IMPAC MORTGAGE HOLDINGS INC
Form 10-K
March 20, 2014

Use these links to rapidly review the document
TABLE OF CONTENTS
CONSOLIDATED FINANCIAL STATEMENTS INDEX

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013 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)

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

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

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

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

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

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 ý 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

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 ý

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

As of June 30, 2013, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $66.0 million, based on the closing sales price of common stock on the NYSE MKT on June 28, 2013. For purposes of the calculation only, all directors and executive officers and beneficial holders of more than 10% of the stock of the registrant have been deemed affiliates. There were 9,069,927 shares of common stock outstanding as of March 13, 2014.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC.
2013 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

	PART I	
ITEM 1.	BUSINESS	1
ITEM 1A.	RISK FACTORS	14
ITEM 1B.	UNRESOLVED STAFF COMMENTS	28
ITEM 2.	PROPERTIES	28
ITEM 3.	LEGAL PROCEEDINGS	28
ITEM 4.	MINE SAFETY DISCLOSURES	31
	PART II	
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	32
ITEM 6.	SELECTED FINANCIAL DATA	32
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	33
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	68
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	68
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	69
ITEM 9A.	CONTROLS AND PROCEDURES	69
ITEM 9B.	OTHER INFORMATION	72
	PART III	
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	74
ITEM 11.	EXECUTIVE COMPENSATION	74
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	74
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	74
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	74
	PART IV	
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	74
SIGNATURES		75

Table of Contents

PART I

ITEM 1. BUSINESS

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

Forward-Looking Statements

This report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "likely," "should," "could," "seem to," "anticipate," "plan," "intend," "project," "assume," or similar terms or variations on those terms 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: our ability to manage effectively our mortgage lending operations and facilities; volatility in the mortgage industry and unexpected interest rate fluctuations and margin compression; our ability to successfully manage operating expenses and reduce redundant activities; our ability to successfully expand volumes in the warehouse lending business; failure to successfully launch or continue to market new loan products, such as non-qualified mortgages and HELOC loans; ability of wholesale brokers and correspondent sellers to implement mortgage compliance programs and market and sell our loan products; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; inability to hire qualified loan officers, account executives or transact with qualified correspondents; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing and the terms of any financing that we do obtain; increase in loan repurchase requests and ability to adequately settle repurchase obligations; adequate performance by sub-servicers; the failure to create and maintain brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies and our compliance with applicable local, state and federal laws and regulations, including the new qualified mortgage rules, and other general market and economic conditions.

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

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

Table of Contents

Available Information

Our internet website address is www.impaccompanies.com. We make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements for our annual stockholders' meetings, as well as any amendments to those reports, free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. You can learn more about us by reviewing our SEC filings on our website by clicking on "Investor Relations Stockholder Relations" located on our home page and proceeding to "SEC Filings." We also make available on our website, under "Corporate Governance," charters for the audit, compensation, and governance and nominating committees of our board of directors, our Code of Business Conduct and Ethics, our Corporate Governance Guidelines and other company information, including amendments to such documents and waivers, if any, to our Code of Business Conduct and Ethics. These documents will also be furnished, free of charge, upon written request to Impac Mortgage Holdings, Inc., Attention: Stockholder Relations, 19500 Jamboree Road, Irvine, California 92612. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including our Company.

Our Company

We are an established nationwide independent residential mortgage lender. We were founded in 1995 by members of our current management team, who have extensive experience and an established track record of operating our Company through multiple market cycles. We originate, sell and service residential mortgage loans. We primarily originate conventional mortgage loans eligible for sale to U.S. government-sponsored enterprises, or GSEs, including Fannie Mae, Freddie Mac, and government mortgage loans eligible for government securities issued through Ginnie Mae. We originate and acquire mortgage loans through our Correspondent, Wholesale and Retail origination channels. For the year ended December 31, 2013, we had $2.5 billion in origination volume, a slight increase over 2012.

Our primary operating segments are Mortgage Lending, Real Estate Services and the Long-Term Mortgage Portfolio. A description of each operating segment is presented below with further details and discussions of each segments' results of operations presented in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations."

