IMPAC MORTGAGE HOLDINGS INC
Form 10-K
March 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017 or

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

Commission File Number: 1 14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475 3600

(Registrant’s telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 No

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

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

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

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

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

As of June 30, 2017, the aggregate market value of the voting stock held by non affiliates of the registrant was approximately $162.0 million, based on the closing sales price of common stock on the NYSE MKT on June 30, 2017. For purposes of the calculation only, all directors and executive officers and beneficial holders of more than 10% of the stock of the registrant have been deemed affiliates. There were 20,952,679 shares of common stock outstanding as of March 1, 2018.

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IMPAC MORTGAGE HOLDINGS, INC.

2017 FORM 10 K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

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

Forward Looking Statements

This report on Form 10 K contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward looking terminology, such as "may," "will," "believe," "expect," "likely," "should," "could," "seem to," "anticipate," "plan," "intend," "project," "assume," or similar terms or variations on those terms negative of those terms. The forward looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: inability to increase origination volume and successfully use our CCM marketing platform to expand the volume of our loan products; successful development, marketing, sale and financing of new and existing financial products, including expansion of non Qualified Mortgage originations and conventional and government loan programs; legal and other risks related to new financial products, origination channels, geographic footprint and revenue streams; ability to successfully diversify our financial products; ability to increase origination of purchase money loans; volatility in the mortgage and consumer financial industry; interest rate fluctuations and margin compression; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; ability to successfully create cost and product efficiencies through new technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing, through lending and repurchase facilities, debt or equity funding, strategic relationships or otherwise; the terms of any financing, whether debt or equity, that we do obtain and our expected use of proceeds from any financing; increase in loan repurchase requests and ability to adequately settle repurchase obligations; failure to create brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies; and our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward looking statements, see Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Available Information

Our internet website address is www.impaccompanies.com. We make available our annual reports on Form 10 K, quarterly reports on Form 10 Q, current reports on Form 8 K and proxy statements for our annual stockholders' meetings, as well as any amendments to those reports, free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. You can learn more about us by reviewing our SEC filings on our website by clicking on “Investor Relations—Stockholder Relations” located on our home page and proceeding to “SEC Filings.” We also make available on our website, under “Corporate Governance,” charters for the audit, compensation, and governance and nominating committees of our board of directors, our Code of Business Conduct and Ethics, our Corporate Governance Guidelines and other company information, including amendments to such documents and waivers, if any, to our Code of Business Conduct and Ethics. These

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documents will also be furnished, free of charge, upon written request to Impac Mortgage Holdings, Inc., Attention: Stockholder Relations, 19500 Jamboree Road, Irvine, California 92612. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including our Company.

Our Company

We are an established nationwide independent residential mortgage lender. We were founded in 1995 by certain members of our current management team, who have extensive experience and an established track record of operating our Company through multiple market cycles. We originate, sell and service residential mortgage loans. We primarily originate conventional mortgage loans eligible for sale to U.S. government sponsored enterprises, or GSEs, including Fannie Mae, Freddie Mac (conventional loans), and government insured mortgage loans eligible for government securities issued through Ginnie Mae (government loans).

Segments

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

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

Mortgage Lending

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

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

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

- Retail (consumer direct) channel - CashCall Mortgage (CCM), operates as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan

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agents. As a centralized retail call center, loan applications are received and taken by loan agents directly from consumers and through the internet.

- Wholesale channel - Originates loans sourced through mortgage brokers.
- Correspondent channel - Acquires closed loans from approved correspondent sellers.

Our warehouse lending group offers funding facilities to approved lenders focusing on smaller mortgage bankers and credit unions. These facilities allow our customers the ability to fund mortgage loans and sell closed loans to their investors. Our funding facilities are repaid when our customer sells the loans to the investor. Offering warehouse lending provides added value for our correspondent customers, which we believe will increase the capture rate from our currently approved customers and increase volumes in our correspondent channel.

Our mortgage lending activities primarily consist of the origination, sale and servicing of conventional loans eligible for sale to Fannie Mae and Freddie Mac, and government insured loans eligible for Ginnie Mae securities issuance. We currently originate and fund mortgages through our wholly owned subsidiary, IMC. In order to originate mortgage loans we must be able to finance them and hold them on our balance sheet until such loans are sold, generally within 10 to 20 days. In order to do this we must have lines of credit with banks (called warehouse lines) that allow us the short term funding required.

The following table presents selected data from our mortgage lending operations for the years ended December 31, 2017, 2016 and 2015:

(in millions)	2017	2016	2015
Originations	$ 7,111.7	$ 12,924.2	$ 9,259.0
Servicing Portfolio	16,330.1	12,351.5	3,570.7
Mortgage servicing rights	154.4	131.5	36.4
Servicing fees, net	31.9	13.7	6.1

Our origination volumes decreased 45% in 2017 to $7.1 billion as compared to $12.9 billion in 2016 and $9.3 billion in 2015. Of the $7.1 billion in total originations in 2017, approximately $4.6 billion, or 65%, was originated through the retail channel. In contrast, during 2016, our retail originations contributed 75% to our total origination volume. The decline in originations was the result of higher interest rates throughout 2017 as compared to the historically low interest rate environment during the previous years, causing a sharp drop in refinance volume.

Our mortgage servicing portfolio increased in 2017 primarily due to servicing retained sales of conforming GSE eligible loans and government insured loans eligible for Ginnie Mae securities, net of bulk sales of mortgage servicing rights. In 2017, we had servicing retained loan sales of $4.2 billion of conforming GSE eligible loans and issued $1.9 billion of government securities through Ginnie Mae on a servicing retained basis as well as a purchase of approximately $570.0 million in unpaid principal balance (UPB) of mortgage servicing rights (MSR).

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

For the year ended December 31,

(in millions)	2017	%	2016	%	2015	%
Originations by Channel:						
Retail	$ 4,611.5	65 %	$ 9,670.1	75 %	$ 5,571.8	60 %
Correspondent	1,420.4	20	1,919.9	15	2,238.0	24
Wholesale	1,079.8	15	1,334.2	10	1,449.2	16
Total originations	$ 7,111.7	100%	$ 12,924.2	100%	$ 9,259.0	100%

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

When loans are originated on a retail basis, the origination documentation is completed inclusive of customer disclosures and other aspects of the lending process and funding of the transaction is completed internally. Our call center representatives contact borrowers through either inbound or outbound marketing campaigns sourced from purchase money and refinance mortgage leads, including leads sourced from customer referrals and retention of customers in the servicing portfolio that are seeking to refinance or purchase a property. For the year ended December 31, 2017, we closed $4.6 billion of loans in this origination channel, which equaled 65% of total originations, as compared to $9.7 billion or 75% of total originations during 2016.

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

Prior to accepting loans from mortgage brokers, each mortgage broker is required to meet our guidelines for minimum experience, credit score and net worth. We also obtain a third party due diligence report for each prospective broker that verifies licensing and provides information on any industry sanctions that might exist. In addition, each mortgage broker is required to sign our broker agreement that contains certain representations and warranties from the brokers. For the year ended December 31, 2017, we closed loans totaling $1.1 billion in this origination channel, which equaled 15% of total originations, as compared to $1.3 billion or 10% of total originations during 2016.

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

In our correspondent channel, the correspondent seller originates and closes the loan. After the loan is originated, the correspondent seller provides the needed documentation and information to us to review and determine if it meets our underwriting guidelines. The loan is acquired by us only after we approve it for purchase. We focus on customer service for our clients by facilitating prompt review by our due diligence team, providing bid pricing on both newly originated and seasoned portfolios, enabling clients to deliver one loan at a time on a flow basis and providing clients with expedited funding timelines. We purchase conventional loans eligible for sale to the GSEs and government insured loans eligible for Ginnie Mae securities. For the year ended December 31, 2017, we closed loans totaling $1.4 billion in the correspondent origination channel, which equaled 20% of total originations, compared to $1.9 billion or 15% of total originations during 2016.

Since 2011, we have provided loans to customers predominantly in the Western U.S. with California, Washington and Arizona comprising 77.8% of originations in 2017. Currently, we provide nationwide lending with our retail call center and correspondent sellers and mortgage brokers.

Loan Types

Our loan products primarily include conventional loans eligible for sale to Fannie Mae and Freddie Mac and loans eligible for government insurance by FHA, Veteran's Administration (VA) and U.S. Department of Agriculture (USDA) and also NonQM. The FHA, VA and USDA loans are government-insured loans eligible for Ginnie Mae securities issuance. We have enhanced our product offering to include more loan products less sensitive to changing interest rates, including FHA 203(k), a home improvement loan that provides the borrower funds to make renovations, intermediate Adjustable Rate Mortgages and GSE and government insured loan

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programs such as Home Affordable Refinance Program (HARP) loans which help timely paying borrowers to refinance into a loan with a lower interest rate despite the loan balance being greater than the estimated fair value of their home. We believe that these loan products will prepay at a slower rate as compared to other products. By retaining these loan products in our servicing portfolio, we expect to maintain a less volatile mortgage servicing portfolio.

We have established strict lending guidelines, including determining the prospective borrowers' ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable levels. We continue to refine our guidelines to expand our reach to the underserved market of credit worthy borrowers who can fully document and substantiate an ability to repay mortgage loans, but unable to obtain financing through traditional programs (QM loans), for example self-employed borrowers. In 2016, we rebranded our NonQM loan programs as "The Intelligent NonQM Mortgage", to better communicate our NonQM loan value proposition to consumers, brokers, sellers and investors. In conjunction with establishing strict lending guidelines, we have also established investor relationships which provide us with an exit strategy for these nonconforming loans. In 2017, our NonQM origination volume was $891.2 million with an average Fair Isaac Company credit score (FICO) of 723 and a weighted average loan to value ratio (LTV) of 64%.

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

	For the year ended December 31,		
(in millions)	2017	2016	2015
Originations by Loan Type:			
Government-insured	$ 1,991.4	$ 1,721.1	$ 1,805.5
Conventional	4,229.1	10,907.8	7,270.8
NonQM	891.2	289.6	132.4
Other	—	5.7	50.3
Total originations	$ 7,111.7	$ 12,924.2	$ 9,259.0

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

We sell the mortgage loans to the secondary market, including sales to the GSEs and issuing securities through Ginnie Mae. We primarily sell loans on a servicing retained basis where the loan is sold to an investor such as Fannie Mae, and we retain the right to service that loan, called mortgage servicing rights, or MSRs. We securitize government-insured loans by issuing Ginnie Mae securities through a process whereby a pool of loans is transferred to Ginnie Mae as collateral for a government mortgage backed security. To a lesser extent, we sell our residential mortgage loans on a whole loan basis where the investor also acquires the servicing rights.

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

	For the year ended December 31,		
(in millions)	2017	2016	2015
Fannie Mae	$ 2,052.4	$ 6,212.1	$ 5,434.3

Freddie Mac	2,149.7	4,693.2	1,793.0
Ginnie Mae	1,879.0	1,682.5	1,770.6
Total servicing retained sales	6,081.1	12,587.8	8,997.9
Other (servicing released)	854.9	255.1	173.5
Total loan sales	$ 6,936.0	$ 12,842.9	$ 9,171.4

Mortgage Servicing

Upon our sale of loans to GSEs or the issuance of securities through Ginnie Mae, we generally retain the mortgage servicing rights with respect to the mortgage loans. We also sell loans on a servicing released

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

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

During 2017, the mortgage servicing portfolio increased to $16.3 billion as of December 31, 2017 from $12.4 billion at the end of 2016, generating net servicing income of $31.9 million and $13.7 million, in 2017 and 2016, respectively. We also sell mortgage servicing rights to fund the expansion of origination volumes resulting in a decrease in our mortgage servicing portfolio. We may continue to monetize mortgage servicing rights as needed in the future. Furthermore, the value of mortgage servicing rights are affected by increases and decreases in mortgage interest rates. Therefore, volatility in mortgage rates generally causes volatility in the value of mortgage servicing rights.

