IMPAC MORTGAGE HOLDINGS INC
Form 10-K
March 21, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011 or

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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 Amex

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 o No ý

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 o No ý

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 ý No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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. ý

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

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

As of June 30, 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $22.8 million, based on the closing sales price of common stock on the NYSE Amex on that date. For purposes of the calculation only, all directors and executive officers of the registrant have been deemed affiliates. There were 7,821,046 shares of common stock outstanding as of March 14, 2012.

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PART I

ITEM 1. BUSINESS

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

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," or similar terms or variations on those terms or the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: the ongoing volatility in the mortgage industry; our ability to manage successfully through the current market environment; our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions; our ability to meet liquidity needs from current cash flows or generate new sources of revenue; management's ability to manage successfully and grow the Company's mortgage and real estate business activities including mortgage lending operations; the ability to make interest payments; increases in default rates or loss severities and mortgage related losses; our ability to obtain additional financing and the terms of any financing that we do obtain; inability to effectively liquidate properties to mitigate losses; increase in loan repurchase requests and ability to adequately settle repurchase obligations; decreases in value of our residual interests that differ from our assumptions; the ability of our common stock to continue trading in an active market; the outcome of litigation or regulatory actions pending against us or other legal contingencies.

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.

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

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 "SEC." You can learn more about us by reviewing our SEC filings on our website by clicking on "Stockholder Relations" located on our home page and proceeding to "Financial Reports." 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

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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 the Company.

Recent Business Developments

During 2011, the Company, through its subsidiary Excel Mortgage Servicing, Inc. ("Excel"), significantly expanded its mortgage lending activities by:

- Increasing its origination capabilities through opening regional production offices in the Pacific Northwest and Gulf Coast regions of the United States in March of 2011;
- Expanding its warehouse borrowing facilities capacity to $87.5 million;
- Increasing the number of states licensed to originate loans to 31;
- Increasing its mortgage origination volumes to $883.2 million as compared to $40.8 million in 2010; and
- Increasing mortgage servicing portfolio from $173.9 million to $605.4 million.

During 2011, the Company sold $329.1 million in service retained loans to Fannie Mae and Freddie Mac and issued $72.6 million in Ginnie Mae securities through its AmeriHome Mortgage Corp indirect subsidiary, and sold $402.2 million in loans on a service released basis to other investors. The Company is currently focusing on originating loans eligible for sale to Fannie Mae, Freddie Mac and government sponsored loans, such as FHA, VA and USDA loans, eligible for Ginnie Mae securities issuance. Management believes that having the ability to both sell loans directly to these agencies and issue Ginnie Mae securities gives the Company an advantage in the overall mortgage origination market with regard to products, pricing, operational efficiencies and overall recruitment of higher quality loan originators. As a result of selling loans with servicing retained, the mortgage servicing portfolio increased to $605.4 million in unpaid principal balance at December 31, 2011 as compared to $173.9 million at December 31, 2010. The Company expects to increase the servicing portfolio to a level that achieves profitability with economies of scale while maintaining compliance with government agency requirements. However, the Company may also opportunistically sell servicing on a flow and bulk basis to keep the amount of capital invested in servicing within our current capital constraints.

During the third quarter 2011, the Company received an offer to sell its interest in the title insurance company. After consideration of the increasing competition and lower margins in the title insurance industry along with a decision to focus the Company's efforts on expanding the mortgage lending platform, the Company's Board of Directors determined it was in the Company's best interest to sell its interest in the title insurance company in September 2011. In September and October 2011, the Company sold its interest in Experience 1, Inc., the parent of the title insurance company, for $3.7 million, recording a total gain of approximately $1.9 million.

Market Conditions

Weak employment growth and lethargic consumer spending throughout much of 2011 have led to concerns about the prospects for the U.S. economy's growth. However, conditions began to show signs of improvement during the fourth quarter as employment growth began to increase, in part due to seasonal hiring and an increase in consumer spending. These factors, along with other positive data

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from the manufacturing sector in the fourth quarter suggest that the economic recovery is gaining momentum once again after nearly stalling out earlier in the year. However, because the economic recovery continues at a slow rate, Federal Reserve policymakers currently anticipate that economic conditions are likely to warrant exceptionally low levels for the federal funds interest rate at least through late 2014. The financial markets became somewhat volatile once again in the second half of 2011 with stock market averages moving up and down sharply across the globe due to elevated concerns over risk within the markets. This was evidenced by the European sovereign debt crisis triggered by Greece and other countries as well as increased concerns regarding government spending, including the federal budget deficit and the fear of a return to economic recession continued to influence the financial markets including interest rates and spreads.

During 2011, we continued to see home prices decline in many markets as housing prices remain under pressure due to elevated foreclosure levels as evidenced below by the Standard & Poor's Case-Shiller 10-City Composite Home Price Index for December 2011.

Case-Shiller (Composite-10)

Although the pace of new foreclosures has fallen from its peak, in part due to industry-wide compliance issues, further declines in home prices may be necessary before substantial progress in reducing the inventory of homes occurs. Serious threats to economic growth remain however, including continued pressure and uncertainty in the housing market and elevated unemployment levels. A significant number of U.S. residents are no longer looking for work and, therefore, are not reflected in the U.S. unemployment rates. Reported unemployment rates in seven states are at or above 10.0%, including California and Florida. California and Florida represent the states with the highest concentration in our long-term mortgage portfolio.

Mortgage lending industry trends continued to be affected by the following in 2011:

- Interest rates on mortgage loans continue at record lows;

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- Declines in property values experienced over the last few years as evidenced by the Standard & Poor's Case-Shiller 10-City Composite Home Price Index for December 2011 resulting in many borrowers owing more than the value of their homes (underwater borrower);
- Tighter lending standards by mortgage lenders which affect the ability of borrowers to refinance existing mortgage loans;
- Mortgage loan originations from 2005 through 2007 continue to perform worse than originations from prior periods;
- Overall levels of delinquencies remain elevated;
- Government agencies creating conforming loan products allowing underwater borrowers who have continued to make timely payments to refinance into a lower interest rate;
- National banks deciding to no longer finance or purchase certain mortgage loans or mortgage loans as a whole; and
- Significant changes in mortgage lending compliance requiring additional time and resources for a lender to comply.

Due to the significant slow-down in foreclosure processing, and in some instances, cessation of all foreclosure processing by numerous loan servicers, there has been a reduction in the number of properties being marketed following foreclosure. As servicers begin to increase foreclosure activities and market properties in larger numbers, it is likely to create a significant over-supply of housing inventory. This could lead to a significant increase in overall loss severity on real estate owned (REO) properties in future periods. In addition, certain courts and state legislatures are implementing new rules or statutes relating to foreclosures which may require additional verification of information prior to the foreclosure proceeding. The combination of these factors has led to a significant backlog of foreclosures in the marketplace which will take time to resolve. If these trends continue, there could be additional delays in the processing of foreclosures, which could have an adverse effect upon housing prices which is likely to result in higher loss severities while foreclosures are delayed.

Financial Regulatory Reform

On July 21, 2010, the "Dodd-Frank Wall Street Reform and Consumer Protection Act" was signed into law. This legislation is a sweeping overhaul of the financial regulatory system.

The legislation provides for new regulation on financial institutions, creates new supervisory and advisory bodies, including the new Consumer Financial Protection Bureau, and contains many consumer related provisions including provisions addressing mortgage reform. In the area of mortgage origination, it appears there is an effective elimination of stated income loans and low document loans along with a requirement to apply a net tangible benefit test for all refinancing transactions. There are also numerous revised servicing requirements for mortgage loans.

The legislation will have a significant effect on the operations of many financial institutions in the U.S. As the legislation calls for extensive regulations to be promulgated to interpret and implement the legislation, it is not possible to determine precisely the impact to operations and financial results at this time. The Company will continue to assess the effect of the legislation on the Company's business as the associated regulations are adopted.

Continuing Operations

The Company's continuing operations include the business activities of IRES that focus on mortgage and real estate services including primarily mortgage lending activities and portfolio loss mitigation and real estate service activities, and the management of the long-term mortgage portfolio (residual interests in securitizations reflected as the net of total trust assets minus total trust liabilities in the consolidated balance sheets).

Mortgage and Real Estate Services

The Company created IRES to provide solutions to the mortgage and real estate markets. IRES performs services for investors, portfolio managers, servicers and individual borrowers, including mortgage lending services, portfolio monitoring and real estate services, surveillance and recovery services. These mortgage and real estate services were developed as part of a centralized platform to operate synergistically to maximize revenues and profits. The platform includes the mortgage lending operations, the portfolio loss mitigation and real estate services and formerly the title and escrow operations.

Mortgage Lending Operations During 2010, the Company began funding conforming residential mortgage loans as it re-entered the mortgage banking market. In 2011, the Company's reemergence into mortgage lending was expanded by the opening of regional production offices in the Pacific Northwest and Gulf Coast regions giving the Company origination capabilities throughout the entire west coast and gulf coast regions. To facilitate the growth of the mortgage lending operations, the Company more than doubled its warehouse borrowing capacity in 2011 to $87.5 million as of December 31, 2011.

The mortgage lending activities include the origination, funding, selling and servicing of loans. The Company is currently focusing on originating loans eligible for sale to Fannie Mae and Freddie Mac, and government sponsored loans eligible for Ginnie Mae securities issuance as it believes that having this ability makes it competitive in the overall mortgage origination market. In 2010, the Company began to rebuild the mortgage lending platform to ensure that appropriate licenses, approvals and quality control processes were in place to originate, sell, and service conforming agency and government sponsored residential mortgage loans that are eligible for sale to Fannie Mae and Freddie Mac and Ginnie Mae securities issuances. In later 2011 and more recently, the Company has primarily sold service retained loans to Fannie Mae and issued Ginnie Mae securities. The Company currently originates and funds mortgages through its wholly owned subsidiary, Excel.

Mortgage Servicing In the ordinary course of business, the Company sells mortgage loans to the secondary market. The Company retains servicing on certain loans sold and earns servicing fees generally between 0.25% and 0.44% per annum of the monthly outstanding principal balance of the loans serviced. The Company has hired a nationally recognized residential sub-servicer to sub-service the servicing portfolio. Although the Company uses a sub-servicer to provide primary servicing and certain default servicing functions, the Company's default management team, experienced in loss mitigation and real estate recovery, monitors and surveys the performance of the mortgage servicing portfolio. Incurring the cost of both a sub-servicer and an internal default management team reduces net servicing income, but it is an important investment used to minimize delinquencies and minimize repurchase risk. Consistent with the Company's strategy, the servicing portfolio increased due to an increase in sales of servicing retained loans to Fannie Mae and increases in Ginnie Mae issuances. As of December 31, 2011 and 2010, the total unpaid principal balance of mortgage loans serviced was $605.4 million and $173.9 million, respectively. The Company expects to increase the servicing portfolio to a level that achieves profitability with economies of scale while maintaining compliance with government agency requirements. However, the Company may also opportunistically sell servicing on a flow and bulk basis to keep the amount of capital invested in servicing within our current capital constraints.