Mortgage Lending As a nationwide mortgage lender, we are approved to originate and service Fannie Mae, Freddie Mac and Ginnie Mae eligible loans. We primarily originate, sell and service conventional, conforming agency and government insured residential mortgage loans originated or acquired through our three channels: Correspondent, Wholesale and to a lesser extent, Retail. Our mortgage lending operation generates origination and processing fees, net of origination costs, at the time of origination as well as gains or unexpected losses when the loans are sold to third party investors, including the GSEs and Ginnie Mae. We earn servicing fees, net of sub-servicer costs, from our mortgage servicing portfolio.

Real Estate Services We provide loss mitigation and real estate services primarily on our own long-term mortgage portfolio, including default surveillance, loan modification services, short sale services (where a lender agrees to take less than the balance owed from the borrower), real estate owned, or REO, surveillance and disposition services and monitoring, reconciling and reporting services for residential and multifamily mortgage portfolios. These operations are conducted by Excel.

Long-Term Mortgage Portfolio We manage our long-term mortgage portfolio, which primarily consists of residual interests in the securitization trusts reflected as trust assets and liabilities in our consolidated balance sheets, to mitigate losses and maximize cash flows from our residual interests (net trust assets). We receive cash flows from our residual interests in securitizations to the extent excess

Table of Contents

cash remains in the trusts after required distributions to bondholders and maintaining required overcollateralization levels are met and other specified parameters within the trusts.

Additionally, we have a corporate segment, which includes unallocated corporate and other administrative costs, that was previously included with the Long-Term Mortgage Portfolio in prior periods. We also have a discontinued operations segment that primarily includes legacy repurchase liability exposure and expenses and liabilities associated with litigation matters that pertain to our discontinued, non-conforming mortgage operations.

Today, we primarily operate as a residential mortgage lender and are focused on expanding our mortgage lending platform providing conventional and government-insured mortgage loans as well as opportunistically look to provide innovative products to meet the needs of borrowers in the dynamic mortgage compliance environment in which we operate. To a lesser extent, we provide real estate services and manage our long-term mortgage portfolio. The real estate service segment was created in 2008 to provide solutions to the distressed mortgage and real estate markets, including loan modifications, real estate disposition, monitoring and surveillance services and real estate brokerage. Since 2008, we developed and enhanced our service offerings by providing services to investors, servicers and individual borrowers primarily focusing on loss mitigation and performance of our own long-term mortgage portfolio. The long-term mortgage portfolio predominantly includes non-conforming mortgage loans originated between 2002 and 2007, and is decreasing in size from principal pay-downs and default liquidations. Since we are no longer adding new mortgage loans to the long-term mortgage portfolio, we expect that the real estate services and long-term mortgage portfolio segments will become less meaningful in the future, unless we are able to generate business from unrelated parties.

Recent Developments

In March 2014, Excel, our wholly-owned indirect subsidiary, changed its name to Impac Mortgage Corp. (Impac Mortgage). We changed the name to further build on the historically positive brand name of "Impac" as well as restore brand continuity with the name of our other Impac Companies.

In March 2014, we sold AmeriHome, which was a duplicative operational mortgage platform, for $10.2 million in cash, recording a gain of approximately $3.0 million dollars. In conjunction with the transaction, as required by Fannie Mae, we used $3.0 million of the proceeds to reduce our legacy repurchase liability with Fannie Mae.

In the fourth quarter of 2013, we shifted our mortgage lending focus to wholesale, correspondent and a centralized retail call center. We also consolidated our lending fulfillment centers to operate primarily in our Irvine, California office.

In the third quarter of 2013, we announced our re-entry into the residential warehouse lending business through our new division, Impac Warehouse Lending (www.impacwarehouse.com). This new division is expected to diversify our origination base and increase the capture rate of our approved correspondent sellers' business. Our warehouse lending group offers funding facilities to approved lenders. Our initial focus will be smaller mortgage bankers and credit unions, including some of our current correspondent customers. Offering warehouse lending provides added value for our correspondent customers, which we believe will increase the capture rate from our currently approved customers and increase volumes in our correspondent channel. In the first quarter of 2014, we are launching our new emerging banker warehouse lending program.

The mortgage lending industry is highly competitive, and may become more competitive as a result of legislative, regulatory, economic, and technological changes, as well as consolidation or

Table of Contents

expansion. Our competitors include money center banks, regional and community banks, thrifts, credit unions, real estate brokerage firms, mortgage brokers and mortgage banking companies.

