IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
August 15, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

or

o 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 x No o

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

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

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

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

There were 7,810,946 shares of common stock outstanding as of August 10, 2011.

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IMPAC MORTGAGE HOLDINGS, INC.

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

(dollars in thousands, except share data)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 8,944	$ 11,507
Restricted cash	4,536	1,495
Trust assets		
Investment securities available-for-sale	447	645
Securitized mortgage collateral	5,641,957	6,011,675
Derivative assets	37	40
Real estate owned	72,490	92,708
Total trust assets	5,714,931	6,105,068
Mortgage loans held-for-sale	48,397	4,283
Assets of discontinued operations	196	373
Other assets	30,382	31,213
Total assets	$ 5,807,386	$ 6,153,939
LIABILITIES		
Trust liabilities		
Securitized mortgage borrowings	$ 5,651,842	$ 6,012,745
Derivative liabilities	38,141	65,916
Total trust liabilities	5,689,983	6,078,661
Warehouse borrowings	45,917	4,057
Long-term debt	12,148	11,728
Notes payable	8,040	6,874
Liabilities of discontinued operations	11,153	13,053
Other liabilities	12,969	11,869
Total liabilities	5,780,210	6,126,242
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Series A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued or outstanding		
Series B 9.375% redeemable preferred stock, $0.01 par value; liquidation value $16,904; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	7	7

Series C 9.125% redeemable preferred stock, $0.01 par value; liquidation value $35,389; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively		14		14
Common stock, $0.01 par value; 200,000,000 shares authorized; 7,810,946 and 7,787,546 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively		78		78
Additional paid-in capital		1,076,535		1,076,375
Net accumulated deficit:				
Cumulative dividends declared		(822,520)		(822,520)
Retained deficit		(228,184)		(227,558)
Net accumulated deficit		(1,050,704)		(1,050,078)
Total Impac Mortgage Holdings, Inc. stockholders equity		25,930		26,396
Noncontrolling interests		1,246		1,301
Total equity		27,176		27,697
Total liabilities and stockholders equity	$	5,807,386	$	6,153,939

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
INTEREST INCOME	$ 202,383	$ 248,213	$ 420,465	$ 528,090
INTEREST EXPENSE	201,073	246,658	417,620	525,765
Net interest income	1,310	1,555	2,845	2,325
NON-INTEREST INCOME:				
Change in fair value of net trust assets, excluding REO	2,403	(4,244)	7,299	3,128
(Losses) gains from REO	(739)	4,965	(4,988)	3,857
Non-interest income - net trust assets	1,664	721	2,311	6,985
Mortgage and real estate services fees	14,360	15,572	26,701	26,593
Other non-interest income	147	(3)	29	(285)
Total non-interest income	16,171	16,290	29,041	33,293
NON-INTEREST EXPENSE:				
General and administrative	5,005	4,630	9,584	9,409
Personnel expense	12,294	10,768	23,060	20,449
Total non-interest expense	17,299	15,398	32,644	29,858
Earnings (loss) from continuing operations before income taxes	182	2,447	(758)	5,760
Income tax expense from continuing operations	9	45	21	129
Earnings (loss) from continuing operations	173	2,402	(779)	5,631
Earnings (loss) from discontinued operations, net of tax	8	804	(342)	3,190
Net earnings (loss)	181	3,206	(1,121)	8,821
Net loss attributable to noncontrolling interests	180	80	495	383
Net earnings (loss) attributable to IMH	$ 361	$ 3,286	$ (626)	$ 9,204
Earnings (loss) per common share - basic:				
Earnings (loss) from continuing operations attributable to IMH	$ 0.05	$ 0.32	$ (0.04)	$ 0.78
Earnings (loss) from discontinued operations	0.00	0.11	(0.04)	0.41
Net earnings (loss) per share available to common stockholders	$ 0.05	$ 0.43	$ (0.08)	$ 1.19
Earnings (loss) per common share - diluted:				
Earnings (loss) from continuing operations attributable to IMH	$ 0.04	$ 0.30	$ (0.04)	$ 0.72
Earnings (loss) from discontinued operations	0.00	0.09	(0.04)	0.38
Net earnings (loss) per share available to common stockholders	$ 0.04	$ 0.39	$ (0.08)	$ 1.10