Portfolio Loss Mitigation and Real Estate Services The Company provides loss mitigation and recovery services focusing primarily on the performance of our own long-term mortgage portfolio. The Company's portfolio loss mitigation and real estate services operations include the following services:

REO surveillance and disposition services to portfolio managers and servicers to assist them with improving portfolio performance by maximizing liquidation proceeds from managing foreclosed real estate assets, and short sale (where a lender agrees to take less than the balance owed from the borrower) services on pre-foreclosure properties for servicers, investors and institutions with distressed and delinquent residential and multifamily mortgage portfolios including real estate brokerage services.

Default surveillance and loss recovery services for residential and multifamily mortgage portfolios for servicers and investors to assist them with overall portfolio performance and maximizing cash recovery.

Loan modification solutions to individual borrowers by interacting with loan servicers on behalf of the borrowers to assist them in lowering the monthly mortgage payments to an affordable level allowing them to remain in their homes. The Company receives fees paid by the borrower for these services.

Monitoring, reconciling and reporting services for residential and multifamily mortgage portfolios for investors and servicers.

To the extent that opportunities arise, the Company intends to expand its portfolio loss mitigation and real estate services to third parties in the marketplace. Furthermore, as the distressed mortgage and real estate markets remain unstable and uncertain due to the significant number of foreclosure properties that need to be sold, there remains uncertainty about the ongoing need and delivery of these services in the future.

Title and Escrow During the third quarter 2011, the Company received an offer to sell its interest in Experience 1, Inc., the parent of the title insurance company. After consideration of the increasing competition and lower margins in the title insurance industry along with a decision to focus the Company's efforts on expanding the mortgage lending platform, the Company's Board of Directors determined it was in the Company's best interest to sell its interest in the title insurance company in September 2011.

The title insurance company serviced primarily California and selected national markets providing title insurance, escrow and settlement services to residential mortgage lenders, real estate agents, asset managers and REO companies in the residential real estate market.

Long-Term Mortgage Portfolio

The long-term mortgage portfolio consists of the residual interests in securitizations represented on the consolidated balance sheet as the difference between total trust assets and total trust liabilities

The 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 the previously discontinued operations and retained in the long-term portfolio before 2008. Alt-A mortgages are primarily first lien mortgages made to borrowers

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whose credit is generally within typical Fannie Mae and Freddie Mac guidelines but have loan characteristics that make them non-conforming under those guidelines.

Commercial mortgages in the 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). Commercial mortgages have provided greater asset diversification on our balance sheet as borrowers of commercial mortgages typically have higher credit scores and commercial mortgages typically have lower LTVs.

Historically, the Company securitized mortgages in the form of collateralized mortgage obligations (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 (REMICs) were either consolidated or unconsolidated depending on the design of the securitization structure. The Company consolidates the variable interest entity (VIE) as the primary beneficiary of the sole residual interest in each securitization trust where the Company also performs the master servicing. 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. At December 31, 2011, our residual interests in securitizations (represented by the difference between total trust assets and total trust liabilities) increased to $26.5 million, compared to $26.4 million at December 31, 2010.

During 2011 and 2010, the Company did not acquire or retain any mortgages in the 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*," Note 3. "*Securitized Mortgage Collateral*" and Note 8. "*Securitized Mortgage Borrowings*" in the notes to the consolidated financial statements.

Master Servicing

Until 2007, the Company retained master servicing rights on substantially all of its non-conforming single-family residential and commercial mortgage acquisitions and originations that were retained or sold through securitizations. 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, the Company monitors compliance with the servicing guidelines and performs, or contracts 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. Master servicing fees are generally 0.03% per annum on the unpaid principal balance of the mortgages serviced. As a master servicer, the Company also earns income or incurs 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 and a decline in interest rates since the end of 2008, which affects the amount the Company earns on balances held in custodial accounts. At December 31, 2011, the Company was the master servicer for approximately 41,000 mortgages with an unpaid principal balance of approximately $11.4 billion of which $2.6 billion of those loans were 60 or more days delinquent. At December 31, 2011, the Company was also the master servicer for unconsolidated securitizations totaling approximately $1.5 billion in unpaid principal balance of which $0.5 billion of those loans were 60 or more days delinquent.

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Discontinued Operations

Discontinued operations primarily include minimizing or settling the repurchase liability exposure related to the previously discontinued former non-conforming mortgage operations.

In previous years, when the Company's previously discontinued operations sold loans to investors, the Company was required to make normal and customary representations and warranties about the loans previously sold to investors. Whole loan sale agreements generally required the Company to repurchase loans if a representation or warranty given to the loan purchaser is breached. In addition, the Company also could 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. The Company continues to attempt to settle outstanding repurchase requests from third-party investors of the previously discontinued non-conforming mortgage operations.

Regulation

The mortgage lending and real estate brokerage operations have established underwriting guidelines that include provisions for inspections and appraisals, required credit reports on prospective borrowers and determined maximum loan amounts. The mortgage lending activities are subject to, among other laws, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, Fair Credit Reporting Act, Fair and Accurate Credit Transaction Act, Fair Housing Act, Gramm-Leach, Bliley Act, Telephone Consumer Protection Act, Can Spam Act, Real Estate Settlement Procedures Act, Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the regulations promulgated thereunder. These laws and regulations, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs, prohibit the payment of kickbacks for the referral of business incident to a real estate settlement service, limit payment for settlement services to the reasonable value of the services rendered and goods furnished, restrict the marketing practices used to find customers, require the safeguard of non-public information about our customers and require the maintenance, disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution, price and income level and established national minimum standards for mortgage licenses. The mortgage lending and real estate brokerage are also subject to state and local laws and regulations, including state licensing laws, anti-predatory lending laws, and may also be subject to applicable state usury statutes. The mortgage lending operation of the Company is an approved Housing and Urban Development "HUD" lender. As a HUD approved lender, the Company is 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. The company's affairs are also subject to examination by Fannie Mae, Freddie Mac, HUD 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 our Company.

Competition

The Company operates 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. The Company's competitors include banks, thrifts, credit unions, real estate brokerage firms 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, the Company must have a very high level of operational, technological, and managerial expertise, as well as access to capital at a

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competitive cost. As a result of reduced access to capital, general housing trends, rising delinquencies and defaults and other factors, many mortgage and real estate services firms have recently experienced severe financial difficulty, with some exiting the business or filing for bankruptcy protection.

The mortgage and real estate business activities compete 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 mortgage and real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency.

Competitive conditions in the mortgage business can be affected by shifts in consumer preference between variable-rate and fixed-rate mortgage loans, depending on the interest rate environment. Many smaller and mid-sized financial institutions may find it difficult to compete in the mortgage industry due to the consolidation in the industry and the need to invest in technology in order to reduce operating costs while maintaining compliance in an increasingly complex regulatory environment. Additionally, more restrictive underwriting standards and the elimination of Alt-A and subprime products has resulted in a more homogenous product offering, which has increased competition for conforming mortgages across the industry. Recently, many large mortgage lenders have slowed or shut down the purchase of loans from third-party correspondents.

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 rate bank deposits as a source of liquidity. The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Risk factors, as outlined below, provide additional information related to risks associated with competition in the mortgage lending and real estate services industries.

Employees

As of December 31, 2011 and 2010, we had a total of 394 and 376 employees, respectively. Management believes that relations with its employees are good. We are not a party to any collective bargaining agreements.

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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.

Risks Related To Our Businesses

Our long-term liquidity is dependent on our ability to realize cash flows from our long term mortgage portfolio and to expand our business volumes and revenues.

The ability to meet our long-term liquidity requirements is subject to several factors, such as realizing cash flows from our long-term mortgage portfolio and increasing revenues from our mortgage and real estate business activities. The mortgage lending operations that primarily offer government sponsored and conforming agency loans has increased its monthly lending origination volumes to be in excess of $100 million. However, in 2011 the mortgage lending operations operated at a loss. In order for the mortgage operations to generate adequate profitability, we will need to (i) increase origination volumes, (ii) improve lending revenues including loan pricing margins and loan fees and (iii) reduce lending operating costs, or some combination of them.

We believe that current cash balances, short-term investments, cash flows realized from our long-term mortgage portfolio and fees generated from our mortgage and real estate business activities will be adequate to fund our current operations and liabilities. At December 31, 2011, our debt obligations, consisting of our trust preferred securities, junior subordinated notes, line of credit and the note payable related to the obligation limited to and secured by some of our residual interests in certain securitization trusts, was an aggregate of approximately $76.0 million in outstanding net principal balance. We cannot provide any assurances that we will be able to operate successfully our mortgage and real estate business activities and other business that we may implement in the future. If we are unable to do so, we may be unable to satisfy our future operating costs and liabilities, including repayment of our debt obligations.

Our loss of 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 may adversely affect our business, operations and financial condition.

On February 11, 2011, the Treasury issued a White Paper titled "Reforming America's Housing Finance Market" (or the White Paper) that lays out, among other things, proposals to limit or potentially wind down the role that Fannie Mae and Freddie Mac play in the mortgage market. Any such proposals, if enacted, may have broad adverse implications for the MBS market and our business, operations and financial condition. We expect such proposals to be the subject of significant discussion and it is not yet possible to determine whether such proposals will be enacted and, if so, when, what form any final legislation or policies might take or how proposals, legislation or policies emanating from the White Paper may impact the MBS market and our business, operations and financial condition. We are evaluating, and will continue to evaluate, the potential impact of the proposals set forth in the White Paper on our business and our financial position and results of operations. Since a substantial portion of our current production is being sold to Fannie Mae, Freddie Mac and Ginne Mae, if we lost approvals with such agencies our ability to profitably sell the loans could be effected.

During 2011, the Company sold $329.1 million in service retained loans to Fannie Mae and Freddie Mac and issued $72.6 million in Ginnie Mae securities through its AmeriHome Mortgage Corp indirect subsidiary, and sold $402.2 million in loans on a service released basis. The Company is currently focusing on originating loans eligible for sale to Fannie Mae, Freddie Mac and government sponsored loans, such as FHA, VA and USDA loans, eligible for Ginnie Mae securities issuance. Management believes that having the ability to both sell loans directly to these agencies and issue Ginnie Mae securities gives the Company an advantage in the overall mortgage origination market.

