1)	177,099	4.9	174,871	4.1
Delinquent bankruptcies (2)	104,232	2.9	198,212	4.6
Total 60 or more days delinquent	$ 595,545	16.4 %	$ 821,796	19.1 %
Total collateral	$ 3,640,902	100.0 %	$ 4,301,316	100.0 %

(1) Represents properties in the process of foreclosure.

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

The following table summarizes the UPB of securitized mortgage collateral, mortgage loans held for sale and real estate owned, that were non performing as of the dates indicated (excludes 60 89 days delinquent):

	December 31, 2018	Total Collateral %	December 31, 2017	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	$ 493,999	13.6 %	$ 709,608	16.5 %
Real estate owned inside and outside trusts	9,885	0.3	8,542	0.2
Total non-performing assets	$ 503,884	13.9 %	$ 718,150	16.7 %

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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 our 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 December 31, 2018, 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 13.9%. At December 31, 2017, non performing assets to total collateral was 16.7%. Non performing assets decreased by approximately $214.3 million at December 31, 2018 as compared December 31, 2017.
At December 31, 2018, 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 $197.2 million or 5.4% of total assets. At December 31, 2017, the estimated fair value of non performing assets was $212.7 million or 4.5% 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 and comprehensive loss.

For the year ended December 31, 2018, we recorded a $950 thousand decrease in net realizable value of the REO compared to an increase of $7.4 million for the comparable 2017 period. Increases and write-downs of the net realizable value reflect increases or declines in value of the REO subsequent to foreclosure date, but prior to the date of sale.

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

	December 31, 2018	December 31, 2017
REO	$ 17,813	$ 15,519
Impairment (1)	(7,928)	(6,977)
Ending balance	$ 9,885	$ 8,542
REO inside trusts	$ 8,519	$ 8,542
REO outside trusts	1,366	—
Total	$ 9,885	$ 8,542

(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.

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,

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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 year ended December 31, 2018 as compared to 2017

	For the Year Ended December 31,	
	2018	2017
Revenues	$ 105,000	$ 138,705
Expenses (1)	(249,352)	(156,430)
Net interest income	2,517	4,343
Loss on extinguishment of debt	—	(1,265)
Change in fair value of long-term debt	3,978	(2,949)
Change in fair value of net trust assets, including trust REO gains (losses)	(2,549)	6,213
Income tax expense	(5,004)	(20,138)
Net loss	$ (145,410)	$ (31,521)
Loss per share available to common stockholders—basic	$ (6.92)	$ (1.62)
Loss per share available to common stockholders—diluted	$ (6.92)	$ (1.62)

(1) Includes changes in contingent consideration liability resulting in income of $13.3 million in 2017 and goodwill and intangible asset impairment of $104.6 million and $18.3 million, respectively, in 2018.

Revenues

	For the Year Ended December 31,			
	2018	2017	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 66,750	$ 136,147	$ (69,397)	(51) %
Servicing fees, net	37,257	31,902	5,355	17
Loss on mortgage servicing rights, net	(3,625)	(35,880)	32,255	90
Real estate services fees, net	4,327	5,856	(1,529)	(26)
Other revenues	291	680	(389)	(57)
Total revenues	$ 105,000	$ 138,705	$ (33,705)	(24) %

Gain on sale of loans, net. For the year ended December 31, 2018, gain on sale of loans, net totaled $66.8 million compared to $136.1 million in the comparable 2017 period. The $69.4 million decrease is primarily due to a $84.3 million decrease in premiums from the sale of mortgage loans, a $31.2 million decrease in premiums from servicing retained loan sales, a $23.1 million increase in mark-to-market losses on LHFS and a $3.5 million increase in provision for repurchases. Partially offsetting the decrease in gain on sale of loans, net was a $51.9 million decrease in direct loan origination expenses and a $20.8 million increase in realized and unrealized net gains on derivative instruments.

The overall decrease in gain on sale of loans, net was primarily due to a 46% decrease in volumes as well as a decrease in gain on sale margins. For the year ended December 31, 2018, we originated and sold $3.8 billion and $4.1 billion of loans, respectively, as compared to $7.1 billion and $6.9 billion of loans originated and sold, respectively, during the same period in 2017. Margins decreased to approximately 174 bps for the year ended December 31, 2018 as compared to 191 bps for the same period in 2017. The primary drivers of margin compression were the increase in interest rates since the end of the second quarter of 2017 and an increase in direct origination expenses as a result of an increase in competition for volume as well as margin compression as a result of adverse demand from investors for our retail originations.

Servicing fees, net. For the year ended December 31, 2018, servicing fees, net was $37.3 million compared to $31.9 million in the comparable 2017 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 4% to an average balance of $15.3 billion for the year ended December 31, 2018 as compared to an average balance of $14.7 billion for the year ended December 31, 2017. The increase in the average balance of the servicing portfolio is a result of servicing retained loan sales of $2.4 billion during the year ended December 31, 2018. During the fourth quarter of 2018, we sold approximately $10.5 billion in UPB of Fannie Mae and Ginnie Mae servicing which will

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result in a reduction in servicing fees, net in 2019.

Loss on mortgage servicing rights, net.

	For the Year Ended December 31,				
	2018	2017	Increase (Decrease)	% Change	
Realized and unrealized (losses) gains from hedging instruments	$ (1,445)	$ 2,117	$ (3,562)	(168)	%
Loss on sale of mortgage servicing rights	(5,937)	(93)	(5,844)	(6284)	
Changes in fair value:					
Due to changes in valuation market rates, inputs or assumptions	28,794	(8,663)	37,457	432	
Other changes in fair value:					
Scheduled principal prepayments	(9,849)	(9,167)	(682)	(7)	
Voluntary prepayments	(15,188)	(20,074)	4,886	24	
Total changes in fair value	$ 3,757	$ (37,904)	$ 41,661	110	%
Loss on mortgage servicing rights, net	$ (3,625)	$ (35,880)	$ 32,255	90	%

For the year ended December 31, 2018, loss on MSRs was $3.6 million compared to $35.9 million in the comparable 2017 period. For the year ended December 31, 2018, we recorded a $28.8 million gain from change in fair value of MSRs primarily the result of mark-to-market changes related to an increase in interest rates resulting in a reduction in prepayment speeds as well as realized gains due to the market value of our MSR sales which were in excess of our economic value. Partially offsetting the increase in fair value was a decrease associated with $9.8 million and $15.2 million in scheduled and voluntary prepayments, respectively. For the year ended December 31, 2018, we had a $5.9 million loss on sale of mortgage servicing rights related to deal costs associated with the $10.5 billion UPB of mortgage servicing sales in the fourth quarter. Additionally, we also had $1.4 million in realized and unrealized losses from hedging instruments related to MSRs.

Real estate services fees, net. For the year ended December 31, 2018, real estate services fees, net were $4.3 million compared to $5.9 million in the comparable 2017 period. The $1.5 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2017.

Expenses

	For the Year Ended December 31,				
			Increase	%	
	2018	2017	(Decrease)	Change	
Personnel expense	$ 64,143	$ 89,647	$ (25,504)	(28)	%
Business promotion	26,936	40,276	(13,340)	(33)	
General, administrative and other	35,339	37,424	(2,085)	(6)	
Intangible asset impairment	18,347	—	18,347	n/a	
Goodwill impairment	104,587	351	104,236	29697	
Accretion of contingent consideration	—	2,058	(2,058)	(100)	
Change in fair value of contingent consideration	—	(13,326)	13,326	100	
Total expenses	$ 249,352	$ 156,430	$ 92,922	59	%

Total expenses were $249.4 million for the year ended December 31, 2018 compared to $156.4 million for the comparable period of 2017. Excluding goodwill and asset impairment, total expenses decreased by $30.0 million, or 19%, to $126.4 million for the year ended December 31, 2018 compared to $156.4 million for the comparable period in 2017. Personnel expense decreased $25.5 million to $64.1 million for the year ended December 31, 2018. The decrease is primarily related to a reduction in commission expense due to a decrease in loan originations as well as staff reductions throughout 2018. As a result of the reduction in loan origination volumes, we continue to reduce overhead to more closely align staffing levels to origination volumes in the current economic environment. As a result of the staff reductions throughout 2018 which have continued into 2019, average headcount decreased 24% in 2018 as compared to the same

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period in 2017. Offsetting the decrease in personnel expense was $2.2 million in severance costs associated with the repositioning of the staff and executive management team.

Business promotion totaled $26.9 million for the year ended December 31, 2018 compared to $40.3 million for the comparable period of 2017. During 2018, business promotion decreased as we have begun to shift the consumer direct marketing strategy away from radio and television advertisements to a digital campaign which allows for a more cost effective approach, increasing the ability to be more price and product competitive to more specific target geographies.

General, administrative and other expenses decreased to $35.3 million for the year ended December 31, 2018 compared to $37.4 million for the same period in 2017. The decrease was primarily related to a $2.4 million reduction in legal fees associated with defending litigation matters as well as entering into settlement agreements, a $1.8 million decrease in other general and administrative expense, a $961 thousand decrease in intangible asset amortization and a $600 thousand decrease in premises and equipment expenses. Partially offsetting the decrease was a $3.2 million increase in professional fees associated with the repositioning of the Company and a $471 thousand increase in data processing.

Goodwill and intangible asset impairment increased to $104.6 million and $18.3 million for the year ended December 31, 2018. As previously discussed, we recorded an impairment charge of $104.6 million related to goodwill and $18.3 million related to intangible assets during 2018. See Note 5.-Goodwill and Intangible Assets of the "Notes to Consolidated Financial Statements" for additional information.

As part of the acquisition of CCM, we recorded accretion and change in fair value of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017. With the end of the earn-out period in December 2017, we have no accretion of contingent consideration or change in fair value consideration expenses in 2018.

Other Income

	For the Year Ended December 31,	
	2018	2017
Interest income	$ 186,848	$ 230,330
Interest expense	(184,331)	(225,987)
Net interest income	2,517	4,343

Loss on extinguishment of debt	—	(1,265)
Change in fair value of long-term debt	3,978	(2,949)
Change in fair value of net trust assets, including trust REO (losses) gains	(2,549)	6,213
Total other income	$ 3,946	$ 6,342

Net Interest Income

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral and mortgage loans held 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 and MSR financing. 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, for the periods indicated. Cash receipts and payments on derivative instruments hedging

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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 Year Ended December 31,							
	2018				2017			
	Average Balance	Interest	Yield		Average Balance	Interest	Yield	
ASSETS								
Securitized mortgage collateral	$ 3,407,242	$ 162,432	4.77	%	$ 3,824,312	$ 209,432	5.48	%
Mortgage loans held-for-sale	443,499	23,268	5.25		384,383	18,424	4.79	
Finance receivables	15,929	1,023	6.42		38,216	2,316	6.06	
Other	30,134	125	0.41		37,398	158	0.42	
Total interest-earning assets	$ 3,896,804	$ 186,848	4.79	%	$ 4,284,309	$ 230,330	5.38	%
LIABILITIES								
Securitized mortgage borrowings	$ 3,399,984	$ 154,704	4.55	%	$ 3,816,577	$ 201,341	5.28	%
Warehouse borrowings (1)	440,273	20,542	4.67		414,149	16,834	4.06	
MSR financing facilities	45,532	2,650	5.82		18,790	1,035	5.51	
Long-term debt	45,540	4,525	9.94		46,266	4,453	9.62	
Convertible notes	24,979	1,885	7.55		24,970	1,884	7.55	
Term financing	—	—	—		3,358	408	12.15	
Other	173	25	14.45		435	32	7.36	
Total interest-bearing liabilities	$ 3,956,481	$ 184,331	4.66	%	$ 4,324,545	$ 225,987	5.23	%
Net interest spread (2)		$ 2,517	0.13	%		$ 4,343	0.15	%
Net interest margin (3)			0.06	%			0.10	%

(1) Warehouse borrowings include the borrowings from mortgage loans held for sale and finance receivables.
(2) Net interest spread is calculated by subtracting the weighted average yield on interest bearing liabilities from the weighted average yield on interest earning assets.
(3) Net interest margin is calculated by dividing net interest spread by total average interest earning assets.

Net interest spread decreased $1.8 million for the year ended December 31, 2018 primarily attributable to an increase in the net interest expense as a result of an increase in the average outstanding balance of the MSR financing facility during the period, a decrease in the net interest spread on the securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the net interest spread between loans held-for-sale and finance receivables and their related warehouse borrowings. Partially offsetting the decrease in net spread was a decrease in interest expense related to the payoff of term financing in 2017. As a result, net interest margin decreased to 0.06% for the year ended December 31, 2018 as compared to 0.10% for the year ended December 31, 2017.

During the year ended December 31, 2018, the yield on interest-earning assets decreased to 4.79% from 5.38% in the comparable 2017 period. The yield on interest-bearing liabilities decreased to 4.66% for the year ended

December 31, 2018 from 5.23% for the comparable 2017 period. In connection with the fair value accounting for securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense are 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 as compared to the previous period.

Loss on extinguishment of debt

We recorded a $1.3 million loss on extinguishment of debt during the year ended December 31, 2017. In May 2017, we exchanged 412,264 shares of common stock for the remaining trust preferred securities which had an aggregate liquidation amount of $8.5 million. The value of the shares on the issuance date exceeded the carrying value of debt by $1.3 million.

Change in the fair value of long term debt

Long term debt (consisting of junior subordinated notes) is measured based upon an internal analysis which considers our own credit risk and discounted cash flow analyses. Improvements in our financial results and financial condition in the future could result in additional increases in the estimated fair value of the long term debt, while deterioration in financial results and financial condition could result in a decrease in the estimated fair value of the long term debt.

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In the first quarter of 2018, we adopted ASU 2016-01, which effectively bifurcates the market and instrument specific credit risk components of changes in long-term debt. The market portion will continue to be a component of net earnings (loss) as the change in fair value of long-term debt, but the instrument specific credit risk portion will be a component of accumulated other comprehensive earnings (loss).

During 2018, the fair value of the long-term debt decreased as a result of a $4.0 million change in the market specific credit risk during the quarter partially offset by a $3.1 million change in the instrument specific credit risk. The slight decrease in the estimated fair value of long-term debt during 2018 was primarily due to a decrease in forward LIBOR as of December 31, 2018, offset by an increase in the instrument specific credit risk attributable to a decline in our credit risk profile and financial condition.

During 2017, the fair value of long-term debt increased resulting in a $2.9 million expense. The increase in the estimated fair value of long-term debt during 2017 was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, financial condition as well as an increase in forward LIBOR during 2017.

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

	For the Year Ended December 31,	
	2018	2017
Change in fair value of net trust assets, excluding REO	$ (1,599)	$ (1,212)
(Losses) gains from REO	(950)	7,425
Change in fair value of net trust assets, including trust REO (losses) gains	$ (2,549)	$ 6,213

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of $2.5 million for the year ended December 31, 2018. The change in fair value of net trust assets, excluding trust REO was due to $1.6 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR. Additionally, the NRV of REO decreased $950 thousand during the period attributed to higher 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 $6.2 million for the year ended December 31, 2017. The change in fair value of net trust assets, including trust REO was due to $7.4 million in gains on REO attributable to lower expected loss severities on properties held in the long-term mortgage portfolio during the period, partially offset by $1.2 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR.

Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act made broad and complex changes to the U.S. tax code by, among other things, reduced the federal corporate income tax rate and business deductions. The Tax Act reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Under FASB ASC 740, the effects of changes in tax rates and laws were recognized in the period in which the new legislation was enacted.

The SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Legislation. We recognized the provisional tax impact related to the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the we made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Reform Legislation. We completed our accounting during 2018 without any significant adjustments from the provisional amounts.

We recorded income tax expense of $5.0 million and $20.1 million for the years ended December 31, 2018 and 2017, respectively. The income tax expense of $5.0 million for the year ended December 31, 2018 is primarily the result of recording a full valuation allowance on deferred tax assets due to a reduction in future utilization and state income taxes

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from states where the Company does not have net operating loss carryforwards and state minimum taxes, including AMT. The income tax expense of $20.1 million for the year ended December 31, 2017 was primarily the result of the enactment of the Tax Act, which reduced the U.S. corporate income tax rate. As a result, we re-measured the net deferred tax assets at December 31, 2017 at the rate at which they were expected to reverse in the future and recognized a tax expense of $89.5 million, which was offset by a $66.4 million change in the valuation allowance and other items resulting in income tax expense of $20.1 million in 2017. Additionally, income tax expense for 2017 was also due to a reduction in the Company's deferred tax asset as a result of a reduction in future utilization, amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards and state minimum taxes, including AMT.

In accordance with FASB ASC 810 10 45 8, we recorded a deferred charge representing 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 represents the deferral of income tax expense on inter company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. At December 31, 2017, the deferred charge was included in other assets in the accompanying consolidated balance sheets and was amortized as a component of income tax expense in the accompanying consolidated statements of operations and comprehensive loss. With the adoption of ASU 2016-16 on January 1, 2018, the deferred charge was eliminated with a $7.8 million cumulative effect adjustment to opening retained earnings and it will no longer be amortized as a component of income tax expense.

As of December 31, 2018, we had estimated federal net operating loss (NOL) carryforwards of approximately $564.6 million. Federal net operating loss carryforwards begin to expire in 2027.

As of December 31, 2018, the estimated Federal NOL carryforward expiration schedule is as follows (in millions):

Tax Year Established	Amount	Expiration Date
12/31/2007	$ 173.9	12/31/2027
12/31/2008	3.6	12/31/2028
12/31/2009	101.6	12/31/2029
12/31/2010	89.7	12/31/2030
12/31/2011	44.1	12/31/2031
12/31/2012	—	12/31/2032
12/31/2013	28.5	12/31/2033
12/31/2014	—	12/31/2034
12/31/2015	30.5	12/31/2035
12/31/2016	55.0	12/31/2036
12/31/2017	37.7	12/31/2037
12/31/2018 (1)	—	n/a
Total Federal NOLs	$ 564.6	

(1)

NOL amounts are estimates until the final tax return is filed in October 2019. Additionally, any NOLs that are generated subsequent to the enactment of the Tax Act will have an indefinite life.

As of December 31, 2018, we had estimated California NOL carryforwards of approximately $386.0 million, which begin to expire in 2028. We may not be able to realize the maximum benefit due to the nature and tax entities that holds the NOL.

Our deferred tax assets are primarily the result of net operating losses and basis differences on mortgage securities and goodwill. We have recorded a full valuation allowance against our deferred tax assets at December 31, 2018 as it is more likely than not that the deferred tax assets will not be realized. The valuation allowance is based on the management's assessment that it is more likely than not that certain deferred tax assets, primarily net operating loss carryforwards, may not be realized in the foreseeable future due to objective negative evidence that we may not generate sufficient taxable income to realize the deferred tax assets.

We are subject to federal income taxes as a regular (Subchapter C) corporation and file a consolidated U.S. federal income tax return.

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A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

Results of Operations by Business Segment

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

Condensed Statements of Operations Data

	For the Year Ended December 31,			
	2018	2017	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 66,750	$ 136,147	$ (69,397)	(51) %
Servicing fees, net	37,257	31,902	5,355	17
(Loss) gain on mortgage servicing rights, net	(3,625)	(35,880)	32,255	90
Other	—	22	(22)	(100)
Total revenues	100,382	132,191	(31,809)	(24)
Other income	1,100	2,931	(1,831)	(62)
Personnel expense	(57,674)	(82,614)	24,940	30
Business promotion	(26,844)	(40,175)	13,331	33
General, administrative and other	(17,154)	(20,213)	3,059	15
Intangible asset impairment	(18,347)	—	(18,347)	n/a
Goodwill impairment	(104,587)	—	(104,587)	n/a
Accretion of contingent consideration	—	(2,058)	2,058	100
Change in fair value of contingent consideration	—	13,326	(13,326)	(100)
(Loss) earnings before income taxes	$ (123,124)	$ 3,388	$ (126,512)	(3734) %

For the year ended December 31, 2018, gain on sale of loans, net totaled $66.8 million compared to $136.1 million in the comparable 2017 period. The $69.4 million decrease is primarily due to a $84.3 million decrease in premiums from the sale of mortgage loans, a $31.2 million decrease in premiums from servicing retained loan sales, a $23.1 million increase in mark-to-market losses on LHFS and a $3.5 million increase in provision for repurchases. Partially offsetting the decrease in gain on sale of loans, net was a $51.9 million decrease in direct loan origination expenses and a $20.8 million increase in realized and unrealized net gains on derivative instruments.

The overall decrease in gain on sale of loans, net was primarily due to a 46% decrease in volumes as well as a decrease in gain on sale margins. For the year ended December 31, 2018, we originated and sold $3.8 billion and $4.1 billion of loans, respectively, as compared to $7.1 billion and $6.9 billion of loans originated and sold, respectively, during the same period in 2017. Margins decreased to approximately 174 bps for the year ended December 31, 2018 as compared to 191 bps for the same period in 2017. The primary drivers of margin compression were the increase in interest rates since the end of the second quarter of 2017 and an increase in direct origination expenses as a result of an increase in competition for volume as well as margin compression as a result of adverse demand from investors for our retail originations.

For the year ended December 31, 2018, servicing fees, net was $37.3 million compared to $31.9 million in the comparable 2017 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 4% to an average balance of $15.3 billion for the year ended December 31, 2018 as compared to an average balance of $14.7 billion for the year ended December 31, 2017. The increase in the average balance of the servicing portfolio was a result of servicing retained loan sales of $2.4 billion during the year ended December 31, 2018. During the fourth quarter of 2018, we sold approximately $10.5 billion in UPB of Fannie Mae and Ginnie Mae servicing which will result in a reduction in servicing fees, net in 2019.

For the year ended December 31, 2018, loss on MSRs was $3.6 million compared to $35.9 million in the comparable 2017 period. For the year ended December 31, 2018, we recorded a $28.8 million gain from change in fair value of MSRs primarily the result of mark-to-market changes related to an increase in interest rates resulting in a reduction in prepayment speeds as well as realized gains due to the market value of our MSR sales which were in excess of our economic value. Partially offsetting the increase in fair value was a decrease associated with $9.8 million and $15.2 million in scheduled and voluntary prepayments, respectively. For the year ended December 31, 2018, we had a $5.9 million loss on sale of mortgage servicing rights related to deal costs associated with the $10.5 billion UPB of mortgage servicing sales in the fourth quarter. Additionally, we also had $1.4 million in realized and unrealized losses from hedging instruments related to MSRs.

Personnel expense decreased $24.9 million to $57.7 million for the year ended December 31, 2018. The decrease is primarily related to a reduction in commission expense due to a decrease in loan originations as well as staff reductions throughout 2018. As a result of the reduction in loan origination volumes, we continue to reduce overhead to more closely align staffing levels to origination volumes in the current economic environment. As a result of the staff reductions throughout 2018 which have continued into 2019, average headcount decreased 27% in 2018 as compared to the same period in 2017. Offsetting the decrease in personnel expense was $516 thousand in severance costs associated with the repositioning of the staff and executive management team.