Risk Management

Our risk management committee, comprised of senior management, meets monthly to identify, monitor, measure and mitigate key risks in the organization. The committee's responsibilities, sometimes delegated to subcommittees, include monitoring the hedging positions and its effectiveness in mitigating interest rate risk, status of aged unsold loans, status of loans on the warehouse lines, the review of quality control reports, review of servicing portfolio and loan performance and the adequacy of the repurchase reserve and methodology.

Underwriting

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

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

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Quality Control

Prior to funding, retail and wholesale loans are reviewed internally by our quality control department to verify the loan conforms to our program guidelines and meets state and federal compliance guidelines. Prior to the acquisition of a correspondent loan, we perform quality control procedures on selected pools. Management reviews the reports prior to the acquisition of any correspondent loan. We also perform post origination quality controls procedures on at least 10% of all mortgage loans funded or acquired. Additionally, we closely monitor the servicing performance of loans retained in our mortgage servicing portfolio to identify any opportunities to improve our underwriting process or procedures and identify any issues with mortgage brokers or correspondent sellers. Findings are summarized monthly and the appropriate changes are implemented.

Hedging

We are exposed to interest rate risks relating to our mortgage lending operations. We use derivative instruments to manage some of our interest rate risk. However, we do not attempt to hedge interest rate risk completely. Our strategy is to mitigate the market and interest rate risk from loan originations by either selling newly originated loans to GSEs or issuing Ginnie Mae mortgage backed securities. We typically attempt to sell our mortgage loans within 10 to 20 days from acquisition or origination.

We enter into interest rate lock commitments, or IRLCs, and commitments to sell mortgages to help mitigate some of the exposure to the effect of changing interest rates on our mortgage lending operation. We actively manage the IRLCs and uncommitted mortgage loans held for sale on a daily basis. To manage the risk, we utilize forward sold Fannie Mae and Ginnie Mae mortgage backed securities, known as to be announced mortgage backed securities (TBA MBS or Hedging Instruments), to hedge the fair value changes associated with changes in interest rates.

We are also exposed to interest rate risk associated with our mortgage servicing portfolio. Changes in interest rates affect the value of mortgage servicing rights on our consolidated balance sheets. To help manage the risk, in the fourth quarter of 2015, we began to use TBA MBS securities to hedge a portion of the fair value changes associated with changes in interest rates.

Data Security

Sensitive borrower information, such as name, address and social security number is included in nearly all mortgage loan files. We seek to keep this information secure for every borrower. To do so, our policy requires all sensitive borrower data to be transmitted to us through our secure website portal which allows all of our customers, correspondent sellers, mortgage brokers and individual borrowers to send data to us securely in an encrypted manner.

Real Estate Services

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

Long Term Mortgage Portfolio

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

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

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

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

Historically, we securitized mortgage loans in the form of collateralized mortgage obligations, or CMOs, which were consolidated and accounted for as secured borrowings for financial statement purposes. Securitized mortgages in the form of real estate mortgage investment conduits, or REMICs, were either consolidated or unconsolidated depending on the design of the securitization structure. We consolidated the variable interest entity, or VIE, as the primary beneficiary of the sole residual interest in each securitization trust where we also performed the master servicing. Amounts consolidated were included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets. At December 31, 2017, our residual interests in securitizations (represented by the difference between total trust assets and total trust liabilities) increased to $17.3 million, compared to $15.7 million at December 31, 2016.

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

For additional information regarding the long term mortgage portfolio refer to Item 7. "Management's Discussion and Analysis of Financial Condition," and Note 10. "Securitized Mortgage Trusts" in the notes to the consolidated financial statements.

Master Servicing

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

The function of a master servicer includes collecting loan payments from loan servicers and remitting loan payments, less master servicing fees receivable and other fees, to a trustee or other purchaser for each series of mortgage backed securities or mortgages master serviced. In addition, as master servicer, we monitor compliance with the servicing guidelines and perform or contract with third parties to perform all functions not adequately performed by any loan servicer. The master servicer is also required to advance funds, or cause

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the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages, but only to the extent that it is determined that such advances are recoverable either from the borrower or from the liquidation of the property.

Master servicing fees are generally 0.03% per annum on the collected unpaid principal balance of the mortgages serviced. As a master servicer, we also earn income or incur expense on principal and interest payments received from borrowers until those payments are remitted to the investors of those mortgages. Fees from the master servicing portfolio have declined significantly due to a decrease in principal balances since the end of 2008, which in turn affects the amount we earn on balances held in custodial accounts. At December 31, 2017, we were the master servicer for approximately 19,100 mortgages with an UPB of approximately $4.9 billion of which $1.1 billion of those loans were 60 or more days delinquent. At December 31, 2017, we were also the master servicer for unconsolidated securitizations (included in the total master servicing portfolio above) totaling approximately $578 million in unpaid principal balance of which $235 million of those loans were 60 or more days delinquent. Fees earned from master servicing are separate from those earned from mortgage servicing which are generated from servicing rights from new originations since 2011.

Corporate

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

At our corporate headquarters in Irvine, California, we occupy office space under our lease agreement. In January 2016, an amendment to our lease became effective modifying certain terms as well as extending the lease to 2024. The modification of the lease effectively eliminates the shortfall we were recording as lease impairment attributable to the office space we were subletting associated with our previously discontinued operations.

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

Regulation

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

- the Federal Truth in Lending Act (known as TILA) and Regulation Z promulgated there under, which require certain disclosures to the borrowers regarding the terms of the loans and require substantial changes in compensation that can be paid to brokers and loan originators;

- the Equal Credit Opportunity Act and Regulation B promulgated there under, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;

- the Fair Housing Act, which prohibits discrimination in housing on the basis of race, color, national origin, religion, sex, familial status, or handicap, in housing related transactions;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;
- the Fair and Accurate Credit Transaction Act, which regulates credit reporting and use of credit information in making unsolicited offers of credit;
- the Gramm Leach Bliley Act, which imposes requirements on all lenders with respect to their collection and use of nonpublic financial information and requires them to maintain the security of that information;
- the Real Estate Settlement Procedures Act (known as RESPA) and Regulation X, promulgated thereunder, outlaws kickbacks that increase the cost of settlement services;
- the Home Mortgage Disclosure Act, which requires the reporting of public loan data;
- the Telephone Consumer Protection Act and the Can Spam Act, which regulate commercial solicitations via telephone, fax, and the Internet;
- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws;
- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions;
- the Fair Debt Collection Practices Act, which prohibits unfair debt collection practices; and
- the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, which establishes national minimum standards for mortgage licensees.

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

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

Competition

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

Our real estate services segment competes with firms that provide similar services, including loan modification companies, real estate asset management and disposition companies and real estate brokerage firms. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability to provide real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency.

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

Employees

As of December 31, 2017 and 2016, we had a total of 588 and 714 employees, respectively. Management believes that relations with our employees are good. We are not a party to any collective bargaining agreements.

ITEM 1A. RISK FACTORS

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

Risks Related To Our Businesses

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

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

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

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

MSR financing facilities.

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

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· a decrease in interest rates may increase prepayment speeds which may lead to (i) increased amortization expense; (ii) decrease in servicing fees; and (iii) decrease in the value of our MSRs;
· an increase in interest rates, together with an increase in monthly payments when an adjustable mortgage loan's interest rate adjusts upward from an initial fixed rate or a low introductory rate, may cause increased delinquency, default and foreclosure. Increased mortgage defaults and foreclosures may adversely affect our business as they increase our expenses and reduce the number of mortgages we service;

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

Our MSR financing facilities generally allow us to borrow up to 55% of the estimated fair value of MSRs. A decline in value of the MSRs could limit our ability to borrow on these facilities. Limitations on borrowings on these financing facilities imposed by the amount of eligible collateral pledged could affect the borrowing capacity of the facility, which could have an adverse impact on our financial condition.

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

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

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

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

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

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

As a result of higher interest rates, a decline in refinancing transactions, current economic conditions, the mortgage regulatory environment and other factors it is projected by some mortgage organizations that mortgage originations during 2018 may be at lower volumes than 2017. As a result we may experience reduced volumes and reduced income unless we are able to garner a greater market share of originations or sufficiently reduce costs. In addition, volatility in mortgage interest rates could cause volatility in the value of our mortgage servicing rights, resulting in volatile or adverse financial results.

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

We have significant debt obligations including:

- $25.0 million Convertible Promissory Notes due May 2020;
- $70.0 million revolving debt facilities secured by MSRs of which $35.1 million was outstanding at December 31, 2017;
- Junior Subordinated Notes with an outstanding principal balance of $62.0 million at December 31, 2017; and
- Warehouse facilities with third party lenders which are secured by and used to fund residential mortgage loans until such loans are sold.

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

Furthermore, our credit and warehouse facilities contain covenants, including requirements to maintain a certain minimum net worth, liquidity, litigation judgment thresholds, debt ratios, profitability levels and other customary debt covenants. A breach of the covenants can result in an event of default under these facilities and as such allows the lender to pursue certain remedies, which may constitute a cross default under other agreements.

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

As of February 28, 2018, Todd M. Pickup and Richard H. Pickup and their respective affiliates beneficially owned approximately 16.1% and 26.8%, respectively, of our outstanding common stock. Their beneficial ownership includes 465,116 shares and 639,535 shares of our common stock that Todd Pickup and Richard Pickup, respectively, has the right to acquire at any time by converting the outstanding principal balance of Convertible Notes Due 2020, at the initial conversion price of $21.50 per share. As of February 28, 2018,

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Thomas B. Akin and his respective affiliate beneficially owned approximately 13.3% of our outstanding common stock. These stockholders could exercise significant influence over our Company. Such ownership may have the effect of control over substantially all matters requiring stockholder approval, including the election of directors. Furthermore, such ownership and control may have the effect of delaying or preventing a change in control of our Company, impeding a merger, consolidation, takeover or other business combination involving our Company or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company. We do not expect that these stockholders will vote together as a group. In addition, sales of significant amounts of shares held by these stockholders, or the prospect of these sales, could adversely affect the market price of our common stock.

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

Historically, we have completed material acquisitions and may in the future look for opportunities to grow our business through acquisitions of businesses and assets. The performance of the businesses and assets we acquire through acquisitions may not match the historical performance of our other assets. Nor can we assure you that the businesses and assets we may acquire will perform at levels meeting our expectations. We may find that we overpaid for the acquired business or assets or that the economic conditions underlying our acquisition decision have changed. It may also take several quarters or longer for us to fully integrate newly acquired business and assets into our business, during which period our results of operations and financial condition may be negatively affected. Further, certain one-time expenses associated with such acquisitions may have a negative impact on our results of operations and financial condition. We cannot assure you that acquisitions will not adversely affect our results of operations and financial condition. The risks associated with acquisitions include, among others:

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

The integration process can be complicated and time consuming and could potentially be disruptive to our other operations. If the integration process is not conducted successfully and with minimal effect on the acquired business, we may not realize the anticipated economic benefits of particular acquisitions within our expected timeframe.

Through acquisitions, we may enter into business lines in which we have not previously operated. Such acquisitions could require additional integration costs and efforts, including significant time from senior management. We may not be able to achieve the synergies we anticipate from acquired businesses, and we may not be able to grow acquired businesses in the manner we anticipate. In fact, the businesses we acquire could decrease in size, even if the integration process is successful.

Further, acquisition prices can fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices that we considered to be acceptable, and we expect that we will experience this condition in the future. In addition, in order to finance an acquisition we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or we could raise additional equity capital, which could dilute the interests of our existing shareholders.

The timing of closing of our acquisitions is often uncertain. We have in the past and may in the future experience delays in closing our acquisitions, or certain tranches of them. For example, we and the applicable seller are often required to obtain certain contractual and regulatory consents as a prerequisite to closing, such as the consents of state regulators, Fannie Mae and Freddie Mac. Accordingly, even if we and the applicable

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seller are efficient and proactive, the actions of third parties can impact the timing under which such consents are obtained. We and the applicable seller may not be able to obtain all of the required consents, which may mean that we are unable to acquire all of the assets that we wish to acquire. Regulators may have questions relating to aspects of our acquisitions and we may be required to devote time and resources responding to those questions. It is also possible that we will expend considerable resources in the pursuit of an acquisition that, ultimately, either does not close or is terminated.