If we lose our ability to sell to Fannie Mae and Freddie Mac or our ability to issue Ginne Mae securities, our profitability, business, operations and financial condition may be adversely affected.

The Company, through its subsidiaries, has entered into financing facility agreements to fund loans for the mortgage lending operations that contain certain financial covenants.

Our warehouse facilities contain covenants, including requirements to maintain a certain minimum net worth, liquidity, debt ratios, profitability levels and other customary debt covenants. A breach of the covenants can result in an event of default under these facilities and as such allows the lender to pursue certain remedies which may constitute a cross default under other agreements. If we are unable to meet or maintain the necessary covenant requirements 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 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 bank 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 of which some 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 has also limited borrowings under 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.

We may become, and in some cases are a defendant in purported class action lawsuits and may not prevail in these matters.

Class action lawsuits and regulatory actions alleging improper marketing practices, abusive loan terms and fees, disclosure violations, improper yield spread premiums 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 class 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 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 may incur defense costs and other expenses in connection with the class action 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 this litigation 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. If the final resolution of this litigation is unfavorable to us, our financial condition, results of operations and cash flows might be materially adversely affected. We believe we have meritorious defenses to the actions and intend to defend against them vigorously; however, an adverse judgment in any of these matters could have a material adverse effect on us.

There is recent litigation in the mortgage industry related to securitizations against issuers, sellers, originators, underwriters and other.

As defaults, delinquencies, foreclosures, and losses in the real estate market continue, there have been recent lawsuits by various investors, insurers, underwriters and others against various participants in securitizations, such as sponsors, depositors, underwriters, and loan sellers. Some lawsuits have alleged that the mortgage loans had origination defects, that there were misrepresentations made about the mortgage loans and the parties failed to properly disclose the quality of the mortgage loans or repurchase defective loans or that there were other misrepresentations, lack of representations, or errors in securitization documents. There have been other claims contending errors or misrepresentations in the securitization documents or process itself. Historically, we both securitized and sold mortgage loans to third parties that may have been deposited or included in pools for securitizations. We have discovered discrepancies in our securitization documents and are working with the parties involved, including bondholders, on the issue. The Company has also received notices of claims for indemnification relating to mortgage backed securities bonds issued, originated or sold by the Company from Countrywide and Merrill Lynch. The claims seek indemnification from claims asserted against Countrywide and Merrill Lynch in specified legal actions entitled American International Group Inc. v. Bank of America Corp., et al Case No. 1:11-cv-06212 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 Case No. 11-cv-10952 in the Superior Court Department of the Commonwealth of Massachusetts. The notices each seek indemnification for all losses, liabilities, damages and legal fees and costs incurred in those actions. In connection with these potential claims, we may become subject to litigation related to the 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.

On February 19, 2012, the Company entered into a tolling agreement which tolls the further running of the statute of limitations for any claims which the other party may hold. The other party purports to be a bondholder of some of our securities and for other securities for which we deposited loans. We do not know the nature of such claims as of this date.

Second trust deed mortgages in our long term mortgage portfolio expose us to greater credit risks.

The security interest in the property securing second mortgages in our long term mortgage portfolio is subordinated to the interest of the senior lien holder. Typically, the second trust deed mortgage, or junior lien mortgages have a higher combined loan to value (CLTV) ratio than do senior lien mortgages. If the borrower experiences difficulties in making senior lien payments or if the value of the property is equal to or less than the amount needed to repay the borrower's obligation to the senior lien holder upon foreclosure, the second mortgage loan may not be repaid.

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Also, the senior lien mortgages in the long term mortgage portfolio may be affected if there are junior liens on the same properties resulting in a higher CLTV which borrowers may perceive have no equity. This could result in the senior liens defaulting at a higher rate than senior liens without a junior lien.

If the junior lien mortgage loan is not repaid or if a borrower defaults on a senior lien or junior lien mortgage in a securitization trust in the Company's long term mortgage portfolio, the value of the retained residual interest in the securitization could be adversely affected or the cash flows we could otherwise realize from the related residual interest could be reduced.

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

Our results of operations are materially affected by conditions in the mortgage and real estate markets, the financial markets and the economy generally. Beginning in 2007, the mortgage industry and the single-family residential housing markets, and to a lesser extent multifamily residential housing markets, were adversely affected as home prices declined and delinquencies and defaults significantly increased. Borrowers have found it difficult to refinance due to home price depreciation and lenders tightened their underwriting guidelines, which has led to further increases in defaults and credit losses. During 2011, the Company continued to be significantly and negatively affected by the deteriorating real estate market and the weak economic environment. As a result, non-conforming mortgage loans have not performed up to historical expectations, and the fair value of non-conforming mortgage loans has deteriorated. This, in turn, has resulted in declining revenues and increased expenses associated with the long term mortgage portfolio, including significant increases in loan losses and impairment charges, losses sustained in the operation of real estate properties acquired in foreclosure proceedings and foreclosure related professional fees. These factors have led to deterioration in the quality of the Company's long-term mortgage portfolio, as evidenced by the delinquencies, foreclosures and credit losses.

The adverse market conditions have affected our mortgage loan delinquencies and REO in the long term mortgage portfolio. At December 31, 2011, the Company's long-term mortgage portfolio had 21.6% or $2.1 billion of loans that were 60 days or more delinquent, included in continuing and discontinued operations, compared to 21.3% or $2.4 billion at December 31, 2010. REO decreased 39% to $56.5 million at December 31, 2011 as compared to $92.8 million at December 31, 2010 and we incurred losses from REOs of $16.6 million for the year ended December 31, 2011 compared to $6.8 million for the previous year. These losses are primarily in the nonrecourse securitization trusts but could result in reduced cash flows from the Company's residual interests in respective securitizations. These conditions, which increase the cost and reduce the availability of debt, may continue or worsen in the future.

The disruption in the capital markets and secondary mortgage markets has also reduced liquidity and investor demand for mortgage loans and mortgage backed securities, while yield requirements for these products have increased. Continuing concerns about the declining real estate market, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit, have contributed to increased volatility and diminished expectations for the economy and markets going forward. The mortgage market has been severely affected by changes in the lending landscape and there is no assurance that these conditions have stabilized or that they will not worsen. These unprecedented disruptions and deterioration of the mortgage market, have had, and may continue to have, an adverse effect on the Company's results of operations and financial condition.

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

We sell or contract with third-parties for the servicing of our mortgage loans. Our operations, performance and liabilities are subject to risks associated with inadequate or untimely servicing. Poor performance by a servicer may result in greater than expected delinquencies and losses on our mortgage loans or in our resulting exposure to investors, bond holders, bond insurers or others as we are responsible for the performance of our loan servicers. If we, or our servicers, commit a material breach of our obligations as a servicer or master servicer, we may be subject to termination if the breach is not cured within a specified period of time following notice, causing us to lose master servicing income. In addition, we may be required to indemnify the securitization trustee against losses from any failure by us, as master servicer or on behalf of the servicer, to perform the servicing obligations properly.

Also, 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. Also, with respect to mortgage loans subject to a securitization, greater delinquencies would adversely affect the value of our residual interest, if any, we hold in connection with that securitization.

In a securitization, relevant agreements permit us to be terminated as servicer or master servicer under specific conditions described in these agreements. If, as a result of a servicer or sub-servicer's failure to perform adequately, we were terminated as master servicer of a securitization, the value of any master servicing rights held by us could be adversely affected.

New regulatory laws affecting our operations may affect our ability to expand our mortgage lending operations.

The regulatory environments in which we previously operated, and continue to operate, have an effect on all the activities in which we are engaged and may engage in the future. Changes to the laws, regulations or regulatory policies can affect whether and to what extent we may be able to expand our mortgage lending activities. 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 have previously participated in, 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 the past thereby limiting ability to commence new operations. As a result, we might be at a competitive disadvantage which would affect our operations and profitability.

Loans to non-conforming borrowers may expose us to a higher risk of delinquencies, foreclosures and losses.

We were an acquirer and originator of non-conforming single-family and multifamily mortgage loans. These are mortgages that generally may not qualify for purchase by government-sponsored agencies such as Fannie Mae and Freddie Mac. The performance of the long term mortgage portfolio has been negatively affected by the losses from these mortgages. Credit risks associated with these mortgages may be greater than those associated with conforming mortgages. Mortgages made to such borrowers generally 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 our borrowers are 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. The long term mortgage portfolio also contains loans that are interest only. If there is a decline in real estate

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values, as recently 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 CLTV or 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.

The Company's long-term mortgage portfolio contains significant interest rate risks that are not currently hedged by the Company.

The cash flows from residual interests in certain securitization trusts are contingent upon various factors including the interest income collected on the loans in the trusts in excess of the interest expense paid to respective bondholders. These cash flows are distributed to the residual interest holder after the required interest and principal payments are made to the bondholders. Interest rates on the bonds usually adjust monthly with changes primarily in one-month LIBOR. Derivatives instruments (primarily interest rate swap agreements) inside the securitization trusts initially entered into were designed to offset the risk of movements in LIBOR that created the adverse effect of the interest income collected on the loans being less than interest expense paid to the respective bondholders. However, many of these derivatives agreements have maturities less than the maturities of the loans. Therefore, increases in LIBOR rates could significantly reduce the future cash flows we receive from the retained interests in these securitization trusts. The amount of the remaining derivatives instruments is not sufficient to fully protect the residual cash flows from increases in LIBOR. The Company does not have the ability to change the derivatives instruments inside the trusts and does not currently hedge this interest rate risk with derivatives instruments outside the securitization trusts. As a result of not fully hedging interest rate risks, the Company's future residual cash flows could be significantly affected by rising LIBOR rates.

Our hedging strategies recently 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 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. 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 loan 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.

Competition in the residential real estate and mortgage services business is intense and may adversely affect our business operations and financial performance; the dominance of a limited number of companies may affect our ability to operate and compete effectively.