Business promotion totaled $26.9 million for the year ended December 31, 2018 compared to $40.2 million for the comparable period of 2017. During 2018, business promotion decreased as we have begun to shift the consumer direct marketing strategy away from radio and television advertisements to a digital campaign which allows for a more cost effective approach, increasing the ability to be more price and product competitive to more specific target geographies.

General, administrative and other expenses decreased to $17.2 million for the year ended December 31, 2018 compared to $20.2 million for the same period in 2017. The decrease was primarily related to a $2.3 million decrease in in other general and administrative expenses, a $961 thousand decrease in intangible asset amortization and a $545 thousand decrease in premises and equipment expenses. Partially offsetting the decrease was a $413 thousand increase in professional fees associated with the repositioning of the Company and a $317 thousand increase in legal fees associated with defending litigation matters as well as entering into preliminary settlement agreements.

As previously discussed, we recorded an impairment charge of $104.6 million related to goodwill and $18.3 million related to intangible assets during 2018. See Note 5.-Goodwill and Intangible Assets of the "Notes to Consolidated Financial Statements" for additional information.

As part of the acquisition of CCM, we recorded accretion and change in fair value of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017. With the end of the earn-out period in December 2017, we have no accretion of contingent consideration or change in fair value consideration expenses in 2018.

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Long Term Mortgage Portfolio

	For the Year Ended December 31,				
	2018	2017	Increase (Decrease)	% Change	
Other revenue	$ 291	$ 273	$ 18	7	%
Personnel expense	(72)	(14)	(58)	(414)	%
General, administrative and other	(1,366)	(325)	(1,041)	(320)	
Total expenses	(1,438)	(339)	(1,099)	(324)	
Net interest income	3,204	3,639	(435)	(12)	
Loss on extinguishment of debt	—	(1,265)	1,265	100	
Change in fair value of long-term debt	3,978	(2,949)	6,927	235	
Change in fair value of net trust assets, including trust REO gains	(2,549)	6,213	(8,762)	(141)	
Total other income	4,633	5,638	(1,005)	(18)	
Earnings before income taxes	$ 3,486	$ 5,572	$ (2,086)	(37)	%

For the year ended December 31, 2018, net interest income totaled $3.2 million as compared to $3.6 million for the comparable 2017 period. Net interest income decreased $435 thousand for the year ended December 31, 2018 primarily attributable to a $363 thousand decrease in net interest spread on the long-term mortgage portfolio as well as a $72 thousand increase in interest expense on the long-term debt due to an increase in three-month LIBOR as compared to the prior year.

In May 2017, we exchanged 412,264 shares of common stock for the remaining trust preferred securities which had an aggregate liquidation amount of $8.5 million. The value of the shares on the issuance date exceeded the carrying value of debt by $1.3 million. As a result, we recorded a $1.3 million loss on extinguishment of debt during 2017.

In the first quarter of 2018, we adopted ASU 2016-01, which effectively bifurcates the market and instrument specific credit risk components of changes in long-term debt. The market portion will continue to be a component of net earnings (loss) as the change in fair value of long-term debt, but the instrument specific credit risk portion will be a component of accumulated other comprehensive earnings (loss). During 2018, the fair value of the long-term debt decreased as a result of a $4.0 million change in the market specific credit risk during the quarter partially offset by a $3.1 million change in the instrument specific credit risk. The slight decrease in the estimated fair value of long-term debt during 2018 was primarily due to a decrease in forward LIBOR as of December 31, 2018, offset by an increase in the instrument specific credit risk attributable to a decline in our credit risk profile and financial condition.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of $2.5 million for the year ended December 31, 2018. The change in fair value of net trust assets, excluding trust REO was due to $1.6 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR. Additionally, the NRV of REO decreased $950 thousand during the year ended December 31, 2018 attributed to higher expected loss severities on properties held in the long-term mortgage portfolio during the period.

Real Estate Services

	For the Year Ended December 31,				
	2018	2017	Increase (Decrease)	% Change	
Real estate services fees, net	$ 4,327	$ 5,856	$ (1,529)	(26)	%
Personnel expense	(1,734)	(2,552)	818	32	
General, administrative and other	(354)	(1,058)	704	67	
Earnings before income taxes	$ 2,239	$ 2,246	$ (7)	(0)	%

For the year ended December 31, 2018, real estate services fees, net were $4.3 million compared to $5.9 million in the comparable 2017 period. The $1.5 million decrease in real estate services fees, net was the result of a $1.0 million decrease in loss mitigation fees, a $496 thousand decrease in real estate and recovery fees partially offset by a $27 thousand increase in real estate service fees. The $1.5 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2017.

For the year ended December 31, 2018, the $818 thousand reduction in personnel expense was due to a reduction in personnel and personnel related costs as a result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2017.

General, administrative and other expenses decreased to $354 thousand for the year ended December 31, 2018, compared to $1.1 million for the same period in 2017. The decrease was due to a $351 thousand decrease in goodwill impairment related to the wind down of certain services within our real estate services segment in 2017, a $190 thousand decrease in general, administrative and other expenses, a $92 thousand decrease in occupancy expense and a $70 decrease in legal and professional fees.

Corporate

	For the Year Ended December 31,			
	2018	2017	Increase (Decrease)	% Change
Interest expense	$ (1,787)	$ (2,227)	$ 440	20 %
Other expenses	(21,220)	(20,362)	(858)	(4)
Net loss before income taxes	$ (23,007)	$ (22,589)	$ (418)	(2) %

For the year ended December 31, 2018, interest expense decreased to $1.8 million as compared to $2.2 million for the comparable 2017 period. The decrease was primarily due to a $408 thousand decrease in interest expense related to the payoff of the term financing in February 2017.

For the year ended December 31, 2018, other expenses increased to $21.2 million as compared to $20.4 million for the comparable 2017 period. The increase was primarily due to a $1.5 million increase in personnel costs related to severance and a $1.8 million increase in professional fees both associated with the repositioning of the executive management team. Additionally, we had a $676 thousand increase in occupancy expense, a $418 thousand increase in data processing and a $272 thousand increase in general and administrative costs. Offsetting the increase in other expenses was a $2.7 million reduction in legal fees associated with defending litigation matters as well as entering into settlement agreements, $684 thousand reduction in benefits associated with a change to a more cost effective benefits provider and a reduction in payroll taxes as a result of the staff reductions made during 2018 as well as the new Tax Act, which was passed in December 2017.

Liquidity and Capital Resources

During the year ended December 31, 2018, we funded our operations primarily from mortgage lending revenues and, to a lesser extent, real estate services fees and cash flows from our residual interests in securitizations. Mortgage lending revenues include gains on sale of loans, net, servicing fees, net, proceeds from the sale of mortgage servicing rights and other mortgage related income. Real estate services fees includes portfolio loss mitigation fees which are primarily generated from our long-term mortgage portfolio. We funded mortgage loan originations using warehouse facilities, which are repaid once the loan is sold. We may continue to manage our capital through the financing or sale of mortgage servicing rights. We may also seek to raise capital by issuing debt or equity.

In December 2018, we sold $7.2 billion in UPB of FNMA and GNMA MSRs for approximately $83.2 million receiving 90% of the proceeds upon sale, 5% of the proceeds upon transfer of the servicing and the final 5% upon transfer of all trailing documents. We used the proceeds from the MSR sale to payoff the MSR financing as well as pay down additional high cost warehouse borrowings.

In October 2018, we sold $3.4 billion in UPB of GNMA MSRs for approximately $35.9 million receiving 80% of the proceeds upon sale, 10% of the proceeds upon transfer of the servicing and the final 10% upon transfer of all trailing documents. We used the proceeds from the MSR sale to pay down the MSR financing.

In February 2018, IMC (Borrower), amended the Line of Credit Promissory Note (FHLMC and GNMA Financing) originally entered into in August 2017, increasing the maximum borrowing capacity of the revolving line of credit to $50.0 million and extending the term to January 31, 2019. In May 2018, the Line of Credit was further amended increasing the maximum borrowing capacity of the revolving line of credit to $60.0 million, increasing the borrowing capacity up to 60% of the fair market value of the pledged mortgage servicing rights and reducing the interest rate per annum to one-month LIBOR plus 3.0%. As part of the May 2018 amendment, the obligations under the Line of Credit are secured by FHLMC and GNMA pledged mortgage servicing rights (subject to an acknowledge agreement) and is guaranteed by Integrated Real Estate Services, Corp. At December 31, 2018, there were no outstanding borrowings under the FHLMC and GNMA Financing and we had approximately $40.0 million of available financing based on the fair market value of the mortgage servicing rights that we own. In January 2019, the agreement was extended to April 30, 2019 and we plan to renew the agreement during our annual warehouse line renewal.

In February 2017, IMC (Borrower) entered into a Loan and Security Agreement (Agreement) with a lender providing for a revolving loan commitment of $40.0 million for a period of two years (FNMA Financing). The Borrower is able to borrow up to 55% of the fair market value of Fannie Mae pledged servicing rights. Upon the two year anniversary of the Agreement, any amounts outstanding will automatically be converted into a term loan due and payable in full on the one year anniversary of the conversion date. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0%. The balance of the obligation may be prepaid at any time. At December 31, 2018, there were no outstanding borrowings under the FNMA Financing. In February 2019, the Fannie Mae revolving line of credit converted into a term loan with no balance.

During 2018, with the earn-out ending on December 31, 2017, we paid the remaining $554 thousand in contingent consideration payments related to the CCM acquisition for the fourth quarter of 2017.

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 or raise capital on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

It is important for us to sell or securitize the loans we originate and, when doing so, maintain the option to also sell the related MSRs associated with these loans. Some investors have raised concerns about the high prepayment speeds of our loans generated through our CCM channel and this has resulted and could further result in adverse pricing or delays in our ability to sell or securitize loans and related MSRs on a timely and profitable basis. During the fourth quarter of 2017, Fannie Mae sufficiently limited the manner and volume for our deliveries of eligible loans such that we elected to cease deliveries to them and we expanded our whole loan investor base for these loans. During 2018, we completed servicing released loan sales to these whole loan investors and expect to continue to utilize these alternative exit strategies for Fannie Mae eligible loans. We continue to take steps to manage our prepayment speeds to be more consistent with our industry comparables and to reestablish the full confidence and delivery mechanisms to our investor base. We remain an approved Seller and Servicer with Fannie Mae and Freddie Mac.

We believe that current cash balances, cash flows from our mortgage lending operations, the sale of mortgage servicing rights, 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 based on the current operating environment. 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 and other finance companies which operate in our market area as well as 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, brokers and sellers. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows 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, manage and monetize our MSRs, real estate services segment and realizing cash flows from the long-term mortgage portfolio. Our future financial performance and profitability are dependent in large part upon the ability to expand our mortgage lending platform successfully.

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Sources of Liquidity

Cash flows from our mortgage lending operations. We receive loan fees from loan originations. Fee income consists of application and underwriting fees and fees on cancelled loans. These loan fees are offset by the related direct loan origination costs including broker fees related to our wholesale and correspondent channels. In addition, we generally recognize net interest income on loans held for sale from the date of origination through the date of disposition. We sell or securitize substantially all of the loans we originate in the secondary mortgage market, with servicing rights released or retained. Loans are sold on a whole loan basis by entering into sales transactions with third party investors in which we receive a premium for the loan and related servicing rights, if applicable. The mortgage lending operations sold $4.1 billion of mortgages through whole loan sales and securitizations during 2018. Additionally, the mortgage lending operations enter into IRLCs and utilize Hedging Instruments and forward delivery commitments to hedge interest rate risk. We may be subject to pair off gains and losses associated with these instruments. Since we rely significantly upon loan sales to generate cash proceeds to repay warehouse borrowings and to create credit availability, any disruption in our ability to complete loan sales may require us to utilize other sources of financing, which, if available at all, may be on less favorable terms. In addition, delays in the disposition of our mortgage loans increase our risk by exposing us to credit and interest rate risk for this extended period of time.

We receive servicing income net of subservicing cost and other related servicing expenses from our mortgage servicing portfolio. Servicing fees, net increased to $37.3 million as a result of the servicing portfolio increasing to an average balance of $15.3 billion for the year ended December 31, 2018 as compared to an average balance of $14.7 billion for the year ended December 31, 2017. Servicing fees, net will decrease substantially in 2019 as a result of the aforementioned servicing sales during the fourth quarter of 2018. Additionally, we also may strategically sell MSRs to generate liquidity, keep the amount of capital invested in MSRs at acceptable levels and provide capital needed for further growth. During 2018, we sold approximately $10.5 billion in UPB of Fannie Mae and Ginnie Mae mortgage servicing which decreased our mortgage servicing portfolio to $6.2 billion at December 31, 2018, as compared to $16.3 billion at December 31, 2017. The decrease was partially offset by servicing retained loan sales of $2.4 billion. The MSR sales generated approximately $113.0 in proceeds, net of deal costs with approximately 10% of the gross proceeds subject to customary holdbacks upon the transfer of servicing and trailing documents.

We entered into revolving lines of credit to finance our MSR portfolio, which are secured by our MSRs. We are able to borrow between 55 and 60% of the fair market value of the servicing rights, depending on the type of servicing. At December 31, 2018, we had no outstanding borrowings under the financing agreements and had approximately $40.0 million in available liquidity associated with these lines given the size of our mortgage servicing portfolio and associated advance rates.

Fees from our real estate service business activities. We earn fees from various real estate business activities, including loss mitigation, real estate disposition, monitoring and surveillance services and real estate brokerage. We provide services to investors, servicers and individual borrowers primarily by focusing on loss mitigation and performance of our long term mortgage portfolio.

Cash flows from our long term mortgage portfolio (residual interests in securitizations). We receive residual cash flows on mortgages held as securitized mortgage collateral after distributions are made to investors on securitized mortgage borrowings to the extent required credit enhancements are maintained and performance covenants are complied with for credit ratings on the securitized mortgage borrowings. For the year ended December 31, 2018, our residual interests generated cash flows of $5.1 million. These cash flows represent the difference between principal and interest payments on the underlying mortgages, affected by the following:

- servicing and master servicing fees paid;
- premiums paid to mortgage insurers;
- cash payments/receipts on derivatives;
- interest paid on securitized mortgage borrowings;
- principal payments and prepayments paid on securitized mortgage borrowings;

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- overcollateralization requirements;
- actual losses, net of any gains incurred upon disposition of other real estate owned or acquired in settlement of defaulted mortgages;
- unpaid interest shortfall; and
- basis risk shortfall.

Additionally, we act as the master servicer for mortgages included in our long term mortgage portfolio, which consists of CMO and REMIC securitizations. The master servicing fees we earn are generally 0.03% per annum (3 basis points) on the declining principal balances of these mortgages plus interest income on cash held in custodial accounts until remitted to investors, less any interest shortfall.

Uses of Liquidity

Acquisition and origination of mortgage loans. During 2018, the mortgage lending operations originated or acquired $3.8 billion of mortgage loans. Capital invested in mortgages is outstanding until we sell the loans. Initial capital invested in mortgage loans includes premiums paid when mortgages are acquired and originated and our capital investment, or “haircut,” required upon financing, which is generally determined by the type of collateral provided and the warehouse facility terms. The mortgage loan originations were financed with warehouse borrowings at a haircut generally between 2% to 10% of the outstanding principal balance of the mortgage loans. The haircuts are normally recovered from sales proceeds.

Investment in mortgage servicing rights. As part of our business plan, we have traditionally invested in mortgage servicing rights through the sale of mortgage loans on a servicing retained basis. During 2018, we began to retain less servicing by doing more whole loan sales and capitalized $24.9 million in mortgage servicing rights from selling $2.4 billion in loans with servicing retained. Offsetting this investment was the sale of $10.5 billion in UPB of MSRs during the fourth quarter of 2018.

Cash flows from financing facilities and other lending relationships. We primarily fund our mortgage originations through warehouse facilities with third party lenders which are primarily with national and regional banks. During 2018, the warehouse facilities borrowing capacity amounted to $900 million, of which $284.1 million was outstanding at December 31, 2018. The warehouse facilities are secured by and used to fund single family residential mortgage loans until such loans are sold. The warehouse facilities agreements contain certain covenants which we are required to satisfy. At December 31, 2018, we were not in compliance with certain covenants and received the necessary waivers. In order to mitigate the liquidity risk associated with warehouse borrowings, we attempt to sell or securitize our mortgage loans expeditiously.

We entered into revolving lines of credit to finance our MSR portfolio, which are secured by our MSRs. We are able to borrow between 55 and 60% of the fair market value of the servicing rights, depending on the type of servicing. At December 31, 2018, we had no outstanding borrowings under the financing agreements.

Our ability to meet liquidity requirements and the financing needs of our customers is subject to the renewal of our warehouse facilities or obtaining other sources of financing, if required, including additional debt or equity from time to time. Any decision our lenders or investors make to provide available financing to us in the future will depend upon a number of factors, including:

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our compliance with the terms of existing warehouse lines and credit arrangements, including any financial covenants;

- the ability to obtain waivers upon any noncompliance;
- our financial performance;
- industry and market trends in our various businesses;

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· the general availability of, and rates applicable to, financing and investments;
· our lenders or investors resources and policies concerning loans and investments; and
· the relative attractiveness of alternative investment or lending opportunities.

Repurchase Reserve. When we sell loans through whole loan sales we are required to make normal and customary representations and warranties about the loans to the purchaser. Our whole loan sale agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale.

From time to time, investors have requested us to repurchase loans or to indemnify them against losses on certain loans which the investors believe either do not comply with applicable representations or warranties or defaulted shortly after its purchase. We record an estimated reserve for these losses at the time the loan is sold, and adjust the reserve to reflect the estimated loss.

Financing Activities

MSR Financing. In February 2018, IMC (Borrower), amended the Line of Credit Promissory Note (FHLMC and GNMA Financing) originally entered into in August 2017, increasing the maximum borrowing capacity of the revolving line of credit to $50.0 million and extending the term to January 31, 2019. In May 2018, the agreement was amended increasing the maximum borrowing capacity of the revolving line of credit to $60.0 million, increasing the borrowing capacity up to 60% of the fair market value of the pledged mortgage servicing rights and reducing the interest rate per annum to one-month LIBOR plus 3.0%. As part of the May 2018 amendment, the obligations under the Line of Credit are secured by FHLMC and GNMA pledged mortgage servicing rights (subject to an acknowledge agreement) and is guaranteed by Integrated Real Estate Services, Corp. In January 2019, the agreement was extended to April 30, 2019 and we plan to renew the agreement during our annual warehouse line renewal. At December 31, 2018, there were no outstanding borrowings under the FHLMC and GNMA Financing.

On February 10, 2017, IMC (Borrower), entered into a Loan and Security Agreement (Agreement) with a lender providing for a revolving loan commitment of $40.0 million for a period of two years (FNMA Financing). The Borrower is able to borrow up to 55% of the fair market value of FNMA pledged servicing rights. Upon the two year anniversary of the Agreement, any amounts outstanding will automatically be converted into a term loan due and payable in full on the one year anniversary of the conversion date. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0% and the balance of the obligation may be prepaid at any time. The Borrower initially drew down $35.1 million, and used a portion of the proceeds to pay off the Term Financing (approximately $30.1 million) originally entered into in June 2015 as discussed below. The Borrower also paid the lender an origination fee of $100 thousand, which is deferred and amortized over the life of the FNMA Financing. At December 31, 2018, there were no outstanding borrowings under the FNMA Financing. In February 2019, the Fannie Mae revolving line of credit converted into a term loan with no balance.

Long term Debt (Trust Preferred Securities and Junior Subordinated Notes). On May 5, 2017, we agreed to exchange 412,264 shares of our common stock for the remaining Trust Preferred Securities which had an aggregate liquidation amount of $8.5 million issued by Impac Capital Trust #4. The interest rate on the Trust Preferred Securities was a variable rate of three-month LIBOR plus 3.75% per annum. At the time of the exchange, the interest rate was 4.92%. The exchange was based on the carrying value of the trust preferred obligation, which was $5.6 million at March 31, 2017, and an agreed upon stock price that determined a fixed number of shares to be issued in the exchange.

However, because the measurement date of the exchange was the date the common stock was issued when the market price of the common stock was $17.06, we recorded a $1.3 million loss on extinguishment of debt for the difference in stock price from the agreed upon stock price to the stock price on the issuance date of the common stock.

The Junior Subordinated Notes are redeemable at par at any time and require quarterly distributions initially at a fixed rate of 2.00% per annum through December 2013 with increases of 1.00% per year through 2017. Starting in 2018, the interest rates become variable at 3 month LIBOR plus 3.75% per annum. At December 31, 2018, the interest rate was 6.35%. The Junior Subordinated Notes had an outstanding principal balance of $62.0 million at December 31, 2018 with a stated maturity of March 2034. We are current on all interest payments. At December 31, 2018, long term debt had an outstanding principal balance of $62.0 million with an estimated fair value of $44.9 million and is reflected on our consolidated balance sheets as long term debt.

Convertible Notes. In May 2015, we issued $25.0 million Convertible Promissory Notes (Convertible Notes). The Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, paid quarterly. We had approximately $50 thousand in transaction costs, which were deferred and amortized over the life of the Convertible Notes.

Operating activities. Net cash provided by (used in) operating activities was $201.0 million for 2018 as compared to $(138.0) million for 2017, primarily due to the timing of originations and sales of loans held for sale between 2018 and 2017. During 2018 and 2017, the primary sources of cash in operating activities were cash received from fees generated by our mortgage and real estate service business activities, cash received from mortgage lending and excess cash flows from our residual interests in securitizations offset by operating expenses.

Investing activities. Net cash provided by investing activities was $727.7 million for 2018 as compared to $677.5 million for 2017. For 2018 and 2017, the primary source of cash from investing activities was provided by principal repayments on our securitized mortgage collateral, the sale of mortgage servicing rights and proceeds from the liquidation of REO.

Financing activities. Net cash used in financing activities was $937.6 million for 2018 as compared to $546.5 million for 2017. For 2018, significant uses of cash in financing activities were primarily for principal repayments on securitized mortgage borrowings, net repayment of borrowings against warehouse agreements, and repayment of MSR financings. For 2017, significant uses of cash in financing activities were primarily for principal repayments on securitized mortgage borrowings, repayment of term financing and payment of contingent consideration, partially offset by cash provided by net borrowings under warehouse agreements, proceeds from the issuance of common stock and MSR financings.

Inflation. The consolidated financial statements and corresponding notes to the consolidated financial statements have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. For the years ended December 31, 2018 and 2017, inflation had no significant impact on our revenues or net income. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater effect on our performance than do the effects of general levels of inflation. Inflation affects our operations primarily through its effect on interest rates, since interest rates normally increase during periods of high inflation and decrease during periods of low inflation.