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	$ (1,121)	$ 8,821
Losses from real estate owned	4,988	(3,857)
Change in fair value of mortgage servicing rights	34	
Extinguishment of debt	338	
Gain on sale of loans	(2,070)	
Origination of mortgage loans held-for-sale	(272,747)	
Sale and principal reduction on mortgage loans held-for-sale	231,518	
Change in fair value of net trust assets, excluding REO	(39,970)	(67,817)
Change in fair value of long-term debt	(643)	216
Accretion of interest income and expense	171,361	224,061
Change in REO impairment reserve	(15,861)	(12,481)
Stock-based compensation	148	472
Net change in restricted cash	(3,041)	
Net change in other assets and liabilities	1,465	(1,864)
Net cash used in operating activities of discontinued operations	(1,824)	(3,339)
Net cash provided by operating activities	72,575	144,212
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	371,190	392,211
Net change in mortgages held-for-investment	5	141
Maturity of short-term investments		5,000
Purchase of premises and equipment	(378)	(746)
Net principal change in investment securities available-for-sale	110	77
Proceeds from the sale of real estate owned	85,103	130,492
Net cash provided by investing activities of discontinued operations		1,693
Net cash provided by investing activities	456,030	528,868
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of warehouse borrowings	(227,759)	
Borrowings under warehouse agreements	269,619	
Repayment of securitized mortgage borrowings	(574,492)	(665,308)
Issuance of note payable	8,815	
Principal payments on notes payable	(7,358)	(18,542)
Principal payments on capital lease	(106)	
Proceeds from exercise of stock options	12	8
Net cash used in financing activities	(531,269)	(683,842)
Net change in cash and cash equivalents	(2,664)	(10,762)
Cash and cash equivalents at beginning of period	11,620	25,850
Cash and cash equivalents at end of period - Continuing Operations	8,944	14,912

Cash and cash equivalents at end of period - Discontinued Operations		12		176
Total cash and cash equivalents at end of period	$	8,956	$	15,088
NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):				
Transfer of securitized mortgage collateral to real estate owned	$	54,104	$	80,569
Acquisition of equipment purchased through capital leases		530		
Net effect of consolidation of net trust assets from adoption of accounting principle				119,631
Net effect of consolidation of net trust liabilities from adoption of accounting principle				(119,631)

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Summary of Business, Market Conditions, 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 subsidiaries: Integrated Real Estate Service Corporation (IRES), IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG) and Impac Funding Corporation (IFC).

The Company s continuing operations include the long-term mortgage portfolio (residual interests in securitizations determined as total trust assets minus total trust liabilities in the consolidated balance sheets) and the mortgage and real estate fee-based business activities conducted by IRES. In addition, in 2011 the Company, through IRES, continued its expansion into mortgage lending. The discontinued operations include the former non-conforming mortgage and retail operations conducted by IFC and subsidiaries, and warehouse lending operations conducted by IWLG.

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

Market Update and Liquidity

During the first half of 2011, we continue to see home price declines in many markets as housing prices remained under pressure due to elevated foreclosure levels. In addition, foreclosure delays among other market conditions may result in continued downward pressure on home prices for the foreseeable future.

Mortgage lending and credit market conditions remained weak through the first half of 2011 due primarily to the continued economic uncertainty and slower than expected recovery. Existing uncertainties surrounding the housing market, economy and regulatory environment will continue to present challenges for the Company. The ongoing economic stress or further deterioration of general economic conditions could prolong or increase borrower defaults leading to deteriorating performance of our long-term mortgage portfolio and hinder the growth and profitability of our mortgage lending operations.

A number of factors make it difficult to predict when a sustained recovery in the housing and credit markets will occur. Concerns about the future of the U.S. economy, including the pace and magnitude of recovery from the recent economic recession, consumer confidence, volatility in energy prices, credit market volatility and trends in corporate earnings will continue to influence the U.S. economic recovery and the capital markets. In particular, continued improvement in unemployment rates and a sustained recovery of the housing markets remain critical components of a broader U.S. economic recovery. U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., remained high through June 2011. While the unemployment rate marginally improved from December 2010, it actually increased during the second quarter. Also, a significant number of U.S. residents are no longer looking for work and, therefore, are not reflected in the U.S. unemployment rates. Unemployment rates in many states are at or above the U.S. national average. Unemployment rates in several states are at or above 10.0 percent, including California and Florida. California and Florida represent the states with the highest concentration in our long-term mortgage portfolio.

The Company s ability to meet its long-term liquidity requirements is subject to several factors, such as generating fees from the mortgage and real estate business activities and realizing cash flows from the long-term mortgage portfolio. The Company s future financial performance and success are dependent in large part upon the ability to grow the mortgage and real estate business activities, including providing services to third parties and expanding the mortgage lending operations. The Company believes that current cash balances, cash flows from mortgage lending operations and real estate services fees generated from the long-term mortgage portfolio, and residual interest cash flows from the long-term mortgage portfolio are adequate for the current operating needs. However, the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. The Company s ability to compete successfully in the mortgage and real estate services industry may be challenging as its business activities have been established in the last few years and many competitors have recently entered or have established businesses delivering similar services. Additionally, the mortgage lending environment is extremely competitive and highly regulated. The future success of the mortgage lending operations will depend on a number of factors, including the ability to procure adequate financing to fund loan production, maintaining associated financial covenants of lenders, housing market conditions, economic recovery and financial regulatory reform. If the Company is unsuccessful, the Company may be unable to satisfy the future operating costs and liabilities, including repayment of the note payable and long-term debt. To be successful in expanding the business and providing adequate returns to the shareholders, the Company may seek additional financing in the form of debt or equity capital.