Competition in the residential real estate and mortgage services business is intense. Plus, the mortgage business and other businesses in which we have begun operations have recently experienced substantial consolidation. Our competitors include banks, thrifts, credit unions, real estate brokerage firms, title and escrow companies, asset management companies, and mortgage banking companies. Several of our competitors enjoy advantages, including greater financial resources and access to

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capital, a wider geographic presence, more accessible branch office locations, more aggressive marketing campaigns, better brand recognition, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. 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. As a result of reduced access to capital, general housing trends, rising delinquencies and defaults and other factors, many mortgage and real estate services firms have recently experienced severe financial difficulty, with some exiting the business or filing for bankruptcy protection, resulting in a consolidation of companies in such industries. The dominance of a limited number of companies has created greater competition and to the extent that we cannot compete effectively, it may adversely affect our business operations and financial performance.

Losses from defaulted loans in the long term mortgage portfolio may be higher than anticipated because we did not obtain mortgage insurance or if the mortgage insurance company is insolvent.

Certain securitization trusts in the long term mortgage portfolio do not have credit enhancements such as mortgage pool or special hazard insurance for all of the mortgages and mortgage investments. Generally, the Company required mortgage insurance on any first mortgage with an LTV ratio greater than 80%. During the time we hold mortgages for investment, we are subject to risks of borrower defaults and bankruptcies and special hazard losses that are not covered by standard hazard insurance. If a borrower defaults on a mortgage that we hold, we bear the risk of loss of principal to the extent there is any deficiency between the value of the related mortgaged property and the amount owing on the mortgage loan and any insurance proceeds available to us through the mortgage insurer. Also, to the extent we have insurance coverage, we may bear the risk of the insurance carriers not being able to make the required payments which will increase losses on foreclosures.

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

In connection with our loan sales to third parties and our prior securitizations, we transferred mortgages acquired and originated by us to the third parties or 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, or other entities involved in the 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 are transferred or when the securities are sold. Those representations and warranties may include, but are not limited to, issues such as the validity of the lien, the absence of liens or delinquent taxes, the validity of the appraisal obtained in conjunction with the loan, the truthfulness of information used in the loan approval process, the loans compliance with all local, state and federal laws, the delivery of all documents required to perfect title to the lien, the loan meeting all underwriting criteria and the selection process used to include the loans in any particular transaction. Also, we previously engaged in bulk whole loan sales pursuant to agreements that generally provide for recourse by the purchaser against us in the event of a breach of one of our representations or warranties, any fraud or misrepresentation during the mortgage origination process, or upon early default on such mortgage. We attempted to limit the potential remedies of such purchasers to the potential remedies we received from those from whom we acquired or originated the mortgages. However, in some cases, the remedies available to a purchaser of mortgages from us may be broader or extend longer than those available to us against others whom have sold mortgage loans to us and should a purchaser enforce its remedies against us, we are not always able to enforce whatever remedies we have against others. 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.

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A material difference between the assumptions used in the determination of the value of our residual interests and our actual experience could cause us to write down the value of these securities and could harm our liquidity and financial condition.

Investments in residual interests and subordinated securities are much riskier than investments in senior mortgage-backed securities because these subordinated securities bear credit losses prior to the related senior securities. The risk associated with holding residual interests and subordinated securities is greater than holding the underlying mortgage loans directly due to the concentration of losses attributed to the subordinated securities. The value of residual interests represents the present value of future cash flows expected to be received by us from the excess cash flows created in the securitization transaction. In general, future cash flows are estimated by taking the coupon rate of the loans underlying the transaction less the interest rate paid to the bond holders, less contractually specified servicing and trustee fees, and after giving effect to estimated prepayments, credit losses and overcollateralization requirements. We estimate future cash flows from these securities and value them utilizing assumptions based in part on projected interest rates, delinquency, mortgage loan prepayment speeds and credit losses. It is extremely difficult to validate the assumptions we use in valuing our residual interests. Even if the general accuracy of the valuation model is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships which drive the results of the model. Such assumptions are complex as we must make judgments about the effect of matters that are inherently uncertain. If our actual experience differs from our assumptions, we could be required to reduce the value of these residual interests and securities. Furthermore, if our actual experience differs materially from these assumptions, our cash flow, financial condition, results of operations and liquidity may be harmed.

The commercial and multifamily securitized mortgages included in the long term mortgage portfolio may expose the Company to increased lending risks.

Commercial and multifamily mortgages typically involved larger mortgage balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgages. These commercial and multifamily mortgages had an additional layer of risk because repayment of the mortgages often depended on the successful operation and income stream of the borrowers. Additionally, current economic conditions and the resulting tightening of credit markets have limited the opportunities for borrowers seeking to refinance their mortgages prior to scheduled interest rate resets. The inability of commercial and multifamily borrowers to successfully refinance their mortgages prior to scheduled interest rate reset dates could significantly increase delinquencies and losses within our long-term mortgage portfolio. Further, in some of our multifamily securities we have an obligation to advance principal and interest payments, to the extent recoverable, which may affect our liquidity.

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

We did not set limitations on the percentage of our long-term mortgage portfolio 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, long-term mortgage portfolio and finance receivables were secured by properties in California and, to a lesser extent, Florida. California and Florida have experienced, and may experience in the future, an economic downturn and have also suffered the effects of certain natural hazards. As a result of the economic downturn, real estate values in California and Florida have decreased drastically and may continue to decrease in the future, which could have a material adverse effect on our results of operations or financial condition.

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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.

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

In the event we are forced to liquidate, the majority of our assets are either collateral for specific borrowings or pledged as collateral for secured liabilities. We may have few remaining assets available for unsecured creditors and equity holders.

We are subject to risks of operational failure that are beyond our control.

Substantially all of our operations are located in Irvine, California. Our systems and operations are vulnerable to damage and interruption from fire, flood, telecommunications failure, break-ins, earthquake and similar events. Our operations may also be interrupted by power disruptions. Furthermore, our security mechanisms may be inadequate to prevent security breaches to our computer systems, including from computer viruses, electronic break-ins and similar disruptions. Such security breaches or operational failures could expose us to liability, impair our operations, result in losses, and harm our reputation.

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, including our chief executive officer and president. 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 our chief executive officer, president, or other senior executive officers and key management could have a material adverse affect 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. Furthermore, in light of our present financial condition, no assurance can be given that we will retain these and other executive officers and key management personnel. To the extent that one or more of our top executives or other key management personnel are no longer employed by us, our operations and business prospects may be adversely affected. 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.

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. Any failure to develop or maintain effective internal control over financial reporting and disclosure controls and procedures could harm our reputation or operating results, or cause us to fail to meet our reporting obligations. 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.

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

At the end of our 2011 taxable year, we had net operating loss (NOL) carryforwards of approximately $498.7 million for federal income tax purposes and approximately $468.2 million for state income tax purposes. During the year ended December 31, 2011, estimated net operating loss carryforwards were reduced as a result of the Company generating taxable income from cancellation of debt for approximately $39.2 million of securitized mortgage borrowings. Although, under existing tax rules, we are generally allowed to use those NOL carryforwards to offset taxable income in subsequent taxable years, our ability to use those NOL carryforwards 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 percentage points 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 carryforwards that could be used to offset taxable income would adversely affect our liquidity and cash flow, as and when we become profitable. However, we may not generate sufficient taxable income in future periods to be able to realize fully the tax benefits of our NOL carryforwards.

Violation of various federal, state and local laws may result in financial losses.

To the extent we originate and purchase mortgage loan or provide loan modification services, asset management, liquidation and oversight services, and other new businesses in which we may commence, applicable state and local laws generally regulate interest rates and other charges, require certain disclosure, 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

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and debt collection practices may apply to the origination, servicing and collection of our loans, and title and escrow services. Our business is also subject to various federal laws, including:

- the Federal Truth-in-Lending Act and Regulation Z promulgated there under, which require certain disclosures to the borrowers regarding the terms of the loans and which has recently been interpreted to 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, which requires that consumers receive disclosures at various times and 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;

- the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 establishes national minimum standards for mortgage licensees; and

- the Dodd-Frank Wall Street Reform and Consumer Protection Act, which is a sweeping overhaul of the financial regulatory system. Title XIV of the Dodd-Frank Act contains the Mortgage Reform and Anti-Predatory Lending Act ("Mortgage Act").

The Mortgage Act imposes a number of additional requirements on lenders and servicers of residential mortgage loans, including Impac, by amending certain existing provisions and adding new sections to TILA, RESPA, and other federal laws. The penalties for noncompliance with these laws are also significantly increased by the Mortgage Act, which could lead to an increase in lawsuits against mortgage lenders and servicers. Like other parts of the Dodd-Frank Act, the Mortgage Act

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requires that implementing regulations be issued before many of its provisions are effective. Therefore, many of these provisions in the Mortgage Act might not become effective until 2013 or early 2014.

Violations of certain provisions of these federal and state laws 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 and could result in the mortgagors rescinding the loans whether held by us or subsequent holders of the loans. In addition, such violations could cause us to be in default under our credit and repurchase lines and could result in the loss of licenses held by us.

Similarly, it is possible borrowers may assert that the historical loan forms we used or acquired, including forms for "interest-only" and "option-ARM" loans for which there is little standardization or uniformity, fail to properly describe the transactions they intended, or that our forms failed to comply with applicable consumer protection statutes or other federal and state laws. This could result in liability for violations of certain provisions of federal and state consumer protection laws and our inability to sell the loans and our obligation to repurchase the loans or indemnify the purchasers.

The Obama Administration recently delivered a report to Congress regarding proposals to reform the housing finance market in the United States. The report, among other things, outlined various potential proposals to wind down Ginnie Mae or Fannie Mae and Freddie Mac (the "GSEs") and reduce or eliminate over time the role of the GSEs in guaranteeing mortgages and providing funding for 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 guarantee, phasing-in a minimum down payment requirement for borrowers, improving underwriting standards, and increasing accountability and transparency in the securitization process. 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 and financial results, are uncertain. Any other future legislation and/or regulation, if adopted, also could have a material adverse effect on our business operations, income, and/or competitive position and may have other negative consequences.

Our operations may be adversely affected if we are subject to the Investment Company Act.

We intend to conduct our business at all times so as not to become regulated as an investment company under the Investment Company Act. The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.

In order to qualify for this exemption we must maintain at least 55% of our assets directly in mortgages, qualifying pass-through certificates and certain other qualifying interests in real estate. Our ownership of certain mortgage assets may be limited by the provisions of the Investment Company Act, should we ever be subject to the Act. If the SEC adopts a contrary interpretation with respect to these securities or otherwise believes we do not satisfy the above exception, we could be required to restructure our activities or sell certain of our assets. To insure that we continue to qualify for the exemption we may be required at times to adopt less efficient methods of financing certain of our mortgage assets and we may be precluded from acquiring certain types of higher-yielding mortgage assets. The net effect of these factors will be to lower our net interest income. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. Our business will be materially and adversely affected if we fail to qualify for this exemption.

