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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from to .

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

There were 16,015,983 shares of common stock outstanding as of November 4, 2016.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1.CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

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

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

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

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

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

(Unaudited)

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

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

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

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

See accompanying notes to unaudited consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1.—Summary of Business and Financial Statement Presentation

Business Summary

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

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

Financial Statement Presentation

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

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

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

Recent Accounting Pronouncements

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

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

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

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

Note 2.—Acquisition of CashCall Mortgage

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

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

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

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

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

(1) Included within the contingent consideration is $1.4 million of Business Appreciation Rights, as defined above.

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

Unaudited Pro Forma Results of Operations

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

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

Pretax net earnings	$ 15,903	$ 33,379

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Note 3.—Mortgage Loans Held-for-Sale

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

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

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

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

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

Note 4.—Mortgage Servicing Rights

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

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

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

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

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

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

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

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

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

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

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

Sensitivities are hypothetical changes in fair value and cannot be extrapolated because the relationship of changes in assumptions to changes in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption, whereas a change in one factor may result in changes

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to another. Accordingly, no assurance can be given that actual results would be consistent with the results of these estimates. As a result, actual future changes in MSR values may differ significantly from those displayed above.

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

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

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

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

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

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

Note 5.—Goodwill and Intangible Assets

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

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

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

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

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

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

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

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

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

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Note 6.—Warehouse Borrowings

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

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

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

(1) As of September 30, 2016 and December 31, 2015, $78.7 million and $36.4 million, respectively, are attributable to financing facility advances made to the Company's warehouse customers. In October 2016, the maturity was extended to December 23, 2016.

(2) In August 2016, the lender granted the Company an increase in the maximum borrowing capacity to $175.0 million with a temporary increase to $200.0 million until September 15, 2016. In April 2016, the maturity date was extended to March 1, 2017.

(3) In September 2016, the lender granted the Company an increase in the maximum borrowing capacity to $200.0 million until maturity date of June 30, 2017.

Note 7.—Term Financing

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

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

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

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

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

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

Note 8.—Convertible Notes

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

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

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

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

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Note 9.—Securitized Mortgage Trusts

Securtized Mortgage Trust Assets

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

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

Securitized Mortgage Trust Liabilities

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

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

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

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

Note 10.—Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

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

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

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

Recurring Fair Value Measurements

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

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

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

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

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

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

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

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

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

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was $2.6 million for the three months ended September 30, 2016. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

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

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

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

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

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

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