Operational and Market Risks

We are exposed to a variety of operation and market risks which include interest rate risk, credit risk, operational risk, real estate risk, prepayment risk, and liquidity risk.

Interest Rate Risk

Interest Rate Risk—Mortgage Lending. We are exposed to interest rate risks relating to our ongoing mortgage lending operations. We use derivative instruments to manage some of our interest rate risk. However, we do not attempt to hedge interest rate risk completely. Our interest rate risk arises from the financial instruments and positions we hold. This includes mortgage loans held for sale, MSRs and derivative financial instruments. These risks are regularly monitored by executive management that identify and manage the sensitivity of earnings or capital to changing interest rates to achieve our overall financial objectives.

Our principal market exposure is to interest rate risk, specifically changes in long-term Treasury rates and mortgage interest rates due to their impact on mortgage-related assets and commitments. We are also exposed to changes in short-term interest rates, such as LIBOR, on certain variable rate borrowings including our term financing and mortgage warehouse borrowings. We anticipate that such interest rates will remain our primary benchmark for market risk for the foreseeable future.

Our business is subject to variability in results of operations in both the mortgage origination and mortgage servicing activities due to fluctuations in interest rates. In a declining interest rate environment, we would expect our

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mortgage production activities' results of operations to be positively impacted by higher loan origination volumes and gain on sale margins. Furthermore, with declining rates, we would expect the market value of our MSRs to decline due to higher actual and projected loan prepayments related to our loan servicing portfolio. Conversely, in a rising interest rate environment, we would expect a negative impact on the results of operations of our mortgage production activities but a positive impact on the market values of our MSRs. The interaction between the results of operations of our mortgage activities is a core component of our overall interest rate risk strategy.

We utilize a discounted cash flow analysis to determine the fair value of MSRs and the impact of parallel interest rate shifts on MSRs. The primary assumptions in this model are prepayment speeds, discount rates, costs of servicing and default rates. However, this analysis ignores the impact of interest rate changes on certain material variables, such as the benefit or detriment on the value of future loan originations, non-parallel shifts in the spread relationships between MBS, swaps and U.S. Treasury rates and changes in primary and secondary mortgage market spreads. We use a forward yield curve, which we believe better presents fair value of MSRs because the forward yield curve is the market's expectation of future interest rates based on its expectation of inflation and other economic conditions.

Interest rate lock commitments (IRLCs) represent an agreement to extend credit to a mortgage loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. Our mortgage loans held for sale, which are held in inventory awaiting sale into the secondary market, and our interest rate lock commitments, are subject to changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As such, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through the earlier of (i) the lock commitment cancellation or expiration date; or (ii) the date of sale into the secondary mortgage market. Loan commitments generally range between 15 and 60 days; and our holding period of the mortgage loan from funding to sale is typically within 20 days.

We manage the interest rate risk associated with our outstanding IRLCs and mortgage loans held for sale by entering into derivative loan instruments such as forward loan sales commitments or To-Be-Announced mortgage backed securities (TBA Forward Commitments). We expect these derivatives will experience changes in fair value opposite to changes in fair value of the derivative IRLCs and mortgage loans held-for-sale, thereby reducing earnings volatility. We take into account various factors and strategies in determining the portion of the mortgage pipeline (derivative loan commitments) and mortgage loans held for sale we want to economically hedge. Our expectation of how many of our IRLCs will ultimately close is a key factor in determining the notional amount of derivatives used in hedging the position.

Mortgage loans held-for-sale are financed by our warehouse lines of credit which generally carry variable rates. Mortgage loans held for sale are carried on our balance sheet on average for only 7 to 25 days after closing and prior to being sold. As a result, we believe that any negative impact related to our variable rate warehouse borrowings resulting from a shift in market interest rates would not be material to our consolidated financial statements.

Interest Rate Risk—Securitized Trusts and Long term Debt. Our earnings from the long term mortgage portfolio depend largely on our interest rate spread, represented by the relationship between the yield on our interest earning assets (primarily securitized mortgage collateral) and the cost of our interest bearing liabilities (primarily securitized mortgage borrowings and long term debt). Our interest rate spread is impacted by several factors, including general economic factors, forward interest rates and the credit quality of mortgage loans in the long term mortgage portfolio.

The residual interests in our long term mortgage portfolio are sensitive to changes in interest rates on securitized mortgage collateral and the related securitized mortgage borrowings. Changes in interest rates can affect the cash flows and fair values of our trust assets and liabilities, as well as our earnings and stockholders' equity.

We are also subject to interest rate risk on our long term debt (consisting of junior subordinated notes). These interest bearing liabilities include adjustable rate periods based on three month LIBOR (junior subordinated notes). We do not currently hedge our exposure to the effect of changing interest rates related to these interest bearing liabilities. Significant fluctuations in interest rates could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Credit Risk

We provide representations and warranties to purchasers and insurers of the loans sold that typically are in place for the life of the loan. In the event of a breach of these representations and warranties, we may be required to repurchase

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a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by us unless we have recourse to our correspondent seller.

We maintain a reserve for losses on loans repurchased or indemnified as a result of breaches of representations and warranties on our sold loans. Our estimate is based on our most recent data regarding loan repurchases and indemnity payments, actual losses on repurchased loans, and recovery history, among other factors. Our assumptions are affected by factors both internal and external in nature. Internal factors include, among other things, level of loan sales, the expectation of credit loss on repurchases and indemnifications, our success rate at appealing repurchase demands and our ability to recover any losses from third parties. External factors that may affect our estimate includes, among other things, the overall economic condition in the housing market, the economic condition of borrowers, the political environment at investor agencies and the overall U.S. and world economy. Many of the factors are beyond our control and may lead to judgments that are susceptible to change.

Counterparty Credit Risk. We are exposed to counterparty credit risk in the event of non performance by counterparties to various agreements. We monitor our counterparties and currently do not anticipate losses due to counterparty non performance. As of December 31, 2018, there were no significant concentrations of credit risk related to our exposure with any individual counterparty.

Credit Risk Securitized Trusts. We manage credit risk by actively managing delinquencies and defaults through our servicers. Starting with the second half of 2007 we have not retained any additional mortgages in our long term mortgage portfolio. Our securitized mortgage collateral primarily consists of non conforming mortgages which when originated were generally within typical Fannie Mae and Freddie Mac guidelines but had loan characteristics, which may have included higher loan balances, higher loan to value ratios or lower documentation requirements (including stated income loans), that made them non conforming under those guidelines.

Using historical losses, current portfolio statistics and market conditions and available market data, we have estimated future loan losses on the long term mortgage portfolio, which are included in the fair value adjustment to our securitized mortgage collateral. The credit performance for the loans has been clearly far worse than our initial expectations when the loans were originated. We have seen some restoration of real estate values, however the ultimate level of realized losses will largely be influenced by local real estate conditions in areas where underlying properties are located, including the recovery of the housing market and overall strength of the economy. If market conditions deteriorate in excess of our expectations, we may need to recognize additional fair value reductions to our securitized mortgage collateral, which may also affect the value of the related securitized mortgage borrowings and residual interests.

We monitor our servicers to attempt to ensure that they perform loss mitigation, foreclosure and collection functions according to their servicing practices and each securitization trust's pooling and servicing agreement. We have met with the management of our servicers to assess our borrowers' current ability to pay their mortgages and to make arrangements with selected delinquent borrowers which will result in the best interest of the trust and borrower, in an effort to minimize the number of mortgages which become seriously delinquent. When resolving delinquent mortgages, servicers are required to take timely action. The servicer is required to determine payment collection under various circumstances, which will result in the maximum financial benefit. This is accomplished by either working with the borrower to bring the mortgage current by modifying the loan with terms that will maximize the recovery or by foreclosing and liquidating the property. At a foreclosure sale, the trusts consolidated on our balance sheet generally acquire title to the property.

Operational Risk

Operational risk is inherent in our business practices and related support functions. Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors or external events. Operational risk may occur in any of our business activities and can manifest itself in various ways including, but not limited to, errors resulting from business process failures, material disruption in business activities, system breaches and misuse of sensitive information and failures of outsourced business processes. These events could result in non-compliance with laws or regulations, regulatory fines and penalties, litigation or other financial losses, including potential losses resulting from lost client relationships.

Our business is subject to extensive regulation by federal, state and local government authorities, which require us to operate in accordance with various laws, regulations, and judicial and administrative decisions. While we are not a bank, our business subjects us to both direct and indirect banking supervision (including examinations by our clients'

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regulators), and each client may require a unique compliance model. In recent years, there have been a number of developments in laws and regulations that have required, and will likely continue to require, widespread changes to our business. The frequent introduction of new rules, changes to the interpretation or application of existing rules, increased focus of regulators, and near-zero defect performance expectations have increased our operational risk related to compliance with laws and regulations.

Our operational risk includes managing risks relating to information systems and information security. As a service provider, we actively utilize technology and information systems to operate our business and support business development. We also must safeguard the confidential personal information of our customers, as well as the confidential personal information of the employees and customers of our clients. We consider industry best practices to manage our technology risk, and we continually develop and enhance the controls, processes and systems to protect our information systems and data from unauthorized access.

To monitor and control this risk, we have established policies, procedures and a controls framework that are designed to provide sound and consistent risk management processes and transparent operational risk reporting.

Real Estate Risk

Residential property values are subject to volatility and may be negatively affected by numerous factors, including, but not limited to, national, regional and local economic conditions such as unemployment and interest rate environment; local real estate conditions including housing inventory and foreclosures; and demographic factors. Decreases in property values reduce the value of the collateral securing and the potential proceeds available to a borrower to repay our loans, which could cause us to suffer losses.

Prepayment Risk

Prepayment speed is a measurement of how quickly UPB is reduced. Items reducing UPB include normal monthly loan principal payments, loan refinancings, voluntary property sales and involuntary property sales such as foreclosures or short sales. Prepayment speed impacts future servicing fees, fair value of mortgage servicing rights and float income. When prepayment speed increases, our servicing fees decrease faster than projected due to the shortened life of a portfolio. Faster prepayment speeds will cause our mortgage servicing rights fair value to decrease.

We historically used prepayment penalties as a method of partially mitigating prepayment risk for those borrowers that have the ability to refinance. The economic downturn, lack of available credit and declines in property values in certain parts of the country have limited some borrowers' ability to refinance. These factors have reduced prepayment risk within our long term mortgage portfolio. With the seasoning of the long term mortgage portfolio, prepayment penalties terms have expired, thereby eliminating prepayment penalty income.

Liquidity Risk

We are exposed to liquidity risks relating to our ongoing mortgage lending operations. We primarily fund our mortgage lending originations through warehouse facilities with third party lenders and MSR financing facilities. Refer to "Liquidity and Capital Resources" for additional information regarding liquidity.

Off Balance Sheet Arrangements

When we sell or broker loans through whole loan sales, we are required to make normal and customary representations and warranties to the loan originators or purchasers, including guarantees against early payment defaults typically 90 days, and fraudulent misrepresentations by the borrowers. Our agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale. Because the loans are no longer on our balance sheet, the representations and warranties are considered a guarantee. During 2018, we sold $4.1 billion of loans subject to representations and warranties compared to $6.9 billion sold in 2017. At December 31, 2018, we had $7.7 million in repurchase reserve as compared to a reserve of $6.0 million as December 31, 2017.

See disclosures in the notes to the consolidated financial statements under "Commitments and Contingencies" for

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other arrangements that qualify as off balance sheet arrangements.

Contractual Obligations

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is incorporated by reference to Impac Mortgage Holdings, Inc.'s Consolidated Financial Statements and Independent Auditors' Report beginning at page F 1 of this Form 10 K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 (Exchange Act), 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 the 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.

The Company's management, with the participation of its chief executive officer (CEO) and its chief financial officer (CFO), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. 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.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Section 13a 15(f) of the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for reporting purposes in accordance with accounting principles generally accepted in the United States of America and include those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

As of December 31, 2018, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control—Integrated Framework issued by

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the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (COSO). Based on the criteria established by COSO, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by improper management override of the controls. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost effective control system, there is a risk that material misstatements due to error or fraud may occur and will not be detected on a timely basis.

Squar Milner LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10 K, has issued an attestation report on the Company's internal control over financial reporting, a copy of which is included herein.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2018, there were no changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Impac Mortgage Holdings, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Impac Mortgage Holdings, Inc.'s (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements, and our report dated March 15, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitation of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ SQUAR MILNER LLP

Irvine, California

March 15, 2019

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ITEM 9B. OTHER INFORMATION

MSR Financing Facility

On January 22, 2019, the Freddie Mac and Ginnie Mae revolving line of credit was extended to April 30, 2019.

On February 10, 2019, the Fannie Mae revolving line of credit converted into a term loan with no balance.

Amendment to Amended and Restated Bylaws

On March 14, 2019, the Board of Directors of the Company approved an amendment to Article II, Section 2 of its Amended and Restated Bylaws, as amended (the "Bylaws"), which provides that an annual meeting of stockholders shall be held on the date and at the time and place set by the Board of Directors. Previously, the Bylaws stated that the time and date of the annual meeting of stockholders shall be within a 31 day period commencing on July 1st of each year. The foregoing description does not purport to be complete and is qualified in its entirety by reference to the text of the amendment, which is filed as Exhibit 3.2(h) hereto and is incorporated herein by reference.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 including Equity Compensation Plan Information is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(3) Exhibits

The exhibits listed on the accompanying Exhibit Index are incorporated by reference into this Item 15 of this Annual Report on Form 10 K.

ITEM 16. FORM 10-K SUMMARY

None.

Exhibit Number	Description
2.1	Amended and Restated Asset Purchase Agreement dated as of May 11, 2015 and effective as of March 31, 2015 among Impac Mortgage Holdings, Inc, Impac Mortgage Corp and CashCall, Inc. Schedules and exhibits are omitted pursuant to Item 601(b)(2) of Regulation S K. The Company agrees to furnish a supplemental copy of any omitted schedules or exhibits to the SEC upon request (incorporated by reference to exhibit 2.1 of the Registrant's Form 10 Q filed with the Securities and Exchange Commission on May 14, 2015).
2.1(a)	Amendment No. 1 to Amended and Restated Asset Purchase Agreement (incorporated by reference to exhibit 2.2(a) of the

	Registrant's Annual Report on Form 10 K filed with the Securities and Exchange Commission on March 11, 2016).
2.1(b)	Amendment No. 2 to Amended and Restated Asset Purchase Agreement (incorporated by reference to exhibit 2.2(b) of the Registrant's Annual Report on Form 10 K filed with the Securities and Exchange Commission on March 11, 2016).
3.1(P)	Charter of the Registrant (incorporated by reference to the corresponding exhibit number to the Registrant's Registration Statement on Form S 11, as amended (File No. 33 96670), filed with the Securities and Exchange Commission on November 8, 1995).
3.1(a)(P)	Certificate of Correction of the Registrant (incorporated by reference to exhibit 3.1(a) of the Registrant's 10 K for the year ended December 31, 1998).
3.1(b)(P)	Articles of Amendment of the Registrant (incorporated by reference to exhibit 3.1(b) of the Registrant's 10 K for the year ended December 31, 1998).
3.1(c)(P)	Articles of Amendment for change of name to Charter of the Registrant (incorporated by reference to exhibit number 3.1(a) of the Registrant's Current Report on Form 8 K/A Amendment No. 1, filed February 12, 1998).
3.1(d)	

	Articles of Amendment, filed with the State Department of Assessments and Taxation of Maryland on July 16, 2002, increasing authorized shares of Common Stock of the Registrant (incorporated by reference to exhibit 10 of the Registrant's Form 8 A/A, Amendment No. 2, filed July 30, 2002).
3.1(e)	Articles of Amendment, filed with the State Department of Assessments and Taxation of Maryland on June 22, 2004, amending and restating Article VII of the Registrant's Charter (incorporated by reference to exhibit 7 of the Registrant's Form 8 A/A, Amendment No. 1, filed June 30, 2004).
3.1(f)	Articles Supplementary designating the Company's 9.375 percent Series B Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share, filed with the State Department of Assessments and Taxation of Maryland on May 26, 2004 (incorporated by reference to exhibit 3.8 of the Registrant's Form 8 A/A, Amendment No. 1, filed June 30, 2004).
3.1(g)	Articles Supplementary designating the Company's 9.125 percent Series C Cumulative Redeemable Preferred Stock, liquidation preference

$25.00 per share, par value $0.01 per share, filed with the State Department of Assessments and Taxation of Maryland on November 18, 2004 (incorporated by reference to exhibit 3.10 of the Registrant's Form 8 A filed November 19, 2004).

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Exhibit Number	Description
3.1(h)	Articles of Amendment of the Company, effective as of December 30, 2008, effecting 1 for 10 reverse stock split (incorporated by reference to exhibit 3.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on December 30, 2008).
3.1(i)	Articles of Amendment of the Company, effective as of December 30, 2008, amending par value (incorporated by reference to exhibit 3.2 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on December 30, 2008).
3.1(j)	Articles of Amendment of Series B Preferred Stock (incorporated by reference to exhibit 3.1 of the

	Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on June 30, 2009).
3.1(k)	Articles of Amendment of Series C Preferred Stock (incorporated by reference to exhibit 3.2 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on June 30, 2009).
3.1(l)	Articles Supplementary of Series A 1 Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on September 4, 2013).
3.2(P)	Bylaws, as amended and restated (incorporated by reference to the corresponding exhibit number of the Registrant's Quarterly Report

	on Form 10 Q for the period ending March 31, 1998).
3.2(a)	Amendment to Bylaws (incorporated by reference to exhibit 3.2(a) of the Registrant's Registration Statement on Form S 3 (File No. 333 111517) filed with the Securities and Exchange Commission on December 23, 2003).
3.2(b)	Second Amendment to Bylaws (incorporated by reference to Exhibit 3.2(b) of the Registrant's Form 8 K, filed with the Securities and Exchange Commission on April 1, 2005).
3.2(c)	Third Amendment to Bylaws of the Company (incorporated by reference to Exhibit 3.2(c) of the Registrant's Form 8 K, filed with the Securities and Exchange Commission on March 29, 2006).
3.2(d)	Fourth Amendment to Bylaws of the Company (incorporated by

	reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10 Q, filed with the Securities and Exchange Commission on December 20, 2007).
3.2(e)	Fifth Amendment to Bylaws of the Company (incorporated by reference to Exhibit 3.2(e) of the Registrant's Form 8 K, filed with the Securities and Exchange Commission on February 13, 2008).
3.2(f)	Amendment No. 6 to Bylaws of the Company (incorporated by reference to the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on June 5, 2008).
3.2(g)	Amendment No. 7 to the Amended and Restated Bylaws of Impac Mortgage Holdings, Inc., as amended (incorporated by reference to the Registrant's Current Report

	on Form 8 K filed with the Securities and Exchange Commission on May 1, 2017).
3.2(h)	Amendment No. 8 to Amended and Restated Bylaws.
4.1(P)	Form of Stock Certificate of the Company (incorporated by reference to the corresponding exhibit number to the Registrant's Registration Statement on Form S 11, as amended (File No. 33 96670), filed with the Securities and Exchange Commission on September 7, 1995).
4.2	Junior Subordinated Indenture dated May 8, 2009 between Impac Mortgage Holdings, Inc. and The Bank of New York Mellon Trust Company, National Association, as trustee, related to Junior Subordinated Note due 2034 in the principal amount of $30,244,000 (incorporated by reference to

	exhibit 10.3 of the Registrant's Quarterly Report on Form 10 Q for the period ended June 30, 2009).
4.3	Junior Subordinated Indenture dated May 8, 2009 between Impac Mortgage Holdings, Inc. and The Bank of New York Mellon Trust Company, National Association, as trustee, related to Junior Subordinated Note due 2034 in the principal amount of $31,756,000 (incorporated by reference to exhibit 10.4 of the Registrant's Quarterly Report on Form 10 Q for the period ended June 30, 2009).
4.4	Tax Benefits Preservation Rights Agreement, dated as of September 3, 2013, by and between Impac Mortgage Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by reference to

Exhibit 4.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on September 4, 2013).

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Exhibit Number	Description
4.4(a)	First Amendment to Tax Benefits Preservation Rights Agreement, dated as of September 24, 2013, by and between Impac Mortgage Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8‑K filed with the Securities and Exchange Commission on September 25, 2013).
4.4(b)	Second Amendment to Tax Benefits Preservation Rights Agreement, dated as of April 27, 2016, by and between Impac Mortgage Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by

	reference to Exhibit 4.1 of the Registrant's Current Report on Form 8‑K filed with the Securities and Exchange Commission on April 29, 2016).
10.1(a)	Form of 2018 Indemnification Agreement with Officers and Directors (incorporated by reference to exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018).
10.1(b)	List of Officers and Directors for Indemnification Agreement (incorporated by reference to exhibit 10.3(a) of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018).
10.2	Lease dated March 4, 2005 regarding 19500 Jamboree Road, Newport Beach California (incorporated by reference to exhibit 10.8 of the Registrant's Annual Report on Form 10‑K for the year ended December 31,

	2004).
10.2(a)	Amendment to Office Lease (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8‑K filed with the Securities and Exchange Commission on January 28, 2016).
10.3*	Impac Mortgage Holdings, Inc. 2010 Omnibus Incentive Plan, (as amended) (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8‑K filed with the Securities and Exchange Commission on July 19, 2018).
10.3(a)*	Form of Stock Option Agreement for 2010 Omnibus Incentive Plan (incorporated by reference to exhibit 99.6 of the Registrant's Registration Statement on Form S‑8 filed with the Securities and Exchange Commission on September 10, 2010).
10.3(b)*	Form of Restricted Stock

	Agreement for 2010 Omnibus Incentive Plan (incorporated by reference to exhibit 99.7 of the Registrant's Registration Statement on Form S 8 filed with the Securities and Exchange Commission on September 10, 2010).
10.3(c)*	Form of Stock Option Agreement for 2001 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit 10.2 of the Registrant's Quarterly Report on Form 10 Q for the period ended September 30, 2004).
10.4*	Non Employee Director Deferred Stock Unit Award Program (incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10 K for the year ended December 31, 2010).
10.4(a)*	Form of Notice of Grant Under Non Employee Director

	Deferred Stock Unit Award Program (incorporated by reference to Exhibit 10.6(a) of the Registrant's Annual Report on Form 10 K for the year ended December 31, 2010).
10.5*	Employment Agreement effective as of January 1, 2013 between Impac Mortgage Holdings, Inc. and Joseph Tomkinson (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on May 9, 2013).
10.5(a)*	First amendment to Employment Contract dated as of March 17, 2014 between Joseph Tomkinson and Impac Mortgage Holdings, Inc. (incorporated by reference to Exhibit 10.7(a) of the Registrant's Annual Report on Form 10 K for the year ended December 31,

	2013).
10.5(b)*	First Amendment dated November 5, 2015 to Employment Agreement between Impac Mortgage Holdings, Inc. and Joseph R. Tomkinson (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10_Q filed with the Securities and Exchange Commission on November 11, 2015)
10.6*	Employment agreement effective as of January 1, 2018 between Impac Mortgage Holdings, Inc. and Joseph Tomkinson (incorporated by reference from exhibit 10.16 of the Registrant's Annual Report on Form 10_K for the year ended December 31, 2017).
10.7*	Employment agreement effective as of January 1, 2018 between Impac Mortgage Holdings, Inc. and Todd Taylor

	(incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10 K for the year ended December 31, 2013).
10.7(a) *	Amendment dated November 10, 2014 to Employment Agreement with Todd Taylor (incorporated by reference to Exhibit 10.9(a) of the Registrant's Annual Report on Form 10 K for the year ended December 31, 2014).