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Limitations on acquisition and change in control ownership limit.

Our Charter and bylaws, and Maryland corporate law contain a number of provisions that could delay, defer, or prevent a transaction or a change of control of us that might involve a premium price for holders of our capital stock or otherwise be in their best interests by increasing the associated costs and timeframe necessary to make an acquisition, making the process for acquiring a sufficient number of shares of our capital stock to effectuate or accomplish such a change of control longer and more costly. In addition, investors may refrain from attempting to cause a change in control because of the difficulty associated with such a venture because of the limitations.

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. Our common stock has been trading on the NYSE Amex stock exchange since December 2009. 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 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;
- valuations of securitization related assets and liabilities;
- mark to market adjustments related to the fair value of loans held-for-sale, mortgage servicing rights, long-term debt and derivatives; and
- interest rates.

During 2011, our common stock reached an intra-day high sales price of $3.99 on April 7th, and an intra-day low sales price of $1.45 on October 5th. As of March 14, 2012, our stock price closed at $2.77 per share. 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 securities 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.

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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. We may also issue shares of common stock to settle outstanding obligations and liabilities. 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.

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 November 2016. We have two options to extend the term for five-year periods for each option. The premises consist of a seven-story building containing approximately 210,000 square feet with an initial annual rental rate of $31.80 per square foot, which amount increases every 30 months since commencement of the lease in October 2006. As of December 31, 2011, the Company has subleased approximately 110,000 square feet of our corporate headquarters.

ITEM 3. 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 cases, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure. At December 31, 2011, the Company does not have an accrued liability recorded for such estimated loss exposure.

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

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matters could be material to the Company's results of operations or cash flows for any particular reporting period.

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:

On December 7, 2011 an action was filed in the Circuit Court for Baltimore City entitled Curtis J. Timm, on behalf of himself and all persons similarly situated v. Impac Mortgage Holdings, Inc, et al as Case No. 24-c-11-008391. The complaint alleges on behalf of Preferred B and C shareholders who did not tender their stock previously that Impac failed to achieve the required consent from the Preferred stock classes, the consents to amend the Preferred stock was not effective because it was given on unissued stock (after redemption), it tied the tender offer with a consent requirement which constitutes an improper "vote buying" scheme, and that the tender offer was a breach of a fiduciary duty. The action seeks two quarterly payments of dividends for the Preferred holders, a declaratory judgment to unwind the consents and reinstate the cumulative dividend on the Preferred stock and to set a date for the election of two directors by the Preferred holders. The action also seeks punitive damages and legal expenses.

In October 2011, the Company received notices of claims for indemnification relating to mortgage backed securities bonds issued, originated or sold by Impac Secured Assets Corp., Impac Funding Corporation, IMH Assets Corp. and Impac Mortgage Holdings, Inc. from Countrywide Securities Corporation (Countrywide) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch). The claims seek indemnification from claims asserted against Countrywide and Merrill Lynch in specified legal actions entitled American International Group Inc. v. Bank of America Corp., et al Case No. 1:11-cv-06212 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 Case No. 11-cv-10952 in the Superior Court Department of the Commonwealth of Massachusetts. The notices each seek indemnification for all losses, liabilities, damages and legal fees and costs incurred in those actions.

On May 26, 2011, a matter was filed in the United States District Court, Central District of California as Case No. CV11-4514 DSF entitled Citigroup Global Markets, Inc. v. Impac Secured Assets Corp., Impac Funding Corporation and Impac Mortgage Holdings, Inc. The action alleges a violation of Section 18 and Section 20 of the Securities and Act of 1933 and negligent misrepresentation, all involved in the issuance and sale of bonds from a securitization trust. The plaintiff alleges they relied on certain documents filed with the Securities and Exchange Commission (SEC) that were subsequently the subject of an amended filing. The matter seeks unspecified damages, interest, legal fees and litigation expenses.

On May 6, 2011 a case entitled Massachusetts Mutual Life Insurance Company v. Impac Funding Corporation, et al was filed in the United States District Court for the District of Massachusetts as Case No. 3:11-cv-30127. The complaint names Impac Funding Corporation and Impac Secured Assets Corporation along with two of their officers as defendants. The action alleges violations of the Massachusetts Uniform Securities Act and the plaintiff seeks rescission or damages for their purchase of bonds from two securitization trusts issued by the Defendants. The plaintiff alleges that the loans deposited into the trusts did not meet the representations made in the offering documents when they purchased their bonds. On February 14, 2012 the court entered an order granting the motion of Impac Funding Corporation, Impac Secured Assets Corporation and the two individuals request to dismiss them from the litigation.

On or about April 20, 2011, an action was filed in the Superior Court of the Commonwealth of Massachusetts as case No. B.L.S. 11-1533 entitled Federal Home Loan bank of Boston v. Ally financial Inc., et al. Named as defendants in that action are IMH Assets Corp, Impac Funding

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Corporation, Impac Mortgage Holdings, Inc. and Impac Secured Assets Corp. The complaint alleges misrepresentations in connection with the materials used to market mortgage backed securities that the plaintiff purchased. The complaint seeks damages and attorney's fees in an amount to be established at time of trial.

Gilmor, et al. v. Preferred Credit Corp., et. al., Case No. 4:10-CV-00189 (Gilmor), currently pending in the United States District Court for the Western District of Missouri, is a putative class action against Preferred Credit and others charging violations of Missouri's Second Mortgage Loan Act. In a Sixth Amended Complaint (Complaint), plaintiffs Michael P. and Shellie Gilmor and others bring suit against Preferred Credit, as the originator of various second mortgage loans in Missouri, and against: IMPAC Funding Corporation; IMPAC Mortgage Holdings; IMPAC Secured Assets; IMPAC Secured Assets CMN Trust Series 1998-1 Collateralized Asset-Backed Notes, Series 1998-1; IMH Assets Corp; Impac CMB Trust Series 1999-1; Impac CMB Trust Series 1999-2; Impac CMB Trust Series 2000-1; Impac CMB Trust Series 2000-2; Impac CMB Trust Series 2001-4; Impac CMB Trust Series 2002-1; Impac CMB Trust Series 2003-5, (collectively, the IMPAC Defendants), among numerous others, as alleged holders of notes associated with second mortgage loans originated by Preferred Credit. Plaintiffs complain that at closing Preferred Credit charged them fees and costs in violation of Missouri's Second Mortgage Loan Act. Additionally, Plaintiffs obtained certification of a class of all persons similarly situated. Plaintiffs allege that the IMPAC Defendants are liable to Plaintiffs and members of the putative class as alleged holders of notes associated with second mortgage loans originated by Preferred Credit. Plaintiffs seek on behalf of themselves and the members of the putative class, among other things, disgorgement or restitution of all 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. Plaintiffs filed a motion for class certification, which was granted. On February 26, 2010, U.S. Bank National Association ND and other defendants removed the case to federal court. The case remains pending in federal court. Trial is scheduled to commence on August 13, 2012.

Baker, et al. v. Century Financial Group, et al., Case No. 4:04-CV-W-0201-SOW (Baker), currently pending in the Circuit Court of Clay County, Missouri, is a putative class action against Century Financial and others charging violations of Missouri's Second Mortgage Loan Act. In particular, in a Fourth Amended Complaint (Complaint), Plaintiffs James and Jill Baker and others bring suit against Century Financial, as the originator of various second mortgage loans in Missouri, and against IMPAC Funding Corporation, IMH Assets Corporation, IMPAC Mortgage Holdings, Inc., IMPAC Secured Assets Corporation, and two terminated IMPAC trusts (collectively, the IMPAC Defendants), among others, as alleged holders of notes associated with second mortgage loans originated by Century Financial. The Plaintiffs' allegations are similar to those asserted by the Plaintiffs in the Gilmor action, discussed above. 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 case was subsequently removed to federal court and later remanded by the federal court to the Circuit Court of Clay County, Missouri. The IMPAC Defendants filed an Answer on March 7, 2005. Limited discovery has taken place since this date, including additional discovery responses by certain IMPAC Defendants during 2008.

The Gilmor and Baker purported class action lawsuits are similar in nature in that they allege that the mortgage loan originators violated the respective state's statutes by charging excessive fees and costs when making second mortgage loans on residential real estate. The complaints allege that IFC was a purchaser, and is a holder, along with other affiliated entities, of second mortgage loans originated by other lenders. The plaintiffs in the lawsuits are seeking damages that include disgorgement of interest

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paid, restitution, rescission, actual damages, statutory damages, exemplary damages, pre-judgment interest and punitive damages. No specific dollar amount of damages is specified in the complaints.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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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 Amex under the symbol "IMH".

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

	2011			2010		
	High	**Low**	**Close**	**High**	**Low**	**Close**
First Quarter	3.36	2.59	2.73	6.18	3.16	3.95
Second Quarter	3.99	2.61	2.93	4.60	2.55	2.82
Third Quarter	2.95	1.80	1.95	3.37	2.49	2.77
Fourth Quarter	2.90	1.45	2.01	2.79	2.61	2.79

On March 14, 2012, the last quoted price of our common stock on the NYSE Amex was $2.77 per share. As of March 14, 2012, there were 391holders of record, including holders who are nominees for an undetermined number of beneficial owners, of our common stock.

The Board of Directors of the Company authorizes the payment of cash dividends on its common stock, subject to an ongoing review of the Company's profitability, liquidity and future operating cash requirements. The Board of Directors did not declare cash dividends on our common stock during the years ended December 31, 2011 and 2010. 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.

Selected Financial Results for 2011

Continuing Operations

Earnings from continuing operations were $5.7 million for the year ended December 31, 2011, compared to $7.6 million for 2010.

Mortgage and real estate services fees were $56.7 million for the year ended December 31, 2011, compared to $57.2 million for 2010 with the decrease primarily due to the sale of the title company, decrease in portfolio loss mitigation and real estate recovery revenues offset by an increase in mortgage lending net revenues.

In September and October 2011, the Company sold its interest in Experience 1, Inc., the parent of the title insurance company, for $3.7 million, recording a total gain of approximately $1.9 million ceasing the Company's involvement in title and escrow activities.

The mortgage lending operations originated $883.2 million and sold $803.9 million of loans during 2011 as compared to $40.8 million of loans originated for 2010. Additionally, the mortgage lending revenues increased to $14.0 million in 2011 as compared to $763 thousand in 2010.

Net interest income was $3.6 million for the year ended December 31, 2011, compared to $5.7 million for 2010.

