IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
November 08, 2018
Table of Contents

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)

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.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

		Page
PART I. FINANCIAL INFORMATION		
ITEM 1.	CONSOLIDATED FINANCIAL STATEMENTS	
	Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017	3
	Consolidated Statements of Operations and Comprehensive (Loss) Earnings for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)	4
	Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2018 (unaudited)	5
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (unaudited)	6
	Notes to Unaudited Consolidated Financial Statements	7
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	34
	Forward-Looking Statements	34
	The Mortgage Industry and Discussion of Relevant Fiscal Periods	34
	Selected Financial Results	35
	Status of Operations	35
	Liquidity and Capital Resources	39
	Critical Accounting Policies	41
	Financial Condition and Results of Operations	41
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	64
ITEM 4.	CONTROLS AND PROCEDURES	66
PART II. OTHER INFORMATION		
ITEM 1.	LEGAL PROCEEDINGS	68
ITEM 1A.	RISK FACTORS	68
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	68
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	68
ITEM 4.	MINE SAFETY DISCLOSURES	68

ITEM 5.	OTHER INFORMATION	68
ITEM 6.	EXHIBITS	68
	SIGNATURES	69
	CERTIFICATIONS	

Table of Contents

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
ASSETS		
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
LIABILITIES		
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)		
STOCKHOLDERS' EQUITY		
Series A-1 junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued or outstanding	—	—
Series B 9.375% redeemable preferred stock, $0.01 par value; liquidation value $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

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

Table of Contents

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:

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

Table of Contents

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 Equit
r 31, 2017	2,070,678	$ 21	20,949,679	$ 209	$ 1,233,704	$ (822,520)	$ (146,267)	$ —	$ 26
and tax om f stock	—	—	97,910	1	432	—	—	—	43
f Deferred its	—	—	62,917	1	—	—	—	—	1
ed ation	—	—	—	—	810	—	—	—	81
cation adoption 016-01	—	—	—	—	—	—	(27,018)	27,018	—
nt related on of ASU	—	—	—	—	—	—	(7,827)	—	(7,
nsive loss	—	—	—	—	—	—	—	(1,940)	(1,
	—	—	—	—	—	—	(138,970)	—	(13
r 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

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
Stock-based compensation	810	1,972
Impairment of deferred charge	—	591
Impairment of goodwill	104,587	—
Impairment of intangible assets	18,347	—
Excess tax benefit from share based compensation	—	12
Change in deferred tax assets, net	4,315	—
Net change in other assets	(5,558)	(12,733)
Net change in other liabilities	(3,352)	1,016
Net cash provided by (used in) operating activities	216,550	(143,143)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	406,456	507,552
Proceeds from the sale of mortgage servicing rights	—	805
Purchase of mortgage servicing rights	—	(5,618)
Finance receivable advances to customers	(401,357)	(714,221)
Repayments of finance receivables	442,403	716,246
Net change in mortgages held-for-investment	—	2
Purchase of premises and equipment	(670)	(463)

Purchase of investment securities available-for-sale	(500)	—
Proceeds from the sale of REO	15,992	24,159
Net cash provided by investing activities	462,324	528,462
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	—	55,454
Repayment of MSR financing	(50,133)	(25,000)
Borrowings under MSR financing	77,000	50,133
Repayment of warehouse borrowings	(3,296,280)	(5,063,915)
Borrowings under warehouse agreements	3,036,069	5,234,925
Repayment of term financing	—	(30,000)
Payment of acquisition related contingent consideration	(554)	(16,152)
Repayment of securitized mortgage borrowings	(450,555)	(595,291)
Principal payments on capital lease	(154)	(249)
Debt issuance costs	—	(100)
Tax payments on stock based compensation awards	(143)	(341)
Issuance of deferred stock units	1	—
Proceeds from exercise of stock options	433	570
Net cash used in financing activities	(684,316)	(389,966)
Net change in cash, cash equivalents and restricted cash	(5,442)	(4,647)
Cash, cash equivalents and restricted cash at beginning of period	39,099	46,067
Cash, cash equivalents and restricted cash at end of period	$ 33,657	$ 41,420
NON-CASH TRANSACTIONS:		
Transfer of securitized mortgage collateral to real estate owned	$ 17,089	$ 15,367
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	22,473	42,728
Common stock issued upon issuance of deferred stock units	606	—
Common stock issued upon long-term debt exchange	—	7,033

See accompanying notes to unaudited consolidated financial statements

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1.—Summary of Business and Financial Statement Presentation

Business Summary

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

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

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These interim period condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the United States Securities and Exchange Commission (SEC).