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Exhibit Number	Description
10.7(b) *	Amendment to employment agreement dated September 8, 2016 between Impac Mortgage Holdings, Inc. and Todd Taylor (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8_K filed with the Securities and Exchange Commission on September 8, 2016).
10.7(c) *	Separation and Release Agreement dated July 10, 2018 between Todd Taylor and Impac Mortgage Holdings, Inc.
10.8*	Employment Agreement effective as of January 1, 2014 between Impac Mortgage Holdings, Inc and Ron Morrison (incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10_K for the year ended December 31, 2013).
10.8(a) *	Amendment dated November 10, 2014 to Employment Agreement with Ron Morrison (incorporated by reference to Exhibit 10.10(a) of

	the Registrant's Annual Report on Form 10 K for the year ended December 31, 2014).
10.8(b) *	Amendment to employment agreement dated September 8, 2016 between Impac Mortgage Holdings, Inc. and Ron Morrison (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on September 8, 2016).
10.8(c) *	Separation and Release Agreement dated January 14, 2019 between Ronald Morrison and Impac Mortgage Holdings, Inc.
10.9	Note Purchase Agreement dated as of May 8, 2015 by and among Impac Mortgage Holdings, Inc. and the Purchasers, and Registration Rights Agreement (included as Exhibit B thereto) (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10 Q filed with the Securities and Exchange Commission on August 12, 2015).
10.9(a)	

	Form of Convertible Promissory Note Due 2020 (incorporated by reference to Exhibit 10.1(a) of the Registrant's Quarterly Report on Form 10 Q filed with the Securities and Exchange Commission on August 12, 2015).
10.10	Loan and Security Agreement dated as of February 10, 2017 between Impac Mortgage Corp. and Western Alliance Bank (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on February 16, 2017).
10.10(a)	Promissory Note dated as of February 10, 2017 issued by Impac Mortgage Corp. to Western Alliance Bank (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on February 16, 2017).
10.11	Securities Purchase Agreement dated April 18, 2017 by and between

	Impac Mortgage Holdings, Inc. and certain purchasers (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on April 18, 2017).
10.11(a)	Financial Advisory Agreement, dated April 4, 2017, between Impac Mortgage Holdings, Inc. and JMP Securities LLC (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8 K filed with the Securities and Exchange Commission on April 18, 2017).
10.12	Exchange Agreement dated May 5, 2017 by and between Impac Mortgage Holdings, Inc. and certain investors (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2017).
10.13	Line of Credit Promissory Note with Merchants Bank of Indiana, dated August 17, 2017 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2017).
10.13(a)	Security Agreement executed by Impac Mortgage Corp. in favor of Merchants Bank of Indiana, dated August 17, 2017 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2017).

10.13(b)	Amendment dated February 7, 2018 to Line of Credit Promissory Note with Merchants Bank of Indiana. (incorporated by reference from exhibit 10.15(b) the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017).
10.13(c)	Amendment dated May 16, 2018 to Line of Credit Promissory Note with Merchants Bank of Indiana (incorporated by reference from exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018).
10.14*	Employment Agreement effective as of January 1, 2018 between Impac Mortgage Corp, Impac Mortgage Holdings, Inc. and George Mangiaracina (incorporated by reference to exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018).

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Exhibit Number	Description
10.15*	Employment Agreement as of April 1, 2018 between Impac Mortgage Corp. and Rian Furey (incorporated by reference to exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018).
10.16*	Key Executive Employment Agreement dated as of May 14, 2018 between Impac Mortgage Corp., Impac Mortgage Holdings, Inc. and Brian Kuelbs (incorporated by reference to exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018).
21.1	Subsidiaries of the Registrant (incorporated by reference from the Registrant's Annual Report on Form 10 K for the year ended December 31, 2013).
23.1	Consent of Squar Milner LLP.
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 financial information from our Annual Report on Form 10 K for the year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations and Comprehensive Loss, (3) the Condensed Consolidated Statements of Stockholders' Equity, (4) the Condensed Consolidated Statements of Cash Flows, and (5) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Denotes a management or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 601 of Regulation S K

** 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.

NOTE: Filings on Form 10 K, 10 Q and 8 K are under SEC File No. 001 14100.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Irvine, State of California, on the 15th day of March 2019.

IMPAC MORTGAGE
HOLDINGS, INC.

by /s/ GEORGE A MANGIARACINA
George A Mangiaracina
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ George A. Mangiaracina George A. Mangiaracina	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2019
/s/ Brian Kuelbs Brian Kuelbs	Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2019
/s/ Thomas B. Akin Thomas B. Akin	Director	March 15, 2019
/s/ Richard H. Pickup Richard Pickup	Director	March 15, 2019
/s/ Frank P. Filipps Frank P. Filipps	Director	March 15, 2019
/s/ Stewart B. Koenigsberg Stewart B Koenigsberg	Director	March 15, 2019

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CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Impac Mortgage Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Impac Mortgage Holdings, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2008.

/s/ Squar Milner LLP

Irvine, California

March 15, 2019

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 23,200	$ 33,223
Restricted cash	6,989	5,876
Mortgage loans held-for-sale	353,601	568,781
Finance receivables	—	41,777
Mortgage servicing rights	64,728	154,405
Securitized mortgage trust assets	3,165,590	3,670,550
Goodwill	—	104,587
Intangible assets, net	—	21,582
Loans eligible for repurchase from Ginnie Mae	204	47,697
Other assets	33,631	33,222
Total assets	$ 3,647,943	$ 4,681,700
LIABILITIES		
Warehouse borrowings	$ 284,137	$ 575,363
MSR financings	—	35,133
Convertible notes, net	24,985	24,974
Long-term debt	44,856	44,982
Securitized mortgage trust liabilities	3,148,215	3,653,265
Liability for loans eligible for repurchase from Ginnie Mae	204	47,697
Contingent consideration	—	554
Other liabilities	35,371	34,585
Total liabilities	3,537,768	4,416,553
Commitments and contingencies (See Note 16)		
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 $31,070; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of December 31, 2018 and December 31, 2017 (See Note 11)	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 December 31, 2018 and December 31, 2017 (See Note 11)	14	14
Common stock, $0.01 par value; 200,000,000 shares authorized; 21,117,006 and 20,949,679 shares issued and outstanding as of December 31, 2018 and	211	209

December 31, 2017, respectively		
Additional paid-in capital	1,235,108	1,233,704
Accumulated other comprehensive earnings, net of tax	23,877	—
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(326,522)	(146,267)
Net accumulated deficit	(1,149,042)	(968,787)
Total stockholders' equity	110,175	265,147
Total liabilities and stockholders' equity	$ 3,647,943	$ 4,681,700

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except per share data)

	For the Year Ended December 31, 2018	2017
Revenues:		
Gain on sale of loans, net	$ 66,750	$ 136,147
Servicing fees, net	37,257	31,902
Loss on mortgage servicing rights, net	(3,625)	(35,880)
Real estate services fees, net	4,327	5,856
Other	291	680
Total revenues	105,000	138,705
Expenses:		
Personnel expense	64,143	89,647
Business promotion	26,936	40,276
General, administrative and other	35,339	37,424
Intangible asset impairment	18,347	—
Goodwill impairment	104,587	351
Accretion of contingent consideration	—	2,058
Change in fair value of contingent consideration	—	(13,326)
Total expenses	249,352	156,430
Operating loss	(144,352)	(17,725)
Other (expense) income:		
Interest income	186,848	230,330
Interest expense	(184,331)	(225,987)
Loss on extinguishment of debt	—	(1,265)
Change in fair value of long-term debt	3,978	(2,949)
Change in fair value of net trust assets, including trust REO gains and losses	(2,549)	6,213
Total other income, net	3,946	6,342
Loss before income taxes	(140,406)	(11,383)
Income tax expense	5,004	20,138
Net loss	$ (145,410)	$ (31,521)
Other comprehensive loss:		
Change in fair value of instrument specific credit risk	$ (3,141)	$ —
Total comprehensive loss	$ (148,551)	$ (31,521)
Loss per common share:		
Basic	$ (6.92)	$ (1.62)
Diluted	(6.92)	(1.62)

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Accumulated Other Comprehensive Earnings (Loss)	Total Stock Equit
r 31, 2016	2,070,678	$ 21	16,019,983	$ 160	$ 1,168,125	$ (822,520)	$ (114,746)	$ —	$ 23
and tax om of stock	—	—	94,051	1	592	—	—	—	59
ed ation	—	—	—	—	2,548	—	—	—	2,5
stock net	—	—	4,423,381	44	55,410	—	—	—	55,
ferred	—	—	412,264	4	7,029	—	—	—	7,0
	—	—	—	—	—	—	(31,521)	—	(31
r 31, 2017	2,070,678	$ 21	20,949,679	$ 209	$ 1,233,704	$ (822,520)	$ (146,267)	$ —	$ 26
ication adoption 016-01	—	—	—	—	—	—	(27,018)	27,018	—
nt related on of ASU (Note 1)	—	—	—	—	—	—	(7,827)	—	(7,
and tax om of stock	—	—	104,410	1	457	—	—	—	45
of deferred	—	—	62,917	1	—	—	—	—	1
ed ation	—	—	—	—	947	—	—	—	94
ensive loss	—	—	—	—	—	—	—	(3,141)	(3,
	—	—	—	—	—	—	(145,410)	—	(14
r 31, 2018	2,070,678	$ 21	21,117,006	$ 211	$ 1,235,108	$ (822,520)	$ (326,522)	$ 23,877	$ 11

See accompanying notes to consolidated financial statements

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Year Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (145,410)	$ (31,521)
Loss on sale of mortgage servicing rights	5,937	93
Change in fair value of mortgage servicing rights	(3,757)	37,904
Loss on extinguishment of debt	—	1,265
Gain on sale of mortgage loans	(88,611)	(135,749)
Change in fair value of mortgage loans held-for-sale	14,762	(8,367)
Change in fair value of derivatives lending, net	2,110	6,055
Provision for repurchases	5,074	1,557
Origination of mortgage loans held-for-sale	(3,839,640)	(7,111,734)
Sale and principal reduction on mortgage loans held-for-sale	4,103,790	7,019,442
Losses (gains) from REO	950	(7,425)
Change in fair value of net trust assets, excluding REO	1,599	1,212
Change in fair value of long-term debt	(3,978)	2,949
Accretion of interest income and expense	33,435	86,189
Amortization of intangible and other assets	3,807	4,768
Accretion of contingent consideration	—	2,058
Change in fair value of contingent consideration	—	(13,326)
Amortization of debt issuance costs and discount on note payable	83	166
Stock-based compensation	947	2,548
Impairment of deferred charge	—	858
Impairment of goodwill	104,587	351
Impairment of intangible assets	18,347	—
Excess tax benefit from share based compensation	(151)	(367)
Change in deferred tax assets, net	4,315	20,105
Net change in other assets	(12,195)	794
Net change in other liabilities	(5,032)	(17,805)
Net cash provided by (used in) operating activities	200,969	(137,980)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	553,953	632,524
Proceeds from the sale of mortgage servicing rights	112,376	802
Purchase of mortgage servicing rights	—	(5,618)
Finance receivable advances to customers	(401,357)	(909,719)
Repayments of finance receivables	443,134	930,879
Net change in mortgages held-for-investment	—	11
Purchase of premises and equipment	(867)	(469)

Purchase of investment securities	(1,000)	—
Proceeds from the sale of REO	21,493	29,082
Net cash provided by investing activities	727,732	677,492
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	—	55,454
Repayment of MSR financing	(137,133)	(25,000)
Borrowings under MSR financing	102,000	60,133
Repayment of warehouse borrowings	(3,877,663)	(6,743,048)
Borrowings under warehouse agreements	3,586,437	6,897,838
Repayment of term financing	—	(30,000)
Payment of acquisition related contingent consideration	(554)	(19,250)
Repayment of securitized mortgage borrowings	(610,810)	(742,421)
Principal payments on capital lease	(202)	(324)
Debt issuance costs	—	(100)
Tax payments on stock based compensation awards	(145)	(355)
Issuance of deferred stock units	1	—
Proceeds from exercise of stock options	458	593
Net cash used in financing activities	(937,611)	(546,480)
Net change in cash, cash equivalents and restricted cash	(8,910)	(6,968)
Cash, cash equivalents and restricted cash at beginning of year	39,099	46,067
Cash, cash equivalents and restricted cash at end of year	$ 30,189	$ 39,099
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 123,734	$ 93,802
Taxes refunded (paid), net	591	(76)
NON-CASH TRANSACTIONS:		
Transfer of securitized mortgage collateral to real estate owned	$ 22,421	$ 18,800
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	24,879	56,049
Common stock issued upon issuance of deferred stock units	606	—
Common stock issued upon long-term debt exchange	—	7,033

See accompanying notes to consolidated financial statements

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1.—Summary of Business and Financial Statement Presentation including Significant Accounting Policies

Business Summary

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

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

Financial Statement Presentation

Basis of Presentation

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

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

Principles of Consolidation

The accompanying consolidated financial statements include accounts of IMH and its wholly-owned subsidiaries. The usual condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. However, a controlling financial interest may also exist in entities, such as variable interest entities (VIEs), through arrangements that do not involve voting interests.

The VIE framework requires a variable interest holder (counterparty to a VIE) to consolidate the VIE if that party has the power to direct activities of the VIE that most significantly impact the entity's economic performance, will absorb a majority of the expected losses of the VIE, will receive a majority of the residual returns of the VIE, or both, and directs the significant activities of the entity. This party is considered the primary beneficiary of the entity. The determination of whether the Company meets the criteria to be considered the primary beneficiary of a VIE requires an evaluation of all transactions (such as investments, liquidity commitments, derivatives and fee arrangements) with the entity. The assessment of whether or not the Company is the primary beneficiary of the VIE is performed on an ongoing basis.

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Significant Accounting Policies

Fair Value Option

The Company has elected the fair value option for securitized mortgage collateral, mortgage servicing rights, mortgage loans held-for-sale, securitized mortgage borrowings and long-term debt. Elections were made to mitigate income statement volatility caused by differences in the measurement basis of elected instruments.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash and highly liquid investments with maturities of three months or less at the date of acquisition. The carrying amount of cash and cash equivalents approximates fair value.

Cash balances that have restrictions as to the Company's ability to withdraw funds are considered restricted cash. At December 31, 2018 and 2017, restricted cash totaled $7.0 million and $5.9 million, respectively. The restricted cash is the result of the terms of the Company's warehouse borrowings. In accordance with the terms of the Master Repurchase Agreements related to the warehouse borrowings, the Company is required to maintain cash balances with the lender as additional collateral for the borrowings (See Note 8.—Debt).

Mortgage Loans Held for Sale

Mortgage loans held-for-sale (LHFS) are accounted for using the fair value option, with changes in fair value recorded in gain on sale of loans, net in the accompanying consolidated statements of operations and comprehensive loss. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, Financial Instruments, loan origination fees and expenses are recognized in earnings as incurred and not deferred.

Revenue derived from the Company's mortgage lending activities includes loan fees collected at the time of origination and gain or loss from the sale of LHFS. Loan fees consist of fee income earned on all loan originations, including loans closed and held-for-sale. Loan fees are recognized as earned and consist of amounts collected for application and underwriting fees, fees on cancelled loans and discount points. The related direct loan origination costs are recognized when incurred and consists of broker fees and commissions. Gain or loss from the sale and mark to market adjustments of LHFS includes both realized and unrealized gains and losses and are included in gain on sale of loans, net in the accompanying consolidated statements of operations and comprehensive loss. The valuation of LHFS approximates a whole loan price, which includes the value of the related mortgage servicing rights.

The Company primarily sells its LHFS to government sponsored entities and investors. The Company evaluates its loan sales for sales treatment. To the extent the transfer of loans qualifies as a sale, the Company derecognizes the loans and records a realized gain or loss on the sale date. In the event the Company determines that the transfer of loans does not qualify as a sale, the transfer would be treated as a secured borrowing. Interest on loans is recorded as income when earned and deemed collectible. LHFS are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible.

Mortgage Servicing Rights

The Company accounts for mortgage loan sales in accordance with FASB ASC 860, Transfers and Servicing. Upon sale of mortgage loans on a service-retained basis, the LHFS are removed from the balance sheet, mortgage servicing rights (MSRs) are recorded as an asset for servicing rights retained. The Company elected to measure MSRs at fair value as prescribed by FASB ASC 860-50-35, and as such, servicing assets or liabilities are valued using discounted cash flow modeling techniques using assumptions regarding future net servicing cash flow, including prepayment rates, discount rates, servicing cost and other factors. Changes in estimated fair value are reported in the accompanying consolidated statements of operations and comprehensive loss within loss on mortgage servicing rights, net.

When the Company sells mortgage servicing rights, the Company records a gain or loss on such sale based on the selling price of the mortgage servicing rights less the carrying value and transaction costs. Gains and losses are reported

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in the accompanying consolidated statements of operations and comprehensive loss within loss on mortgage servicing rights, net.

Finance Receivables

Finance receivables represent transactions with the Company’s customers involved in residential real estate lending. As a warehouse lender, the Company’s warehouse lending operations are a secured creditor of the mortgage bankers and brokers to which the Company extends credit and is subject to the risks inherent in that status, including the risk of borrower fraud, default and bankruptcy. Any claim of the Company’s warehouse lending operations as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay. Finance receivables from customers represent repurchase facilities with mortgage bankers that are primarily collateralized by mortgages on single-family residential real estate. In the third quarter of 2018, the Company began reducing the short-term revolving financing lines to small and medium-size mortgage originators. As of December 31, 2018, the Company no longer offered these financing lines and no longer originates finance receivables. Terms of the repurchase facilities, including the maximum facility amount and interest rate, were determined based upon the financial strength, historical performance and other qualifications of the borrower. The warehouse facilities to customers had maturities that range from on-demand to one year. Finance receivables were stated at the principal balance outstanding. Interest income was recorded on the accrual basis.

Securitized Mortgage Collateral

The Company’s long term mortgage portfolio primarily includes adjustable rate and, to a lesser extent, fixed rate non conforming mortgages and commercial mortgages that were acquired and originated by our mortgage and commercial operations prior to 2008.

Non conforming mortgages may not have certain documentation or verifications that are required by government sponsored entities and, therefore, in making our credit decisions, we were more reliant upon the borrower’s credit score and the adequacy of the underlying collateral.

Historically, the Company securitized mortgages in the form of collateralized mortgage obligations (CMO) or real estate mortgage investment conduits (REMICs). These securitizations are evaluated for consolidation based on the provisions of FASB ASC 810 10 25. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

The Company accounts for securitized mortgage collateral at fair value, with changes in fair value during the period reflected in earnings. Fair value measurements are based on the Company’s estimated cash flow models, which incorporate assumptions, inputs of other market participants and quoted prices for the underlying bonds. The Company’s assumptions include its expectations of inputs that other market participants would use. These assumptions include judgments about the underlying collateral, prepayment speeds, credit losses, investor yield requirements, forward interest rates and certain other factors.

Interest income on securitized mortgage collateral is recorded using the effective yield for the period based on the previous quarter end’s estimated fair value. Securitized mortgage collateral is generally not placed on nonaccrual status as the servicer advances the interest payments to the trust regardless of the delinquency status of the underlying mortgage loan, until it becomes apparent to the servicer that the advance is not collectible.

Real Estate Owned

Real estate owned (REO) on the balance sheet are primarily assets within the securitized trusts but are recorded as a separate asset for accounting and reporting purposes and are within the long term mortgage portfolio. REO, which consists of residential real estate acquired in satisfaction of loans, is carried at net realizable value, which includes the estimated fair value of the residential real estate less estimated selling and holding costs. Adjustments to the loan carrying value required at the time of foreclosure affect the carrying amount of REO. Subsequent write downs in the net realizable value of REO are included in change in fair value of net trust assets, including trust REO (losses) gains in the consolidated statements of operations and comprehensive loss.

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Goodwill and Intangible Assets

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Other intangible assets with definite lives include trademarks, customer relationships, and non-compete agreements. Goodwill, trademarks and other intangible assets are tested annually for impairment or more frequently if events and circumstances indicate that the asset might be impaired. The carrying value of these intangible assets could be impaired if a significant adverse change in the use, life, or brand strategy of the asset is determined, or if a significant adverse change in the legal and regulatory environment, business or competitive climate occurs that would adversely impact the asset.

Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization but are instead tested for impairment no less than annually. Impairment exists when the carrying value exceeds its implied fair value. An impairment loss, if any, is measured as the excess of carrying value over the implied fair value and would be recorded in the consolidated statements of operations and comprehensive loss. Intangible assets with definite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed.

As discussed in Note 5.—Goodwill and intangible assets, the Company recorded impairment charges and intangible assets for the year ended December 31, 2018.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with FASB ASC Topic 805, Business Combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed which involve contingencies must also be recognized at their estimated fair value, provided such fair value can be determined during the measurement period. Acquisition-related costs, including severance, conversion and other restructuring charges, such as abandoned space accruals, are expensed as incurred. Results of operations of an acquired business are included in the consolidated statements of operations and comprehensive loss from the date of acquisition.

Securitized Mortgage Borrowings

The Company records securitized mortgage borrowings in the accompanying consolidated balance sheets for the consolidated CMO and REMIC securitized trusts within the long-term mortgage portfolio. The debt from each issuance of a securitized mortgage borrowing is payable from the principal and interest payments on the underlying mortgages collateralizing such debt, as well as the proceeds from liquidations of REO. If the principal and interest payments are insufficient to repay the debt, the shortfall is allocated first to the residual interest holders (generally owned by the Company) then, if necessary, to the certificate holders (e.g. third party investors in the securitized mortgage borrowings) in accordance with the specific terms of the various respective indentures. Securitized mortgage borrowings typically are structured as one-month LIBOR "floaters" and fixed rate securities with interest payable to certificate holders monthly. The maturity of each class of securitized mortgage borrowing is directly affected by the amount of net interest spread, overcollateralization and the rate of principal prepayments and defaults on the related securitized mortgage collateral. The actual maturity of any class of a securitized mortgage borrowing can occur later than the stated maturities of the underlying mortgages.