Non-interest income net trust assets were $9.4 million for the year ended December 31, 2011, compared to $4.3 million for 2010.

Discontinued Operations

Loss from discontinued operations (net of tax) was $3.1 million for the year ended December 31, 2011, compared to earnings of $2.2 million for 2010.

Market Conditions

See Item 1. "Business" for discussion of market conditions.

Status of Operations

Mortgage and Real Estate Services

The mortgage and real estate services have been developed as part of a centralized platform to operate synergistically to maximize revenues and profits. The integrated services platform includes the mortgage lending operations and portfolio loss mitigation and real estate services.

Mortgage Lending Operations During 2011, the Company continued to expand its mortgage lending activities increasing loan originations and loan sales. During the year ended December 31, 2011, the Company originated $883.2 million and sold $803.9 million of loans, respectively, as compared to $40.8 million and $17.4 million of loans originated and sold, respectively, in 2010.

The Company is currently focusing on originating Fannie Mae, Freddie Mac, and government loans as it believes that having the ability to sell loans to Fannie Mae, Freddie Mac, and issue Ginnie Mae securities makes it more competitive in the overall mortgage origination market with regard to products, pricing, operational efficiencies and overall recruitment of higher quality loan originators. Consistent with the Company's strategy, during 2011, the Company sold $329.1 million in service retained loans to Fannie Mae and Freddie Mac and issued $72.6 million in Ginnie Mae securities through its AmeriHome Mortgage Corp indirect subsidiary, and sold $402.2 million in loans on a service released basis to other investors. As a result, the mortgage servicing portfolio increased to $605.4 million in unpaid principal balance at December 31, 2011 as compared to $173.9 million at December 31, 2010.

The Company has hired a nationally recognized residential mortgage servicer to sub-service the servicing portfolio. Although the Company uses the sub-servicer to provide primary servicing and certain default servicing functions, the Company's default management team, experienced in loss mitigation and real estate recovery, monitors and surveys the performance of the mortgage servicing portfolio. Incurring the cost of both a sub-servicer and an internal default management team reduces net servicing income, but it is an important investment used to minimize delinquencies and minimize repurchase risk.

In March 2011, the Company opened regional production offices in the Pacific Northwest and Gulf Coast regions giving the Company origination capabilities throughout the entire west coast and gulf coast regions. Included in the originations balances stated above, during the year ended December 31, 2011, these new production offices contributed approximately $452.5 million in originations of primarily agency and government insured residential mortgage loans. To facilitate the growth of the mortgage lending operations the Company increased its warehouse borrowings capacity to $87.5 million at December 31, 2011 from $42.0 million at December 31, 2010.

In 2011, the mortgage lending operations has been successful in increasing its monthly lending origination volumes to be in excess of $100 million. However, although the mortgage lending revenues increased in 2011, expenses associated with the mortgage lending activities significantly increased also. The increase in expenses was primarily due to start-up and expansion costs with opening new offices, hiring staff, purchasing equipment, investing in technology and the supplemental default management team as discussed above. Specifically, as the Company attempts to build a purchase money centric platform with a significant amount of retail originated loans; the related start-up costs for this type of origination platform will be higher than a wholesale refinance focused mortgage operation. In addition, the Company has made small investments in proprietary technologies that will further support our expansion of retail originated purchase money mortgages along with more competitive recruitment of realtor direct loan officers. The Company believes this is the right strategy in the long term as interest rates on mortgage loans are expected to rise in the future, which will greatly reduce the percentage of refinance transactions to more historical percentages. In order for the mortgage operations to achieve profitability, we will need to (i) increase overall origination volumes, (ii) improve lending revenues by originating a higher percentage of retail loans and products with wider margins and greater loan fees and (iii) reduce lending operating costs through increased operational efficiencies, or some combination of them.

Portfolio Loss Mitigation and Real Estate Services The Company provides portfolio loss mitigation and real estate services including REO surveillance and disposition services, default

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surveillance and loss recovery services, short sale and real estate brokerage services, portfolio monitoring and reporting services.

Although the Company seeks to expand its portfolio loss mitigation and real estate services to more third parties in the marketplace, the revenues from these business activities have historically been generated from the Company's long-term mortgage portfolio. Furthermore, as the distressed mortgage and real estate markets remain unstable and uncertain due to the number of foreclosure properties that need to be sold, there remains uncertainty about the ongoing need and delivery of these services in the future.

Title and Escrow During the third quarter 2011, the Company received an offer to sell its interest in the title insurance company. After consideration of the increasing competition and lower margins in the title insurance industry along with a decision to focus the Company's efforts on expanding the mortgage lending platform, the Company's Board of Directors determined it was in the Company's best interest to sell its interest in the title insurance company in September 2011. In September and October 2011, the Company sold its interest in Experience 1, Inc., the parent of the title insurance company, for $3.7 million, recording a total gain of approximately $1.9 million.

For the three and twelve months ended December 31, 2011 and 2010, mortgage and real estate services fees were as follows:

	For the Three Months Ended December 31,		For the Twelve Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
Real estate services and recovery fees	$ 3,086	$ 5,282	$ 16,742	$ 22,064
Mortgage lending	6,478	351	14,016	763
Title and escrow	-	5,569	13,906	16,786
Loss mitigation fees	1,719	2,225	6,766	11,741
Portfolio service fees	1,144	1,572	5,234	5,814
Total mortgage and real estate services fees	$ 12,427	$ 14,999	$ 56,664	$ 57,168

Long-Term Mortgage Portfolio

Although we have seen some stabilization and improvement in defaults, the portfolio continues to suffer losses and may continue for the foreseeable future until we see a significant decline in the number of foreclosure properties in the market. Existing conditions are unprecedented and result in uncertainty around the long-term performance of the portfolio.

At December 31, 2011, our residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) increased to $26.5 million, compared to $26.4 million at December 31, 2010. The increase in residual fair value in 2011 was primarily due to a reduction in forward LIBOR interest rates partially offset by cash received during the year.

In previous years, the Company 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 the Company, the bondholders cannot look to the Company for repayment of their bonds in the event of a shortfall. These securitizations were structured to include interest rate derivatives. The Company retained the residual interest in each trust, and in most cases would perform

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the master servicing. A trustee and servicer, unrelated to us, would be 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 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.

In accordance with GAAP, the Company is required to consolidate all but one of these trusts (as the Company is not the master servicer) on our statement of financial condition and results of operations. For the one trust the Company did not consolidate, the residual interest is reported as investment securities available-for-sale. For the trusts the Company did consolidate, the loans are included in the statement of financial condition as "securitized mortgage collateral", 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 borrowings." Any interest rate derivatives remaining in the trusts are included in our statement of financial condition as "derivative assets" or "derivative liabilities," respectively. To the extent there is excess overcollateralization (as defined in the securitization agreements) in these securitization trusts, the Company receives cash flows from the excess interest collected monthly from the residual interest the Company owns. Because (i) the Company elected the fair value option on the securitized mortgage collateral, securitized mortgage borrowings, (ii) derivative assets/liabilities are carried at fair value as required by GAAP, and (iii) real estate owned is reflected at net realizable value (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 the Company owns.

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. The Company employs 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 input into the valuation model for each securitization trust. The Company hires third party experts to provide forecasted curves for the aforementioned assumptions for each of the securitizations. Before inputting this information into the model, management employs a process to qualitatively and quantitatively review the assumption curves for reasonableness using other information gathered from the mortgage and real estate market (*i.e.*, third party home price indices, published industry reports discussing regional mortgage and commercial loan performance and delinquency) as well as actual default and foreclosure information for each trust from the respective trustees.

The Company uses 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 overcollateralized, the Company may receive the excess interest as the holder of the residual interest. The information above provides us with the future expected cash flows for the securitized mortgage collateral, real estate owned, securitized mortgage borrowings, derivative assets/liabilities, and the residual interests.

To determine the discount rates to apply to these cash flows, the Company gathers 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, the Company determines an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. The Company uses the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized

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mortgage collateral in each securitization (after taking into consideration any derivatives in the securitization).

The following table presents changes in the Company's trust assets and trust liabilities for the year ended December 31, 2011:

	TRUST ASSETS					**TRUST LIABILITIES**			
	Level 3 Recurring Fair Value Measurements			**NRV**		**Level 3 Recurring Fair Value Measurements**			
	Investment securities available-for-sale	**Securitized mortgage collateral**	**Derivative assets**	**Real estate owned**	**Total trust assets**	**Securitized mortgage borrowings**	**Derivative liabilities**	**Total trust liabilities**	**Net trust assets and trust liabilities**
Recorded book value at 12/31/2010	**645**	**6,011,675**	**40**	**92,708**	**6,105,068**	**(6,012,745)**	**(65,916)**	**(6,078,661)**	**26,407**
Total Gains/(losses) included in earnings:									
Interest income	136	327,555	-	-	327,691	-	-	-	327,691
Interest expense	-	-	-	-	-	(648,371)	-	(648,371)	(648,371)
Change in FV of net trust assets, excluding REO	88	(98,683)	(3)		(98,598) (1)	133,234	(8,610)	124,624 (1)	26,026
Change in FV of long-term debt	-	-	-	-	-	-	-	-	-
Losses from REO not at FV but at NRV	-	-	-	(16,587)	(16,587) (1)	-	-	-	(16,587)
Total gains (losses) included in earnings	224	228,872	(3)	(16,587)	212,506	(515,137)	(8,610)	(523,747)	(311,241)
Transfers in and/or out of level 3									
Purchases issuances and settlements	(181)	(791,546)	-	(19,654)	(811,381)	1,072,981	49,740	1,122,721	311,340
	$ 688	**$5,449,001**	**$37**	**$ 56,467**	**$5,506,193**	**$(5,454,901)**	**$(24,786)**	**$(5,479,687)**	**$ 26,506**

Recorded book value at 12/31/2011

(1) Represents non-interest income-net trust assets on the Company's consolidated statements of operations for the year ended December 31, 2011.

The decrease in fair value of securitized mortgage borrowings resulted in gains of $133.2 million, offset by losses of $98.7 million resulting from the decrease in the fair value of securitized mortgage collateral for the year ended December 31, 2011. For the year ended December 31, 2011, the change in the NRV of REO resulted in a loss of $16.6 million. Inclusive of losses from REO, trust assets reflect a net loss of $115.2 million as a result of losses from the decrease in fair value of securitized mortgage collateral of $98.7 million, losses from REO of $16.6 million and net gains from other trust assets of $85 thousand. Net gains on trust liabilities were $124.6 million as a result of $133.2 million in gains from the decrease in fair value of securitized mortgage borrowings partially offset by losses from derivative liabilities of $8.6 million. As a result, non-interest income net trust assets increased by $9.4 million during the year ended December 31, 2011.