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

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

Recent Accounting Pronouncements

Accounting Standards Update (ASU) No. 2014-09, 2015-04, 2016-08, 2016-10, 2016-12, 2016-20, 2017-13 and 2017-14, collectively implemented as Financial Accounting Standards Board (FASB) Accounting Standards

Codification (ASC), "Revenue from Contracts with Customers (Topic 606)", provides guidance for revenue recognition. This ASC's core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The standard also clarifies the principal versus agent considerations, providing the evaluation must focus on whether the entity has control of the goods or services before they are transferred to the customer. The new standard permits the use of either the modified retrospective or full retrospective transition method. The Company's revenue is primarily generated from loan originations, loan servicing and real estate services. Origination revenue is comprised of fee income earned at origination of a loan, interest income earned for the period the loans are held and gain on sale on loans upon disposition of the loan. Servicing revenue is comprised of servicing fees and other ancillary fees in connection with our servicing

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Table of Contents

activities. Real estate services revenue is comprised of income earned from various real estate services and support such as loss mitigation, loan modification, surveillance and disposition and monitoring services. The Company performed a review of the guidance as compared to current accounting policies and have evaluated all services rendered to customers as well as underlying contracts to determine the impact of this standard to the Company's revenue recognition process. The majority of services rendered by the Company in connection with loan originations, loan servicing and the long-term mortgage portfolio are not within the scope of FASB ASC 606. However, the Company identified real estate services revenues that were within the scope of FASB ASC 606 and the impact upon adoption was not materially different from the previous revenue recognition processes. The Company adopted this guidance on January 1, 2018, and the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

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

In February 2016, the FASB issued ASU 2016-02,"Leases (Topic 842)", which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cash flows. This guidance will be effective for the Company beginning on January 1, 2019. In addition, the FASB issued ASU 2018-11, "Leases-Targeted Improvements", which provides an additional transition method that allows entities to apply the new leases standard at adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. The Company has elected this new transition method when it adopts ASU 2016-02 on January 1, 2019. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The update amends the guidance in Accounting Standards Codification 230, Statement of Cash Flows, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. In

addition, in November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash (ASU 2016-18). This ASU clarifies certain existing principles in FASB ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. These ASUs were effective for the Company's fiscal year beginning after December 15, 2017 and subsequent interim periods. The Company adopted this guidance retrospectively on January 1, 2018. The adoption of this ASU did not have a material impact on the consolidated financial statements.

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

Table of Contents

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. ASU 2017-04 amends Topic 350 to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This update requires the performance of an annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those periods, with early adoption permitted. The Company early adopted this guidance prospectively on June 30, 2018. See Note 4.—Goodwill and Intangible Assets for further discussion on goodwill impairment testing.

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

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

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

In March 2018, the FASB issued ASU 2018-05, “Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118.” This ASU codifies existing SEC guidance contained in SEC Staff Accounting Bulletin No. 118 (SAB 118), which expresses the view of the staff regarding application of existing guidance for the accounting for income taxes as it relates to the enactment of the Tax Cuts and Jobs Act (the TCJA) which was signed into law in the fourth quarter of 2017. In accordance with ASU 2018-05, the Company has recorded

provisional estimates for the accounting impacts of the TCJA, deferred tax remeasurements, and other items, due to the uncertainty regarding how these provisions are to be implemented and additional anticipated forthcoming guidance. As management completes the analysis of the impacts of the TCJA, the Company may refine its current estimate and make adjustments, which will be recognized through income in the period such adjustments are identified, as required by ASU 2018-05.