If our goodwill, other intangible assets or deferred tax assets become impaired, we may be required to record a significant charge to earnings which might have a significant impact on our financial position and results of operations.

As required by accounting rules, we review our goodwill for impairment at least annually as of December 31 or more frequently if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit that has goodwill is less than its carrying value. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill might not be recoverable include declines in our profitability, a significant decline in projections of future cash flows and lower future growth rates in our industry. As of December 31, 2017, we had approximately $104.6 million of goodwill and $21.6 million of intangible assets, which could be subject to impairment in future periods.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Significant judgment is required in determining our provision for income taxes. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. If we are unable to generate sufficient future taxable income, if there is a material change in the actual effective tax rates, if there is a change to the time period within which the underlying temporary differences become taxable or deductible, then we could be required to increase our valuation allowance against our deferred tax assets, which could result in a material increase in our tax rate and an adverse impact on future operating results. As a result of a reduction in projected future utilization and the recent change in tax rates, we recorded a $17.8 million decrease in our deferred tax assets. Our deferred tax assets, net of valuation allowances, totaled approximately $6.6 million at December 31, 2017.

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

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

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

Existing laws, regulations, or regulatory policies and changes thereto or to the way they are interpreted can affect whether and to what extent we may be able to expand our mortgage lending activities and compliance with such requirements could expose us to fines, penalties or licensing restrictions that could affect our operations. Many states and local governments and the Federal government have enacted or may enact laws or regulations that restrict or prohibit some provisions in some programs or businesses that we currently

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participate in or plan to participate in the future. As such, we cannot be sure that in the future we will be able to engage in activities that were similar to those we engaged or participated in in the past thereby limiting our ability to commence new operations. As a result, we might be at a competitive disadvantage which would affect our operations and profitability.

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

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

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

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

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

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

- unanticipated fluctuations in our operating results;
- general market and mortgage industry conditions;
- mortgage and real estate fees;
- delinquencies and defaults on outstanding mortgages;

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- loss severities on loans and REO;
- prepayments on mortgages;
- the regulatory environment and results of our mortgage originations;
- mark to market adjustments related to the fair value of loans held for sale, mortgage servicing rights, long term debt and derivatives;
- interest rates; and
- litigation.

During 2017, our common stock reached an intra day high sales price of $17.40 on May 10, 2017, and an intra day low sales price of $9.92 on December 27, 2017. As of March 1, 2018, our stock price closed at $9.43 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 security analysts or investors in a future quarter, the market price of our securities could also be materially adversely affected and we may experience difficulty in raising capital.

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

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

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

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

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

The extent and timing of any regulatory reform regarding the GSEs and the home mortgage market, as well as any effect on Impac's business operations and financial results, are uncertain. If the agencies cease to

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exist, wind down, or otherwise significantly change their business operations or if we lose our approved seller/servicer status with the GSEs, the GSE's limit the amount of loans we can sell to them, or we otherwise are unable to sell loans to them there could be a material adverse effect on our mortgage lending operations, financial condition, results of operations and cash flows.

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

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

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

A failure in or breach of our technology infrastructure, or the systems operated by our third party service providers, to protect confidential information of borrowers could damage our reputation and substantially harm our business.

We, or our third party service providers, maintain certain confidential information relating to our borrowers for mortgage loans. If the information is maintained electronically, we rely on encryption and authentication technology licensed from third parties to affect secure transmission of confidential information, including personal information and credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us to protect customer transaction data. We may also be vulnerable to computer viruses, break ins and similar disruptions from unauthorized tampering with our computer systems, which could lead to loss of critical data or the unauthorized disclosure of confidential borrower data. The possession and use of personal information in conducting our business subjects us to legislative and regulatory burdens that may require notification to customers of a security breach, restrict our use of personal information and hinder our ability to operate our mortgage lending business. A failure in or breach of the security of our information systems, or those of our service providers, could result in damage to our reputation and harm our business.

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

At the end of our 2017 taxable year, we had federal and California net operating loss (NOL) carry forwards of approximately $619.9 million and $431.0 million, respectively. Federal NOLs begin to expire

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

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

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

We are subject to a purported class action lawsuit relating to our Series B Preferred Stock in which holders are seeking cumulative dividends, unpaid dividends, certain restrictions on our actions, including the ability to pay common stock dividends, and the election of two directors by the preferred holders. In December 2017, we received an unfavorable court ruling that the rights, preferences and terms of the Series B Preferred Stock prior to the 2009 closing of the tender offer and consent solicitation remain in effect, that the 2009 amendments were ineffective, and the 2004 rights remain in effect. We intend to appeal the decision. If not reversed, the decision affects the rights of the Series B holders to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at a rate of 9.375% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.34375 per shares) payable on a quarterly basis. Further, plaintiffs have presented post-decision arguments that Impac is required to pay three quarters of dividends to Series B stockholders and to accrue all unpaid dividends. In addition, under the Series B Preferred Stock terms prior to the 2009 amendments, whenever dividends are in arrears for six or more quarters, whether or not consecutive, the Series B Preferred Stock will be entitled to call a special meeting for the election of two additional directors. The 2004 rights also provide for certain other voting rights prior to amendment of any provisions of our charter so as to materially and adversely affect the Series B Preferred Stock, or approve a merger or similar transaction unless the Series B Preferred Stock remain outstanding and materially unchanged. We would also be prohibited from paying any dividend on our common stock until dividends on the Series B Preferred Stock are paid in full. Appeal of the court ruling will continue the cost and expense related to defending this lawsuit and diversion of our management's efforts and attention from ordinary business operations in order to address the claims. This court ruling and the possible judgment may have a material adverse effect on our financial condition or results of operations.

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

In order to support our business objectives, we may raise capital through the sale of equity or convertible securities. In April 2017, we sold 4,423,381 shares of common stock in a registered direct offering and during 2016 we sold 3,450,000 shares of common stock in a public offering as well as issued an aggregate of 361,429 shares pursuant to an "At-the Market" offering. 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.

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

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

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

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

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

As defaults, delinquencies, foreclosures, and losses in the real estate market continue, there have been lawsuits by various investors, insurers, underwriters and others against various participants in securitizations, such as sponsors, depositors, underwriters, servicers and loan sellers. Some lawsuits have alleged that the

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mortgage loans had origination defects, that there were misrepresentations made about the mortgage loans and that the parties failed to properly disclose the quality of the mortgage loans or repurchase defective loans wherein servicing standards were not maintained or that there were other misrepresentations or false representations. Historically, we both securitized and sold mortgage loans to third parties that may have been deposited or included in pools for securitizations. As a result, we may incur significant legal and other expenses in defending against claims and litigation and we may be required to pay settlement costs, damages, penalties or other charges which could adversely affect our financial results.

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

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

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

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

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

Our vendor relationships subject us to a variety of risks.

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

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significant costs to resolve any such disruptions in service and this could adversely affect our business, financial condition and results of operations. Additionally, in April 2012 the CFPB issued CFPB Bulletin 2012 03 which states that supervised banks and non banks could be held liable for actions of their service providers. As a result, we could be exposed to liability, CFPB enforcement actions or other administrative penalties if the vendors with whom we do business violate consumer protection laws.

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

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

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

In the event we are forced to liquidate, the majority of our assets is 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.

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our primary executive and administrative offices are located at 19500 Jamboree Road, Irvine, California 92612 where we have a premises lease expiring in September 2024. The premises consist of four floors where we occupy approximately 119,600 square feet with a weighted annual rental rate of $33.11 per square foot, which amount increases every 12 months. We also have an office in Orange, California consisting of approximately 57,200 square feet at an annual rate of $26.05 per square foot.

ITEM 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 17 – Commitments and Contingencies in the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

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 MKT under the symbol "IMH".

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

	2017			2016		
	High	Low	Close	High	Low	Close
First Quarter	15.23	12.04	12.46	18.34	11.51	13.87
Second Quarter	17.40	12.11	15.13	16.26	13.15	15.68
Third Quarter	15.69	12.20	13.06	18.50	13.00	13.19
Fourth Quarter	13.85	9.92	10.16	16.74	13.17	14.02

On March 1, 2018, the last quoted price of our common stock on the NYSE MKT was $9.43 per share. As of March 1, 2018, there were 185 holders of record, including holders who are nominees for an undetermined number of beneficial owners, of our common stock.

Our Board of Directors authorizes in its discretion the payment of cash dividends on its common stock, subject to an ongoing review of our profitability, liquidity and future operating cash requirements. We and some of our subsidiaries are subject to restrictions under our warehouse borrowings and long term debt agreements on our ability to pay dividends if there is an event of default or otherwise. Plus, certain debt arrangements require the maintenance of ratios and contain restrictive financial covenants that could limit our ability, and the ability of our subsidiaries, to pay dividends. Furthermore, if we do not succeed in appealing and reversing an adverse judgment on the purposed class action relating to our Series B Preferred stock and we are required to pay dividends on the Series B Preferred stock, we will be prohibited from paying dividends on our common stock until such preferred stock dividends are paid. The Board of Directors did not declare cash dividends on our common stock during the years ended December 31, 2017 and 2016. We do not expect to declare or pay any cash dividends on our common stock in the foreseeable future.

Performance Graph

The following graph shows a comparison of the cumulative total stockholder return for our common stock, S&P 500 and the S&P North American Financial Services Sector Index from January 1, 2013 through December 31, 2017. This graph assumes an initial investment of $100 on January 1, 2013 in each of our common stock, S&P 500 and the S&P North American Financial Services Sector Index (and the reinvestment of all dividends).

The comparisons shown in the graph below are based on historical data and we caution that the stock price performance shown in the graph is not indicative of, and is not intended to forecast, the potential future performance of our commons stock. The following graph and related information shall not be deemed soliciting

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materials" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

The following selected condensed consolidated statements of operations data for each of the years in the five year period ended December 31, 2017 and the condensed consolidated balance sheet data as of the year end for each of the years in the five year period ended December 31, 2017 were derived from the audited consolidated financial statements. Such selected financial data should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements starting on page F 1 and with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Statement of Operations Data (1): (in thousands, except per share data)	For the year ended December 31, 2017	2016	2015	2014	2013
Gain on sale of loans, net	$ 136,147	$ 311,017	$ 169,206	$ 28,217	$ 55,854
Real estate services fees, net	5,856	8,395	9,850	14,729	19,370
Servicing fees, net	31,902	13,734	6,102	4,586	4,298
(Loss) gain on mortgage servicing rights, net	(35,880)	(36,441)	(18,598)	(5,116)	6,567
Personnel expense	(89,647)	(124,559)	(77,821)	(37,398)	(64,769)
Business promotion	(40,276)	(42,571)	(27,650)	(1,182)	(2,737)
Accretion of contingent consideration	(2,058)	(6,997)	(8,142)	—	—
Change in fair value of contingent consideration	13,326	(30,145)	45,920	—	—
Other	(30,753)	(44,670)	(39,944)	(8,853)	(27,662)
(Loss) earnings before income taxes	(11,383)	47,763	58,923	(5,017)	(9,079)
Income tax (expense) benefit	(20,138)	(1,093)	21,876	(1,305)	1,031
Net (loss) earnings	(31,521)	46,670	80,799	(6,322)	(8,048)
Net earnings attributable to noncontrolling interest	—	—	—	—	(136)
Net (loss) earnings attributable to common stockholders	$ (31,521)	$ 46,670	$ 80,799	$ (6,322)	$ (8,184)
(Loss) earnings per common share :					
Basic	$ (1.62)	$ 3.54	$ 8.00	$ (0.68)	$ (0.94)
Diluted	$ (1.62)	$ 3.31	$ 6.40	$ (0.68)	$ (0.94)

(1) Prior to 2015, the statement of operations data and earnings (loss) per common share were reported on a continuing/discontinued basis which have been combined in the table and may not reflect what was previously reported.