In response to the increased compliance requirements, including the new qualified mortgage rules that took effect in January 2014, we have worked closely with our wholesale brokers and correspondent sellers to help them understand and implement procedures to be compliant with these new rules. Additionally, in response to lower volumes and the current compliance landscape, we are exploring new opportunities to provide additional mortgage products and services to meet the needs of our customers and borrowers. See further discussion in MD&A.

Our strategy during 2014 will be to return the Company to profitability and generate attractive, risk-adjusted returns for our stockholders over the long-term. In 2014, we will shift our channel focus to more business-to-business origination through our wholesale and correspondent channels focusing on (i) customer service, (ii) streamlining loan delivery, underwriting and funding and (iii) providing new loan products to meet the needs of our customers and (iv) loan quality. We expect to continue to originate conventional and government-insured loans as we believe that having the ability and substantial track record to sell loans directly to GSEs and issue Ginnie Mae securities makes us more competitive with regard to products, pricing and operational efficiencies. Further, we expect to offer expanded loan products beyond conventional and government-insured loan programs such as "non-qualified" mortgages that are expected to increase overall lending margins.

Furthermore, in 2013 we increased our mortgage servicing portfolio given the attractive characteristics of agency loans during a period of historically low interest rates and high credit quality which helps mitigate interest rate risk as well as creates a sustainable earning asset. On a selective basis, we have and will continue to strategically sell servicing to keep the amount of capital invested in servicing at acceptable levels while preserving capital needed for further growth.

Continuing Operations

Mortgage Lending Operations

Our mortgage lending activities primarily consist of the origination, sale and servicing of conventional loans eligible for sale to Fannie Mae and Freddie Mac, and government-insured loans eligible for Ginnie Mae securities issuance. We currently originate and fund mortgages through our wholly-owned indirect subsidiary, Impac Mortgage. In order to originate mortgage loans we must be able to finance them and hold them on our balance sheet until such loans are sold, generally within 10 to 15 days. In order to do this we must have lines of credit with banks (called warehouse lines) that allow us the short term funding required.

The following table presents selected data from our mortgage lending operations for the year ended December 31, 2013 and 2012.

	For the year ended December 31,		
(in millions)	**2013**	**2012**	**% Change**
Originations	$ 2,548.4	$ 2,419.7	5%
Servicing Portfolio	3,128.6	1,492.1	110%

Our mortgage lending business grew rapidly during 2012 and increased slightly in 2013 to $2.5 billion in terms of origination volumes as compared to $2.4 billion for the prior year. In 2013, our correspondent channel achieved the most significant growth as a percentage of total originations. As interest rates began to rise in May 2013, we saw the refinance volumes decline significantly. With the

Table of Contents

increase in rates, our lending volumes in the latter part of 2013 were lower than what we anticipated resulting in a net loss for the mortgage lending segment.

Our mortgage servicing portfolio continued to increase in 2013 from servicing-retained sales of conforming GSE-eligible loans and government-insured loans eligible for Ginnie Mae securities. In 2013, we sold $1.7 billion of conforming GSE-eligible loans and we issued $638.8 million of government securities through Ginnie Mae on a servicing retained basis. The servicing retained loan sales increased our mortgage servicing portfolio to $3.1 billion at December 31, 2013.

Three origination channels are utilized to originate or acquire mortgage loans Wholesale, Correspondent and Retail. Each channel produces similar mortgage loan products and applies similar underwriting standards. At December 31, 2013, we had one origination fulfillment center located in Irvine, California.

	For the year ended December 31,			
(in millions)	**2013**	**%**	**2012**	**%**
Originations by Channel:				
Wholesale	$ 971.2	38%	$ 1,293.2	53%
Correspondent	867.8	34%	391.2	17%
Retail	709.4	28%	735.3	30%
Total originations	$ 2,548.4	100%	$ 2,419.7	100%

Wholesale In a wholesale transaction, our account executives work directly with mortgage brokers who originate and document loans for delivery to one of our operational centers where we underwrite and fund the mortgage loan. Each loan is underwritten to our underwriting standards and if approved, the borrower is sent new disclosures under our name and the loan is funded in the name of Impac Mortgage. Prior to accepting loans from mortgage brokers, each mortgage broker is required to meet our guidelines for minimum experience, credit score and net worth. We also obtain a third-party due diligence report for each prospective broker that verifies licensing and provides information on any industry sanctions that might exist. In addition, each mortgage broker is required to sign our broker agreement that contains certain representations and warranties from the brokers. For the year ended December 31, 2013, we closed loans totaling $971.2 million in this origination channel, which equaled 38% of total originations, as compared to $1.3 billion or 53% of total originations during 2012.