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At December 31, 2011 and 2010, the condensed components of stockholders' equity were comprised of the following significant assets and liabilities:

	Condensed Components of Stockholders' Equity As of December 31,	
	2011	2010
Cash	$ 7,665	$ 11,619
Restricted cash	5,019	1,586
Residual interests in securitizations	26,506	26,407
Loans held-for-sale	61,718	4,283
Warehouse borrowings	(58,691)	(4,057)
Mortgage servicing rights	4,141	1,439
Line of credit	(4,000)	-
Note payable	(5,182)	(6,874)
Long-term debt ($71,120 par)	(11,561)	(11,728)
Repurchase reserve (1)	(5,816)	(8,169)
Lease liability (2)	(2,131)	(2,226)
Deferred charge	11,974	13,144
Net other assets (liabilities)	1,455	2,273
Stockholders' equity (deficit)	$ 31,097	$ 27,697

(1) $5.2 million and $8.0 million was within discontinued operations at December 31, 2011 and 2010, respectively.

(2) Guaranteed by IMH.

At December 31, 2011, cash decreased to $7.7 million from $11.6 million at December 31, 2010. The primary sources of cash between periods were $56.7 million in fees generated from the mortgage and real estate services, $14.2 million from residual interests in securitizations (net of the $4.5 million restricted excess cash in the reserve account) and $8.8 million from the issuance of the note payable. Offsetting the sources of cash were operating expenses totaling $66.1 million, payments on the notes payable of $11.5 million and settlements of repurchase requests associated with loans sold by the discontinued non-conforming mortgage operations of approximately $6.2 million.

Since our consolidated and unconsolidated securitization trusts are nonrecourse to us, we have netted trust assets and liabilities to present the Company's interest in these trusts more simply, which are considered our residual interests in securitizations. For unconsolidated securitizations our residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, our residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and net derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was $26.5 million at December 31, 2011, compared to $26.4 million at December 31, 2010.

At December 31, 2011, the note payable was $5.2 million as compared to $6.9 million at December 31, 2010. During 2011, the Company entered into a new $10.3 million structured debt agreement with the same noteholder as the previous debt agreement and used a portion of the proceeds to pay off the $4.0 million balance owed on the previous debt agreement. The Company received proceeds of $4.8 million, net of the aforementioned payoff, $1.4 million discount, and transaction costs of approximately $50 thousand. As of December 31, 2011, the carrying value of the note was $5.2 million, net of a $513 thousand discount. The note's maturity was October 2012.

Subsequent to December 31, 2011, the Company entered into a new $7.5 million structured debt agreement using eight of the Company's residual interests (net trust assets) as collateral. The Company used a portion of the proceeds to pay off the $408 thousand balance owed on the previous debt agreement. The Company received proceeds of $7.0 million, net of the aforementioned payoff and transaction costs of approximately $50 thousand. It bears interest at a fixed rate of 25% per annum and is amortized in equal principal payments over 18 months.

At December 31, 2011, the balance of deferred charge was $12.0 million. For the year ended December 31, 2011, the Company recorded $1.2 million in income tax expense resulting from deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral. The deferred charge arose as a result of 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 (when IMH was a REIT.) This balance is recorded as required by GAAP and does not have any realizable cash value.

In previous years when our discontinued operations sold loans to investors, we were required to make normal and customary representations and warranties about the loans we had previously sold to investors. Our whole loan sale agreements generally required us to repurchase loans if we breached a representation or warranty given to the loan purchaser. In addition, we also could 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. The repurchase reserve is an estimate of losses from expected repurchases, and is based, in part, on the recent settlement of claims. During the year ended December 31, 2011, the Company paid approximately $6.2 million to settle previous repurchase claims received by the discontinued operations. The Company's discontinued operations also continued to receive repurchase requests from Fannie Mae resulting in increases in estimated repurchase obligations. At December 31, 2011, the repurchase reserve within discontinued operations was $5.2 million as compared to $8.0 million at December 31, 2010. Additionally, the Company has approximately $603 thousand in repurchase reserves related to the loans sold by the continuing mortgage lending operations.

In connection with the discontinuation of our non-conforming mortgage, warehouse lending and commercial operations, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. At December 31, 2011, the Company had a liability of $2.1 million included within discontinued operations, representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space.

Liquidity and Capital Resources

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 a declining real estate market contributed to increased volatility and diminished expectations for the economy and markets. As a result of these conditions, the financial and mortgage industries suffered severe losses and several major market participants failed or have been impaired, resulting in a significant contraction in market liquidity. This illiquidity negatively affected both the terms and availability of financing for all mortgage-related assets. Due to this unprecedented volatility in the marketplace, it has become difficult to anticipate market conditions and therefore meet our liquidity objectives. If these conditions persist, institutions from which we seek financing for our investments may tighten their lending standards or become insolvent, which could make it more difficult for us to obtain financing on favorable terms or at all. Additionally, our profitability may be adversely affected if we are unable to obtain cost-effective financing.

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

In response to the current market conditions, we have entered into lending relationships to improve our liquidity. In April 2011, we entered into a $2.0 million working capital line of credit agreement which was subsequently increased to $4.0 million in November 2011 (See further details below under *Working Capital Line of Credit*). Additionally, in May 2011, we entered into a $10.3 million structured debt agreement using seven of the Company's residual interests (net trust assets) as collateral (See further details below under *Structured Debt Agreement*).

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 the Company's ability to successfully operate its mortgage and real estate business activities and realizing cash flows from the long-term mortgage portfolio. Our future financial performance and success are dependent in large part upon the ability to expand our mortgage lending platform and grow the mortgage and real estate business activities, including providing services to third parties. There can be no assurance of the Company's ability to do so. In addition, the Company continues to evaluate strategies to improve liquidity including seeking debt and equity capital.

During 2011, our operating businesses were primarily funded as follows:

- cash flows from our mortgage and real estate fee-based business activities;
- cash flows from mortgage lending operations;
- cash flows from our long-term mortgage portfolio (residual interests in securitizations); and
- cash flows from financing facilities and other lending relationships.

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Additionally, in September and October 2011, we sold our interest in Experience 1, Inc., the parent of the title insurance company, for consideration totaling $3.7 million, recording a total gain of approximately $1.9 million. The sale allowed the Company to utilize approximately $3.0 million of working capital previously set aside to support Department of Insurance net worth requirements for the title insurance company.

During 2011, our operating businesses used available funds as follows:

- origination and funding of mortgages;
- financing activities including interest and principal payments on debt;
- lease obligations, payroll obligations, operating expenses; and
- repurchase loans or settle repurchase claims.

Sources of Liquidity

Fees from our mortgage and real estate service business activities. The Company earns fees from various mortgage and real estate business activities, including loss mitigation, real estate disposition, monitoring and surveillance services, real estate brokerage and lending services. The Company provides 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 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. In addition, we generally recognize net interest income on loans held for sale from the date of origination through the date of disposition. In 2011 and continuing into 2012, the borrowing rates on warehouse facilities exceeded loan note rates whereby the Company is experiencing net interest expense from the loans held for sale due to the recent interest rate environment creating a flat yield curve. We sell 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 $803.9 million of mortgages through whole loan sales during 2011. Additionally, the mortgage lending operations enters into interest rate lock commitments (IRLCs) and utilizes forward sold Fannie Mae and Ginnie Mae mortgage backed securities (Hedging Instruments) to hedge the fair value changes associated with changes in interest rates relating to its mortgage loan origination operations. We may be subject to pair-off fees associated with these hedging 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 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 closing loan sales of our mortgages increase our risk by exposing us to credit and interest rate risk for this extended period of time.

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. 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;

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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;

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;

basis risk shortfall; and

bond write-downs reinstated.

Certain residuals have been pledged as collateral for the Note Payable. Residual cash flows are used to make principal and interest payments (See further details below under *Structured Debt Agreement*.)

Additionally, the Company acts as the master servicer for mortgages included in our 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. However, due to the decline in interest rates, the interest income earned on cash held in custodial accounts has declined significantly.

Cash flows from financing facilities and other lending relationships. We primarily fund our mortgage originations through warehouse facilities with third party lenders. We primarily use facilities with regional banks. During 2011 the warehouse facilities borrowing limits amounted to $87.5 million, of which $58.7 million was outstanding at December 31, 2011. The warehouse facilities are secured by and used to fund single-family residential mortgage loans. The warehouse facilities have certain covenant tests which we are required to satisfy. At December 31, 2011, we were in compliance with all warehouse covenants. In order to mitigate the liquidity risk associated with warehouse borrowings, we attempt to sell our mortgage loans within 10-15 days from acquisition or origination. In addition to the warehouse facilities, we have also entered into a Line of Credit and a Note Payable as discussed above. The outstanding balance of the Line of Credit and Note Payable was $4.0 million and $5.2 million, respectively at December 31, 2011. At December 31, 2011 we were not in compliance with a capital expenditure limitation covenant on the working capital line of credit, however the Company received a waiver.

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:

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;
- 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.

Uses of Liquidity

Acquisition and origination of mortgage loans. During 2011, the mortgage lending operations originated or acquired $883.2 million of mortgages. Capital invested in mortgages is outstanding until we sell the loans, which is one of the reasons we attempt to sell within 10-15 days of acquisition or origination. 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 lending operations acquired and originated $883.2 million of residential mortgages, which were financed with warehouse borrowings at a haircut generally between 2% to 10% of the outstanding principal balance of the mortgage loans.

Financing Activities

Structured Debt Agreement (Note Payable). In May 2011, we entered into a $10.3 million structured debt agreement ("Note Payable") using seven of the Company's residual interests (net trust assets) as collateral with the same note holder as the previous debt agreement. The proceeds were used to pay-off the $4.0 million outstanding balance of the outstanding Note Payable previously entered in November 2010. The Note Payable bears interest at a fixed rate of 10% per annum and is amortized in equal principal payments over 18 months with all distributions from the underlying residual interests being used to make the monthly payments. To the extent that cumulative cash flows received from the collateralized residual interests are not sufficient to pay the required monthly principal and interest, the Company would be required to pay the difference to avoid the transfer of the residual interests and the rights to the associated future cash flows to the note holder. Any excess cash flows from the residual interests are included in a reserve account, which is available to cover future shortfalls. During the year ended December 31, 2011, the Company received $4.5 million in excess cash flows from the residual interests collateralizing the Note Payable. The $4.5 million in excess cash flows is included in restricted cash on the consolidated balance sheets. If the amount of restricted cash becomes sufficient to satisfy the remaining obligation the Note Payable can be paid off and the residuals listed as security are released. The carrying value of the Note Payable at December 31, 2011 was $5.2 million, net of a $513 thousand discount and was current as to principal and interest payments.