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Balance Sheet Data (1):	As of December 31,				
(in thousands)	2017	2016	2015	2014	2013
Cash and cash equivalents	$ 33,223	$ 40,096	$ 32,409	$ 10,073	$ 9,969
Mortgage loans held-for-sale	568,781	388,422	310,191	239,391	129,191
Finance receivables	41,777	62,937	36,368	8,358	—
Mortgage servicing rights	154,405	131,537	36,425	24,418	35,981
Securitized mortgage trust assets	3,670,550	4,033,290	4,594,534	5,268,531	5,513,166
Goodwill	104,587	104,938	104,938	—	—
Intangible assets, net	21,582	25,778	29,975	—	—
Total assets	4,681,700	4,863,734	5,210,852	5,578,572	5,718,325
Warehouse borrowings	$ 575,363	$ 420,573	$ 325,616	$ 226,718	$ 119,634
MSR financing	35,133	—	—	—	—
Term financing	—	29,910	29,716	—	—
Convertible notes	24,974	24,965	44,819	20,000	20,000
Long-term debt	44,982	47,207	31,898	22,122	15,871
Securitized mortgage trust liabilities	3,653,265	4,017,603	4,580,326	5,251,307	5,502,585
Contingent consideration	554	31,072	48,079	—	—
Total liabilities	4,416,553	4,632,694	5,096,362	5,553,616	5,692,454
Total stockholders' equity	265,147	231,040	114,490	24,956	25,871

Operating Data:	For the year ended December 31,				
(in millions)	2017	2016	2015	2014	2013
Originations	$ 7,111.7	$ 12,924.2	$ 9,259.0	$ 2,848.8	$ 2,548.4
Servicing Portfolio (2)	16,330.1	12,351.5	3,570.7	2,267.1	3,128.6
Warehouse Capacity	960.0	925.0	675.0	415.0	265.0

(1) Prior to 2015, the balance sheet data was reported on a continuing/discontinued basis and may not reflect what was previously reported.
(2) Represents the unpaid principal balance of loans serviced (UPB).

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

Management’s discussion and analysis of financial condition and results of operations contain certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Refer to Item 1. “Business—Forward Looking Statements” for a complete description of forward looking statements. Refer to Item 1. “Business” for information on our businesses and operating segments.

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

Market Conditions

The U.S. economy continued to grow during 2017. U.S. Gross Domestic Product (GDP) grew at an estimated annual rate of 2.3 percent in 2017, higher than 2016's GDP annual growth rate, while inflation in 2017 remained subdued. In December 2017, the Federal Reserve Board (FRB) increased short-term interest rates by 25 basis points, the third such rate increase during the year, and many believe the FRB will increase short-term interest rates further during 2018. During the fourth quarter of 2017, the FRB also began reducing its holdings of U.S. Treasury bonds and mortgage-backed securities. These actions by the FRB will likely cause longer term interest rates to rise over time. The U.S. economy added approximately 2.2 million jobs during 2017 and the total unemployment rate fell to 4.1 percent at December 2017 as compared with 4.7 percent at December 2016.

While the U.S. economy continued to grow in 2017, economic uncertainty concerning the outlook and the future economic environment exists despite continued improvements in many segments of the global economy. In addition, on-going geopolitical events and the implications of those events could potentially impact the capital markets and trade further adding to global uncertainty. The sustainability of the economic recovery will be determined by numerous variables including consumer sentiment, energy prices, credit market volatility, employment levels and housing market conditions which will impact corporate earnings and the capital markets. These conditions in combination with global economic conditions, fiscal and monetary policy, geopolitical concerns and the level of regulatory and government scrutiny of financial institutions will continue to impact our results in 2018 and beyond.

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Selected Financial Results for 2017, 2016 and 2015

	For the Three Months Ended			For the Year Ended		
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2015
Revenues:						
Gain on sale of loans, net	$ 19,545	$ 42,476	$ 65,168	$ 136,147	$ 311,017	$ 169,206
Real estate services fees, net	1,364	1,355	1,622	5,856	8,395	9,850
Servicing fees, net	8,327	8,492	5,054	31,902	13,734	6,102
(Loss) gain on mortgage servicing rights, net	(17,721)	(10,513)	4,808	(35,880)	(36,441)	(18,598)
Other	140	266	598	680	1,051	397
Total revenues	11,655	42,076	77,250	138,705	297,756	166,957
Expenses:						
Personnel expense	20,294	23,062	31,534	89,647	124,559	77,821
Business promotion	9,532	10,403	11,742	40,276	42,571	27,650
General, administrative and other	12,931	8,497	10,030	37,775	33,771	27,988
Accretion of contingent consideration	109	396	1,753	2,058	6,997	8,142
Change in fair value of contingent consideration	(2,273)	(4,798)	(4,424)	(13,326)	30,145	(45,920)
Total expenses	40,593	37,560	50,635	156,430	238,043	95,681
Operating (loss) income:	(28,938)	4,516	26,615	(17,725)	59,713	71,276
Other income (expense):						
Net interest income	1,253	1,546	754	4,343	2,790	1,946
Loss on extinguishment of debt	—	—	—	(1,265)		—
Change in fair value of long-term debt	(292)	104	(7,150)	(2,949)	(14,436)	(8,661)
Change in fair value of net trust assets	(365)	(1,745)	(2,913)	6,213	(304)	(5,638)
Total other income (expense)	596	(95)	(9,309)	6,342	(11,950)	(12,353)
Net (loss) earnings before income taxes	(28,342)	4,421	17,306	(11,383)	47,763	58,923
Income tax expense (benefit)	16,563	2,104	365	20,138	1,093	(21,876)
Net (loss) earnings	$ (44,905)	$ 2,317	$ 16,941	$ (31,521)	$ 46,670	$ 80,799

Diluted weighted average common shares	20,949	21,195	17,479	19,438	14,856	13,045
Diluted earnings per share	$ (2.14)	$ 0.11	$ 1.00	$ (1.62)	$ 3.31	$ 6.40

Status of Operations

For the year ended 2017, net loss was $31.5 million, or $1.62 per diluted common share as compared to net earnings of $46.7 million, or $3.31 per diluted common share in 2016 and net earnings of $80.8 million, or $6.40 per diluted common share in 2015. Adjusted Operating (loss) income (as defined below) was $29.0 million, or $1.49 per diluted common share for 2017, as compared to income of $96.9 million, or $6.52 per diluted common share in 2016, and income of $33.5 million, or $2.56 per diluted common share in 2015.

For the quarter ended December 31, 2017, net loss was $44.9 million, or $2.14 per diluted common share as compared to net earnings of $16.9 million, or $1.00 per diluted common share in the fourth quarter of 2016, and net earnings of $2.3 million, or $0.11 per diluted common share in the third quarter of 2017. Adjusted operating loss was $31.1 million, or $1.48 per diluted common share for the quarter ended December 31, 2017 as compared to income of $23.9 million, or $1.37 per diluted common share in the fourth quarter of 2016, and income of $114 thousand, or $0.01 per diluted common share in the third quarter of 2017.

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

Net (loss) earnings include fair value adjustments for changes in the contingent consideration, long-term debt and net trust assets. The contingent consideration is related to the CashCall Mortgage (CCM) acquisition transaction, while the other fair value adjustments are related to our legacy portfolio. These fair value adjustments are non-cash items and are not related to current operating results. Although we are required to record change in fair value and accretion of the contingent consideration, management believes operating income excluding contingent consideration changes and the related accretion is more useful to discuss our ongoing and future operations.

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

	For the Three Months Ended			For the Year Ended		
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2015
Net (loss) earnings:	$ (44,905)	$ 2,317	$ 16,941	$ (31,521)	$ 46,670	$ 80,799
Total other (income) expense	(596)	95	9,309	(6,342)	11,950	12,353
Income tax expense (benefit)	16,563	2,104	365	20,138	1,093	(21,876)
Operating (loss) income:	$ (28,938)	$ 4,516	$ 26,615	$ (17,725)	$ 59,713	$ 71,276
Accretion of contingent consideration	109	396	1,753	2,058	6,997	8,142
Change in fair value of contingent consideration	(2,273)	(4,798)	(4,424)	(13,326)	30,145	(45,920)
Adjusted operating (loss) income	$ (31,102)	$ 114	$ 23,944	$ (28,993)	$ 96,855	$ 33,498
Diluted weighted average common shares	20,949	21,195	17,479	19,438	14,856	13,045
Diluted adjusted operating (loss) income per share	$ (1.48)	$ 0.01	$ 1.37	$ (1.49)	$ 6.52	$ 2.56
Diluted (loss) earnings per share	$ (2.14)	$ 0.11	$ 1.00	$ (1.62)	$ 3.31	$ 6.40
Adjustments:						
Total other (expense) income (1)	(0.03)	—	0.50	(0.33)	0.64	0.74
Income tax expense (benefit)	0.79	0.10	0.02	1.04	0.07	(1.68)
Accretion of contingent consideration	0.01	0.02	0.10	0.11	0.47	0.62
	(0.11)	(0.22)	(0.25)	(0.69)	2.03	(3.52)

Change in fair value of contingent consideration						
Diluted adjusted operating (loss) income per share	$ (1.48)	$ 0.01	$ 1.37	$ (1.49)	$ 6.52	$ 2.56

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

Net (loss) earnings and adjusted operating (loss) income primarily decreased due to the $174.9 million decline in gain on sale revenues. Origination volumes declined 45% in 2017 to $7.1 billion from $12.9 billion in 2016, and gain on sale margins declined 20% to 191 bps in 2017 from 241 bps in 2016 resulting in gain on sale revenues declining 56% to $136.1 million in 2017 from $311.0 million in 2016.

Offsetting the decline in gain on sale revenues was an increase in servicing fees, net and decrease in operating expenses. The mortgage servicing portfolio increased 32% to $16.3 billion at the end of 2017 from $12.4 billion at the end of 2016, resulting in an increase in servicing fees, net of 132% to $31.9 million in 2017 from $13.7 million in 2016.

Additionally, personnel expense decreased $34.9 million to $89.6 million for the year ended December 31, 2017. The decrease is primarily related to a reduction in commission expense due to a decrease in loan originations as well as staff reductions made in 2017. Due to the decline in origination volumes in 2017, we made staff reductions, which reduced average headcount 15% for the year ended December 31, 2017 as compared to the same period in 2016. As we continue to more closely align operating and staffing levels to origination volumes, we have continued to right size the organization into 2018.

Net (loss) earnings was also affected by an increase in income tax expense and changes in the estimated fair value of long term debt and net trust assets. Income tax expense increased by $19.0 million in 2017 to $20.1 million from $1.1 million in 2016 is primarily due to a reduction in future utilization of the deferred tax assets and changes in tax rates due to the Tax Act re-measurement of deferred tax assets and liabilities at end of 2017. The change in estimated fair value of long-term debt and net trust assets resulted in a favorable change in other income (expense) of $18.3 million to $6.3 million in 2017 from expense of $12.0 million in 2016.

Summary Highlights

· Mortgage servicing portfolio increased to $16.3 billion at December 31, 2017 as compared to

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$15.7 billion at September 30, 2017 and $12.4 billion at December 31, 2016.

- Servicing fees, net increased to $31.9 million during the year ended December 31, 2017 as compared to $13.7 million during 2016 and $6.1 million in 2015.
- Mortgage servicing rights increased to $154.4 million at December 31, 2017 as compared to $159.0 million at September 30, 2017 and $131.5 million at December 31, 2016.
- NonQM mortgage origination volumes increased to $891.2 million in 2017 as compared to $289.6 in 2016.
- Issued 4,423,381 shares of common stock in a registered direct offering at a price of $12.66 per share generating proceeds of approximately $55.5 million.
- Entered into MSR financing facilities of up to $70.0 million and used a portion of the proceeds to pay off the Term Financing, which had a higher interest rate, thus reducing interest expense. See Liquidity and Capital Resources for a more detailed description.

- In our long term mortgage portfolio, the residual interests generated cash flows of $1.7 million in the fourth quarter of 2017 and $12.7 million in 2017, as compared to $2.7 million in the third quarter of 2017 and $8.1 million in 2016.
- Exchanged $8.5 million of trust preferred securities, at a discount to par, for 412,264 shares of common stock.

Mortgage Lending

During the year ended 2017, total originations decreased 45% to $7.1 billion as compared to $12.9 billion in 2016 and $9.3 billion in 2015. In 2017, retail originations were still the main driver of total originations representing 65% or $4.6 billion of total originations. For the fourth quarter of 2017, our total originations decreased to $1.7 billion, a 47% decrease as compared to $3.1 billion for the fourth quarter of 2016. The decrease in originations from 2016 was a result of higher interest rates throughout 2017 as compared to the historically low interest rate environment the previous year, causing a sharp drop in refinance volume.