Correspondent Our correspondent channel represents mortgage loans acquired from our correspondent sellers. Our correspondent channel has historically targeted a market of small banks, credit unions and small mortgage banking firms. Prior to accepting loans from correspondent sellers, each seller is underwritten to determine if it meets financial and other guidelines. Our review of each prospective seller includes obtaining a third party due diligence report that verifies licensing, insurance coverage, quality of recent FHA originations and provides information on any industry sanctions that might exist. In addition, each seller is required to sign our correspondent seller agreement that contains certain representations and warranties from the seller allowing us to require the seller to repurchase a loan sold to us for various reasons including (i) ineligibility for sale to GSEs, (ii) early payment default, (iii) early pay-off or (iv) if the loan is uninsurable by a government agency. In our correspondent channel, the correspondent seller originates and closes the loan. After the loan is originated, the correspondent seller provides the needed documentation and information to us to review and determine if it meets our underwriting guidelines. The loan is acquired by us only after we approve it for purchase. We focus on customer service for our clients by facilitating prompt review by our due diligence team, providing bid pricing on both newly originated and seasoned portfolios, enabling clients to deliver one loan at a time on a flow basis and providing clients with expedited funding timelines. We purchase conventional loans eligible for sale to the GSEs and government-insured loans eligible for Ginnie Mae securities. For the

Table of Contents

year ended December 31, 2013, we closed loans totaling $867.8 million in the correspondent origination channel, which equaled 34% of total originations, compared to $391.2 million or 17% of total originations during 2012.

Retail Beginning in January 2014, we originate retail loans with a more centralized approach through our call center. When loans are originated on a retail basis, the origination documentation is completed inclusive of customer disclosures and other aspects of the lending process and funding of the transaction is completed internally. Our call center representatives contact borrowers through either inbound or outbound marketing campaigns sourced from purchase-money and refinance mortgage leads along with portfolio retention within our servicing portfolio. In 2013, we also originated retail loans at a loss through several branch offices. In the fourth quarter of 2013, in an effort to improve profitability, we sold the branches. For the year ended December 31, 2013, including the retail branches we closed $709.4 million of loans in this origination channel, which equaled 28% of total originations, as compared to $735.3 million or 30% of total originations during 2012.

Since 2011, we have provided loans to customers predominantly in the Western U.S. with California, Oregon and Washington comprising 61% of originations in 2013. Currently we provide nationwide lending with our retail call center and our correspondent sellers and mortgage brokers. We have one primary loan origination fulfillment center in Irvine, California.

Originations

Our loan products primarily include conventional loans for Fannie Mae and Freddie Mac and government loans insured by Federal Housing Authority (FHA), Veteran's Administration (VA) and U.S. Department of Agriculture (USDA). We have also enhanced our product offering to include more loan products less sensitive to changing interest rates, including FHA 203(k), a home improvement loan that provides the borrower funds to make renovations, reverse mortgages, intermediate Adjustable Rate Mortgages and GSE and government-insured loan programs such as Home Affordable Refinance Program (HARP) loans which help timely paying borrowers to refinance into a loan with a lower interest rate despite the loan balance being greater than the estimated fair value of their home. We believe that these loan products will prepay at a slower rate as compared to other products. By retaining these loan products in our servicing portfolio, we expect to maintain a less volatile mortgage servicing portfolio. Originations by loan type for 2013 and 2012 are as follows.

