Impac Mortgage Holdings, Inc. Announces Results of Second Quarter 2012

08/14/12

Impac Mortgage Holdings, Inc. (NYSE MKT: IMH) formerly (NYSE Amex: IMH), a Maryland corporation, along with its subsidiaries and affiliates, or "IMH" or the "Company," continued to expand its mortgage lending business, through its indirect subsidiary, Excel Mortgage Servicing, Inc. (Excel). In the second quarter of 2012, Excel increased its residential mortgage originations volumes 46% to $531.9 million as compared to $365.0 million in the first quarter of 2012 and by 135% as compared to $226.3 million for the second quarter of 2011. Sales of mortgage loans increased 33% to $474.5 million in the second quarter of 2012 as compared to $355.7 million in the first quarter of 2012 and increased by 128% over the sales of $208.4 million in the second quarter of 2011.

During the three months ended June 30, 2012, the Company's consolidated net earnings were $4.2 million, or $0.51 per diluted common share, as compared to consolidated net earnings of $361 thousand or $0.04 per diluted common share for the three months ended June 30, 2011 primarily due to the increase in profitability of the mortgage lending business which improved by $7.3 million with net earnings of $3.8 million in the second quarter of 2012 as compared to a net loss of $3.5 million in the second quarter of 2011. The Company's consolidated results for the six months ended June 30, 2012 improved slightly to a consolidated net loss of $(578) thousand, or $(0.07) per diluted common share, as compared to a consolidated net loss of $(626) thousand or $(0.08) per diluted common share for the six months ended June 30, 2011.

During the second quarter, the mortgage servicing portfolio of Excel Mortgage Servicing, Inc. and its subsidiary increased $196.2 million to $1.1 billion in unpaid principal balance at June 30, 2012 as compared to $891.7 million in unpaid principal balance at March 31, 2012 and increased $482.5 million for the six months ended June 30, 2012 as compared to $605.4 million at December 31, 2011. The increase in the service retained mortgage servicing portfolio resulted in the $3.0 million increase in mortgage servicing rights to $7.1 million at June 30, 2012 as compared to $4.1 million at December 31, 2011. Excel expects to continue building its mortgage servicing portfolio as management believes a servicing portfolio of agency loans during a period of low interest rates and high credit quality focus is a good investment for the Company. Therefore, Excel is expected to continue to increase its servicing portfolio, but it will also selectively sell servicing on a flow and bulk basis, as we recently sold $143 million in unpaid principal balance in a bulk sale in July 2012, to keep the amount of capital invested in servicing at acceptable levels to preserve capital needed for further growth. As Excel continues to expand the mortgage lending platform, production volumes, and servicing portfolio, at some point its growth may be limited by available capital.

The following table includes the service retained loan sales for the periods presented (in millions):

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Fannie Mae and Freddie Mac	$ 333.6	$ 12.8	$ 582.8	$ 15.9
Ginnie Mae Securities Issuances	125.5	16.7	203.4	19.4
Total	$ 459.1	$ 29.5	$ 786.2	$ 35.3

The Company continues to focus on originating Fannie Mae, Freddie Mac, and government loans as it believes that having the ability to sell loans direct to Fannie Mae, Freddie Mac, and issue Ginnie Mae securities makes it more competitive in the overall mortgage origination market with regard to products, pricing, operational efficiencies and overall recruitment of higher quality loan originators.

As previously announced, in April and May 2012, two of Excel's warehouse lenders approved increases in Excel's borrowing capacities from $32.5 million and $25 million to $38.5 million and $50 million, respectively. In addition, one of the same lenders further increased borrowing capacity another $1.5 million in June at the renewal date. Moreover, in May 2012, the Company, through IRES and its subsidiaries, entered into another Master Repurchase Agreement with a lender providing a $25 million warehouse facility bringing the total warehouse borrowings facilities to $145.0 million.

Management believes the current economic conditions are likely to warrant exceptionally low levels of interest rates at least through late 2014, if not beyond. A low interest rate environment may continue to drive refinance volumes for a period of time, but eventually we expect the refinance volumes to decline. However, at the same time, as the industry-wide compliance issues associated with foreclosures are resolved, foreclosure activity could likely increase which could in turn create purchase money transaction opportunities for lenders. To position Excel to better capture purchase money business, Excel, for the last several months, has focused on building a realtor direct network and developing realtor direct web based technologies and marketing tools that both loan officers and real estate brokers can use to create leads.

Excel continues to expand its production channels including retail, and wholesale, as well as the previously announced correspondent lending channel. Total monthly lending volume has increased to over $200 million in recent months as compared with an average of $135 million for the first quarter of 2012, and an average of $75 million in the second quarter of 2011. Second quarter volumes in the wholesale and correspondent lending channels led to significant volume increases over the first quarter; however, retail expansion during the second quarter is expected to lead to a corresponding increase in retail production during the 3rd quarter. Retail production is also expected to increase from the opening of the previously announced Reverse Mortgage operations. Excel's mortgage lending business is currently branded under the name of "Impac Mortgage" and offers primarily loans eligible for delivery to Fannie Mae, Freddie Mac and Ginnie Mae.