	For the year ended December 31,					
(in millions)	2017	%	2016	%	2015	%
Originations by Channel:						
Retail	$ 4,611.5	65 %	$ 9,670.1	75 %	$ 5,571.8	60 %
Correspondent	1,420.4	20	1,919.9	15	2,238.0	24
Wholesale	1,079.8	15	1,334.2	10	1,449.2	16
Total originations	$ 7,111.7	100%	$ 12,924.2	100%	$ 9,259.0	100%

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

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Originations by Loan Type:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Conventional	$ 4,229.1	$ 10,907.8	$ 7,270.8
Government (1)	1,991.4	1,721.1	1,805.5
NonQM	891.2	289.6	132.4
Other	—	5.7	50.3
Total originations	$ 7,111.7	$ 12,924.2	9,259.0
Weighted average FICO (2)	711	740	736
Weighted average LTV (3)	71.6%	66.0%	69.4%
Weighted average Coupon	4.47%	3.72%	3.87%
Avg. Loan size (in thousands)	$ 304.7	$ 309.5	$ 293.0

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

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

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

In 2016, we rebranded our NonQM loan programs as "The Intelligent NonQM Mortgage", to better communicate our NonQM loan value proposition to consumers, brokers, sellers and investors. In conjunction with these products, we have established investor relationships that provides us with an exit strategy for these nonconforming loans. In 2017, our NonQM origination volume was $891.2 million with an average FICO of 723 and a weighted average LTV of 64%.

In 2017, NonQM and government-insured originations represented approximately 41% of total originations, as compared to just 16% of total originations in 2016. In 2017, the retail channel accounted for 32% of NonQM originations while the wholesale and correspondent channels accounted for 68% of NonQM production. In 2016, the retail channel accounted for just 19% of NonQM originations, while the wholesale and correspondent channels accounted for 81% of NonQM production.

For the year ended December 31, 2017, refinance volume decreased $5.9 billion or approximately 53% as compared to 2016. The decrease was the result of rising mortgage interest rates at the end of 2016 and throughout 2017. To help mitigate against reduced refinance volumes with the increase in mortgage interest rates, we have been focusing on opportunities to increase our origination of purchase money loans, expand our NonQM and government-insured origination volumes and increase our geographic footprint of our origination platform.

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	For the Year Ended December 31,					
(in millions)	2017	%	2016	%	2015	%
Refinance	$ 5,336.5	75 %	$ 11,259.9	87 %	$ 7,520.2	81 %
Purchase	1,775.2	25	1,664.3	13	1,738.8	19 %
Total originations	$ 7,111.7	100	$ 12,924.2	100	$ 9,259.0	100 %

As of December 31, 2017, we have approximately 977 approved wholesale relationships with mortgage brokerage companies and are approved to lend in 47 states. We have approximately 294 approved correspondent relationships with banks, credit unions and mortgage companies and are approved to lend in 50 states, however currently approximately 77.8% of our mortgage originations are generated from California, Arizona and Washington.

Mortgage Servicing

The following table includes information about our mortgage servicing portfolio:

(in millions)	At December 31, 2017	% 60+ days delinquent (1)	At December 31, 2016	% 60+ days delinquent (1)	At December 31, 2015	% 60+ days delinquent (1)
Fannie Mae	$ 7,518.2	0.32 %	$ 6,204.2	0.12 %	$ 1,970.4	0.27 %
Freddie Mac	5,975.3	0.29	4,611.8	0.08	829.4	0.21
Ginnie Mae	2,834.7	2.90	1,359.5	1.25	675.7	1.06
Other	1.9	16.67	176.0	0.00	95.2	0.00
Total servicing portfolio	$ 16,330.1	0.81	$ 12,351.5	0.25	$ 3,570.7	0.43
Number of loans	57,471		41,736		12,709	
Weighted average Coupon	3.82%		3.70%		3.96%	
Weighted average FICO	733		741		731	
Weighted average LTV	67.4%		65.5%		69.1%	
Avg. Portfolio balance (in millions)	14,655.0		7,668.5		3,516.9	
Avg. Loan size (in thousands)	$ 284.1		$ 295.4		$ 281.0	

(1) Based on loan count.

At December 31 2017, the mortgage servicing portfolio increased to $16.3 billion as compared to $12.4 billion at December 31, 2016. The increase was due to a shift in our strategy in 2016 to retain our mortgage servicing as well as initiating a retention program to recapture portfolio runoff during the low interest rate environment. During 2017, we have continued with our strategy of growing the mortgage servicing portfolio. During 2017, the mortgage servicing portfolio increased due to servicing retained loan sales of $6.1 billion in UPB as well as a purchase of approximately $570.0 million in UPB of MSR. As a result, the UPB of our mortgage servicing portfolio increased 32% to $16.3 billion as of December 31, 2017. The servicing portfolio generated net servicing income of $31.9 million, $13.7 million and $6.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. Delinquencies within the servicing portfolio have increased slightly but remain low at 0.81% for 60+ days delinquent as of December 31, 2017 as compared to 0.25% as of December 31, 2016 and 0.43 % as of December 31, 2015. With the acquisition of MSRs in the second quarter of 2017, we added Specialized Loan Servicing LLC as a subservicer in addition to our current subservicer LoanCare, LLC.

During 2017, our warehouse borrowing capacity increase from $925.0 million to $960.0 million. At December 31, 2017, we had six warehouse lender relationships. In addition to funding our mortgage loan originations, we also use a portion of our warehouse borrowing capacity to provide re warehouse facilities to our customers, correspondent sellers and other small mortgage banking companies. During 2017, our outstanding commitments to our customers was $123.0 million. By leveraging our re warehousing division, we hope to increase the capture rate of our approved correspondent sellers business as well as expand our active customer base to include new customers seeking warehouse lines.

Real Estate Services

We provide portfolio loss mitigation and real estate services including real estate owned (REO) surveillance and disposition services, default surveillance and loss recovery services, short sale and real estate

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brokerage services, portfolio monitoring and reporting services. The source of revenue for this segment is primarily from the long term mortgage portfolio, along with a small number of third party clients as well.

The real estate services segment continues to be profitable and posted net earnings of $2.2 million for the year ended December 31, 2017, as compared to $1.9 million for the same period in 2016. As the long term mortgage portfolio continues to decline, we expect real estate services and the related revenues to decline.

Long Term Mortgage Portfolio

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

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

For the year ended December 31, 2017, our residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) generated cash flows of $12.7 million as compared to $8.1 million for the year ended December 31, 2016. At December 31, 2017, our residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) increased to $17.3 million compared to $15.7 million at December 31, 2016. The increase in residual fair value in 2017 was the result of an increase in projected cash flows due to an improvement in the loans within certain trusts.

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

Corporate

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

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

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the effect of changing market conditions and/or consumer behavior. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include the following:

· fair value of financial instruments;

- variable interest entities and transfers of financial assets and liabilities;
- goodwill and intangible assets;
- net realizable value of REO;

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· repurchase reserve;
· interest income and interest expense;
· income taxes; and
· business combinations.

Fair Value of Financial Instruments

Financial Accounting Standards Board—Accounting Standards Codification FASB ASC 820 10 35 defines fair value, establishes a framework for measuring fair value and outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). Fair value measurements are categorized into a three level hierarchy based on the extent to which the measurement relies on observable market inputs in measuring fair value. Level 1, which is the highest priority in the fair value hierarchy, is based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 is based on observable market based inputs, other than quoted prices, in active markets for similar assets or liabilities. Level 3, which is the lowest priority in the fair value hierarchy, is based on unobservable inputs. Assets and liabilities are classified within this hierarchy in their entirety based on the lowest level of any input that is significant to the fair value measurement.

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

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

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

Derivative financial instruments—We utilize certain derivative instruments in the ordinary course of our business to manage our exposure to changes in interest rates. These derivative instruments include forward sales of MBS and forward loan sale commitments (Hedging Instruments). We also issue IRLCs to borrowers in connection with single family mortgage loan originations. We recognize all derivative instruments at fair value. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull through Rate. The fair value of the Hedging Instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date and are recorded in other liabilities in the consolidated balance sheet. The initial and subsequent changes in value of IRLCs and forward sale commitments are a component of gain on sale of loans, net in the consolidated statements of operations.

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

Variable Interest Entities and Transfers of Financial Assets and Liabilities

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

These securitizations are evaluated for consolidation based on the provisions of FASB ASC 810 10 25, which eliminated the concept of a QSPE and changed the approach to determine a securitization trust's primary beneficiary. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

Goodwill and Intangible Assets

We account for business combinations using the acquisition method, under which the total consideration transferred (including contingent consideration) is allocated to the fair value of the assets acquired

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(including identifiable intangible assets) and liabilities assumed. The excess of the consideration transferred over the fair value of the assets acquired and liabilities assumed results in goodwill.

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

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

Acquisition of CashCall Mortgage

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

We perform an assessment each year, or whenever events and circumstances indicate that impairment may have occurred, to determine if the estimated the fair value of CCM exceeds its carrying value, which would be an indication that goodwill impairment may exist. In previous years, the estimated fair value of CCM substantially exceeded its carrying value. As of December 31, 2017, the estimated fair value of CCM did not substantially exceed its carrying value. The significant assumptions in the assessment include expected future origination levels and expected future gain on sale margins. CCM is a consumer direct call center that provides residential mortgages. Given that the mortgage industry often fluctuates with the fluctuation of prevailing interest rates, the market that CCM operates in is inherent with uncertainty. In addition, the ongoing dynamic mortgage compliance landscape contributes to the uncertainty of the mortgage market. Each of these factors can have effect on expected mortgage origination volumes as well as the gain on sale margins which generally tend to follow origination volumes, more originations means higher margins, lower originations mean lower margins. Given the macroeconomic forces that exist today, it is difficult to predict volumes and margins into the future. If our assumptions are not correct, it is possible that an assessment of the estimated fair value of CCM will not exceed its carrying value in the future, in which case impairment of goodwill will be recorded.

Net Realizable Value (NRV) of REO

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

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Repurchase Reserve

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

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

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

Interest Income and Interest Expense

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

Income Taxes

Provision for income taxes is calculated using the asset and liability method, which requires the recognition of deferred income taxes. Deferred tax assets and liabilities are recognized and reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in the valuation allowance. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. We provide a valuation allowance against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with FASB ASC Topic 805, “Business Combinations.” Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price

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over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed which involve contingencies must also be recognized at their estimated fair value, provided such fair value can be determined during the measurement period. Acquisition related costs, including severance, conversion and other restructuring charges, such as abandoned space accruals, are expensed at the time of the acquisition. Results of operations of an acquired business are included in the statement of operations from the date of acquisition.