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

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820)." The ASU eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The ASU adds new disclosure requirements for Level 3 measurements. This ASU is effective for fiscal years beginning after

Table of Contents

December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40)." This ASU addresses customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The amendments in this ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Note 2.—Mortgage Loans Held-for-Sale

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

	September 30, 2018	December 31, 2017
Government (1)	$ 89,127	$ 263,512
Conventional (2)	70,060	193,055
Other (3)	178,475	93,012
Fair value adjustment (4)	7,019	19,202
Total mortgage loans held for sale	$ 344,681	$ 568,781

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

Gain on mortgage loans held-for-sale (LHFS), included in gain on sale of loans, net in the consolidated statements of operations and comprehensive (loss) earnings, is comprised of the following the three and nine months ended September 30, 2018 and 2017:

For the Nine Months Ended

	For the Three Months Ended			
	September 30,		September 30,	
	2018	2017	2018	2017
Gain on sale of mortgage loans	$ 27,949	$ 56,230	$ 85,928	$ 143,752
Premium from servicing retained loan sales	5,717	17,855	22,473	42,728
Unrealized gains (losses) from derivative financial instruments	324	1,711	(341)	2,462
Realized (losses) gains from derivative financial instruments	(537)	(2,484)	11,281	(7,526)
Mark to market (loss) gain on LHFS	(6,901)	(1,336)	(12,182)	8,262
Direct origination expenses, net	(9,038)	(27,734)	(47,828)	(72,884)
Provision for repurchases	(3,841)	(1,766)	(5,435)	(192)
Total gain on sale of loans, net	$ 13,673	$ 42,476	$ 53,896	$ 116,602

Table of Contents

Note 3.—Mortgage Servicing Rights

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

The following table summarizes the activity of MSRs for the nine months ended September 30, 2018 and year ended December 31, 2017:

	September 30, 2018	December 31, 2017
Balance at beginning of period	$ 154,405	$ 131,537
Additions from servicing retained loan sales	22,473	56,049
Addition from purchases	—	5,618
Reductions from bulk sales (1)	—	(895)
Changes in fair value (2)	4,127	(37,904)
Fair value of MSRs at end of period	$ 181,005	$ 154,405

(1) In the first quarter of 2017, the Company sold substantially all of its NonQM MSRs.
(2) Changes in fair value are included within gain (loss) on MSRs, net in the accompanying consolidated statements of operations and comprehensive (loss) earnings.

At September 30, 2018 and December 31, 2017, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	September 30, 2018	December 31, 2017
Government insured (1)	$ 3,820,752	$ 2,834,680
Conventional (2)	12,966,922	13,493,463
NonQM	1,860	1,957
Total loans serviced	$ 16,789,534	$ 16,330,100

(1) In October 2018, the Company sold approximately $3.4 billion in UPB of Ginne Mae (GNMA) servicing.
(2) At September 30, 2018 and December 31, 2017, $13.0 billion and $13.5 billion, respectively, of Fannie Mae and Freddie Mac servicing was pledged as collateral as part of the MSR Financing (See Note 5.—Debt– MSR Financings). Pledged collateral was approximately 77% and 81% of the fair value of MSRs in the consolidated balance sheets at September 30, 2018 and December 31, 2017, respectively.

Table of Contents

The table below illustrates hypothetical changes in fair values of MSRs, caused by assumed immediate changes to key assumptions that are used to determine fair value. See Note 7.—Fair Value of Financial Instruments for a description of the key assumptions used to determine the fair value of MSRs.

Mortgage Servicing Rights Sensitivity Analysis	September 30, 2018	December 31, 2017
Fair value of MSRs	$ 181,005	$ 154,405
Prepayment Speed:		
Decrease in fair value from 10% adverse change	(1,846)	(5,643)
Decrease in fair value from 20% adverse change	(3,914)	(11,275)
Decrease in fair value from 30% adverse change	(6,216)	(16,807)
Discount Rate:		
Decrease in fair value from 10% adverse change	(5,357)	(5,461)
Decrease in fair value from 20% adverse change	(10,346)	(10,555)
Decrease in fair value from 30% adverse change	(15,001)	(15,316)