Subsequent to December 31, 2011, the Company entered into a new $7.5 million structured debt agreement using eight of the Company's residual interests (net trust assets) as collateral. The Company used a portion of the proceeds to pay off the $408 thousand balance owed on the previous debt agreement. The Company received proceeds of $7.0 million, net of the aforementioned payoff and transaction costs of approximately $50 thousand. It bears interest at a fixed rate of 25% per annum and is amortized in equal principal payments over 18 months.

Working Capital Line of Credit (Line of Credit). In April 2011, we entered into a $2.0 million working capital line of credit agreement ("Line of Credit") with a national bank at an interest rate of LIBOR plus 3.5%. We make monthly interest payments based on the unpaid balance of the Line of Credit. In November 2011, the Line of Credit was increased to $4.0 million. The agreement expires in April 2012 and under the terms of the agreement the Company and its subsidiaries are required to maintain various financial and other covenants. There was $4.0 million outstanding on the Line of Credit as of December 31, 2011, and the Company was not in compliance with the capital expenditure limitation covenant, however the Company received a waiver. The Company expects to renew the Line of Credit upon maturity.

Long-term Debt (Trust Preferred Securities and Junior Subordinated Notes). Trust Preferred Securities had an outstanding principal balance of $8.5 million at December 31, 2011 with a stated maturity of March 2034. The Trust Preferred Securities requires 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. Junior Subordinated Notes had an outstanding principal balance of $62.0 million at December 31, 2011 with a stated maturity of July 30, 2035. The Junior Subordinated Notes are redeemable at par at any time after July 30, 2010 and requires quarterly distributions at a variable rate of three-month LIBOR plus 3.75% per annum. At December 31, 2011, the interest rate was 4.18%. The Company is current on all interest payments.

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 have requested the Company 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. The Company records an estimated reserve for these losses at the time the loan is sold, and adjusts the reserve to reflect the estimated loss.

The repurchase reserve associated with the mortgage lending operations within continuing operations totaled approximately $603 thousand at December 31, 2011, compared to $78 thousand at December 31, 2010. In determining the adequacy of the reserve for mortgage repurchases, management considers such factors as specific requests for repurchase, known problem loans, underlying collateral values, recent sales activity of similar loans, historical experience, current market conditions and other appropriate information. During 2011, the Company recorded a provision for repurchase losses of $525 thousand and is included in mortgage and real estate service fees in the consolidated statements of operations.

In addition, the repurchase reserve associated with the discontinued operations totaled approximately $5.2 million at December 31, 2011, compared to $8.0 million at December 31, 2010. In determining the adequacy of the reserve for mortgage repurchases, management considers such factors as specific requests for repurchase, known problem loans, underlying collateral values, recent sales activity of similar loans, historical experience, recent settlement experience, current settlement negotiations, current market conditions and other appropriate information. During 2011, the Company recorded a provision for repurchase losses of $3.4 million included in the loss from discontinued operations, net of tax. During the year ended December 31, 2011, the Company paid approximately $6.2 million to settle previous repurchase claims.

Operating activities. Net cash provided by operating activities was $173.6 million for 2011 as compared to $271.6 million for 2010. During 2011, 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. During 2010, the primary sources of cash in operating activities were cash received from fees generated by our mortgage and real estate service business activities and cash received from excess cash flows from our residual interests in securitizations.

Investing activities. Net cash provided by investing activities was $838.5 million for 2011 as compared to $943.7 million for 2010. For 2011 and 2010, the primary source of cash from investing activities was provided by principal repayments on our securitized mortgage collateral and proceeds from the liquidation of REO.

Financing activities. Net cash used in financing activities was $1.0 billion for 2011 as compared to $1.2 billion for 2010. For 2011 and 2010, net cash used in financing activities was primarily for principal repayments on securitized mortgage borrowings and principal repayments of notes payable, partially offset by net borrowings under warehouse agreements and issuance of the Note Payable.

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. The impact of inflation is reflected in the increased costs of our operations during 2011 and 2010. 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.

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 2011, we sold $803.9 million and brokered $23.9 million of loans subject to representations and warranties compared to $17.4 million and $20.1 million in 2010. We maintained a $5.8 million reserve related to these and other guarantees as of December 31, 2011 compared to a reserve of $8.2 million as December 31, 2010. During 2011 we paid $6.2 million to settle repurchase demands on loans previously sold to third parties as compared to $5.7 million to settle or repurchase loans during 2010.

See disclosures in the notes to the consolidated financial statements under "Commitments and Contingencies" for other arrangements that qualify as off balance sheet arrangements.

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 affect 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;
- net realizable value of REO;
- mortgage banking;
- repurchase reserve; and
- interest income and interest expense.

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 identical assets or liabilities. Level 3, 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.

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, securitized mortgage collateral and borrowings, net derivative liabilities, long-term debt, mortgage servicing rights, and call and put options as Level 3 fair value measurements. Level 3 assets and liabilities were 99% and 100%, respectively, of total assets and total liabilities measured at estimated fair value at December 31, 2011 and 2010. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 2. *Fair Value of Financial Instruments* in the notes to the consolidated financial statements.

Variable Interest Entities and Transfers of Financial Assets and Liabilities

Historically, the Company securitized mortgages in the form of collateralized mortgage obligations (CMO), which were consolidated and accounted for as secured borrowings for financial statement purposes. The Company 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 were designed so that the transferee (securitization trust) was not a qualifying special purpose entity (QSPE), and therefore the Company 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 the Company 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, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

Our estimate of the fair value of our net retained residual interests in unconsolidated securitizations, which are included in investment securities available-for-sale in the consolidated balance sheets, requires us to exercise significant judgment as to the timing and amount of future cash flows from the residual interests. We are exposed to credit risk from the underlying mortgage loans in unconsolidated securitizations to the extent we retain subordinated interests. Changes in expected cash flows resulting from changes in expected net credit losses will impact the value of our subordinated retained interests and those changes are recorded as a component of change in fair value of net trust assets

In contrast, for 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 collateral and the debt securities payable to investors in these securitizations are included in securitized mortgage borrowings in our consolidated balance sheet.

Whether a securitization is consolidated or unconsolidated, 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. Whereas the accounting differences are significant, the underlying economic impact to us, over time, will be the same regardless of whether the securitization trust is consolidated or unconsolidated.

Effective January 1, 2010, former QSPEs are evaluated for consolidation based on the provisions of FASB ASC 810-10-25, which eliminates the concept of a QSPE and changes the approach to determining a securitization trust's primary beneficiary. Refer to Note 1. *Financial Statement Presentation* in the notes to the consolidated financial statements for a discussion of the impact the new rules had on the Company's consolidated balance sheets.

Net Realizable Value of REO

The Company considers the NRV of its REO properties in evaluating REO losses. When real estate is acquired in settlement of 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.

Mortgage Banking

During 2009, the Company established a residential mortgage lending operation after discontinuing its former residential and commercial lending operations in 2007 (see Note 22. *Discontinued Operations*). Mortgage loans held-for-sale (LHFS) originated under the new lending operation are accounted for using the fair value option, with changes in fair value recorded in noninterest

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income. In accordance with FASB ASC 825, *Financial Instruments*, loan origination fees and expenses are recognized in earnings as incurred and not deferred. LHFS remaining from the Company's discontinued residential and commercial lending operations are recorded at the lower of cost or market and are included in assets of discontinued operations in the accompanying consolidated balance sheets.

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 the Company 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, the Company repurchases or provides indemnification on certain loans, as appropriate. The Company maintains a liability for expected losses on dispositions of loans expected to be repurchased or on which indemnification is expected to be provided and regularly evaluates the adequacy of this repurchase liability based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiations, and other relevant factors including economic conditions.

The Company estimates the repurchase reserve based on the estimated trailing whole loan sales that still have outstanding early payment and misrepresentation warranties. The calculation of the trailing whole loan sales subject to request is based upon historical analysis of the timing of requests in relation to their sale date. The Company also calculates the rate at which our whole loan sales will develop into early payment default or misrepresentation claims. Based on historical experience, management will determine what percentage of the claims may incur a loss. The Company applies a historical loss rate, adjusted for current market conditions based on the type of loan (first lien or to a lesser extent second lien) to the loans we expect to incur loss on in the future to derive the repurchase reserve. The reserve includes the Company's estimate of losses in the fair value of loans the Company expects it will repurchase, plus any premiums that will be refunded to the investor. The loss in fair value is predominately determined based on several factors including recent settlements and status of current settlement negotiations.

Interest Income and Interest Expense

Interest income on securitized mortgage collateral and interest expense on securitized mortgage borrowings are recorded using the effective yield for the period based on the previous quarter-end's estimated fair value.

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.

We have significant NOL carryforwards from prior years. We do not expect to be able to generate sufficient taxable income in future years to utilize these losses and have recognized a full valuation allowance against these NOL carryforwards in our consolidated balance sheets.

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Financial Condition and Results of Operations

Financial Condition

As of December 31, 2011 compared to December 31, 2010

	December 31, 2011	December 31, 2010	Increase (Decrease)	% Change
Securitized mortgage collateral	$ 5,449,001	$ 6,011,675	$ (562,674)	(9)%
Other trust assets	57,192	93,393	(36,201)	(39)
Total trust assets	5,506,193	6,105,068	(598,875)	(10)
Mortgage loans held-for-sale	61,718	4,283	57,435	1,341
Assets of discontinued operations	264	373	(109)	(29)
Other assets	43,865	44,215	(350)	(1)
Total assets	$ 5,612,040	$ 6,153,939	$ (541,899)	(9)%
Securitized mortgage borrowings	$ 5,454,901	$ 6,012,745	$ (557,844)	(9)%
Other trust liabilities	24,786	65,916	(41,130)	(62)
Total trust liabilities	5,479,687	6,078,661	(598,974)	(10)
Warehouse borrowings	58,691	4,057	54,634	1,347
Liabilities of discontinued operations	9,932	13,053	(3,121)	(24)
Other liabilities	32,633	30,471	2,162	7
Total liabilities	5,580,943	6,126,242	(545,299)	(9)
Total IMH stockholders' equity	29,968			