Financial Condition and Results of Operations

Financial Condition

For the years ended December 31, 2017 and 2016

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

	December 31, 2017	December 31, 2016	Increase (Decrease)	% Change	
ASSETS					
Cash	$ 33,223	$ 40,096	$ (6,873)	(17)	%
Restricted cash	5,876	5,971	(95)	(2)	
Mortgage loans held-for-sale	568,781	388,422	180,359	46	
Finance receivables	41,777	62,937	(21,160)	(34)	
Mortgage servicing rights	154,405	131,537	22,868	17	
Securitized mortgage trust assets	3,670,550	4,033,290	(362,740)	(9)	
Goodwill	104,587	104,938	(351)	(0)	
Intangibles, net	21,582	25,778	(4,196)	(16)	
Loans eligible for repurchase from Ginnie Mae	47,697	9,917	37,780	381	
Other assets	33,222	60,848	(27,626)	(45)	
Total assets	$ 4,681,700	$ 4,863,734	$ (182,034)	(4)	%
LIABILITIES & EQUITY					
Warehouse borrowings	$ 575,363	$ 420,573	$ 154,790	37	%
MSR financings	35,133	—	35,133	n/a	
Convertible notes	24,974	24,965	9	0	
Contingent consideration	554	31,072	(30,518)	(98)	
Long-term debt (Par value; $62,000 and $70,500)	44,982	47,207	(2,225)	(5)	
Securitized mortgage trust liabilities	3,653,265	4,017,603	(364,338)	(9)	
Liability for loans eligible for repurchase from Ginnie Mae	47,697	9,917	37,780	381	
Repurchase reserve	6,020	5,408	612	11	
Term financing, net	—	29,910	(29,910)	(100)	
Other liabilities	28,565	46,039	(17,474)	(38)	
Total liabilities	4,416,553	4,632,694	(216,141)	(5)	
Total equity	265,147	231,040	34,107	15	
Total liabilities and stockholders' equity	$ 4,681,700	$ 4,863,734	$ (182,034)	(4)	%
Book value per share	$ 12.66	14.42	(1.77)	(12)	%

At December 31, 2017, cash decreased to $33.2 million from $40.1 million at December 31, 2016. Significant cash outflows affecting the decrease in cash were the $56.0 million investment in MSRs, repayment of the $30.0 million term financing, $19.3 million earn-out payments to CashCall Inc., $5.6 million purchase of mortgage servicing rights, a $4.4 million increase in warehouse haircuts (difference between loan balance funded and amount advanced by warehouse lender) associated with the increase in mortgage loans held-for-sale (LHFS) and the payment of operating expenses. Partially offsetting the decrease in cash was $55.5 million in proceeds from common stock offering, $35.1 million in net borrowings under the MSR financing facility and $12.7 million in residual cash flows.

Mortgage loans held for sale increased $180.4 million to $568.8 million at December 31, 2017 as compared to $388.4 million at December 31, 2016. The increase was due to $7.1 billion in originations offset by $6.9 billion in loan sales. As a normal course of our origination and sales cycle, loans held for sale at the end of any period are generally sold within one or two subsequent months.

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Finance receivables decreased $21.1 million to $41.8 million at December 31, 2017 as compared to $62.9 million at December 31, 2016. The decrease was due to $909.7 million in fundings offset by $930.8 million in settlements.

Mortgage servicing rights increased $22.9 million to $154.4 million at December 31, 2017 as compared to $131.5 million at December 31, 2016. The increase was due to servicing retained loan sales of $6.1 billion as well as a purchase of approximately $570.0 million in UPB of MSRs. Partially offsetting the increase was a bulk sale of NonQM MSRs totaling $155.9 million in UPB and a mark to market reduction in fair value of $37.9 million, which includes the change in fair value associated with principal reductions as well as prepayments. At December 31, 2017, we serviced $16.3 billion in UPB for others as compared to $12.4 billion at December 31, 2016.

Loans eligible for repurchase from Ginnie Mae increased $37.8 million to $47.7 million at December 31, 2017 as compared to $9.9 million at December 31, 2016. The increase was due to an increase in loans 90 or more days past due and represents loans that we do not own, but have the unilateral right to repurchase from Ginnie Mae as part of our contractual arrangements as the servicer of the loans. This right requires us to record the loans as well as a corresponding liability on our consolidated balance sheets. As part of our repurchase reserve, we record a repurchase provision to provide for estimated losses from the sale of all mortgage loans, including these loans. Our Ginnie Mae servicing portfolio increased to $2.8 billion at December 31, 2017 as compared to $1.4 billion at December 31, 2016.

Other assets decreased $27.6 million to $33.2 million at December 31, 2017 as compared to $60.8 million at December 31, 2016. The decrease was primarily the result of a reduction in our deferred tax asset as a result of the reduction in projected future utilization, changes in tax rates due to the Tax Act, re-measurement of deferred tax assets and liabilities and an increase in deferred tax liabilities as a result of the amortization of goodwill.

Warehouse borrowings increased $154.8 million to $575.4 million at December 31, 2017 as compared to $420.6 million at December 31, 2016. The increase was due to an increase in mortgage loans held for sale at December 31, 2017. During 2017, we increased our total borrowing capacity to $960.0 million as compared to $925.0 million at December 31, 2016.

In August and February 2017, we entered into separate agreements with two lenders providing for MSR financing facilities of up to $30.0 million and $40.0 million, respectively. The $30.0 million facility allows us to borrow up to 55% of the fair market value of Freddie Mac pledged mortgage servicing rights. The $40.0 million facility allows us to borrow up to 55% of the fair market value of Fannie Mae pledged mortgage servicing rights. At December 31, 2017, the balance outstanding on the Freddie Mac and Fannie Mae facilities was $10.0 million and $25.1 million, respectively.

As part of the CCM acquisition in the first quarter of 2015, we recorded $124.6 million of contingent consideration associated with the three year earn out provision for CCM. During 2017, we recorded $13.3 million change in fair value associated with a decrease in the contingent consideration liability resulting in an increase to earnings. In addition, we made $19.3 million in earn out payments to CashCall Inc. reducing the liability. Partially offsetting the reduction was $2.1 million in accretion of the contingent consideration. As of December 31, 2017, the contingent consideration was $0.6 million.

Long term debt decreased $2.2 million to $45.0 million at December 31, 2017 as compared to $47.2 million at December 31, 2016. The decrease was primarily due to the exchange agreement entered into in May 2017, whereby we issued 412,264 shares of common stock in exchange for trust preferred securities with a fair value of $5.6 million.

Partially offsetting the decrease in long-term debt was a mark-to-market increase in fair value of $2.9 million.

As part of the Fannie Mae financing facility entered into in February 2017, the proceeds were used to pay off the remaining $29.9 million balance of the Term Financing, which was entered into in 2015.

Book value per share decreased 12% to $12.66 at December 31, 2017 as compared to $14.42 at December 31, 2016. Book value per common share decreased 9% to $10.19 as of December 31, 2017, as compared to $11.19 as of December 31, 2016 (inclusive of the remaining $51.8 million of liquidation preference on our preferred stock).

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

	December 31, 2017	December 31, 2016	Increase (Decrease)	% Change	
Securitized mortgage collateral	$ 3,662,008	$ 4,021,891	$ (359,883)	(9)	%
Other trust assets	8,542	11,399	(2,857)	(25)	
Total trust assets	3,670,550	4,033,290	(362,740)	(9)	
Securitized mortgage borrowings	$ 3,653,265	$ 4,017,603	$ (364,338)	(9)	%
Total trust liabilities	3,653,265	4,017,603	(364,338)	(9)	
Residual interests in securitizations	$ 17,285	$ 15,687	$ 1,598	10	%

Since the consolidated and unconsolidated securitization trusts are nonrecourse to us, trust assets and liabilities have been netted in the table above to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available for sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and 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 $17.3 million at December 31, 2017, compared to $15.7 million at December 31, 2016.

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the year ended December 31, 2017, actual losses were relatively flat and were in line with forecasted losses for the majority of trusts with residual value. Principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings also contributed to the reduction in trust assets and liabilities. The increase in residual fair value was the result of a decrease in loss assumptions as well as recoveries on certain multi-family trusts with residual value.

· The estimated fair value of securitized mortgage collateral decreased $359.9 million during 2017, primarily due to reductions in principal from borrower payments and transfers of loans to REO for single family and multi family collateral. Additionally, other trust assets decreased $2.9 million during 2017, primarily due to REO liquidations of $29.1 million. Partially offsetting the decrease was an increase of $18.8 million in REO from foreclosures and a $7.4 million increase in the NRV of REO.

· The estimated fair value of securitized mortgage borrowings decreased $364.3 million during 2017, primarily due to reductions in principal balances from principal payments during the period for single-family and multi-family collateral as well as a decrease in loss assumptions.

Prior to 2008, we securitized mortgage loans by transferring originated and acquired residential single family mortgage loans and multi family commercial loans (the “transferred assets”) into non recourse bankruptcy remote trusts which in turn issued tranches of bonds to investors supported only by the cash flows of the transferred assets. Because the assets and liabilities in the securitizations are nonrecourse to us, the bondholders cannot look to us for repayment of their bonds in the event of a shortfall. These securitizations were structured to include interest rate derivatives. We retained the residual interest in each trust, and in most cases would perform the master servicing function. A trustee and sub servicer, unrelated to us, was utilized for each securitization. Cash flows from the loans (the loan payments as well as liquidation of foreclosed real estate properties) collected by the loan sub servicer are remitted to us, the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The sub servicer collects loan payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO. Our real estate services segment also performs mitigation activities for loans within the portfolio.

In accordance with accounting principles generally accepted in the United States of America (GAAP), we are required to consolidate all but one of these trusts (as we are not the master servicer on this one trust) on our statement of financial condition and results of operations. For the one trust we did not consolidate, the residual interest is reported as investment securities available for sale. For the trusts we do 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, we receive cash flows from the excess interest collected monthly from the residual interest we own. Because (i) we elected the fair value option on the securitized mortgage collateral, securitized mortgage borrowings, (ii) derivative assets/liabilities are carried at fair value, and (iii) real estate owned is reflected at NRV, which closely approximates fair market value, the net of the trust assets and trust liabilities represents the estimated fair value of the residual interests we own.

To estimate fair value of the assets and liabilities within the securitization trusts each reporting period, management uses an industry standard valuation and analytical model that is updated monthly with current collateral, real estate, derivative, bond and cost (servicer, trustee, etc.) information for each securitization trust. We employ an internal process to validate the accuracy of the model as well as the data within this model. Forecasted assumptions sometimes referred to as “curves,” for defaults, loss severity, interest rates (LIBOR) and prepayments are inputted into the valuation model for each securitization trust. We hire third party market participants to provide forecasted curves for the aforementioned assumptions for each of the securitizations. 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.

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

To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization (after taking into consideration any derivatives in the securitization).

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The following table presents changes in the trust assets and trust liabilities for the year ended December 31, 2017:

	Level 3 Recurring Fair Value Measurement			TRUST LIABILITIES Level 3 Recurring Fair Value Measurement	
	Securitized mortgage collateral	NRV (1) Real estate owned	Total trust assets	Securitized mortgage borrowings	Net trust assets
Recorded book value at December 31, 2016	$ 4,021,891	$ 11,399	$ 4,033,290	$ (4,017,603)	$ 15,687
Total gains/(losses) included in earnings:					
Interest income	46,077	—	46,077	—	46,077
Interest expense	—	—	—	(131,507)	(131,507)
Change in FV of net trust assets, excluding REO (2)	245,364	—	245,364	(246,576)	(1,212)
Gains from REO – not at FV but at NRV (2)	—	7,425	7,425	—	7,425
Total gains (losses) included in earnings	291,441	7,425	298,866	(378,083)	(79,217)
Transfers in and/or out of level 3	—	—	—	—	—
Purchases, issuances and settlements	(651,324)	(10,282)	(661,606)	742,421	80,815
Recorded book value at December 31, 2017	$ 3,662,008	$ 8,542	$ 3,670,550	$ (3,653,265)	$ 17,285

(1) Accounted for at net realizable value.
(2) Represents other income (expense) in the consolidated statements of operations for the year ended December 31, 2017.

Inclusive of losses from REO, total trust assets above reflect a net gain of $252.8 million as a result of an increase in fair value from securitized mortgage collateral and other trust assets of $245.4 million and gains from REO of $7.4 million. Net losses on trust liabilities were $246.6 million from the increase in fair value of securitized mortgage borrowings. As a result, non-interest income—net trust assets totaled an increase of $6.2 million for the year ended December 31, 2017.

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

	December 31,	December 31,

	2017	2016
Net trust assets	$ 17,285	$ 15,687
Total trust assets	3,670,550	4,033,290
Net trust assets as a percentage of total trust assets	0.47 %	0.39 %

For the year ended December 31, 2017, the estimated fair value of the net trust assets increased as a percentage of total trust assets. The increase was primarily due to an increase in projected future cash flows due to a decrease in loss assumptions in a 2004 single-family and 2006 multi-family vintage trusts.