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

(Loss) gain on mortgage servicing rights, net is comprised of the following for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Change in fair value of mortgage servicing rights	$ (5,445)	$ (11,177)	$ 4,127	$ (20,038)
Loss on sale of mortgage servicing rights	—	(8)	—	(90)
Realized and unrealized (losses) gains from hedging instruments	253	672	(1,445)	1,969
(Loss) gain on mortgage servicing rights, net	$ (5,192)	$ (10,513)	$ 2,682	$ (18,159)

Servicing fees, net is comprised of the following for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Contractual servicing fees	$ 11,458	$ 9,978	$ 34,322	$ 27,356
Late and ancillary fees	182	117	500	275
Subservicing and other costs	(1,516)	(1,603)	(5,377)	(4,056)

Servicing fees, net	$ 10,124	$ 8,492	$ 29,445	$ 23,575

Loans Eligible for Repurchase from GNMA

The Company routinely sells loans in GNMA guaranteed mortgage backed securities (MBS) by pooling eligible loans through a pool custodian and assigning rights to the loans to GNMA. When these GNMA loans are initially pooled and securitized, the Company meets the criteria for sale treatment and derecognizes the loans. The terms of the GNMA MBS program allow, but do not require, the Company to repurchase mortgage loans when the borrower has made no payments for three consecutive months. When the Company has the unconditional right, as servicer, to repurchase GNMA pool loans it has previously sold and are more than 90 days past due, the Company then re-recognizes the loans on its consolidated balance sheets in Loans eligible for repurchase from Ginnie Mae, at their UPB, and records a corresponding

liability in other liabilities in the consolidated balance sheets. At September 30, 2018 and December 31, 2017, loans eligible for repurchase from GNMA totaled $78.7 million and $47.7 million in UPB, respectively. As part of the Company's repurchase reserve, the Company records a repurchase provision to provide for estimated losses from the sale or securitization of all mortgage loans, including these loans.

The loans eligible for repurchase from GNMA are in the Company's servicing portfolio. The Company monitors the delinquency of the servicing portfolio and directs the subservicer to mitigate losses on delinquent loans. In October 2018, the Company sold $3.4 billion in UPB of GNMA MSRs substantially reducing the loans eligible for repurchase from GNMA.

Note 4.—Goodwill and Intangible Assets

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

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

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

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

The CCM brand had also experienced a material loss in value resulting from 1) the aforementioned adverse treatment from capital market participants for loans produced by the reporting unit, 2) consumer uncertainty due to the use of a

similar brand name by an unaffiliated financial services company and 3) substantial deterioration in brand awareness. In light of these developments, a significant reduction in the anticipated future cash flows and estimated fair value for this reporting unit has occurred.

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

Table of Contents

markets for conventional originations from the reporting unit. As a result, during the three months ended September 30, 2018, the Company recorded an impairment charge of $29.9 million related to goodwill and $4.9 million related to intangible assets. The Company's fair value estimates utilize significant unobservable inputs and thus represent Level 3 fair value measurements.

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

Balance at December 31, 2017	$ 104,587
Aggregate impairment charges	(104,587)
Balance at September 30, 2018	$ —

The following table presents the net carrying amount of the intangible assets acquired as part of the CCM acquisition for the periods indicated:

	Net Carrying Amount at December 31, 2017	Accumulated Amortization	Aggregate Impairment Charges	Net Carrying Amount at September 30, 2018	Remaining Life
Intangible assets:					
Trademark	$ 14,035	$ (585)	$ (13,450)	$ —	—
Customer relationships	6,027	(1,130)	(4,897)	—	—
Non-compete agreement	1,520	(1,140)	—	380	0.3
Total intangible assets acquired	$ 21,582	$ (2,855)	$ (18,347)	$ 380	0.3

Note 5.—Debt

Warehouse Borrowings

The Company, through its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are uncommitted facilities used to fund, and are secured by, residential mortgage loans from the time of funding until the time of settlement when sold to the investor. In accordance with the terms of the Master Repurchase Agreements, the Company's subsidiaries are required to maintain cash balances with the lender as additional collateral for the borrowings, which are included in restricted cash in the accompanying consolidated balance sheets. At September 30, 2018, the Company was not in compliance with certain financial covenants and received the necessary waivers.