When the Company issued securitized mortgage borrowings, the Company generally sought an investment grade rating for the Company's securitized mortgages by nationally recognized rating agencies. To secure such ratings, it was often necessary to incorporate certain structural features that provide for credit enhancement. This generally included the pledge of collateral in excess of the principal amount of the securities to be issued, a bond guaranty insurance policy for some or all of the issued securities, or additional forms of mortgage insurance. The Company's total loss exposure is limited to the Company's initial net economic investment in each trust, which is referred to as a residual interest.

The Company accounts for securitized mortgage borrowings at fair value, with changes in fair value during the period reflected in earnings. Fair value measurements are based on the Company's estimated cash flow models, which

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incorporate assumptions, inputs of other market participants and quoted prices for the underlying bonds. The Company's assumptions include its expectations of inputs that other market participants would use. These assumptions include judgments about the underlying collateral, prepayment speeds, credit losses, investor yield requirements, forward interest rates and certain other factors. Interest expense on securitized mortgage borrowings are recorded quarterly using the effective yield for the period based on the previous quarter-end's estimated fair value.

Derivative Instruments

In accordance with FASB ASC 815-10 Derivatives and Hedging—Overview, the Company records all derivative instruments at fair value. The Company has accounted for all its derivatives as non-designated hedge instruments or free-standing derivatives.

Lending Derivatives

The mortgage lending operation enters into IRLCs with consumers to originate mortgage loans at a specified interest rate. These IRLCs are accounted for as derivative instruments. The fair values of IRLCs utilize current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturities and credit quality, subject to the anticipated loan funding probability (Pull-through Rate). The fair value of IRLCs is subject to change primarily due to changes in interest rates and the estimated Pull-through Rate. The Company reports IRLCs within other assets and other liabilities at fair value with changes in fair value being recorded in the accompanying consolidated statements of operations and comprehensive loss within gain on sale of loans, net.

The Company hedges the changes in fair value associated with changes in interest rates related to IRLCs and uncommitted LHFS by using forward delivery commitments on mortgage-backed securities, including Fannie Mae and Ginnie Mae mortgage-backed securities known as to-be-announced mortgage-backed securities (TBA MBS or Hedging Instruments) as well as forward delivery commitments on whole loans. The Hedging Instruments and forward delivery loan commitments are used to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market and are accounted for as derivative instruments. The fair value of Hedging Instruments and forward delivery loan commitments are subject to change primarily due to changes in interest rates. The Company reports Hedging Instruments and forward delivery loan commitments within other assets and other liabilities at fair value with changes in fair value being recorded in the accompanying consolidated statements of operations and comprehensive loss within gain on sale of loans, net.

The Company hedges the changes in fair value associated with changes in interest rates related to MSRs by using TBA MBS or Hedging Instruments. The Hedging Instruments are typically entered into at the time the MSR is created and are accounted for as derivative instruments. The fair value of Hedging Instruments is subject to change primarily due to changes in interest rates. The Company reports Hedging Instruments within other assets and other liabilities at fair value with changes in fair value being recorded in the accompanying consolidated statements of operations and comprehensive loss within loss on sale of mortgage servicing rights, net.

The fair value of IRLCs and Hedging Instruments are represented as derivative assets, lending and derivative liabilities, lending in Note 12.—Fair Value of Financial Instruments.

Long-term Debt

Long-term debt (junior subordinated notes) is reported at fair value. These securities are measured based upon an analysis prepared by management, which considers the Company's own credit risk and discounted cash flow analysis. Unrealized gains and losses are recognized in earnings in the accompanying consolidated statements of operations and comprehensive loss within change in fair value of long-term debt.

The Company does not consolidate trust preferred entities (which are sometimes hereinafter referred to as capital trusts) since the Company does not have a variable interest in the trust. Instead, the Company records its investment in the trust preferred entities (included in other assets in the accompanying consolidated balance sheets) and accounts for such under the equity method of accounting and reflects a liability for the issuance of the notes to the trust preferred entities. As part of the trust preferred exchange on May 5, 2017, the Company wrote off the remaining investment in trust preferred entities. Refer to Note 8.—Debt.

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Repurchase Reserve

The Company sells mortgage loans in the secondary market, including U.S. government sponsored entities, and issues mortgage backed securities through Ginnie Mae and Fannie Mae. When the Company sells or issues securities, 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 laws. In the event of a breach of its representations and warranties, the Company may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor or insurer for any loss. In addition, the Company may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale. Also, the Company's loss may be reduced by proceeds from the sale or liquidation of the repurchased loan. The Company's loss may be reduced by any recourse it has to correspondent lenders that, in turn, had sold such mortgage loans to the Company and breached similar or other representations and warranties. In such event, the Company has the right to seek a recovery of related repurchase losses from that correspondent lender.

The Company records a provision for losses relating to such representations and warranties as part of its loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimated future defaults and loan repurchase rates and the potential severity of loss in the event of defaults including any loss on sale or liquidation of the repurchased loan and the probability of reimbursement by the correspondent loan seller. The Company establishes a liability at the time loans are sold and continually updates its estimated repurchase liability. The level of the repurchase liability for representations and warranties is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor demands for loan repurchases and other external conditions that may change over the lives of the underlying loans.

Revenue Recognition for Fees from Services

The Company follows FASB ASC 606, Revenue Recognition, which provides guidance on the application of GAAP to selected revenue recognition issues related to our real estate services fees.

The Company's real estate services segment provides various real estate related services and loss mitigation services including (i) managing distressed mortgage portfolios and foreclosed real estate assets, (ii) the disposition of such assets, (iii) surveillance services for residential and multifamily mortgage portfolios, (iv) loan modification services and (v) the master servicing on various residential mortgage and multifamily loan pools for loans in the long term portfolio of IMH, and to a lesser extent, non affiliated entities. The revenues from these services are recognized in income in the period when services are rendered and collectability is reasonably certain.

Advertising Costs

Advertising costs are expensed as incurred and are included in business promotion expense.

Stock Based Compensation

The Company accounts for stock based compensation in accordance with FASB ASC 718 Compensation—Stock Compensation. Accordingly, the Company measures the cost of stock based awards using the grant date fair value of the award and recognizes that cost over the requisite service period.

The fair value of each stock option granted under the Company's stock-based compensation plan is estimated on the date of grant using the Black-Scholes-Merton option-pricing model and assumptions noted in Note 17.—Share Based Payments and Employee Benefit Plans. The risk-free interest rate is based on the U.S. Treasury rate with a term equal to the expected term of the option grants on the date of grant.

FASB ASC 718 requires forfeitures to be estimated at the time of grant and prospectively revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock based compensation expense is recorded net of estimated forfeitures for the years ended December 31, 2018 and 2017, such that the expense was recorded only for those stock based awards that were expected to vest during such periods. Refer to Note 17.—Share Based Payments and Employee Benefit Plans.

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Income Taxes

In accordance with FASB ASC 740, Income Taxes, the Company records income tax expense as well as deferred tax assets and liabilities. Current income tax expense approximates taxes to be paid or refunded for the current period and includes income tax expense related to uncertain tax positions and amortization/impairment of deferred charge, explained below. The Company determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not." Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement.

The Company is subject to federal income taxes as a regular (Subchapter C) corporation and files a consolidated U.S. federal income tax return on qualifying subsidiaries. The Company files federal and various states income tax returns in the U.S.

In prior periods when the Company was taxed as a real estate investment trust (REIT), it recorded a deferred charge to eliminate the expense recognition of income taxes paid on inter-Company profits that result from the sale of mortgage loans from the taxable REIT subsidiaries to IMH. The deferred charge was included in other assets in the consolidated balance sheets and was amortized and or impaired as a component of income tax expense in the consolidated statements of operations and comprehensive loss over the estimated life of the mortgages retained in the securitized mortgage collateral. With the adoption of ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," on January 1, 2018, the deferred charge was eliminated with a $7.8 million cumulative effect adjustment to opening retained earnings and is no longer a component of income tax expense.

Loss per Common Share

Basic loss per common share is computed on the basis of the weighted average number of shares outstanding for the year divided into net loss for the year. Diluted loss per common share is computed on the basis of the weighted average number of shares and dilutive common equivalent shares outstanding for the year divided by net loss for the year, unless anti dilutive. Refer to Note 13.—Reconciliation of Loss Per Share.

Recent Accounting Pronouncements

Accounting Standards Update (ASU) No. 2014-09, 2015-04, 2016-08, 2016-10, 2016-12, 2016-20, 2017-13 and 2017-14, collectively implemented as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), "Revenue from Contracts with Customers (Topic 606)", provides guidance for revenue recognition. This ASC's core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The standard also clarifies the principal versus agent considerations, providing the evaluation must focus on whether the entity has control of the goods or services before they are transferred to the customer. The new standard permits the use of either the modified retrospective or full retrospective transition method. The Company's revenue is primarily generated from loan originations, loan servicing and real estate services. Origination revenue is comprised of fee income earned at origination of a loan, interest income earned for the period the loans are held, and gain on sale of loans upon disposition of the loan. Servicing revenue is comprised of servicing fees and other ancillary fees in connection with our servicing activities. Real estate services revenue is comprised of income earned from various real estate services and support such as loss mitigation, loan modification, surveillance and disposition and monitoring services. The Company performed a review of the guidance as compared to previous accounting policies and have evaluated all services rendered to customers as well as underlying contracts to determine the impact of this standard to the Company’s revenue recognition process. The majority of services rendered by the Company in connection with loan originations, loan servicing and the long-term mortgage portfolio are not within the scope of FASB ASC 606. However, the Company identified real estate services revenues that are within the scope of FASB ASC 606 and the impact upon adoption was not materially different from the previous revenue recognition processes. The Company adopted this guidance on January 1, 2018, and the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things, requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net earnings or loss; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); requires separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The update is effective for interim and annual reporting periods beginning after December 15, 2017 on a modified retrospective basis, using a cumulative-effect adjustment to the balance sheet as of the beginning of the year adopted. The Company adopted this guidance on January 1, 2018, which resulted in a $27.0 million reclass, net of tax, between opening retained deficit and accumulated other comprehensive earnings (loss) within stockholders' equity.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”, which amends existing guidance to require lessees to recognize assets and liabilities on balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarification surrounding the presentation of the effects of leases in the statement of operations and comprehensive loss and statement of cash flows. This guidance will be effective for the Company beginning on January 1, 2019. In addition, the FASB issued ASU 2018-11, “Leases-Targeted Improvements”, which provides an additional transition method that allows entities to apply the new leases standard at adoption date and recognize a cumulative effect adjustment to the opening balance of accumulated deficit in the period of adoption. The Company adopted ASU 2016-02 on January 1, 2019 and applied the package of practical expedients included therein, as well as utilized the transition method included in ASU 2018-11. By applying ASU 2016-02 at the adoption date, as opposed to at the beginning of the earliest period presented, the presentation of financial information for periods prior to January 1, 2019 will remain unchanged in accordance with Leases (Topic 840). On January 1, 2019, the Company expects to recognize right of use assets of between $19.0 million and $21.0 million (net of the reversal of the current deferred rent liability) and lease liabilities of between $22.0 million and $24.0 million in the consolidated balance sheet.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company adopted this change prospectively on January 1, 2017 and did not adjust prior periods. The amendments allowed for a one-time accounting policy election to either account for forfeitures as they occur or continue to estimate forfeitures as required by guidance at the time. The Company has elected to continue estimating forfeitures under the guidance. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326).” This update requires companies to measure all expected credit losses for financial assets held at the reporting date. The standard also amends the accounting for credit losses on available-for-sale debt securities, purchased financial assets with credit deterioration and trade and other receivables. In November 2018, the FASB issued ASU 2018-19, “Codification

Improvements to Topic 326, Financial Instruments, Credit Losses", which made technical corrections and improvements to the previous ASU issued. The standards will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company does not expect the adoption of these ASUs to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The update amends the guidance in ASC 230, Statement of Cash Flows, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. In addition, in November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash." This ASU clarifies certain existing principles in FASB ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the

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restricted cash accounts. These ASUs were effective for the fiscal year beginning after December 15, 2017 and subsequent interim periods. The Company adopted this guidance retrospectively on January 1, 2018. The adoption of this ASU did not have a material impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” This ASU requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard was applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained deficit as of the beginning of the period of adoption. The Company adopted this guidance on January 1, 2018, which resulted in a $7.8 million cumulative effect adjustment to opening retained deficit.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business.” The amendments in this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted this guidance on January 1, 2018, and the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment." ASU 2017-04 amends Topic 350 to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This update requires the performance of an annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those periods, with early adoption permitted. The Company early adopted this guidance prospectively on June 30, 2018. See Note 5.-Goodwill and Intangible Assets for further discussion on goodwill impairment testing.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.” The update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU is effective for annual reporting periods beginning after December 15, 2017. The Company adopted this guidance on January 1, 2018, and the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” This ASU improves certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. ASU 2017-12 is effective for all annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted and requires a prospective adoption with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption for existing hedging relationships. The Company adopted this guidance on January 1, 2019, and the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU allows a reclassification from accumulated other comprehensive earnings (AOCE) to retained earnings for the stranded tax effects caused by the revaluation of deferred taxes resulting from the newly enacted corporate tax rate in the Tax Cuts and Jobs Act (the Tax Act) which was signed into law in the fourth quarter of 2017. The ASU is effective in years beginning after December 15, 2018, but permits early adoption in a period for which financial statements have not yet been issued. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2018, the FASB ASU 2018-03, “Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This amendment clarifies certain aspects of the new guidance (ASU 2016-01) on recognizing and measuring financial instruments and presentation requirements for certain fair value option liabilities. ASU 2018-03 is effective for interim periods beginning after June 15, 2018 and was effective for the Company's 2018 third quarter and annual reporting period. The standard required entities to record a cumulative-effect adjustment to the consolidated balance sheet at the beginning of the fiscal year in which the amendments are adopted. The Company adopted this guidance on July 1, 2018, and the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." This ASU codifies existing SEC guidance contained in SEC Staff Accounting Bulletin No. 118 (SAB 118), which expresses the view of the staff regarding application of existing guidance for the accounting for income taxes as it relates to the enactment of the Tax Act. ASU 2018-05 is effective for fiscal years, and interim periods, beginning in the reporting period that includes the enactment of the 2017 Tax Act. The Company adopted this ASU in the fourth quarter of 2017. See Note 14.—Income Taxes for additional information regarding the adoption of this standard.

In June 2018, the FASB issued ASU 2018-07, "Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. This ASU specifies that Topic 718 apply to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. ASU 2018-07 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted this guidance on January 1, 2019, and the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820)." The ASU eliminates disclosures such as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The ASU adds new disclosure requirements for Level 3 measurements. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40)." This ASU addresses customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The amendments in this ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The

Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, “Consolidation (Topic 810): Targeted Improvements to related Party Guidance for Variable Interest Entities.” This ASU amends the guidance for determining whether a decision-making fee is a variable interest. The amendments require entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. The ASU is effective for public business entities for fiscal years and interim periods beginning after December 15, 2019. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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Note 2.—Mortgage Loans Held-for-Sale

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

	December 31, 2018	December 31, 2017
Government (1)	$ 39,522	$ 263,512
Conventional (2)	53,148	193,055
Other (3)	256,491	93,012
Fair value adjustment (4)	4,440	19,202
Total mortgage loans held-for-sale	$ 353,601	$ 568,781

(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.
(3) Includes non-qualified mortgage (NonQM) loans.
(4) Changes in fair value are included in gain on sale of loans, net on the accompanying consolidated statements of operations and comprehensive loss.

As of December 31, 2018, the Company had $2.3 million in UPB of mortgage loans held-for-sale that were in nonaccrual status as the loans were 90 days or more delinquent. The carrying value of these nonaccrual loans as of December 31, 2018 were $1.8 million. As of December 31, 2017, there were no delinquent or nonaccrual mortgage loans held-for-sale.

Gain on sale of loans, net in the consolidated statements of operations and comprehensive loss is comprised of the following for the years ended December 31, 2018 and 2017:

	For the Year Ended December 31,	
	2018	2017
Gain on sale of mortgage loans	$ 102,899	$ 187,204
Premium from servicing retained loan sales	24,879	56,049
Unrealized losses from derivative financial instruments	(2,025)	(6,412)
Realized gains (losses) from derivative financial instruments	11,878	(4,576)
Mark to market (loss) gain on LHFS	(14,762)	8,367
Direct origination expenses, net	(51,045)	(102,928)
Provision for repurchases	(5,074)	(1,557)
Total gain on sale of loans, net	$ 66,750	$ 136,147

Note 3.—Finance Receivables

The Company used a portion of its 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. The finance receivables are secured by residential mortgage loans as well as personal guarantees. Beginning in the third quarter of 2018, the Company began reducing the short-term revolving financing lines to small and medium-size mortgage originators. As of December 31, 2018, the Company no longer offered these financing lines and had no outstanding finance receivables. There were no nonaccrual finance receivables as of December 31, 2017.

A summary of outstanding warehouse lines to non-affiliated customers and outstanding balances as of December 31, 2018 and 2017 is presented below:

	December 31,	
	2018	2017
Uncommitted warehouse lines to non-affiliated customers	$ —	$ 123,000
Outstanding balance	—	41,777

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Note 4.—Mortgage Servicing Rights

The Company retains mortgage servicing rights (MSRs) from its sales of certain mortgage loans. MSRs are reported at fair value based on the income derived from the net projected cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the UPB of the loans. The servicing fees are collected from the interest portion of 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 years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Balance at beginning of period	$ 154,405	$ 131,537
Additions from servicing retained loan sales	24,879	56,049
Addition from purchases	—	5,618
Reductions from bulk sales	(118,313)	(895)
Changes in fair value (1)	3,757	(37,904)
Fair value of MSRs at end of period	$ 64,728	$ 154,405

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

At December 31, 2018 and 2017, the UPB of the mortgage servicing portfolio was comprised of the following:

	December 31, 2018	December 31, 2017
Government insured (1)	$ 51,157	$ 2,834,680
Conventional (1) (2)	6,165,129	13,493,463
NonQM	1,848	1,957
Total loans serviced	$ 6,218,134	$ 16,330,100

(1) In the fourth quarter of 2018, the Company sold approximately $10.5 billion in UPB of Fannie Mae (FNMA) and Ginnie Mae (GNMA) servicing.

(2) At December 31, 2018, no collateral was pledged as part of the MSR Financing. At December 31, 2017, $13.5 billion, of Fannie Mae and Freddie Mac servicing was pledged as collateral as part of the MSR Financing (See Note 8.—Debt). Pledged collateral was approximately 81% of the fair value of Mortgage servicing rights in the consolidated balance sheets at December 31, 2017.

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The table below illustrates hypothetical changes in the fair value of MSRs, caused by assumed immediate changes to key assumptions that are used to determine fair value. See Note 12.—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	December 31, 2018	December 31, 2017
Fair value of MSRs	$ 64,728	$ 154,405
Prepayment Speed:		
Decrease in fair value from 10% adverse change	(1,419)	(5,643)
Decrease in fair value from 20% adverse change	(2,918)	(11,275)
Decrease in fair value from 30% adverse change	(4,475)	(16,807)
Discount Rate:		
Decrease in fair value from 10% adverse change	(2,345)	(5,461)
Decrease in fair value from 20% adverse change	(4,532)	(10,555)
Decrease in fair value from 30% adverse change	(6,575)	(15,316)

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

Loss on mortgage servicing rights, net is comprised of the following for the years ended December 31, 2018 and 2017:

	For the Year Ended December 31,	
	2018	2017
Change in fair value of mortgage servicing rights	$ 3,757	$ (37,904)
Loss on sale of mortgage servicing rights	(5,937)	(93)
Realized and unrealized (losses) gains from hedging instruments	(1,445)	2,117
Loss on mortgage servicing rights, net	$ (3,625)	$ (35,880)

Servicing fees, net is comprised of the following for the years ended December 31, 2018 and 2017:

	For the Year Ended December 31,	
	2018	2017
Contractual servicing fees	$ 43,065	$ 38,025
Late and ancillary fees	603	409
Subservicing and other costs	(6,411)	(6,532)
Servicing fees, net	$ 37,257	$ 31,902

Note 5.—Goodwill and Intangible assets

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

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

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

The Company tested its goodwill and intangible assets for impairment at least annually as of December 31, or more frequently if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit that has goodwill is less than its carrying value. As of March 31, 2018, the Company performed an interim goodwill impairment evaluation for this reporting unit and determined that there was no impairment. As previously disclosed in the Company's quarterly and annual reports, CCM had continued to experience declines in mortgage refinancing originations and margin compression, primarily a result of sustained increases in market interest rates from a historically low interest rate environment. In addition, the business model of CCM had led to additional margin compression on conventional originations through adverse demand from investors, as a result of the borrowers' propensity to refinance.

During the second quarter of 2018, the CCM brand continued to experience a material loss in value resulting from i) the aforementioned adverse treatment from capital market participants for loans produced by the reporting unit, ii) consumer uncertainty due to the use of a similar brand name by an unaffiliated financial services company and iii) substantial deterioration in brand awareness. In light of these developments, a significant reduction in the anticipated future cash flows and estimated fair value for this reporting unit had occurred.

Using this updated information, as of June 30, 2018, the Company performed an impairment test to evaluate the CCM goodwill and intangible assets for impairment. The Company compared the fair value of its net assets upon early adoption of ASU 2017-04, using three methodologies (two income approaches and one market approach), to the carrying value and determined that its goodwill was impaired. As a result, in the second quarter of 2018, the Company recorded an impairment charge of $74.7 million related to goodwill and $13.4 million related to intangible assets. During the third quarter of 2018, CCM continued to experience a significant decline in origination volume and margin compression in excess of the Company's updated projections from the second quarter of 2018 and continued adverse treatment from capital markets for conventional originations from the reporting unit. As a result, during the third quarter of 2018, the Company recorded an impairment charge of $29.9 million related to goodwill and $4.9 million related to intangible assets. The Company's fair value estimates utilize significant unobservable inputs and thus represent Level 3 fair value measurements.