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

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The following tables present the estimated fair value of our residual interests by securitization vintage year and other related assumptions used to derive these values at December 31, 2017 and December 31, 2016:

	Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2017			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2016		
Origination Year	SF	MF	Total	SF	MF	Total
2002-2003 (1)	$ 8,311	$ 663	$ 8,974	$ 8,402	$ 921	$ 9,323
2004	2,041	970	3,011	1,267	653	1,920
2005	54	85	139	—	—	—
2006	—	5,161	5,161	—	4,444	4,444
Total	$ 10,406	$ 6,879	$ 17,285	$ 9,669	$ 6,018	$ 15,687
Weighted avg. prepayment rate	8.0 %	7.2 %	7.9 %	6.3 %	10.1 %	6.6 %
Weighted avg. discount rate	17.0 %	18.0 %	17.4 %	16.3 %	17.9 %	16.9 %

(1) 2002 2003 vintage year includes CMO 2007 A, since the majority of the mortgages collateralized in this securitization were originated during this period.
(2) The estimated fair values of residual interests in vintage years 2005 through 2007 is reflective of higher estimated future losses and investor yield requirements compared to earlier vintage years.

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions.

The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at December 31, 2017:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	5 %	* (3)	5 %	7 %
2004	6	* (3)	5	5
2005	9	* (3)	4	4
2006	14	2	5	4
2007	8	* (3)	6	3

(1) Estimated future losses derived by dividing future projected losses by unpaid principal balances at December 31, 2017.
(2) Investor yield requirements represent our estimate of the yield third party market participants would require to

price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.

(3) Represents less than 1%.

Despite the increase in housing prices through December 31, 2017, housing prices in many parts of the country are still at levels which has significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

Operational and Market Risks

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

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Interest Rate Risk

Interest Rate Risk—Mortgage Lending. We are exposed to interest rate risks relating to our ongoing mortgage lending operations. We use derivative instruments to manage some of our interest rate risk. However, we do not attempt to hedge interest rate risk completely. For a further description on interest rate risk related to mortgage lending, see Item. 7A Quantitative and Qualitative Disclosures About Market Risk.

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

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

Derivative instruments were used to manage some of the interest rate risk in our long term mortgage portfolio. However, we did not attempt to hedge interest rate risk completely. To help mitigate some of the exposure to the effect of changing interest rates on cash flows on securitized mortgage borrowings, we utilized derivative instruments primarily in the form of interest rate swap agreements (swaps) and, to a lesser extent, interest rate cap agreements (caps) and interest rate floor agreements (floors). These derivative instruments were recorded at fair value in the consolidated balance sheets. For non exchange traded contracts, fair value was based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities were based on observable market inputs, if available. To the extent observable market inputs were not available, fair value measurements include our judgment about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also took into account our own credit standing, to the extent applicable; thus, the valuation of the derivative instrument included the estimated value of the net credit differential between the counterparties to the derivative contract. During the fourth quarter of 2016, the derivative instruments used to help mitigate interest rate risk associated with the long-term mortgage portfolio expired.

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

Credit Risk

We provide representations and warranties to purchasers and insurers of the loans sold that typically are in place for the life of the loan. In the event of a breach of these representations and warranties, we may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by us unless we have recourse to our correspondent seller.

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

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agencies and the overall U.S. and world economy. Many of the factors are beyond our control and may lead to judgments that are susceptible to change.

Counterparty Credit Risk. We are exposed to counterparty credit risk in the event of non performance by counterparties to various agreements. We monitor our counterparties and currently do not anticipate losses due to counterparty non performance.

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

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

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

Real Estate Risk

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

Prepayment Risk

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

Prepayment speed is a measurement of how quickly UPB is reduced. Items reducing UPB include normal monthly loan principal payments, loan refinancings, voluntary property sales and involuntary property sales such as foreclosures or short sales. Prepayment speed impacts future servicing fees, fair value of mortgage servicing rights and float income. When prepayment speed increases, our servicing fees decrease

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faster than projected due to the shortened life of a portfolio. Faster prepayment speeds will cause our mortgage servicing rights fair value to decrease.

Liquidity Risk

We are exposed to liquidity risks relating to our ongoing mortgage lending operations. We primarily fund our mortgage lending originations through warehouse facilities with third party lenders. We primarily use facilities with national and regional banks. The warehouse facilities are secured by and used to fund single family residential mortgage loans. In addition, the warehouse lenders require cash to be posted as additional collateral to secure the borrowings. 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. We have recently entered into revolving lines of credit to finance our MSR portfolio. The MSR financings are secured by Freddie Mac and Fannie Mae servicing rights. We are able to borrow up to 55% of the fair market value of the servicing rights.

Long Term Mortgage Portfolio Credit Quality

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days late or greater, foreclosures and delinquent bankruptcies were $821.8 million or 19.1% of the long term mortgage portfolio as of December 31, 2017, as compared to $1.0 billion or 20.0% as of December 31, 2016.

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

Securitized mortgage collateral	December 31, 2017	Total Collateral		December 31, 2016	Total Collateral	
60 - 89 days delinquent	$ 112,188	2.6	%	$ 140,567	2.8	%
90 or more days delinquent	336,525	7.8		417,947	8.2	
Foreclosures (1)	174,871	4.1		224,633	4.4	
Delinquent bankruptcies (2)	198,212	4.6		232,249	4.6	
Total 60 or more days delinquent	$ 821,796	19.1		$ 1,015,396	20.0	
Total collateral	$ 4,301,316	100.0		$ 5,078,500	100.0	

(1) Represents properties in the process of foreclosure.
(2) Represents bankruptcies that are 30 days or more delinquent.

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

	December 31, 2017	Total Collateral %		December 31, 2016	Total Collateral %	
90 or more days delinquent, foreclosures and delinquent bankruptcies	$ 709,608	16.5	%	$ 874,829	17.2	%

Real estate owned	8,542	0.2	11,399	0.2
Total non-performing assets	$ 718,150	16.7	$ 886,228	17.4

Non performing assets consist of non performing loans (mortgages that are 90 or more days delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is our policy to place a mortgage on nonaccrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of December 31, 2017, non performing assets (unpaid principal balance of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 16.7%. At December 31, 2016, non performing assets to total collateral was 17.4%. Non performing assets decreased by approximately $168.1 million at December 31, 2017 as compared to December 31, 2016. At December 31, 2017, the estimated fair value of non performing assets (representing the fair value of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) was $212.7 million or 4.5% of total assets. At December 31, 2016, the estimated fair value of non performing assets was $263.6 million or 5.4% of total assets.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in our estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as gains or losses from real estate owned in the consolidated statements of operations.

For the year ended December 31, 2017, we recorded a $7.4 million increase in net realizable value of the REO compared to a decrease of $5.9 million for the comparable 2016 period. Increases and write-downs of the net realizable value reflect increases or declines in value of the REO subsequent to foreclosure date, but prior to the date of sale.

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

	December 31,	
	2017	2016
REO	$ 15,519	$ 25,802
Impairment (1)	(6,977)	(14,403)
Ending balance	$ 8,542	$ 11,399
REO inside trusts	$ 8,542	$ 11,399
REO outside trusts	—	—
Total	$ 8,542	$ 11,399

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

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

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

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Results of Operations

For the year ended December 31, 2017 as compared to 2016 and 2015

	For the Year Ended December 31,		
	2017	2016	2015
Revenues	$ 138,705	$ 297,756	$ 166,957
Expenses (1)	(156,430)	(238,043)	(95,681)
Net interest income	4,343	2,790	1,946
Loss on extinguishment of debt	(1,265)	—	—
Change in fair value of long-term debt	(2,949)	(14,436)	(8,661)
Change in fair value of net trust assets, including trust REO gains (losses)	6,213	(304)	(5,638)
Income tax (expense) benefit	(20,138)	(1,093)	21,876
Net (loss) earnings	$ (31,521)	$ 46,670	$ 80,799
(Loss) earnings per share available to common stockholders—basic	$ (1.62)	$ 3.54	$ 8.00
(Loss) earnings per share available to common stockholders—diluted	$ (1.62)	$ 3.31	$ 6.40

(1) Includes changes in contingent consideration liability resulting in income of $13.3 million, expense of $30.1 million and income of $45.9 million for the years ended December 31, 2017, 2016 and 2015.

Revenues

	For the Year Ended December 31,				
			Increase	%	
	2017	2016	(Decrease)	Change	
Gain on sale of loans, net	$ 136,147	$ 311,017	$ (174,870)	(56)	%
Real estate services fees, net	5,856	8,395	(2,539)	(30)	
Servicing fees, net	31,902	13,734	18,168	132	
Loss on mortgage servicing rights, net	(35,880)	(36,441)	561	2	
Other revenues	680	1,051	(371)	(35)	
Total revenues	$ 138,705	$ 297,756	$ (159,051)	(53)	

Gain on sale of loans, net. For the year ended December 31, 2017, gain on sale of loans, net totaled $136.1 million compared to $311.0 million in the comparable 2016 period. The $174.9 million decrease is primarily due to a $134.2 million decrease in premiums from the sale of mortgage loans, a $72.2 million decrease in premiums from servicing retained loan sales, a $19.5 million increase in realized and unrealized net losses on derivative instruments and a $1.2 million increase in provision for repurchases. Partially offsetting the reduction was a $43.9 million decrease in direct origination expenses and an $8.4 million increase in mark-to-market gains on LHFS.

The overall decrease in gain on sale of loans, net was primarily due to a 45% decrease in volumes as well as a decrease in gain on sale margins. For the year ended December 31, 2017, we originated and sold $7.1 billion and $6.9 billion of loans, respectively, as compared to $12.9 billion and $12.8 billion of loans originated and sold, respectively, during the same period in 2016. Margins decreased to approximately 191 bps for the year ended December 31, 2017 as compared to 241 bps for the same period in 2016 due to margin compression across all three channels as a result of the increase in interest rates as compared to 2016 as well as an increase in competition for volume.

Real estate services fees, net. For the year ended December 31, 2017, real estate services fees, net were $5.9 million compared to $8.4 million in the comparable 2016 period. The $2.5 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2016.

Servicing income, net. For the year ended December 31, 2017, servicing fees, net was $31.9 million

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compared to $13.7 million in the comparable 2016 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 91% to an average balance of $14.7 billion for the year ended December 31, 2017 as compared to an average balance of $7.7 billion for the year ended December 31, 2016. The increase in the average balance of the servicing portfolio is a result of servicing retained loan sales of $6.1 billion during the year ended December 31, 2017 partially offset by a bulk sale of MSRs of approximately $155.9 million.

Loss on mortgage servicing rights, net. For the year ended December 31, 2017, loss on MSRs was $35.9 million compared to $36.4 million in the comparable 2016 period. For the year ended December 31, 2017, we recorded a $37.9 million loss from a change in fair value of MSRs primarily the result of mark-to-market changes related to amortization as well as an increase in prepayments and prepayment speed assumptions. For the year ended December 31, 2017, we had a $93 thousand loss on sale of mortgage servicing rights related to refunds of premiums to investors for loan payoffs partially offset by recoveries of previously written off holdbacks associated with sales of servicing rights in previous periods. Partially offsetting the loss was a $2.1 million increase in realized and unrealized gains from hedging instruments related to MSRs.

	For the Year Ended December 31,			
	2016	2015	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 311,017	$ 169,206	$ 141,811	84 %
Real estate services fees, net	8,395	9,850	(1,455)	(15)
Servicing fees, net	13,734	6,102	7,632	125
Loss on mortgage servicing rights, net	(36,441)	(18,598)	(17,843)	(96)
Other revenues	1,051	397	654	165
Total revenues	$ 297,756	$ 166,957	$ 130,799	78

Gain on sale of loans, net. Gain on sale of loans, net includes the operating expenses of CCM in the first quarter of 2015 before we closed the transaction on March 31, 2015. We received the economic benefit of the CCM transactions from the beginning of 2015 but did not hire the employees of CCM or incur direct operating expenditures of CCM until after the close of the transaction. Accordingly, operating expenses for CCM in the first quarter of 2015 were included within gain on sale of loans, net as loan origination costs in the consolidated statements of operations. Beginning with the second quarter of 2015 the operating expenses of CCM were included in personnel, business promotion, general, administrative and other expense, as normally presented.