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010, filed with the United States Securities and Exchange Commission (SEC).

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

Management has made a number of 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. The items affected by such estimates and assumptions include the valuation of trust assets and trust liabilities, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt and mortgage loans held-for-sale. Actual results could differ from those estimates and assumptions.

Recently Adopted Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-6 Improving Disclosures About Fair Value Measurements (ASU 2010-6). The ASU amends Codification Topic 820 Fair Value Measurements and Disclosures to add new disclosure requirements for transfers into and out of Levels 1 and 2 fair value measurements, as well as separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements. ASU 2010-6 also clarifies existing fair value disclosures regarding the level of disaggregation and inputs and valuation techniques used to measure fair value. ASU 2010-6 is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. ASU 2010-6 only adds new disclosure requirements and as a result, its adoption did not have an impact on the Company s consolidated financial statements.

Legal Proceedings

On May 25, 2011, the lawsuit filed in the United States District court, Central district of California as Case No. SACV11-00717 entitled Norma B. Power Trust, individually and on Behalf of All Others Similarly Situated v. Impac Mortgage Holdings, Inc., et al, regarding allegations of unauthorized false, invalid amendments to the Company s corporate charter with regards to its series B Preferred Stock and Series C Preferred Stock was voluntarily dismissed by the plaintiffs.

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

Please refer to IMH s report on Form 10-K for the year ended December 31, 2010 and Form 10-Q for the quarter ended March, 31, 2011for a description of litigation and claims.

Note 2. Fair Value of Financial Instruments

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

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The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 8,944	$ 8,944	$ 11,507	$ 11,507
Restricted cash	4,536	4,536	1,495	1,495
Investment securities available-for-sale	447	447	645	645
Securitized mortgage collateral	5,641,957	5,641,957	6,011,675	6,011,675
Derivative assets - securitized trusts	37	37	40	40
Derivative assets - lending	294	294		
Mortgage servicing rights	1,405	1,405	1,439	1,439
Mortgage loans held-for-sale	48,397	48,397	4,283	4,283
Call option	454	454	706	706
Liabilities				
Securitized mortgage borrowings	5,651,842	5,651,842	6,012,745	6,012,745
Derivative liabilities - securitized trusts	38,141	38,141	65,916	65,916
Derivative liabilities - lending	131	131		
Long-term debt	12,148	12,148	11,728	11,728
Warehouse borrowings	45,917	45,917	4,057	4,057
Notes payable	8,040	9,258	6,874	6,818
Put option	23	23	61	61

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 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.

The mortgage lending operations enters into interest rate lock commitments (IRLCs) and utilizes forward sold Fannie Mae and Ginnie Mae mortgage backed securities (Hedging Instruments) to hedge the fair value changes associated with changes in interest rates relating to its conforming mortgage loan origination operations. The fair value of IRLCs and Hedging Instruments are represented as derivative assets and liabilities lending in the table above.

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 securitized trusts, derivative assets and liabilities - lending, long-term debt, mortgage servicing rights, loans held-for-sale, and call and put options.

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

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

Notes payable includes notes with maturities ranging from less than a year to three years. Notes payable is recorded at amortized cost, net of any discounts. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

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Fair Value Hierarchy

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

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

- Level 1 Quoted prices (unadjusted) in active markets for identical instruments or liabilities that an entity has the ability to assess at measurement date.

- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for an asset or liability, including interest rates and yield curves observable at commonly quoted intervals, prepayment speeds, loss severities, credit risks and default rates; and market-corroborated inputs.

- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are 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, securitized mortgage collateral and borrowings, net derivative liabilities securitized trusts, long-term debt, mortgage servicing rights, and call and put options as Level 3 fair value measurements. Level 3 assets and liabilities were 99% and 100%, respectively, of total assets and total liabilities measured at estimated fair value at June 30, 2011 and December 31, 2010.

Recurring Fair Value Measurements

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three and six months ended June 30, 2011.