The following table presents the changes in the carrying amount of goodwill for the period indicated:

Balance at December 31, 2016	$ 104,938
Impairment charge	(351)
Balance at December 31, 2017	$ 104,587

Impairment charges		(104,587)
Balance at December 31, 2018	$	—

The following table presents the net carrying amount of the intangible assets acquired as part of the CCM acquisition as of December 31, 2018 and 2017:

As of December 31, 2018:	Gross Carrying Amount	Accumulated Amortization	Aggregate Impairment Charges	Net Carrying Amount
Intangible assets:				
Trademark	$ 17,251	$ (3,801)	$ (13,450)	$ —
Customer relationships	10,170	(5,273)	(4,897)	—
Non-compete agreement	5,701	(5,701)	—	—
Total intangible assets acquired	$ 33,122	$ (14,775)	$ (18,347)	$ —

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As of December 31, 2017:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Trademark	$ 17,251	$ (3,216)	$ 14,035
Customer relationships	10,170	(4,143)	6,027
Non-compete agreement	5,701	(4,181)	1,520
Total intangible assets acquired	$ 33,122	$ (11,540)	$ 21,582

The Company recognized $3.2 million and $4.2 million of amortization expense associated with intangible assets within general, administrative and other expense in the accompanying consolidated statements of operations, for the years ended December 31, 2018 and 2017, respectively.

Note 6. —Loans Eligible for Repurchase from Ginnie Mae

The Company routinely sells loans in Ginnie Mae guaranteed MBS by pooling eligible loans through a pool custodian and assigning rights to the loans to Ginnie Mae. When these Ginnie Mae loans are initially pooled and securitized, the Company meets the criteria for sale treatment and de-recognizes the loans. The terms of the Ginnie Mae MBS program allow, but do not require, the Company to repurchase mortgage loans when the borrower has made no payments for three consecutive months. When the Company has the unconditional right, as servicer, to repurchase Ginnie Mae pool loans it has previously sold and are more than 90 days past due, the Company then re-recognizes the loans on its consolidated balance sheet in Loans eligible for repurchase from Ginnie Mae, at their UPB and records a corresponding liability in the consolidated balance sheets. At December 31, 2018 and 2017, loans eligible for repurchase from GNMA totaled $204 thousand and $47.7 million, respectively. As part of the Company’s repurchase reserve, the Company records a repurchase provision to provide for estimated losses from the sale or securitization of all mortgage loans, including these loans.

The loans eligible for repurchase from GNMA are in the Company’s servicing portfolio. The Company monitors the delinquency of the servicing portfolio and directs the subservicer to mitigate losses on delinquent loans. In the fourth quarter of 2018, the Company sold approximately $3.9 billion in UPB of GNMA MSRs substantially reducing the loans eligible for repurchase from GNMA.

Note 7.—Other Assets

Other assets consisted of the following:

	December 31, 2018	December 31, 2017
Accounts receivable, net	$ 16,840	$ 5,401

Servicing advances	3,468	2,853
Derivative assets – lending (See Note 10)	3,351	4,777
Prepaid expenses	3,252	3,001
Accrued interest receivable	1,505	1,397
Real estate owned – outside trusts	1,366	—
Premises and equipment, net	1,109	862
Developed software, net	572	1,145
Deferred tax asset, net (See Note 14)	—	4,315
Deferred charge (See Note 12)	—	7,827
Other	2,168	1,644
Total other assets	$ 33,631	$ 33,222

Accounts Receivable, net

Accounts receivable are primarily holdbacks from MSR sales, which are generally collected within six months of the sale date, cash due to the Company related to hedging instruments and fees earned for real estate services rendered,

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generally collected one month in arrears. Accounts receivable are stated at their carrying value, net of $434 thousand and $95 thousand reserve for doubtful accounts as of December 31, 2018 and 2017, respectively.

Servicing Advances

The Company is required to advance certain amounts to meet its contractual loan servicing requirements. The Company advances principal, interest, property taxes and insurance for borrowers that have insufficient escrow accounts, plus any other costs to preserve the properties. Also, the Company will advance funds to maintain, repair and market foreclosed real estate properties. The Company is entitled to recover advances from the borrowers for reinstated and performing loans or from proceeds of liquidated properties. Servicer advances totaled $3.5 million and $2.9 million at December 31, 2018 and 2017, respectively, and are all considered fully collectible.

Premises and Equipment, net

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation on premises and equipment is recorded using the straight line method over the estimated useful lives of individual assets, typically three to twenty years. Premises and equipment and accumulated depreciation were as follows as of the dates indicated:

	December 31,	
	2018	2017
Premises and equipment	$ 17,793	$ 16,928
Less: Accumulated depreciation	(16,684)	(16,066)
Total premises and equipment, net	$ 1,109	$ 862

The Company recognized $620 thousand and $583 thousand of depreciation expense within general, administrative and other expense in the accompanying consolidated statements of operations and comprehensive loss, for the years ended December 31, 2018 and 2017, respectively.

Developed Software, net

As part of the acquisition of CCM, the purchase price of other assets acquired are listed below as of December 31, 2018 and 2017:

As of December 31, 2018:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Life
Other assets:				
Developed software	$ 2,719	$ (2,147)	$ 572	1.0

	Gross	Accumulated	Net

As of December 31, 2017:	Carrying Amount	Amortization	Carrying Amount
Other assets:			
Developed software	$ 2,719	$ (1,574)	$ 1,145

The Company recognized $572 thousand of amortization expense associated with developed software within general, administrative and other expense in the accompanying consolidated statements of operations, for both years ended December 31, 2018 and 2017.

Note 8.—Debt

The following table shows contractual future debt maturities as of December 31, 2018:

	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Warehouse borrowings	$ 284,137	$ 284,137	$ —	$ —	$ —
2015 Convertible notes	25,000	—	25,000	—	—
Long-term debt	62,000	—	—	—	62,000
Total debt obligations	$ 371,137	$ 284,137	$ 25,000	$ —	$ 62,000

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Warehouse Borrowings

The Company, through its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are used to fund, and are secured by, residential mortgage loans that are held for sale. In accordance with the terms of the Master Repurchase Agreements, the Company is required to maintain cash balances with the lender as additional collateral for the borrowings which are included in restricted cash in the accompanying consolidated balance sheets. At December 31, 2018, the Company was not in compliance with certain financial covenants from one of its lenders and received the necessary waivers.

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

	Maximum Borrowing Capacity	Balance Outstanding At December 31, 2018	Balance Outstanding At December 31, 2017	Allowable Advance Rates (%)	Rate Range	Maturity Date
Short-term borrowings:						
Repurchase agreement 1	$ 150,000	$ 84,897	$ 100,630	80 - 98	1ML + 2.50 - 4.50%	June 14, 2019
Repurchase agreement 2	50,000	47,108	31,632	90 - 98	1ML + 2.50 - 4.25%	May 28, 2019
Repurchase agreement 3 (1)	225,000	35,920	154,020	85 - 97	1ML + 2.25%	January 17, 2020
Repurchase agreement 4	200,000	80,141	152,772	99	1ML + 2.10%	July 12, 2019
Repurchase agreement 5	175,000	23,370	88,920	100	Note Rate - 0.50%	April 30, 2019
Repurchase agreement 6	100,000	12,701	47,389	95 - 98	1ML + 2.15 - 2.40%	June 27, 2019
Repurchase agreement 7 (2)	—	—	—	100	1ML + 2.25%	N/A
Total warehouse borrowings	$ 900,000	$ 284,137	$ 575,363			

(1) As of December 31, 2018, there were no outstanding balances attributable to finance receivables. As of December 31, 2017, the balance outstanding included $41.8 million attributable to finance receivables made to the Company’s warehouse customers.
(2) In November 2018, the Company terminated the line.

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

	For the year ended December 31,

	2018	2017
Maximum outstanding balance during the year	$ 650,342	$ 627,175
Average balance outstanding for the year	440,273	414,149
Underlying collateral (mortgage loans)	343,724	591,403
Weighted average rate for period	4.67 %	4.06 %

MSR Financings

In February 2018, IMC (Borrower), amended the Line of Credit Promissory Note (FHLMC and GNMA Financing) originally entered into in August 2017, increasing the maximum borrowing capacity of the revolving line of credit to $50.0 million and extending the term to January 31, 2019. In May 2018, the agreement was amended increasing the maximum borrowing capacity of the revolving line of credit to $60.0 million, increasing the borrowing capacity up to 60% of the fair market value of the pledged mortgage servicing rights and reducing the interest rate per annum to one-month LIBOR plus 3.0%. As part of the May 2018 amendment, the obligations under the line of credit are secured by FHLMC and GNMA pledged mortgage servicing rights (subject to an acknowledge agreement) and is guaranteed by Integrated Real Estate Services, Corp. In January 2019, the agreement was extended to April 30, 2019. At December 31, 2018, there were no outstanding borrowings under the FHLMC and GNMA Financing agreement.

On February 10, 2017, IMC (Borrower), entered into a Loan and Security Agreement (Agreement) with a lender providing for a revolving loan commitment of $40.0 million for a period of two years (FNMA Financing). The Borrower is able to borrow up to 55% of the fair market value of FNMA pledged servicing rights. Upon the two-year anniversary of the Agreement, any amounts outstanding will automatically be converted into a term loan due and payable in full on the one-year anniversary of the conversion date. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0% and the balance of the obligation may be prepaid at any time. The Borrower initially drew down $35.1 million, and used a portion of the proceeds to pay off the Term Financing (approximately $30.1

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million) originally entered into in June 2015 as discussed below. The Borrower also paid the lender an origination fee of $100 thousand, which were deferred and being amortized over the life of the FNMA Financing. At December 31, 2018, there were no outstanding borrowings under the FNMA Financing agreement. In February 2019, the line converted into a term loan with no balance.

The following table presents certain information on MSR Financings for the periods indicated:

	For the year ended December 31,	
	2018	2017
Maximum outstanding balance during the year	$ 67,000	$ 35,133
Average balance outstanding for the year	45,532	18,790
Weighted average rate for period	5.82 %	5.51 %

Term Financing

In June 2015, the Company and its subsidiaries (IRES, IMC and Impac Warehouse Lending, Inc. (IWLI), collectively the Borrowers) entered into a Loan Agreement (Loan Agreement) with a lender (Lender) pursuant to which the Lender provided to the Borrowers a term loan in the aggregate principal amount of $30.0 million (Term Financing) due and payable on December 19, 2016, which could have been extended to December 18, 2017 at the Lender's discretion. In June 2016, the maturity of the Term Financing was extended to June 16, 2017 and the Company paid an additional $100 thousand extension fee, which was deferred and amortized over the life of the Term Financing. Interest on the Term Financing was payable monthly and accrued at a rate of one-month LIBOR plus 8.5% per annum. In February 2017, the proceeds from the FNMA Financing were used to pay off the Term Financing.

Convertible Notes

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

Noteholders may convert all or a portion of the outstanding principal amount of the 2015 Convertible Notes into shares of the Company's common stock (Conversion Shares) at a rate of $21.50 per share, subject to adjustment for stock splits and dividends (the Conversion Price). The Company has the right to convert the entire outstanding principal of the 2015 Convertible Notes into Conversion Shares at the Conversion Price if the market price per share of the common stock, as measured by the average volume-weighted closing stock price per share of the common stock on the NYSE AMERICAN (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of Common Stock are listed), reaches the level of $30.10, for any twenty (20) trading days in any period of thirty (30) consecutive trading days after the Closing Date. Upon conversion of the 2015 Convertible Notes by the Company, the entire amount of accrued and unpaid interest (and all other amounts owing) under the 2015

Convertible Notes are immediately due and payable. Furthermore, if the conversion of the 2015 Convertible Notes by the Company occurs prior to the third anniversary of the Closing Date, then the entire amount of interest under the 2015 Convertible Notes through the third anniversary is immediately due and payable. To the extent the Company pays any cash dividends on its shares of common stock prior to conversion of the 2015 Convertible Notes, upon conversion of the 2015 Convertible Notes, the noteholders will also receive such dividends on an as-converted basis of the 2015 Convertible Notes less the amount of interest paid by the Company prior to such dividend.

Unless an event of default has occurred and is continuing, each purchaser of the 2015 Convertible Notes agrees, for the three years after the Closing Date, to vote all Conversion Shares for each of the Company's nominees for election to the Company's board of directors and not to nominate any other candidate for election to the board of directors at any time within such three year period.

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Long term Debt

As of December 31, 2018 and 2017, the Company had long term debt as follows:

Trust Preferred Securities

During 2005, the Company formed four wholly owned trust subsidiaries (Trusts) for the purpose of issuing an aggregate of $99.2 million of trust preferred securities (the Trust Preferred Securities). All proceeds from the sale of the Trust Preferred Securities and the common securities issued by the Trusts were originally invested in $96.3 million of junior subordinated debentures (subordinated debentures), which became the sole assets of the Trusts. The Trusts pay dividends on the Trust Preferred Securities at the same rate as paid by the Company on the debentures held by the Trusts.

During 2008 and 2009, the Company purchased and cancelled $36.5 million in outstanding Trust Preferred Securities for $5.5 million. Additionally, during 2009, the Company exchanged an aggregate of $51.3 million in outstanding Trust Preferred Securities for $62.0 million in Junior Subordinated Notes (Notes). As a result of these transactions, $8.5 million in Trust Preferred Securities remained outstanding.

On May 5, 2017, the Company agreed to exchange 412,264 shares of its common stock for the remaining Trust Preferred Securities which had an aggregate liquidation amount of $8.5 million issued by Impac Capital Trust #4. Accrued and unpaid interest on the Trust Preferred Securities was paid in cash in the aggregate amount of approximately $14 thousand. The interest rate on the Trust Preferred Securities was a variable rate of three-month LIBOR plus 3.75% per annum. At the time of the exchange, the interest rate was 4.92%. As part of the trust preferred exchange the Company wrote off the remaining $166 thousand investment in trust preferred entities.

The exchange was based on the carrying value of the trust preferred obligation, which was $5.6 million at March 31, 2017, and an agreed upon stock price that determined a fixed number of shares to be issued in the exchange. However, because the measurement date of the exchange was the date the common stock was issued when the market price of the common stock was $17.06, the Company recorded a $1.3 million loss on extinguishment of debt for the difference in stock price from the agreed upon stock price to the stock price on the issuance date of the common stock.

Junior Subordinated Notes

The Company carries its Junior Subordinated Notes at estimated fair value as more fully described in Note 12.—Fair Value of Financial Instruments. The following table shows the remaining principal balance and fair value of junior subordinated notes issued as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Junior Subordinated Notes (1)	$ 62,000	$ 62,000
Fair value adjustment	(17,144)	(17,018)
Total Junior Subordinated Notes	$ 44,856	$ 44,982

(1)

Stated maturity of March 2034; requires quarterly interest payments at a variable rate of 3-month LIBOR plus 3.75% per annum. At December 31, 2018, the interest rate was 6.35%.

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Note 9.—Securitized Mortgage Trusts

Securitized Mortgage Trust Assets

Securitized mortgage trust assets, which are recorded at fair market value (FMV), are comprised of the following at December 31, 2018 and 2017:

	December 31,	
	2018	2017
Securitized mortgage collateral	$ 3,157,071	$ 3,662,008
Real estate owned (REO)	8,519	8,542
Total securitized mortgage trust assets	$ 3,165,590	$ 3,670,550

Securitized Mortgage Collateral

Securitized mortgage collateral consisted of the following:

	December 31,	
	2018	2017
Mortgages secured by residential real estate	$ 3,245,606	$ 3,840,819
Mortgages secured by commercial real estate	294,599	347,323
Fair value adjustment	(383,134)	(526,134)
Total securitized mortgage collateral	$ 3,157,071	$ 3,662,008

As of December 31, 2018, the Company was also a master servicer of mortgages for others of approximately $486.1 million in UPB that were primarily collateralizing REMIC securitizations, compared to $578.0 million at December 31, 2017. Related fiduciary funds are held in trust for investors in non interest bearing accounts and, therefore, are not included in the Company's consolidated balance sheets. The Company may also be required to advance funds or cause loan servicers to advance funds to cover principal and interest payments not received from borrowers depending on the status of their mortgages.

Real Estate Owned (REO)

The Company's REO consisted of the following:

	December 31,	
	2018	2017
REO	$ 17,813	$ 15,519
Impairment (1)	(7,928)	(6,977)
Ending balance	$ 9,885	$ 8,542
REO inside trusts	$ 8,519	$ 8,542
REO outside trusts	1,366	—
Total	$ 9,885	$ 8,542

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

Securitized Mortgage Trust Liabilities

Securitized mortgage trust liabilities, which are recorded at FMV, are comprised of the following at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Securitized mortgage borrowings	$ 3,148,215	$ 3,653,265

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Securitized Mortgage Borrowings

Selected information on securitized mortgage borrowings for the periods indicated consisted of the following (dollars in millions):

		Securitized mortgage borrowings outstanding as of December 31,		Range of Interest Rates		
Year of Issuance	Original Issuance Amount	2018	2017	Fixed Interest Rates	Interest Rate Margins over One-Month LIBOR (1)	Interest Rate Margins after Contractual Call Date (2)
2002	$ 3,876.1	$ 4.8	$ 6.2	5.25 - 12.00	0.27 - 2.75	0.54 - 3.68
2003	5,966.1	35.9	48.2	4.34 - 12.75	0.27 - 3.00	0.54 - 4.50
2004	17,710.7	557.0	526.7	3.58 - 5.56	0.25 - 2.50	0.50 - 3.75
2005	13,387.7	1,752.9	1,938.1	—	0.24 - 2.90	0.48 - 4.35
2006	5,971.4	2,113.2	2,412.8	6.25	0.10 - 2.75	0.20 - 4.13
2007	3,860.5	1,265.1	1,407.7	—	0.06 - 2.00	0.12 - 3.00
Subtotal contractual principal balance (3)		5,728.9	6,339.7			
Fair value adjustment		(2,580.7)	(2,686.4)			
Total securitized mortgage borrowings		$ 3,148.2	$ 3,653.3			

(1) One-month LIBOR was 2.50% as of December 31, 2018.
(2) Interest rate margins are generally adjusted when the unpaid principal balance is reduced to less than 10 20% of the original issuance amount, or if certain other triggers are met.
(3) Represents the outstanding balance in accordance with trustee reporting.

As of December 31, 2018, expected principal reductions of the securitized mortgage borrowings, which is based on contractual principal payments and expected prepayment and loss assumptions for securitized mortgage collateral, was as follows (dollars in millions):

	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Securitized mortgage borrowings (1)	$ 5,728.9	$ 475.1	$ 739.4	$ 533.1	$ 3,981.3

(1) Represents the outstanding balance in accordance with trustee reporting.

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

Changes in fair value of net trust assets, including trust REO (losses) gains are comprised of the following for the years ended December 31, 2018 and 2017:

	For the Year Ended December 31,	
	2018	2017
Change in fair value of net trust assets, excluding REO	$ (1,599)	$ (1,212)
(Losses) gains from REO	(950)	7,425
Change in fair value of net trust assets, including trust REO gains (losses)	$ (2,549)	$ 6,213

Note 10.—Derivative Instruments

Derivative Assets and Liabilities, Lending

The mortgage lending operation enters into IRLCs with prospective borrowers to originate mortgage loans at a specified interest rate and Hedging Instruments and forward delivery loan commitments to hedge the fair value changes associated with changes in interest rates relating to its mortgage loan origination operations as well as mortgage servicing rights. The fair value of IRLCs, Hedging Instruments and forward delivery loan commitments related to mortgage loan

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origination are included in other assets or liabilities in the consolidated balance sheets. As of December 31, 2018, the estimated fair value of IRLCs was an asset of $3.4 million while Hedging Instruments and forward delivery loan commitments were liabilities of $440 thousand and $243 thousand, respectively. As of December 31, 2017, the estimated fair value of IRLCs and Hedging Instruments were assets of $4.4 million and $335 thousand, respectively. Additionally, as of December 31, 2018, there were no outstanding Hedging Instruments related to mortgage servicing rights as compared to an estimated fair value of $85 thousand outstanding at December 31, 2017.

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

	Notional Amount		Total Gains (Losses) For the Year Ended December 31,	
	December 31, 2018	December 31, 2017	2018	2017
Derivative – IRLC's (1)	$ 183,595	$ 398,225	$ (1,006)	$ (6,812)
Derivative – TBA MBS (2)	88,018	687,500	9,658	(2,061)
Derivative – Forward delivery loan commitment (3)	150,000	—	(243)	—

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

(2) Amounts included in gain on sale of loans, net and loss on mortgage servicing rights, net within the accompanying consolidated statements of operations and comprehensive loss.

(3) As of December 31, 2018, $50.0 million in mortgage loans have been allocated to this forward delivery loan commitment and are recorded at fair value within LHFS in the accompanying consolidated balance sheets. As of December 31, 2018, $100.0 million of the commitment remains unallocated and are recorded at fair value within other liabilities in the accompanying consolidated balance sheets.

Note 11.—Redeemable Preferred Stock

At December 31, 2018, the Company has outstanding $66.2 million liquidation preference of Series B and Series C Preferred Stock. The holders of each series of Preferred Stock, which are non voting and redeemable at the option of the Company, retain the right to a $25.00 per share liquidation preference in the event of a liquidation of the Company and the right to receive dividends on the Preferred Stock if any such dividends are declared.

As disclosed within Note 16.—Commitments and Contingencies, on July 16, 2018, the court entered its Judgement Order and Memorandum Opinion on the matter entitled Timm, v. Impac Mortgage Holdings, Inc., a purported class action purportedly on behalf of holders of the Company's 9.375% Series B Cumulative Redeemable Preferred Stock (Preferred B) and 9.125% Series C Cumulative Redeemable Preferred Stock (Preferred C). The judgment declared (among other items disclosed in Note 16) that two-thirds of the Preferred B holders were required to approve the 2009 amendments to the Preferred B Articles Supplementary, which was not obtained, rendering the 2009 amendments to the Preferred B Articles Supplementary invalid and leaving the 2004 Preferred B Articles Supplementary in effect. As a result of the Judgement Order, all rights of the Preferred B holders under the 2004 Articles are deemed reinstated. Subject to an appeal, the Company has cumulative undeclared dividends in arrears of approximately $14.4 million, or approximately $21.68 per outstanding share of Preferred B, increasing the liquidation value to approximately $46.68 per share. Additionally, every quarter the cumulative undeclared dividends in arrears will increase by $0.5859 per share, or approximately $390 thousand. The liquidation preference, inclusive of the cumulative undeclared dividends in arrears, is only payable upon voluntary or involuntary liquidation, dissolution or winding up of the Company's affairs.

Note 12.—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.