The following table represents volume by channel for the presented periods (in millions):

	For the Three Months Ended	
	June 30, 2012, 2012	March 31, 2012 2012
Wholesale Fundings	$ 303.8	$ 203.0
Retail Fundings	132.4	125.7
Correspondent Fundings	81.9	24.7
Brokered	13.8	11.6
Total Originations	$ 531.9	$ 365.0

For the three and six months ended June 30, 2012, the real estate services segment had net earnings of $4.0 million and $7.0 million, respectively, compared to $4.6 million and $8.3 million in the comparable period in 2011. During the three and six months ended June 30, 2012, real estate service fees decreased to $6.1 million and $11.0 million, respectively, as compared to $12.0 million and $23.5 million for the three and six months ended June 30, 2011, respectively, due to a decline in the long-term mortgage portfolio and the associated real estate and recovery activities and decrease in title and escrow fees. With the sale of the title insurance company in 2011, both title and escrow fees declined to zero during the three and six months ended June 30, 2012, as compared to $4.7 million and $9.0 million, respectively, as well as related expenses for these business activities declined as compared to the same periods in 2011. As expected the real estate service activities and revenues declined as lending activities and revenues increased from the recent expansion of the mortgage lending business.

In general, real estate activity in the nation seemed to show some encouraging signs as nationwide average of home prices have appeared to have hit a bottom and are starting to slowly bounce back, although home prices continued to decline in many parts of the United States during the first six months of 2012. Some positive news indicates that construction of new homes continued to grow in the second quarter, although at a slow rate. However, foreclosures remain one of the biggest risks to the housing market recovery. As the industry-wide compliance issues associated with foreclosures are resolved, an increase in foreclosures is expected which is expected to result in downward pressure and uncertainty in the housing market.

Although there has been some stabilization and improvement in defaults, the long-term portfolio continues to suffer losses and may continue for the foreseeable future until the real estate market becomes more stable, home prices improve across the United States, and there is a significant decline in the number of foreclosure properties in the market. At June 30, 2012, the Company’s residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) decreased to $23.0 million, compared to $26.5 million at December 31, 2011. The decrease in residual fair value for the six months ended June 30, 2012 was primarily due to $5.9 million in cash received from the residual interests, partially offset by a decrease in expected forward LIBOR interest rates and a reduction in the residual interest discount rate for some of the Company’s earlier vintage securitizations, which is used in the process to estimate the fair value of the long-term mortgage portfolio.

All of the above amounts which relate to March 31, 2012 or 2011, June 30, 2012 or 2011, the quarters or year-to-date periods then ended, or to April or May 2012 are unaudited.

Outlook

Mr. Joseph Tomkinson, Chairman and CEO of Impac Mortgage Holdings, Inc., stated, “We are very pleased to see that we have achieved profitability in mortgage lending, leading to consolidated profitability for the quarter. Even though we have seen great success in growing our mortgage origination volumes in the first half of the year, we expect volumes to grow going forward, but not at the same rate primarily due to our current capital and operational constraints. In late 2010, we started funding loans with a focus on building our mortgage lending business one step at a time. In the second quarter of 2012, we have shown the market we are capable of achieving success and have received the attention of significant mortgage market players including major financial institutions of which one has recently approved us as a credit counterparty for a warehouse line. Going forward we plan to continue growing our mortgage lending market share profitability in all origination channels, focusing on high credit quality mortgages sold directly to Fannie Mae, Freddie Mac, and Ginnie Mae.”

Second Quarter 2012 Earnings Conference Call

The Company has announced a conference call and live web cast on Wednesday, August 15, 2012 at 8:30 a.m. Pacific Time (11:30 a.m. Eastern Time). We will discuss our second quarter 2012 financial results, followed by a question and answer session. If you would like to participate in the conference call, you may listen by dialing (866) 838 - 8084, conference ID number 20499811, or access the web cast via our web site at http://ir.impaccompanies.com. To participate in the conference call, dial in fifteen minutes prior to the scheduled start time. The conference call will be archived on the Company's web site at http://ir.impaccompanies.com. You can subscribe to receive instant notification of news releases, events, presentations, and daily stock quotes by using our e-mail alert feature located at the web site under “Receive Email Alerts.”

Forward-Looking Statements

This press release contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward looking terminology, such as “may,” “will,” “believe,” “expect,” “likely,” ”appear,” “should,” “could,” “seem to,” “anticipate,” or similar terms or variations on those terms or the negative of those terms. The forward looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: the ongoing volatility in the mortgage industry; our ability to manage successfully through the current market environment; our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions; our ability to meet liquidity needs from current cash flows or generate new sources of revenue; management’s ability to manage successfully and grow the Company’s mortgage and real estate business activities including mortgage lending operations; the ability to make interest payments; increases in default rates or loss severities and mortgage related losses; our ability to obtain additional financing and the terms of any financing that we do obtain; inability to effectively liquidate properties to mitigate losses; increase in loan repurchase requests and ability to adequately settle repurchase obligations; decreases in the estimated fair value of our residual interests that differ from our assumptions; the ability of our common stock to continue trading in an active market; and the outcome of litigation or regulatory actions pending against us or other legal contingencies.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward looking statements, see Item 1A. “Risk Factors” and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the period ending December 31, 2011. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements

About the Company

Impac Mortgage Holdings, Inc. (IMH) is a publicly traded company with operations that include mortgage lending and portfolio loss mitigation and real estate services, as well as the management of the long-term mortgage portfolio, including the residual interest in securitizations, to mitigate losses and maximize cash flows.

For additional information, questions or comments, please call Justin Moisio in Investor Relations at (949) 475-3988 or email jmoisio@impaccompanies.com. Web site: http://ir.impaccompanies.com or www.impaccompanies.com

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