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 June 30, 2011 and December 31, 2010, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	June 30, 2011			December 31, 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment securities available-for-sale	$	$	$ 447	$	$	$ 645
Mortgage loans held-for-sale		48,397			4,283	
Derivative assets, net - lending (1)		163				
Mortgage servicing rights (2)			1,405			1,439
Call option (2)			454			706
Securitized mortgage collateral			5,641,957			6,011,675
Total assets at fair value	$	$ 48,560	$ 5,644,263	$	$ 4,283	$ 6,014,465
Liabilities						
Securitized mortgage borrowings	$	$	$ 5,651,842	$	$	$ 6,012,745
Derivative liabilities, net - securitized trusts (3)			38,104			65,876
Long-term debt			12,148			11,728
Put option (4)			23			61
Total liabilities at fair value	$	$	$ 5,702,117	$	$	$ 6,090,410

(1) At June 30, 2011, derivative assets, net lending, included $294 thousand in IRLCs and $131 thousand in Hedging Instruments, respectively, associated with the Company s newly formed mortgage lending operations, and is included in other assets and liabilities in the accompanying consolidated balance sheets.

(2) Included in other assets in the accompanying consolidated balance sheets.

(3) At June 30, 2011, derivative liabilities, net securitized trusts, included $37 thousand in derivative assets and $38.1 million in derivative liabilities, included within trust assets and trust liabilities, respectively. At December 31, 2010, derivative liabilities, net securitized trusts, included $40 thousand in derivative assets and $65.9 million in derivative liabilities, included within trust assets and trust liabilities, respectively.

(4) Included in other liabilities in the accompanying consolidated balance sheets.

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The following tables present a reconciliation for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2011 and 2010:

Level 3 Recurring Fair Value Measurements
For the three months ended June 30, 2011

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Put option	Long-term debt
Fair value, March 31, 2011	$ 415	$ 6,053,766	$ (6,056,577)	$ (46,205)	$ 1,340	$ 483	$ (61)	$ (12,030)
Total gains (losses) included in earnings:								
Interest income (1)	30	95,476						
Interest expense (1)			(179,186)					(523)
Change in fair value	56	(286,713)	296,261	(7,201)	65	(29)	38	405
Total gains (losses) included in earnings	86	(191,237)	117,075	(7,201)	65	(29)	38	(118)
Transfers in and/or out of Level 3								
Purchases, issuances and settlements								
Purchases								
Issuances								
Settlements	(54)	(220,572)	287,660	15,302				
Fair value, June 30, 2011	$ 447	$ 5,641,957	$ (5,651,842)	$ (38,104)	$ 1,405	$ 454	$ (23)	$ (12,148)
Unrealized gains (losses) still held (2)	$ 258	$ (4,415,570)	$ 6,339,646	$ (38,059)	$	$	$	$ 58,615

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The total net interest income, including cash received and paid, was $1.3 million for the three months ended June 30, 2011, as reflected in the accompanying consolidated statement of operations. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at June 30, 2011.

Level 3 Recurring Fair Value Measurements
For the three months ended June 30, 2010

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt
Fair value, March 31, 2010	$ 670	$ 6,366,855	$ (6,351,890)	$ (117,876)	$ (10,732)
Total gains (losses) included in earnings:					
Interest income (1)	66	123,970			
Interest expense (1)			(221,491)		(700)
Change in fair value	541	(30,644)	37,152	(11,293)	75
Total gains (losses) included in earnings	607	93,326	(184,339)	(11,293)	(625)
Transfers in and/or out of Level 3					
Purchases, issuances and settlements					
Purchases					
Issuances					

Settlements		(8)		(244,968)		335,637		28,446		
Fair value, June 30, 2010	$	1,269	$	6,215,213	$	(6,200,592)	$	(100,723)	$	(11,357)
Unrealized gains (losses) still held (2)	$	969	$	(5,206,813)	$	6,909,596	$	(101,937)	$	59,406

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The total net interest income, including cash received and paid, was $1.6 million for the three months ended June 30, 2010, as reflected in the accompanying consolidated statement of operations. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at June 30, 2010.

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Level 3 Recurring Fair Value Measurements
For the six months ended June 30, 2011

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Put option	Long-term debt
Fair value, December 31, 2010	$ 645	$ 6,011,675	$ (6,012,745)	$ (65,876)	$ 1,439	$ 706	$ (61)	$ (11,728)
Total gains (losses) included in earnings:								
Interest income (1)	58	202,845						
Interest expense (1)			(373,201)					(1,063)
Change in fair value of net trust assets, excluding REO	(146)	(147,268)	158,983	(4,271)	(34)	(252)	38	643
Total (losses) gains included in earnings	(88)	55,577	(214,218)	(4,271)	(34)	(252)	38	(420)
Transfers in and/or out of Level 3								
Purchases, issuances and settlements								
Purchases								
Issuances								
Settlements	(110)	(425,295)	575,121	32,043				