FASB ASC 825 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. On January 1, 2018, the Company adopted ASU 2016-01 and ASU 2018-03 which requires the use of the exit price notion when measuring the fair values of financial instruments for disclosure purposes. Starting in the first quarter of 2018, we updated our methodology used to estimate fair value to

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conform to the new requirements. The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	December 31, 2018				December 31, 2017			
	Carrying	Estimated Fair Value			Carrying	Estimated Fair Value		
	Amount	Level 1	Level 2	Level 3	Amount	Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	$ 23,200	$ 23,200	$ —	$ —	$ 33,223	$ 33,223	$ —	$ —
Restricted cash	6,989	6,989	—	—	5,876	5,876	—	—
Mortgage loans held-for-sale	353,601	—	353,601	—	568,781	—	568,781	—
Finance receivables	—	—	—	—	41,777	—	41,777	—
Mortgage servicing rights	64,728	—	—	64,728	154,405	—	—	154,405
Derivative assets, lending, net	3,351	—	—	3,351	4,777	—	420	4,357
Securitized mortgage collateral	3,157,071	—	—	3,157,071	3,662,008	—	—	3,662,008
Liabilities								
Warehouse borrowings	$ 284,137	$ —	$ 284,137	$ —	$ 575,363	$ —	$ 575,363	$ —
MSR financings	—	—	—	—	35,133	—	—	35,133
Convertible notes	24,985	—	—	24,985	24,974	—	—	24,974
Contingent consideration	—	—	—	—	554	—	—	554
Long-term debt	44,856	—	—	44,856	44,982	—	—	44,982
Securitized mortgage borrowings	3,148,215	—	—	3,148,215	3,653,265	—	—	3,653,265
Derivative liabilities, lending, net	683	—	683	—	—	—	—	—

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

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

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

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

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

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

Convertible notes are recorded at amortized cost, which approximates fair value.

MSR financings carrying amount approximates fair value as the underlying facility bears interest at a rate that is periodically adjusted based on a market index.

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.

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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 mortgage servicing rights, securitized mortgage collateral and borrowings, derivative assets (IRLCs), convertible notes, contingent consideration and long term debt as Level 3 fair value measurements. Level 3 assets and liabilities measured at fair value on a recurring basis were approximately 90% and 99% and 87% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at December 31, 2018 and 2017.

Recurring Fair Value Measurements

The Company assesses its financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by FASB 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 Level 1, Level 2 or Level 3 classified instruments during the year ended December 31, 2018.

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 December 31, 2018 and 2017, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Mortgage loans held-for-sale	$ —	$ 353,601	$ —	$ —	$ 568,781	$ —
Derivative assets, lending, net (1)	—	—	3,351	—	420	4,357
Mortgage servicing rights	—	—	64,728	—	—	154,405
Securitized mortgage collateral	—	—	3,157,071	—	—	3,662,008
Total assets at fair value	$ —	$ 353,601	$ 3,225,150	$ —	$ 569,201	$ 3,820,770
Liabilities						
Securitized mortgage borrowings	$ —	$ —	$ 3,148,215	$ —	$ —	$ 3,653,265
Long-term debt	—	—	44,856	—	—	44,982

Contingent consideration	—	—	—	—	—	554
Derivative liabilities, lending, net (2)	—	683	—	—	—	—
Total liabilities at fair value	$ —	$ 683	$ 3,193,071	$ —	$ —	$ 3,698,801

(1) At December 31, 2018, derivative assets, lending, net included $3.4 million in IRLCs and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2017, derivative assets, lending, net included $4.4 million in IRLCs and $420 thousand in Hedging instruments and is included in other assets in the accompanying consolidated balance sheets.

(2) At December 31, 2018, derivative liabilities, lending, net are included in other liabilities in the accompanying consolidated balance sheets.

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The following tables present reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2018 and 2017:

Level 3 Recurring Fair Value Measurements
For the Year Ended December 31, 2018

	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration
Fair value, December 31, 2017	$ 3,662,008	$ (3,653,265)	$ 154,405	$ 4,357	$ (44,982)	$ (554)
Total gains (losses) included in earnings:						
Interest income (1)	28,165	—	—	—	—	—
Interest expense (1)	—	(60,889)	—	—	(711)	—
Change in fair value	43,272	(44,871)	3,757	(1,006)	3,978	—
Change in fair value of instrument specific credit risk	—	—	—	—	(3,141) (2)	—
Total gains (losses) included in earnings	71,437	(105,760)	3,757	(1,006)	126	—
Transfers in and/or out of Level 3	—	—	—	—	—	—
Purchases, issuances and settlements:						
Purchases	—	—	—	—	—	—
Issuances	—	—	24,879	—	—	—
Settlements	(576,374)	610,810	(118,313)	—	—	554
Fair value, December 31, 2018	$ 3,157,071	$ (3,148,215)	$ 64,728	$ 3,351	$ (44,856)	$ —
Unrealized gains (losses) still held (3)	$ (383,134)	$ 2,580,638	$ 64,728	$ 3,351	$ 17,144	$ —

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was $7.7 million for the year ended December 31, 2018. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations and comprehensive loss is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2) Amount represents the change in instrument specific credit risk in other comprehensive earnings in the consolidated statements of operations and comprehensive loss as required by the adoption of ASU 2016-01 on January 1, 2018.

(3) 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 December 31, 2018.

Level 3 Recurring Fair Value Measurements
For the Year Ended December 31, 2017

	Securitized mortgage collateral	Securitized mortgage borrowings	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration
Fair value, December 31, 2016	$ 4,021,891	$ (4,017,603)	$ 131,537	$ 11,169	$ (47,207)	$ (31,072)
Total gains (losses) included in earnings:						
Interest income (1)	46,077	—	—	—	—	—
Interest expense (1)	—	(131,507)	—	—	(760)	—
Change in fair value	245,364	(246,576)	(37,904)	(6,812)	(2,949)	11,268
Total gains (losses) included in earnings	291,441	(378,083)	(37,904)	(6,812)	(3,709)	11,268
Transfers in and/or out of Level 3	—	—	—	—	—	—
Purchases, issuances and settlements:						
Purchases	—	—	5,618	—	—	—
Issuances	—	—	56,049	—	—	—
Settlements	(651,324)	742,421	(895)	—	5,934	19,250
Fair value, December 31, 2017	$ 3,662,008	$ (3,653,265)	$ 154,405	$ 4,357	$ (44,982)	$ (554)
Unrealized gains (losses) still held (2)	$ (526,134)	$ 2,686,398	$ 154,405	$ 4,357	$ 17,018	$ (554)

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was $8.1 million for the year ended December 31, 2017. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations and comprehensive loss 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 were still held and reflected in the fair values at December 31, 2017.

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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 December 31, 2018.

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
Assets and liabilities backed by real estate					
Securitized mortgage collateral, and	$ 3,157,071	DCF	Prepayment rates	3.6 - 19.9 %	8.0 %
Securitized mortgage borrowings	(3,148,215)		Default rates	0.02 - 6.5 %	1.0 %
			Loss severities	3.1 - 81.9 %	46.4 %
			Discount rates	3.7 - 25.0 %	4.9 %
Other assets and liabilities					
Mortgage servicing rights	$ 64,728	DCF	Discount rate	9.0 - 14.0 %	9.2 %
			Prepayment rates	6.7 - 86.6 %	10.6 %
Derivative assets - IRLCs, net	3,351	Market pricing	Pull-through rate	7.6 - 99.7 %	75.4 %
Long-term debt	(44,856)	DCF	Discount rate	10.0 %	10.0 %

DCF = Discounted Cash Flow

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 or decrease in pull through rate assumptions would result in a significant increase or decrease in the fair value of IRLCs. The Company believes that the imprecision of an estimate could be significant.

The following tables present the changes in recurring fair value measurements included in net earnings for the years ended December 31, 2018 and 2017:

Recurring Fair Value Measurements
Changes in Fair Value Included in Net Loss
For the Year Ended December 31, 2018

			Change in Fair Value of				
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on Sale of Loans, net	Total
Securitized mortgage collateral	$ 28,165	$ —	$ 43,272	$ —	$ —	$ —	$ 71,437
	—	(60,889)	(44,871)	—	—	—	(105,760)

Securitized mortgage borrowings							
Long-term debt	—	(711)	—	3,978	—	—	3,267
Mortgage servicing rights (2)	—	—	—	—	3,757	—	3,757
Mortgage loans held-for-sale	—	—	—	—	—	(14,762)	(14,762)
Derivative assets — IRLCs	—	—	—	—	—	(1,006)	(1,006)
Derivative liabilities — Hedging Instruments	—	—	—	—	(85)	(1,019)	(1,104)
Total	$ 28,165	$ (61,600)	$ (1,599) (3)	$ 3,978	$ 3,672	$ (16,787)	$ (44,171)

(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 loss on mortgage servicing rights, net in the consolidated statements of operations and comprehensive loss.
(3) For the year ended December 31, 2018, change in the fair value of trust assets, excluding REO was $1.6 million.

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Recurring Fair Value Measurements
Changes in Fair Value Included in Net Loss
For the Year Ended December 31, 2017

			Change in Fair Value of				
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue and Expense	Gain on Sale of Loans, net	Total
Securitized mortgage collateral	$ 46,077	$ —	$ 245,364	$ —	$ —	$ —	$ 291,441
Securitized mortgage borrowings	—	(131,507)	(246,576)	—	—	—	(378,083)
Long-term debt	—	(760)	—	(2,949)	—	—	(3,709)
Mortgage servicing rights (2)	—	—	—	—	(37,904)	—	(37,904)
Contingent consideration (3)	—	—	—	—	11,268	—	11,268
Mortgage loans held-for-sale	—	—	—	—	—	8,367	8,367
Derivative assets — IRLCs	—	—	—	—	—	(6,812)	(6,812)
Derivative liabilities — Hedging Instruments	—	—	—	—	357	400	757
Total	$ 46,077	$ (132,267)	$ (1,212) (4)	$ (2,949)	$ (26,279)	$ 1,955	$ (114,675)

(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 loss on mortgage servicing rights, net in the consolidated statements of operations and comprehensive loss.
(3) Included $2.1 million of accretion of the contingent consideration liability.
(4) For the year ended December 31, 2017, change in the fair value of trust assets, excluding REO was $1.2 million.

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

Mortgage servicing rights—The Company elected to carry its mortgage servicing rights arising from its mortgage loan origination operation at fair value. The fair value of mortgage servicing rights is based upon a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at December 31, 2018 and 2017.

Mortgage loans held for sale—The Company elected to carry its mortgage loans held for sale originated or acquired from its mortgage lending operation at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for 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 December 31, 2018 and 2017.

Securitized mortgage collateral—The Company elected to carry its securitized mortgage collateral at fair value. These assets consist primarily of non conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows, with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of December 31, 2018, securitized mortgage collateral had an unpaid principal balance of $3.5 billion, compared to an estimated fair value on the Company's balance sheet of $3.2 billion. The aggregate unpaid principal balance exceeds the fair value by $0.3 billion at December 31, 2018. As of December 31, 2018, the unpaid principal balance of loans 90 days or more past due was $0.4 billion compared to an estimated fair value of $0.2 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by $0.2 billion at December 31, 2018. Securitized mortgage collateral is considered a Level 3 measurement at December 31, 2018 and 2017.

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 December 31, 2018, securitized mortgage borrowings had an outstanding principal balance of $3.5 billion, net of $2.2 billion in bond losses, compared to an estimated fair value of $3.1 billion. The aggregate outstanding principal balance exceeds the fair value by $0.4 billion at December 31, 2018. Securitized mortgage borrowings are considered a Level 3 measurement at December 31, 2018 and 2017.

Contingent consideration—Contingent consideration was applicable to the acquisition of CCM and was estimated and recorded at fair value at the acquisition date as part of purchase price consideration. Additionally, each reporting period, the Company estimated the change in fair value of the contingent consideration and any change in fair value is recognized in the Company's consolidated statements of operations and comprehensive loss if it is determined to not be a measurement period adjustment. The estimate of the fair value of contingent consideration required significant judgment and assumptions to be made about future operating results, discount rates and probabilities of various projected operating result scenarios. In the fourth quarter of 2017, the earn-out period ended and the remaining $554 thousand in contingent consideration payments were paid during the three months ended March 31, 2018. Contingent consideration was considered a Level 3 measurement at December 31, 2017. The Company has no further obligations related to contingent consideration as of December 31, 2018.

Long term debt—The Company elected to carry its remaining long term debt (consisting of 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 December 31, 2018, long term debt had an unpaid principal balance of $62.0 million compared to an estimated fair value of $44.9 million. The aggregate unpaid principal balance exceeds the fair value by $17.1 million at December 31, 2018. The long term debt is considered a Level 3 measurement at December 31, 2018 and 2017.

Derivative assets and liabilities, Lending—The Company’s derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivatives include IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. The derivatives also include hedging instruments (typically TBA MBS) used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending originations as well as mortgage servicing rights. The Company hedges the period from the interest rate lock (assuming a fall out factor) to the date of the loan sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull through Rate. The anticipated Pull through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at December 31, 2018 and 2017.

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 December 31, 2018 and 2017.

Nonrecurring Fair Value Measurements

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

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The following table presents financial and non financial assets and liabilities measured using nonrecurring fair value measurements at December 31, 2018 and 2017, respectively:

	Nonrecurring Fair Value Measurements					
	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
REO (1)	$ —	$ 1,674	$ —	$ —	$ 440	$ —
Deferred charge (2)	—	—	—	—	—	7,827
Intangible assets	—	—	—	—	—	21,582
Goodwill	—	—	—	—	—	104,587

(1) Balance represents REO at December 31, 2018 and December 31, 2017 which has been impaired subsequent to foreclosure.
(2) With the adoption of ASU 2016-16 on January 1, 2018, $7.8 million in deferred charge was eliminated with a cumulative effect adjustment to opening retained deficit.

The following table presents total gains and (losses) on financial and non financial assets and liabilities measured using nonrecurring fair value measurements for the years ended December 31, 2018 and 2017, respectively:

	Total Gains (Losses) (1) For the Year Ended December 31,	
	2018	2017
REO (2)	$ (950)	$ 7,425
Deferred charge (3)	—	(858)
Intangible assets	(18,347)	—
Goodwill	(104,587)	—

(1) Total losses reflect losses from all nonrecurring measurements during the period.
(2) For the years ended December 31, 2018 and 2017, the Company recorded $950 thousand and $7.4 million, respectively, in (losses) gains related to changes in the net realizable value (NRV) of properties. Gains represent recovery of the NRV attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV. Losses represent impairment of the NRV attributable to an increase in state specific loss severities on properties held during the period which resulted in a decrease to NRV.
(3) With the adoption of ASU 2016-16 on January 1, 2018, $7.8 million in deferred charge was eliminated with a cumulative effect adjustment to opening retained earnings. For the year ended December 31, 2017, the Company recorded $858 thousand in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

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 December 31, 2018 and 2017.

Deferred charge—Deferred charge represents the deferral of income tax expense on inter company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The Company evaluates the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. If the deferred charge is determined to be impaired, it is recognized as a component of income tax expense. On January 1, 2018, the Company adopted ASU 2016-16, which resulted in a $7.8 million cumulative effect adjustment to opening retained earnings eliminating the remaining deferred charge on the balance sheet. Deferred charge was considered a Level 3 measurement at December 31, 2017, and as of December 31, 2018, the Company had no deferred charge remaining.

Intangible assets— The methodology used to determine the fair value as well as measure potential impairment of trademarks includes assumptions with inherent uncertainty, including projected sales volumes and related projected revenues, long-term growth rates, royalty rates that a market participant might assume and judgments regarding the factors to develop an applied discount rate. The carrying value of intangible assets is at risk of impairment if future projected

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usage, revenues or long-term growth rates are lower than those currently projected, or if factors used in the development of a discount rate result in the application of a higher discount rate. The Company's testing indicated that the carrying value of certain intangible assets would not be recoverable, and as a result the Company recorded intangible asset impairment of approximately $18.3 million during the year ended December 31, 2018. Intangible assets were considered Level 3 nonrecurring fair value measurements for the year ended December 31, 2018, and as of December 31, 2018, the Company had no intangible assets remaining.

Goodwill— For goodwill, the determination of fair value of a reporting unit involves, among other things, application of various approaches, which include developing forecasts of future cash flows with a number of assumptions including but not limited to, origination and margin projections, growth and terminal value projections, and judgements regarding the factors to develop discount rates and cost of capital. The Company reviewed its goodwill for impairment at least annually as of December 31 or more frequently if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit that has goodwill is less than its carrying value. The Company compared the fair value of its net assets using three methodologies (two income approaches and one market approach), to the carrying value and determined that its goodwill was impaired. As a result, we recorded an impairment charge of $104.6 million related to goodwill during the year ended December 31, 2018. Goodwill was considered a Level 3 nonrecurring fair value measurement for the year ended December 31, 2018, and as of December 31, 2018, the Company had no goodwill remaining.

Note 13.—Reconciliation of Loss Per Share

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

	For the Year Ended December 31,	
	2018	2017
Numerator for basic loss per share:		
Net loss	$ (145,410)	$ (31,521)
Numerator for diluted loss per share:		
Net loss	$ (145,410)	$ (31,521)
Interest expense attributable to convertible notes (1)	—	—
Net loss plus interest expense attributable to convertible notes	$ (145,410)	$ (31,521)
Denominator for basic loss per share (2):		
Basic weighted average common shares outstanding during the period	21,026	19,438
Denominator for diluted loss per share (2):		
Basic weighted average common shares outstanding during the period	21,026	19,438
Net effect of dilutive convertible notes (1)	—	—
Net effect of dilutive stock options and DSU's	—	—
Diluted weighted average common shares	21,026	19,438
Net loss per common share:		
Basic	$ (6.92)	$ (1.62)
Diluted	$ (6.92)	$ (1.62)

(1) Adjustments to diluted loss per share for the convertible notes for the years ended December 31, 2018 and 2017, were excluded from the calculation, as they were anti-dilutive.
(2) Share amounts presented in thousands.

The anti dilutive stock options outstanding for the years ending December 31, 2018 and 2017 were 1.0 million and 1.6 million shares, respectively. Additionally, for the years ended December 2018 and 2017, there were 1.2 million shares attributable to the 2015 convertible notes that were anti-dilutive.

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Note 14.—Income Taxes

The Company is subject to federal income taxes as a regular (Subchapter C) corporation and files a consolidated U.S. federal income tax return.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act made broad and complex changes to the U.S. tax code by, among other things, reducing the federal corporate income tax rate and business deductions and eliminates federal alternative minimum tax (AMT). The Tax Act reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Under FASB ASC 740, the effects of changes in tax rates and laws were recognized in the period in which the new legislation was enacted.

The SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Legislation. The Company recognized the provisional tax impact related to the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Legislation. The Company completed its accounting during 2018 without any significant adjustments from the provisional amounts.

Income taxes for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31,	
	2018	2017
Current income taxes:		
Federal	$ —	$ 71
State	689	(37)
Total current income tax expense	689	34
Deferred income taxes:		
Federal	3,757	17,610
State	558	2,494
Total deferred income tax expense	4,315	20,104
Total income tax expense	$ 5,004	$ 20,138

The Company recorded income tax expense of $5.0 million and $20.1 million for the years ended December 31, 2018 and 2017, respectively. The income tax expense of $5.0 million for the year ended December 31, 2018 is primarily the result of recording a full valuation allowance on deferred tax assets due to a reduction in future utilization and state income taxes from states where the Company does not have net operating loss carryforwards and state minimum taxes, including AMT. The income tax expense of $20.1 million for the year ended December 31, 2017 was primarily the result of the enactment of the Tax Act, which reduced the U.S. corporate income tax rate. As a result, the

Company re-measured the net deferred tax assets at December 31, 2017 at the rate at which they were expected to reverse in the future and recognized a tax expense of $89.5 million, which was offset by a $66.4 million change in the valuation allowance and other items resulting in income tax expense of $20.1 million in 2017. Additionally, the income tax expense for 2017 was also effected by a reduction in the Company's deferred tax asset as a result of a reduction in future utilization, amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards and state minimum taxes, including AMT.

The deferred charge represented the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge was amortized and/or impaired, which did not result in any tax liability to be paid. Prior to the adoption of ASU 2016-16 on January 1, 2018, the deferred charge was included in other assets in the accompanying consolidated balance sheets and was amortized as a component of income tax expense in the accompanying consolidated statement of operations and comprehensive loss. With the adoption of ASU 2016-16 on January 1, 2018, the deferred charge was eliminated with a $7.8 million cumulative effect

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adjustment to opening retained earnings and it will no longer be amortized as a component of income tax expense.

Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not". A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. As of each reporting date, the Company considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Company's evaluation is based on current tax laws as well as management's expectation of future performance.

The Company's deferred tax assets are primarily the result of net operating losses and basis differences on mortgage securities and goodwill. The Company has recorded a full valuation allowance against its deferred tax assets at December 31, 2018 as it is more likely than not that the deferred tax assets will not be realized. The valuation allowance is based on the management's assessment that it is more likely than not that certain deferred tax assets, primarily net operating loss carryforwards, may not be realized in the foreseeable future due to objective negative evidence that the Company may not generate sufficient taxable income to realize the deferred tax assets.

Deferred tax assets are comprised of the following temporary differences between the financial statement carrying value and the tax basis of assets:

	For the year ended December 31,	
	2018	2017
Deferred tax assets:		
Federal and state net operating losses	$ 164,435	$ 181,681
Mortgage securities	51,356	54,657
Depreciation and amortization	31,501	—
Capital loss carryover	168	163
Compensation and other accruals	4,571	5,452
Repurchase reserve	2,350	1,861
Total gross deferred tax assets	254,381	243,814
Deferred tax liabilities:		
Fair value adjustments on long-term debt	(4,620)	(8,940)
Mortgage servicing rights	(18,443)	(46,104)
Depreciation and amortization	—	(874)
Total gross deferred tax liabilities	(23,063)	(55,918)
Valuation allowance	(231,318)	(183,581)
Total net deferred tax assets	$ —	$ 4,315

The following is a reconciliation of income taxes to the expected statutory federal corporate income tax rates for the years ended December 31, 2018 and 2017:

	For the year ended December 31,	
	2018	2017
Expected income tax expense	$ (29,485)	$ (3,984)
State tax expense, net of federal benefit	301	32
State rate change	35	12
Change in valuation allowance	33,718	(66,355)
Federal rate change	—	89,518
Deferred charge	—	858
Other	435	57
Total income tax expense	$ 5,004	$ 20,138

As of December 31, 2018, the Company had estimated federal net operating loss (NOL) carryforwards of approximately $564.6 million. Federal net operating loss carryforwards begin to expire in 2027. As of December 31, 2018, the Company had estimated California NOL carryforwards of approximately $386.0 million, which begin to expire in 2028. The Company may not be able to realize the maximum benefit due to the nature and tax entities that holds the NOL. On July 19, 2016, the Company's stockholders approved an amendment to the NOL rights plan, which is designed to

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mitigate the risk of losing net operating loss carry forwards and certain other tax attributes from being limited in reducing future income taxes. For a description of the NOL rights plan, see Note 19.—Tax Benefits Preservation Rights Plan.