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

	Maximum Borrowing	Balance Outstanding At September 30,	December 31,

	Capacity	2018	2017	Maturity Date
Short-term borrowings:				
Repurchase agreement 1	$ 150,000	$ 96,739	$ 100,630	June 14, 2019
Repurchase agreement 2 (1)	50,000	27,802	31,632	May 28, 2019
Repurchase agreement 3 (2)	225,000	73,162	154,020	December 21, 2018
Repurchase agreement 4	250,000	71,774	152,772	July 12, 2019
Repurchase agreement 5	175,000	30,511	88,920	January 31, 2019
Repurchase agreement 6	100,000	14,419	47,389	June 27, 2019
Repurchase agreement 7	50,000	745	—	December 26, 2018
Total warehouse borrowings	$ 1,000,000	$ 315,152	$ 575,363	

(1) In August 2018, the maturity of the line was extended to May 28, 2019 and the maximum borrowing capacity was increased to $50.0 million.

(2) As of September 30, 2018 and December 31, 2017, $0.7 million and $41.8 million, respectively, are associated with finance receivables made to the Company’s warehouse customers.

Table of Contents

MSR Financings

In February 2018, IMC (Borrower), amended the Line of Credit Promissory Note (FHLMC and GNMA Financing) originally entered into in August 2017, increasing the maximum borrowing capacity of the revolving line of credit to $50.0 million and extending the term to January 31, 2019. In May 2018, the agreement was amended increasing the maximum borrowing capacity of the revolving line of credit to $60.0 million, increasing the borrowing capacity up to 60% of the fair market value of the pledged mortgage servicing rights and reducing the interest rate per annum to one-month LIBOR plus 3.0%. As part of the May 2018 amendment, the obligations under the Line of Credit are secured by FHLMC and GNMA pledged mortgage servicing rights (subject to an acknowledge agreement) and is guaranteed by Integrated Real Estate Services, Corp. At September 30, 2018, $42.5 million was outstanding under the FHLMC and GNMA Financing and was secured by $69.5 million of mortgage servicing rights.

On February 10, 2017, IMC (Borrower), entered into a Loan and Security Agreement (Agreement) with a lender providing for a revolving loan commitment of $40.0 million for a period of two years (FNMA Financing). The Borrower is able to borrow up to 55% of the fair market value of FNMA pledged servicing rights. Upon the two year anniversary of the Agreement, any amounts outstanding will automatically be converted into a term loan due and payable in full on the one year anniversary of the conversion date. Interest payments are payable monthly and accrue interest at the rate per annum equal to one-month LIBOR plus 4.0% and the balance of the obligation may be prepaid at any time. The Borrower initially drew down $35.1 million, and used a portion of the proceeds to pay off the Term Financing (approximately $30.1 million) originally entered into in June 2015 as discussed below. The Borrower also paid the lender an origination fee of $100 thousand, which is deferred and amortized over the life of the FNMA Financing. At September 30, 2018, $19.5 million was outstanding under the FNMA Financing and was secured by $70.4 million of mortgage servicing rights.

Convertible Notes

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

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

pays any cash dividends on its shares of common stock prior to conversion of the 2015 Convertible Notes, upon conversion of the 2015 Convertible Notes, the Noteholders will also receive such dividends on an as-converted basis of the 2015 Convertible Notes less the amount of interest paid by the Company prior to such dividend.

Long-term Debt

Junior Subordinated Notes

The Company carries its Junior Subordinated Notes at estimated fair value as more fully described in Note 7.—Fair Value of Financial Instruments. The following table shows the remaining principal balance and fair value of junior subordinated notes issued as of September 30, 2018 and December 31, 2017:

Table of Contents

	September 30, 2018	December 31, 2017
Junior Subordinated Notes (1)	$ 62,000	$ 62,000
Fair value adjustment	(15,262)	(17,018)
Total Junior Subordinated Notes	$ 46,738	$ 44,982

(1) Stated maturity of March 2034; requires quarterly interest payments at a variable rate of 3 month LIBOR plus 3.75% per annum.