For the year ended December 31, 2016, gain on sale of loans, net totaled $311.0 million compared to $169.2 million in the comparable 2015 period. The $141.8 million increase is primarily due to increased volumes and gain on sale margins. For the year ended December 31, 2016, we originated and sold $12.9 billion and $12.8 billion of loans, respectively, as compared to $9.3 billion and $9.2 billion of loans originated and sold, respectively, during the same period in 2015. Margins increased to approximately 241 bps for the year ended December 31, 2016 as compared to 183 bps for the same period in 2015 due to a higher concentration of retail loans which have higher margins as well as the aforementioned expenses of CCM being included in gain on sale of loans, net in the first quarter of 2015.

Real estate services fees, net. For the year ended December 31, 2016, real estate services fees, net were $8.4 million compared to $9.9 million in the comparable 2015 period. The $1.5 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2015.

Servicing income, net. For the year ended December 31, 2016, servicing fees, net was $13.7 million compared to $6.1 million in the comparable 2015 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 118% to an average balance of $7.7 billion for the year ended December 31, 2016 as compared to an average balance of $3.5 billion for the year ended December 31, 2015. The increase in the average balance of the servicing portfolio is a result of servicing retained loan sales of $12.6 billion during the year ended December 31, 2016 partially offset by a bulk sale of MSRs of approximately $815.0 million.

Loss on mortgage servicing rights, net. For the year ended December 31, 2016, loss on MSRs was $36.4 million compared to $18.6 million in the comparable 2015 period. For the year ended December 31, 2016, we recorded a $24.4 million loss from a change in fair value of MSRs primarily the result of $2.9 billion in prepayments due to the low mortgage interest rate environment during 2016 which resulted in an increase in actual prepayments as well as prepayment speed assumptions. For the year ended December 31, 2016, as a result of our successful retention efforts, we recaptured and refinanced approximately 76% of these prepayments at a lower coupon rate and thus a higher servicing value. Despite the mark-to-market (MTM) loss from loan prepayments recorded as a loss on MSRs, there was also a corresponding income from the recaptured loan with a higher MSR value recognized in gain on sale of loans, net in the consolidated statement of operations.

During the year ended December 31, 2016, we had a $9.7 million loss on sale of mortgage servicing rights related to refunds of premiums to investors for loan payoffs associated with sales of servicing rights in previous periods as compared to $8.0 million in the comparable 2015 period as well as a $1.0 million loss on the sale of $815.0 million UPB of MSRs. In addition to the loss, we had a $1.4 million decrease in realized and unrealized losses from hedging instruments related to MSRs. During the third quarter of 2016, we amended a previous MSR sale agreement, extending the early prepayment protection, in return allowing us to solicit the sold portfolio. As a result, we booked a $7.5 million charge during the third quarter related to this amendment. The amendment gave us the option to terminate the agreement with a 90 day notification. In November, we exercised our option to terminate the agreement.

Expenses

	For the Year Ended December 31,			
	2017	2016	Increase (Decrease)	% Change
Personnel expense	$ 89,647	$ 124,559	$ (34,912)	(28) %
Business promotion	40,276	42,571	(2,295)	(5)
General, administrative and other	37,775	33,771	4,004	12
Accretion of contingent consideration	2,058	6,997	(4,939)	(71)
Change in fair value of contingent consideration	(13,326)	30,145	(43,471)	(144)
Total expenses	$ 156,430	$ 238,043	$ (81,613)	(34)

Total expenses were $156.4 million for the year ended December 31, 2017, compared to $238.0 million for the comparable period of 2016. Personnel expense decreased $34.9 million to $89.6 million for the year ended December 31, 2017. The decrease is primarily related to a reduction in commission expense due to a decrease in loan originations as well as staff reductions made in the first quarter of 2017. With the decline in origination volumes in the first quarter of 2017 we made staff reductions. As a result, average headcount decreased 15% for the year ended December 31, 2017 as compared to the same period in 2016.

Business promotion totaled $40.3 million for the year ended December 31, 2017, compared to $42.6 million for the comparable period of 2016. Our centralized call center purchases leads and promotes its business through radio and television advertisements. During 2017, business promotion only declined $2.3 million or 5%, despite the 45% decrease in production due to efforts to increase NonQM and purchase money production with the reduction in refinance activity as a result of the increase in interest rates as compared to 2016.

General, administrative and other expenses increased to $37.8 million for the year ended December 31, 2017, compared to $33.8 million for the same period in 2016. The increase was primarily related to a $5.1 million increase in legal and professional fees associated with defending litigation, as discussed in Item 8. Note 17 – Commitments and Contingencies of this Form 10-K, and $351 thousand in goodwill impairment related to the wind down of certain services within our real estate services segment. Partially offsetting the increase was a $637 thousand decrease in other general and administrative expenses, a $436 thousand decrease in premises and equipment and a $406 thousand decrease in data processing expense.

Beginning in the second quarter of 2015, as part of the acquisition of CCM, we record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017, which increases the contingent consideration liability. The estimated contingent consideration liability is based on discounted cash flows which represent the time value of money of the liability during the earn-out period. In 2017, accretion increased the contingent consideration liability by $2.1 million as

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compared to $7.0 million during 2016. The reduction in accretion is due to the reduction in the estimated future pre-tax earnings as compared to projections in 2016. Beginning in the first quarter of 2018, the accretion will no longer be recognized.

We recorded a $13.3 million change in fair value associated with a decrease in the contingent consideration liability for 2017 related to updated assumptions including current market. The change in fair value of contingent consideration was related to margin compression as well as a reduction in origination volume. The fair value of contingent consideration changed from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM. The decrease in the contingent consideration liability resulted in an increase in earnings of $13.3 million for the year ended December 31, 2017. At December 31, 2017, the outstanding balance of the contingent consideration was $554 thousand which was paid in February 2018.

	For the Year Ended December 31,			
	2016	2015	Increase (Decrease)	% Change
Personnel expense	$ 124,559	$ 77,821	$ 46,738	60 %
Business promotion	42,571	27,650	14,921	54
General, administrative and other	33,771	27,988	5,783	21
Accretion of contingent consideration	6,997	8,142	(1,145)	(14)
Change in fair value of contingent consideration	30,145	(45,920)	76,065	166
Total expenses	$ 238,043	$ 95,681	$ 142,362	149

Total expenses were $238.0 million for the year ended December 31, 2016, compared to $95.7 million for the comparable period of 2015. The increase in expenses is due to the CCM acquisition and the presentation of CCM operating expenses in the first quarter of 2015 before we closed the transaction on March 31, 2015. We received the economic benefit of the CCM transaction from the beginning of 2015 but did not hire the employees of CCM or incur direct operating expenditures of CCM until the transaction closed on March 31, 2015. Accordingly, operating expenses for CCM in the first quarter of 2015 were included within gain on sale of loans, net as loan origination costs in the consolidated statements of operations. Beginning with the second quarter of 2015 the operating expenses of CCM were included in personnel, business promotion, general, administrative and other expense, as normally presented.

Personnel expense increased $46.7 million to $124.6 million for the year ended December 31, 2016. In addition to the aforementioned presentation of CCM in 2015, the increase is primarily due to an increase in commission expense due to an increase in loan origination volumes as well as an increase in personnel related costs due to the addition of new personnel to accommodate the increase in mortgage loan volumes.

Business promotion totaled $42.6 million for the year ended December 31, 2016, compared to $27.7 million for the comparable period of 2015. Our centralized call center purchases leads and promotes its business through radio and television advertisements. In addition to the aforementioned presentation of CCM in 2015, the increase in business promotion is primarily due to the focus on growing market share and geographic scope within the CashCall Mortgage retail channel as well as growth in the correspondent and wholesale lending channels.

General, administrative and other expenses increased to $33.8 million for the year ended December 31, 2016, compared to $28.0 million for the same period in 2015. In addition to the aforementioned presentation of CCM in 2015, the increase was primarily related to a $1.9 million increase in data processing and information technology support, a $1.9 million increase in other general and administrative expenses, a $1.2 million increase in amortization of intangible and other assets and a $745 thousand increase in legal and professional fees.

Beginning in the second quarter of 2015, as part of the acquisition of CCM, we record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017, which increases the contingent consideration liability. The estimated contingent consideration liability is based on discounted cash flows which represent the time value of money of the liability during the earn-out period. In 2016, accretion increased the contingent consideration liability by $7.0 million as compared to $8.1 million during 2015. The reduction in accretion is due to the reduction in the estimated future

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pre-tax earnings as compared to projections in 2015. The accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period in the fourth quarter of 2017.

We recorded a $30.1 million change in fair value associated with an increase in the contingent consideration liability for 2016 related to updated assumptions including current market conditions and increased mortgage loan originations for CCM. The change in fair value of contingent consideration was related to the estimated increase in future pre-tax earnings of CCM over the remaining earn-out period of four quarters. The fair value of contingent consideration may change from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM. Even though this projected increase in mortgage volume for CCM is favorable, it resulted in a corresponding charge to earnings of $30.1 million for the year ended December 31, 2016.

Other Income (Expense)

	For the Year Ended December 31,		
	2017	2016	2015
Interest income	$ 230,330	$ 263,600	$ 276,799
Interest expense	(225,987)	(260,810)	(274,853)
Loss on extinguishment of debt	(1,265)	—	—
Change in fair value of long-term debt	(2,949)	(14,436)	(8,661)
Change in fair value of net trust assets, including trust REO (losses) gains	6,213	(304)	(5,638)
Total other income (expense)	$ 6,342	$ (11,950)	$ (12,353)

Net Interest Income (Expense)

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

The following tables summarize average balance, interest and weighted average yield on interest earning assets and interest bearing liabilities, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our

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securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the Year Ended December 31, 2017 Average Balance	2017 Interest	2017 Yield		2016 Average Balance	2016 Interest	2016 Yield	
ASSETS								
Securitized mortgage collateral	$ 3,824,312	$ 209,432	5.48	%	$ 4,281,564	$ 245,662	5.74	%
Mortgage loans held-for-sale	384,383	18,424	4.79		418,968	15,652	3.74	
Finance receivables	38,216	2,316	6.06		41,237	2,207	5.35	
Other	37,398	158	0.42		35,373	79	0.22	
Total interest-earning assets	$ 4,284,309	$ 230,330	5.38		$ 4,777,142	$ 263,600	5.52	
LIABILITIES								
Securitized mortgage borrowings	$ 3,816,577	$ 201,341	5.28	%	$ 4,280,913	$ 235,733	5.51	%
Warehouse borrowings (1)	414,149	16,834	4.06		449,598	15,302	3.40	
MSR financing facilities	18,790	1,035	5.51		—	—	—	
Long-term debt	46,266	4,453	9.62		36,414	4,188	11.50	
Convertible notes	24,970	1,884	7.55		24,961	2,521	10.10	
Term financing	3,358	408	12.15		29,819	3,034	10.17	
Other	435	32	7.36		568	32	5.63	
Total interest-bearing liabilities	$ 4,324,545	$ 225,987	5.23		$ 4,822,273	$ 260,810	5.41	
Net Interest Spread (2)		$ 4,343	0.15	%		$ 2,790	0.11	%
Net Interest Margin (3)			0.10	%			0.06	%

(1) Warehouse borrowings include the borrowings from mortgage loans held for sale and finance receivables.

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

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

Net interest spread increased $1.6 million for the year ended December 31, 2017 primarily attributable to an increase in the net interest spread between loans held-for-sale and finance receivables and their related warehouse borrowings, a decrease in interest expense from the conversion of the Convertible Notes in January 2016 and a decrease in interest expense related to the payoff of the Term Financing. Offsetting the increase in net spread was a decrease in the net interest spread on the securitized mortgage collateral and securitized mortgage borrowings, an increase in the interest expense on the long-term debt as well as an increase in interest expense as a result of the MSR financing facilities. As a result, net interest margin increased to 0.10% for the year ended December 31, 2017 as compared to 0.06% for the year ended December 31, 2016.

During the year ended December 31, 2017, the yield on interest-earning assets decreased to 5.38% from 5.52% in the comparable 2016 period. The yield on interest-bearing liabilities decreased to 5.23% for the year ended December 31, 2017 from 5.41% for the comparable 2016 period. In connection with the fair value accounting for securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to increased prices on mortgage-backed bonds which resulted in a decrease in yield as compared to the previous period.

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	For the Year Ended December 31,					
	2016			2015		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						