The Company files numerous tax returns in various jurisdictions. While the Company is subject to examination by various taxing authorities, the Company believes there are no unresolved issues or claims likely to be material to its financial position. The Company classifies interest and penalties on taxes as provision for income taxes. As of December 31, 2018 and 2017, the Company has no material uncertain tax positions. With the enactment of the Tax Act in the fourth quarter of 2017, federal AMT was eliminated and $474 thousand in federal AMT credits were reclassed to receivables as of December 31, 2017. The Company has state AMT credits in the amount of $421 thousand as of December 31, 2018.

The Company recognizes tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. A windfall tax benefit occurs when the actual tax benefit realized upon an employee's disposition of a share based award exceeds the deferred tax asset, if any, associated with the award. At December 2016, deferred tax assets did not include $5.1 million of excess tax benefits from stock based compensation. With the adoption of ASU 2016-09 in the first quarter of 2017, the Company had a $5.1 million cumulative effect adjustment to opening retained earnings related to the excess tax benefit from stock based compensation which had no impact as the Company had a full valuation allowance against it.

Note 15.—Segment Reporting

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

The following table presents selected balance sheet data by reporting segment as of the dates indicated:

Balance Sheet Items as of December 31, 2018:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Cash and cash equivalents	$ 21,679	$ 124	$ —	$ 1,397	$ 23,200
Restricted cash	6,989	—	—	—	6,989
Mortgage loans held-for-sale	353,601	—	—	—	353,601
Finance receivables	—	—	—	—	—
Mortgage servicing rights	64,728	—	—	—	64,728
Trust assets	—	—	3,165,590	—	3,165,590
Other assets (1)	28,737	2	79	5,017	33,835
Total assets	475,734	126	3,165,669	6,414	3,647,943
Total liabilities	304,013	1,103	3,193,395	39,257	3,537,768

Balance Sheet Items as of December 31, 2017:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated

Cash and cash equivalents	$ 31,784	$ 235	$ —	$ 1,204	$ 33,223
Restricted cash	5,876	—	—	—	5,876
Mortgage loans held-for-sale	568,781	—	—	—	568,781
Finance receivables	41,777	—	—	—	41,777
Mortgage servicing rights	154,405	—	—	—	154,405
Trust assets	—	—	3,670,550	—	3,670,550
Goodwill	104,587	—	—	—	104,587
Other assets (1)	85,773	16	7,827	8,885	102,501
Total assets	992,983	251	3,678,377	10,089	4,681,700
Total liabilities	678,392	47	3,698,639	39,475	4,416,553

(1) All segment asset balances exclude intercompany balances.

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The following table presents selected statement of operations information by reporting segment for the years ended December 31, 2018 and 2017:

Statement of Operations Items for the Year Ended December 31, 2018:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 66,750	$ —	$ —	$ —	$ 66,750
Real estate services fees, net	—	4,327	—	—	4,327
Servicing fees, net	37,257	—	—	—	37,257
Loss on mortgage servicing rights, net	(3,625)	—	—	—	(3,625)
Other revenue	—	—	291	—	291
Intangible asset impairment	(18,347)	—	—	—	(18,347)
Goodwill impairment	(104,587)	—	—	—	(104,587)
Other operating expense	(101,672)	(2,088)	(1,438)	(21,220)	(126,418)
Other income (expense)	1,100	—	4,633	(1,787)	3,946
Net (loss) earnings before income tax expense	$ (123,124)	$ 2,239	$ 3,486	$ (23,007)	(140,406)
Income tax expense					5,004
Net loss					$ (145,410)

Statement of Operations Items for the Year Ended December 31, 2017:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 136,147	$ —	$ —	$ —	$ 136,147
Real estate services fees, net	—	5,856	—	—	5,856
Servicing fees, net	31,902	—	—	—	31,902
Loss on mortgage servicing rights, net	(35,880)	—	—	—	(35,880)
Other revenue	22	—	273	385	680
Accretion of contingent consideration	(2,058)	—	—	—	(2,058)
Change in fair value of contingent consideration	13,326	—	—	—	13,326
Loss on extinguishment of debt	—	—	(1,265)	—	(1,265)
Other operating expense	(143,002)	(3,610)	(339)	(20,747)	(167,698)
Other income (expense)	2,931	—	6,903	(2,227)	7,607
Net earnings (loss) before income tax expense	$ 3,388	$ 2,246	$ 5,572	$ (22,589)	$ (11,383)
Income tax expense					20,138
Net loss					$ (31,521)

Note 16.—Commitments and Contingencies

Legal Proceedings

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

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

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

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The legal matters summarized below are ongoing and may have an effect on the Company's business and future financial condition and results of operations:

In 2001, Baker, et al. v. Century Financial Group, et al., was filed in the Circuit Court of Clay County, Missouri, as a putative class action against the Company, Century Financial, and others claiming violations of Missouri's Second Mortgage Loan Act. Plaintiffs seek on behalf of themselves and the members of the putative class, among other things, disgorgement or restitution of all allegedly improperly-collected charges, the right to rescind all affected loan transactions, the right to offset any finance charges, closing costs, points or other loan fees paid against the principal amounts due on the loans if rescinded, actual and punitive damages, and attorneys' fees. The matter is currently proceeding through discovery.

On December 7, 2011, a purported class action was filed in the Circuit Court of Baltimore City entitled Timm, v. Impac Mortgage Holdings, Inc, et al. alleging on behalf of holders of the Company's 9.375% Series B Cumulative Redeemable Preferred Stock (Preferred B) and 9.125% Series C Cumulative Redeemable Preferred Stock (Preferred C) who did not tender their stock in connection with the Company's 2009 completion of its Offer to Purchase and Consent Solicitation that the Company failed to achieve the required consent of the Preferred B and C holders, the consents to amend the Preferred stock were not effective because they were given on unissued stock (after redemption), the Company tied the tender offer with a consent requirement that constituted an improper "vote buying" scheme, and that the tender offer was a breach of a fiduciary duty. The action seeks the payment of two quarterly dividends for the Preferred B and C holders, the unwinding of the consents and reinstatement of the cumulative dividend on the Preferred B and C stock, and the election of two directors by the Preferred B and C holders. The action also seeks punitive damages and legal expenses. On July 16, 2018, the Court entered a Judgement Order whereby it (1) declared and entered judgment in favor of all defendants on all claims related to the Preferred C holders and all claims against all individual defendants thereby affirming the validity of the 2009 amendments to the Series B Articles Supplementary; (2) declared its interpretation of the voting provision language in the Preferred B Articles Supplementary to mean that consent of two-thirds of the Preferred B stockholders was required to approve the 2009 amendments to the Preferred B Articles Supplementary, which consent was not obtained, thus rendering the amendments invalid and leaving the 2004 Preferred B Articles Supplementary in effect; (3) ordered the Company to hold a special election within sixty days for the Preferred B stockholders to elect two directors to the Board of Directors pursuant to the 2004 Preferred B Articles Supplementary (which Directors will remain on the Company's Board of Directors until such time as all accumulated dividends on the Preferred B have been paid or set aside for payment); and, (4) declared that the Company is required to pay three quarters of dividends on the Preferred B stock under the 2004 Articles Supplementary (approximately, $1.2 million, but did not order the Company to make any payment at this time). The Court declined to certify any class pending the outcome of appeals and certified its Judgment Order for immediate appeal. On August 6, 2018, the Company filed its notice of appeal and on September 7, 2018, the court granted the Company's motion to stay the election of two directors pending conclusion of any appeals.

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 January 11, 2019, the trial court determined that the plaintiffs were unable to prove their case and ordered that judgment be entered in favor of the defendant.

In October 2011 and November 2012, the Company received letters from Countrywide Securities Corporation (Countrywide), Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch), and UBS Securities LLC (UBS) claiming indemnification relating to mortgage backed securities bonds issued, originated or sold by ISAC, IFC, IMH

Assets Corp. and the Company. The claims seek indemnification from claims asserted against Countrywide, Merrill Lynch, and UBS in specified legal actions entitled American International Group Inc. v. Bank of America Corp., et al., in the United States District Court for the Southern District of New York and Federal Home Loan Bank of Boston v. Ally Financial, Inc., et al., in the United States District Court for the District of Massachusetts. The notices each seek indemnification for all losses, liabilities, damages and legal fees and costs incurred in those actions. In October 2012, January 2013, and December 2014, Deutsche Bank issued indemnification demands for claims asserted against them in the Superior Court of New York in cases entitled Royal Park Investments SA/NV v. Merrill Lynch, et al. and Dealink Funding Ltd. v. Deutsche Bank and in the Circuit Court for the City of Richmond, Virginia, in a case entitled Commonwealth of VA, et al. v. Barclays Capital Inc, et al. In July 2018, the Company received an additional indemnification notice from Deutsche Bank as a result of a case filed against Deutsche Bank in Orange County Superior

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Court in 2016, entitled BlackRock Balanced Capital Portfolio (FI) et al. v. Deutsche Bank. In February of 2013, the Company also received a notice of intent to seek indemnification on behalf of Deutsche Bank AG, Deutsche Bank Securities, Inc., DB Structured Products, Inc., ACE Securities Corp and Deutsche Alt A Securities, Inc. The claims relate to actions filed against those entities in the Superior Court of New York.

On April 20, 2017, a purported class action was filed in the United States District Court, Central District of California, entitled Nguyen v. Impac Mortgage Corp. dba CashCall Mortgage et al. The plaintiffs contend the defendants did not pay purported class members overtime compensation or provide meal and rest breaks, as required by law. The action seeks to invalidate any waiver signed by a purported class member of their right to bring a class action and seeks damages, restitution, penalties, attorney's fees, interest, and an injunction against unfair, deceptive, and unlawful activities. On August 23, 2018, the court (1) granted the defendants motion to compel arbitration as to all claims, except for the plaintiffs' claims under California's Private Attorneys General Act (PAGA); (2) ordered the plaintiffs to submit their claims (other than PAGA claims) to arbitration on an individual, non-class, non-collective, and non-representative basis; (3) dismissed all class and collective claims with prejudice to the plaintiffs and without prejudice to putative class members; and (4) stayed all claims that were compelled to arbitration, as well as the PAGA claims.

On September 18, 2018, a purported class action was filed in the Superior Court of California, Orange County, entitled McNair v. Impac Mortgage Corp. dba CashCall Mortgage. The plaintiff contends the defendant did not pay the plaintiff and purported class members overtime compensation, provide required meal and rest breaks, or provide accurate wage statements. The action seeks damages, restitution, penalties, interest, attorney's fees, and all other appropriate injunctive, declaratory, and equitable relief.

On November 2, 2018, a purported class action was filed in the Superior Court of California, Orange County, entitled Riggin v. Impac Mortgage Corp. dba CashCall Mortgage. The plaintiff contends the defendant did not pay the plaintiff and purported class members overtime compensation, provide required meal and rest breaks, or provide accurate wage statements. The action seeks damages, restitution, penalties, interest, attorney's fees, and all other appropriate injunctive, declaratory, and equitable relief. The Company has filed a motion to compel individual arbitration of the claims.

On December 27, 2018, a purported class action was filed in the Superior Court of California, Orange County, entitled Batres v. Impac Mortgage Corp. dba CashCall Mortgage. The plaintiff contends the defendant did not pay the plaintiff and purported class members overtime compensation, provide required meal and rest breaks, or provide accurate wage statements. The action seeks damages, restitution, penalties, interest, attorney's fees, and all other appropriate injunctive, declaratory, and equitable relief.

The Company is a party to other litigation and claims which are normal in the course of its operations. While the results of such other litigation and claims cannot be predicted with certainty, the Company believes 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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Lease Commitments

The Company leases office space and certain office equipment under long term leases expiring at various dates through 2024. Future minimum commitments under non cancelable leases are as follows:

	Operating Leases	Capital Leases	Total
Year 2019	$ 4,420	$ 82	$ 4,502
Year 2020	4,549	—	4,549
Year 2021	4,596	—	4,596
Year 2022	4,730	—	4,730
Year 2023	4,875	—	4,875
Year 2024 and thereafter	3,431	—	3,431
Sublet income	(61)	—	(61)
Total lease commitments	$ 26,540	$ 82	$ 26,622

Total rental expense for the years ended December 31, 2018 and 2017 was $6.0 million and $5.4 million, respectively.

Interest expense on the capital leases was $9 thousand and $22 thousand for the years ended December 31, 2018 and 2017, respectively.

The Company will adopt ASU 2016-02 on January 1, 2019 and apply the package of practical expedients included therein, as well as utilize the transition method included in ASU 2018-11. By applying ASU 2016-02 at the adoption date, as opposed to at the beginning of the earliest period presented, the presentation of financial information for periods prior to January 1, 2019 will remain unchanged and in accordance with Leases (Topic 840). On January 1, 2019, the Company expects to recognize right of use assets of between $19.0 million and $21.0 million (net of the reversal of the current deferred rent liability) and lease liabilities of between $22.0 million and $24.0 million in the consolidated balance sheet.

Repurchase Reserve

The provision for repurchases represents an estimate of losses to be incurred on the repurchase of loans or indemnification of purchaser's losses related to loan sales. Certain sale contracts and U.S. government sponsored enterprise (GSE) standards require the Company to repurchase a loan or indemnify the purchaser or insurer for losses if a borrower fails to make initial loan payments or if the accompanying mortgage loan fails to meet certain customary representations and warranties.

In the event of a breach of the representations and warranties, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. In addition, an investor may request that the Company refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid within a certain amount of time from the date of sale. The Company records a reserve for estimated losses associated with loan repurchases, purchaser indemnification and premium refunds. The provision for repurchase losses is charged against gain on sale of loans, net in the consolidated statements of operations and comprehensive loss. A release of repurchase reserves is recorded when the Company's assessment reveals that previously recorded reserves are no longer needed.

Loans sold to Ginnie Mae are insured by the FHA or are guaranteed by the VA. As servicer, the Company may elect to repurchase delinquent loans in accordance with Ginnie Mae guidelines; however, the loans continue to be insured. The Company may also indemnify the FHA and VA for losses related to loans not originated in accordance with their guidelines.

A selling representation and warranty framework was introduced by the GSEs in 2013 and enhanced in 2014 that helps address concerns of loan sellers with respect to loan repurchase risk. Under the framework, a GSE will not exercise its remedies, including the issuance of repurchase requests, for breaches of certain selling representations and warranties if a mortgage meets certain eligibility requirements. For loans sold to GSEs on or after January 1, 2013, repurchase risk for Home Affordable Refinance Program (HARP) loans is lowered if the borrower stays current on the loan for 12 months and representation and warranty risks are limited for non-HARP loans that stay current for 36 months.

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The Company regularly evaluates the adequacy of repurchase reserves based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiation, estimated future loss exposure and other relevant factors including economic conditions. During the years ended 2018 and 2017, the Company sold $4.1 billion and $6.9 billion, respectively, of loans subject to representations and warranties. The Company believes its reserve balances as of December 31, 2018 are sufficient to cover future loss exposure associated with repurchase contingencies.

The following table summarizes the repurchase reserve activity (included in other liabilities in the accompanying consolidated balance sheets) related to previously sold loans for the years ended December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Beginning balance	$ 6,020	$ 5,408
Provision for repurchases	5,074	1,557
Settlements	(3,437)	(945)
Total repurchase reserve	$ 7,657	$ 6,020

Concentration of Risk

The aggregate unpaid principal balance of loans in the Company's long term mortgage portfolio secured by properties in California and Florida was $1.8 billion and $386.9 million, or 51% and 11%, respectively, at December 31, 2018.

The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies relating to its concentration of loan sales. The Company also has geographic concentration risk because 62% of the Company's mortgage loan originations were from California.

Note 17.—Share Based Payments and Employee Benefit Plans

The Company maintains a stock based incentive compensation plan, the terms of which are governed by the 2010 Omnibus Incentive Plan (the 2010 Incentive Plan). The 2010 Incentive Plan provides for the grant of stock appreciation rights, restricted stock units, performance shares and other stock and cash based incentive awards. Employees, directors, consultants or other persons providing services to the Company or its affiliates are eligible to receive awards pursuant to the 2010 Incentive Plan. In connection with the adoption of the 2010 Incentive Plan, the Company's 2001 Stock Plan, which was scheduled to expire in March 2011, was frozen. Further, all outstanding awards under the 2001 Stock Plan, as well as the Company's previous 1995 Stock Option, Deferred Stock and Restricted Stock Plan (together with the 2001 Stock Plan, the "Prior Plans"), were assumed by the 2010 Incentive Plan. During the third quarter of 2018, the shareholders voted on and approved the amendment to the 2010 Omnibus Incentive Plan to increase the shares subject to the plan by 300,000 shares. As of December 31, 2018, the aggregate number of shares reserved under the 2010 Incentive Plan is 2,706,321 shares (including all outstanding awards assumed from Prior Plans), and there were 1,027,443 shares available for grant as stock options, restricted stock and deferred stock awards. The Company issues new shares of common stock to satisfy stock option exercises. There were 90,000 options granted for the year ended December 31, 2018.

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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:

	For the year ended December 31,	
	2018	2017
Risk-free interest rate	2.69 - 2.76%	1.77 - 2.29%
Expected lives (in years)	5.21 - 5.50	5.54 - 5.63
Expected volatility	45.65 - 46.34%	43.59 - 45.34%
Expected dividend yield	0.00%	0.00%
Fair value per share	$ 4.04 - 4.35	$ 4.34 - 5.98

The following table summarizes activity, pricing and other information for the Company's stock options for the years presented below:

	For the year ended December 31,			
	2018		2017	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Options outstanding at the beginning of the year	1,582,754	$ 13.61	1,391,327	$ 13.37
Options granted	90,000	9.52	388,450	13.43
Options exercised	(104,410)	4.39	(94,051)	6.30
Options forfeited/cancelled	(566,875)	15.46	(102,972)	16.26
Options outstanding at the end of the year	1,001,469	13.16	1,582,754	13.61
Options exercisable at the end of the year	765,302	$ 13.41	921,387	$ 12.15

The aggregate intrinsic value in the following table represents the total pre tax intrinsic value, based on the Company's closing stock price of $3.78 and $10.16 per common share as of December 31, 2018 and 2017, respectively. Aggregate intrinsic value represents the amount of proceeds the option holders would have received had all option holders exercised their options and sold the stock as of that date.

	As of December 31,			
	2018		2017	
	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at end of year	5.07	$ 102	6.83	$ 1,810
Options exercisable at end of year	3.91	$ 102	5.29	$ 1,803

As of December 31, 2018, there was approximately $943 thousand of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 1.7 years.

For the years ended December 31, 2018 and 2017, the aggregate grant date fair value of stock options granted was approximately $436 thousand and $2.3 million, respectively.

For the years ended December 31, 2018 and 2017, total stock based compensation expense was $947 thousand and $2.5 million, respectively.

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Additional information regarding stock options outstanding as of December 31, 2018 is as follows:

	Stock Options Outstanding			Options Exercisable	
Exercise Price Range	Number Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 0 - 2.80	84,934	0.56	$ 2.57	84,934	$ 2.57
2.81 - 5.39	84,082	4.21	5.39	84,082	5.39
5.40 - 10.65	221,333	6.78	10.00	111,333	10.39
10.66 - 13.72	148,151	8.38	13.72	59,395	13.72
13.73 - 16.43	105,249	1.44	13.81	105,249	13.81
16.44 - 17.40	167,586	5.56	17.40	130,175	17.40
17.41 - 21.50	190,134	4.47	20.50	190,134	20.50
$ 2.80 - 21.50	1,001,469	5.07	$ 13.16	765,302	$ 13.41

In addition to the options granted, the Company has granted deferred stock units (DSU's), which vest between one and three year periods. The fair value of each DSU was measured on the date of grant using the grant date price of the Company's stock. In 2018, no deferred stock units were granted. For the year ended December 31, 2017, the aggregate grant date fair value of DSU's granted was approximately $206 thousand.

The following table summarizes activity, pricing and other information for the Company's DSU's for the years presented below:

	For the year ended December 31,			
	2018		2017	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
DSU's outstanding at the beginning of the year	100,750	$ 10.41	85,750	$ 9.83
DSU's granted	—	—	15,000	13.72
DSU's issued	(62,917)	9.63	—	—
DSU's forfeited/cancelled	(13,333)	14.64	—	—
DSU's outstanding at the end of the year	24,500	$ 10.11	100,750	$ 10.41

As of December 31, 2018, there was approximately $38 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. This cost is expected to be recognized over a weighted average period of 1.7 years.

401(k) Plan

After meeting certain employment requirements, employees can participate in the Company's 401(k) plan. Under the 401(k) plan, employees may contribute up to 25% of their salaries, pursuant to certain restrictions. The Company matches 50% of the first 4% of employee contributions. Additional contributions may be made at the discretion of the board of directors. During the year ended December 31, 2018 and 2017, the Company recorded compensation expense of approximately $459 thousand and $1.1 million for basic matching contributions, respectively. There were no discretionary matching contributions recorded during the years ended December 31, 2018 or 2017.

Note 18.—Related Party Transactions

In May 2015, the Company issued the 2015 Convertible Notes to purchasers, some of which are related parties. See Note 8.—Debt—Convertible Notes.

Note 19.—Tax Benefits Preservation Rights Plan

In September 2013, the Company adopted a Tax Benefits Preservation Rights Agreement (Rights Plan) to help preserve the value of certain deferred tax benefits, including those generated by net operating losses (collectively, Tax Benefits). In general, the Company may “carry forward” net operating losses in certain circumstances to offset current and future taxable income, which will reduce federal and state income tax liability, subject to certain requirements and restrictions. The Company’s ability to use these Tax Benefits would be substantially limited and impaired if it were to experience an “ownership change” for purposes of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) and the Treasury Regulations promulgated thereunder. Generally, the Company will experience an “ownership change” if the percentage of the shares of Common Stock owned by one or more “five-percent shareholders” increases by more than 50 percentage points over the lowest percentage of shares of Common Stock owned by such stockholder at any time during the prior three year on a rolling basis. As such, the Rights Plan has a 4.99% “trigger” threshold that is intended to act as a deterrent to any person or entity seeking to acquire 4.99% or more of the outstanding Common Stock without the prior approval of the Board. The Rights Plan also has certain ancillary anti takeover effects. The rights accompany each share of common stock of the Company and are evidenced by ownership of common stock. The rights are not exercisable except upon the occurrence of certain change of control events. Once triggered, the rights would entitle the stockholders, other than a person qualifying as an “Acquiring Person” pursuant to the rights plan, to certain “flip in”, “flip over” and exchange rights. The rights issued under the Rights Plan may be redeemed by the board of directors at a nominal redemption price of $0.001 per right, and the board of directors may amend the rights in any respect until the rights are triggered. On July 19, 2016, the stockholders of the Company approved an amendment to the Company’s Rights Plan extending the expiration date to September 2, 2019.

Note 20.—Subsequent Events

In February 2019, the Company granted approximately 562,500 stock options, 75,000 shares of restricted stock units and 30,000 shares of deferred stock units.

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