Note 6.—Securitized Mortgage Trusts

Securitized Mortgage Trust Assets

Securitized mortgage trust assets, which are recorded at their estimated fair value, are comprised of the following at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Securitized mortgage collateral	$ 3,302,192	$ 3,662,008
Real estate owned (REO)	9,593	8,542
Total securitized mortgage trust assets	$ 3,311,785	$ 3,670,550

Securitized Mortgage Trust Liabilities

Securitized mortgage trust liabilities, which are recorded at their estimated fair value, are comprised of the following at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Securitized mortgage borrowings	$ 3,296,242	$ 3,653,265

Changes in fair value of net trust assets, including trust REO gains and losses, are comprised of the following for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Change in fair value of net trust assets, excluding REO	$ (666)	$ (4,479)	$ (3,190)	$ (1,906)

(Losses) gains from REO	(649)	2,734	(46)	8,484
Change in fair value of net trust assets, including trust REO gains (losses)	$ (1,315)	$ (1,745)	$ (3,236)	$ 6,578

Note 7.—Fair Value of Financial Instruments

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

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

Table of Contents

	September 30, 2018				December 31, 2017			
	Carrying	Estimated Fair Value			Carrying	Estimated Fair Value		
	Amount	Level 1	Level 2	Level 3	Amount	Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	$ 29,217	$ 29,217	$ —	$ —	$ 33,223	$ 33,223	$ —	$ —
Restricted cash	4,440	4,440	—	—	5,876	5,876	—	—
Mortgage loans held-for-sale	344,681	—	344,681	—	568,781	—	568,781	—
Finance receivables	731	—	731	—	41,777	—	41,777	—
Mortgage servicing rights	181,005	—	—	181,005	154,405	—	—	154,4
Derivative assets, lending, net	4,352	—	534	3,818	4,777	—	420	4,35
Securitized mortgage collateral	3,302,192	—	—	3,302,192	3,662,008	—	—	3,66
Liabilities								
Warehouse borrowings	$ 315,152	$ —	$ 315,152	$ —	$ 575,363	$ —	$ 575,363	$ —
MSR financings	62,000	—	—	62,000	35,133	—	—	35,1
Convertible notes	24,982	—	—	24,982	24,974	—	—	24,9
Contingent consideration	—	—	—	—	554	—	—	554
Long-term debt	46,738	—	—	46,738	44,982	—	—	44,9
Securitized mortgage borrowings	3,296,242	—	—	3,296,242	3,653,265	—	—	3,65

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

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

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

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

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

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

Convertible notes are recorded at amortized cost.

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

Fair Value Hierarchy

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

Table of Contents

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

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

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

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, mortgage servicing rights, securitized mortgage collateral and borrowings, derivative assets and liabilities (trust and IRLCs), and long-term debt as Level 3 fair value measurements. Level 3 assets and liabilities measured at fair value on a recurring basis were approximately 91% and 99% and 87% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at September 30, 2018 and December 31, 2017.

Recurring Fair Value Measurements

The Company assesses the financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between Level 1 and Level 2 classified instruments during the nine months ended September 30, 2018.

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at September 30, 2018 and December 31, 2017, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Mortgage loans held-for-sale	$ —	$ 344,681	$ —	$ —	$ 568,781	$ —
Derivative assets, lending, net (1)	—	534	3,818	—	420	4,357
Mortgage servicing rights	—	—	181,005	—	—	154,405
Securitized mortgage collateral	—	—	3,302,192	—	—	3,662,008
Total assets at fair value	$ —	$ 345,215	$ 3,487,015	$ —	$ 569,201	$ 3,820,770
Liabilities						
Securitized mortgage borrowings	$ —	$ —	$ 3,296,242	$ —	$ —	$ 3,653,265

Long-term debt	—	—	46,738	—	—	44,982
Contingent consideration	—	—	—	—	—	554
Total liabilities at fair value	$ —	$ —	$ 3,342,980	$ —	$ —	$ 3,698,801

(1) At September 30, 2018, derivative assets, lending, net included $3.8 million in IRLCs and $534 thousand in hedging instruments, respectively, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2017, derivative assets, lending, net included $4.4 million in IRLCs and $420 thousand in hedging instruments, respectively, and is included in other assets in the accompanying consolidated balance sheets.

Table of Contents

The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2018 and 2017:

Level 3 Recurring Fair Value Measurements
For the Three Months Ended
September 30, 2018

Interest