

IMPAC MORTGAGE HOLDINGS INC

Form 10-Q

November 08, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from                      to

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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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)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

There were 21,117,006 shares of common stock outstanding as of November 2, 2018.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

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## PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 29,217	\$ 33,223
Restricted cash	4,440	5,876
Mortgage loans held-for-sale	344,681	568,781
Finance receivables	731	41,777
Mortgage servicing rights	181,005	154,405
Securitized mortgage trust assets	3,311,785	3,670,550
Goodwill	—	104,587
Intangible assets, net	380	21,582
Loans eligible for repurchase from Ginnie Mae	78,707	47,697
Other assets	26,756	33,222
Total assets	\$ 3,977,702	\$ 4,681,700
<b>LIABILITIES</b>		
Warehouse borrowings	\$ 315,152	\$ 575,363
MSR financings	62,000	35,133
Convertible notes, net	24,982	24,974
Long-term debt	46,738	44,982
Securitized mortgage trust liabilities	3,296,242	3,653,265
Liability for loans eligible for repurchase from Ginnie Mae	78,707	47,697
Contingent consideration	—	554
Other liabilities	36,227	34,585
Total liabilities	3,860,048	4,416,553
Commitments and contingencies (See Note 11)		
<b>STOCKHOLDERS' EQUITY</b>		
Series A-1 junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued or outstanding	—	—
Series B 9.375% redeemable preferred stock, \$0.01 par value; liquidation value \$30,680; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of September 30, 2018 and December 31, 2017 (See Note 12)	7	7
Series C 9.125% redeemable preferred stock, \$0.01 par value; liquidation value \$35,127; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of September 30, 2018 and December 31, 2017	14	14
	211	209

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Common stock, \$0.01 par value; 200,000,000 shares authorized; 21,110,506 and 20,949,679 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively

Additional paid-in capital	1,234,946	1,233,704
Accumulated other comprehensive earnings, net of tax	25,078	—
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(320,082)	(146,267)
Net accumulated deficit	(1,142,602)	(968,787)
Total stockholders' equity	117,654	265,147
Total liabilities and stockholders' equity	\$ 3,977,702	\$ 4,681,700

See accompanying notes to unaudited consolidated financial statements

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## IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) EARNINGS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Gain on sale of loans, net	\$ 13,673	\$ 42,476	\$ 53,896	\$ 116,602
Servicing fees, net	10,124	8,492	29,445	23,575
(Loss) gain on mortgage servicing rights, net	(5,192)	(10,513)	2,682	(18,159)
Real estate services fees, net	711	1,355	3,134	4,492
Other	71	266	278	541
Total revenues	19,387	42,076	89,435	127,051
Expenses:				
Personnel expense	16,061	23,062	50,481	69,353
Business promotion	4,351	10,403	23,082	30,744
General, administrative and other	7,897	8,497	27,018	24,845
Intangible asset impairment	4,897	—	18,347	—
Goodwill impairment	29,925	—	104,587	—
Accretion of contingent consideration	—	396	—	1,948
Change in fair value of contingent consideration	—	(4,798)	—	(11,052)
Total expenses	63,131	37,560	223,515	115,838
Operating (loss) income	(43,744)	4,516	(134,080)	11,213
Other (expense) income:				
Interest income	45,888	57,854	145,103	180,011
Interest expense	(45,477)	(56,308)	(143,126)	(176,921)
Loss on extinguishment of debt	—	—	—	(1,265)
Change in fair value of long-term debt	(785)	104	697	(2,657)
Change in fair value of net trust assets, including trust REO gains	(1,315)	(1,745)	(3,236)	6,578
Total other (expense) income, net	(1,689)	(95)	(562)	5,746
(Loss) earnings before income taxes	(45,433)	4,421	(134,642)	16,959
Income tax expense	12	2,104	4,328	3,575
Net (loss) earnings	\$ (45,445)	\$ 2,317	\$ (138,970)	\$ 13,384
Other comprehensive (loss) earnings:				
Change in fair value of instrument specific credit risk	\$ 25	\$ —	\$ (1,940)	\$ —
Total comprehensive (loss) earnings	\$ (45,420)	\$ 2,317	\$ (140,910)	\$ 13,384

(Loss) earnings per common share:



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Basic	\$ (2.16)	\$ 0.11	\$ (6.62)	\$ 0.71
Diluted	(2.16)	0.11	(6.62)	0.71

See accompanying notes to unaudited consolidated financial statements

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## IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

(Unaudited)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Accumulated Other Comprehensive Earnings	Total Stock Equity
December 31, 2017	2,070,678	\$ 21	20,949,679	\$ 209	\$ 1,233,704	\$ (822,520)	\$ (146,267)	\$ —	\$ 26
and tax from issuance of stock	—	—	97,910	1	432	—	—	—	43
of Deferred tax credits	—	—	62,917	1	—	—	—	—	1
of retained earnings	—	—	—	—	810	—	—	—	81
of adoption of ASU 2016-01	—	—	—	—	—	—	(27,018)	27,018	—
of ASU	—	—	—	—	—	—	(7,827)	—	(7,827)
of comprehensive loss	—	—	—	—	—	—	—	(1,940)	(1,940)
	—	—	—	—	—	—	(138,970)	—	(138,970)
December 30, 2018	2,070,678	\$ 21	21,110,506	\$ 211	\$ 1,234,946	\$ (822,520)	\$ (320,082)	\$ 25,078	\$ 11

See accompanying notes to unaudited consolidated financial statements

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## IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) earnings	\$ (138,970)	\$ 13,384
Loss on sale of mortgage servicing rights	—	90
Change in fair value of mortgage servicing rights	(4,127)	20,038
Loss on extinguishment of debt	—	1,265
Gain on sale of mortgage loans	(71,854)	(106,070)
Change in fair value of mortgage loans held-for-sale	12,182	(8,262)
Change in fair value of derivatives lending, net	425	(2,167)
Provision for repurchases	5,435	192
Origination of mortgage loans held-for-sale	(3,207,525)	(5,457,907)
Sale and principal reduction on mortgage loans held-for-sale	3,468,824	5,345,665
Losses (gains) from REO	46	(8,484)
Change in fair value of net trust assets, excluding REO	3,190	1,906
Change in fair value of long-term debt	(697)	2,657
Accretion of interest income and expense	27,126	69,075
Amortization of intangible and other assets	3,284	3,576
Accretion of contingent consideration	—	1,948
Change in fair value of contingent consideration	—	(11,052)
Amortization of debt issuance costs and discount on note payable	62	145