	For the year ended December 31,		
(in millions)	**2013**	**2012**	**% Change**
Government (1)	$ 731.4	$ 703.7	4%
Conventional (2)	1,788.0	1,653.2	8%
Other	29.0	62.8	-54%
Total originations	$ 2,548.4	$ 2,419.7	5%

(1) Includes government-insured loans including FHA, VA and USDA

(2) Includes loans eligible for sale to Fannie Mae and Freddie Mac

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

We sell our mortgage loans to the secondary market, including sales to the GSEs and issuing securities through Ginnie Mae. We primarily sell loans on a servicing-retained basis where the loan is sold to an investor such as Fannie Mae, and we retain the right to service that loan, called mortgage servicing rights or MSRs. We also "sell" loans to Ginnie Mae by issuing Ginnie Mae securities through a

Table of Contents

process whereby a pool of loans is transferred to Ginnie Mae as collateral for a government mortgage-backed security. Additionally, we sell our residential mortgage loans on a whole loan basis where the investor also acquires the servicing rights.

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

	For the year ended December 31,	
(in millions)	**2013**	**2012**
Fannie Mae	$ 1,497.3	$ 1,504.8
Freddie Mac	227.9	608.3
Ginnie Mae	638.8	99.0
Total servicing retained sales	$ 2,364.0	$ 2,212.1
Other (servicing released)	102.6	89.9
Total loan sales	$ 2,466.6	$ 2,302.0

Mortgage Servicing

Upon our sale of loans to GSEs or the issuance of securities through Ginnie Mae, we generally retain the servicing rights with respect to the mortgage loans. We also sell loans on a servicing-released basis to secondary market investors where we do not retain the servicing rights. When we retain servicing rights, we are entitled to receive a servicing fee which is collected from interest payments made by the borrower and paid to us on a monthly basis equal to a specified percentage, typically between 0.25% and 0.44% per annum of the outstanding principal balance of the loans. We may also be entitled to receive additional servicing compensation, such as late payment fees and earn additional income through the use of non-interest bearing escrows. As a mortgage servicer, we are required to advance certain amounts to meet the contractual loan servicing requirements for certain investors. We advance principal, interest, property taxes and insurance for borrowers that have insufficient escrow accounts, plus any other costs to preserve the property. Also, we will advance funds to maintain, repair and market foreclosed real estate properties.

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

During 2013, the mortgage servicing portfolio increased to $3.1 billion from $1.5 billion at the end of 2012, generating gross servicing fees of $6.8 million, and $3.0 million in 2013 and 2012, respectively.

Risk Management

Underwriting

We primarily originate residential first mortgage loans for sale that conformed to the respective underwriting guidelines established by Fannie Mae, Freddie Mac, FHA, VA and USDA. Our mortgage

loans are underwritten individually on a loan-by-loan basis. Each mortgage loan originated from our retail and wholesale channel are underwritten by one of our in-house loan underwriters or by a third party contract underwriter using our underwriting guidelines. Each mortgage loan originated from our correspondent channel is reviewed internally or by a third party underwriting company to determine if the borrower meets our underwriting guidelines.

Our criteria for underwriting generally include, but are not limited to, full documentation of borrower's income, assets, other relevant financial information, the specific agency's eligible loan-to-value ratios, borrower's debt-to-income ratio and full appraisals when required. Variances from any of these standards are permitted only to the extent allowable under the specific program requirements. Our underwriting procedures for all retail and wholesale loans require the use of a GSE automated underwriting systems (AUS). Our underwriting procedures for all correspondent loans that have been originated by a correspondent seller includes a third party file review including verification that the borrower's credit and the collateral meets our applicable program guidelines and an appropriate AUS report has been completed. They also verify the loan is compliant with regulatory guidelines. In addition, the third-party performs pre-funding quality control procedures prior to acquisition. Management reviews the reports prior to the acquisition of any correspondent loan.

Quality Control

Our mortgage brokers, within our wholesale channel and our correspondent sellers are reviewed and approved prior to the acquisition or origination of any loans. Each seller is required to sign our correspondent seller agreement that contains certain representations and warranties from the seller requiring the seller to repurchase a loan sold to us for various reasons including loan ineligibility for sale to GSEs or if the loan is uninsurable by a government agency. Each broker is required to sign our broker agreement that contains certain representations and warranties from the broker requiring the broker to indemnify us for various reasons including early payment defaults or early pay-offs which may lead to repurchase requests and reimbursement of premiums to our investors.

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

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

Hedging

We are exposed to interest rate risks relating to our mortgage lending operations. Our strategy is to mitigate the credit, market and interest rate risk from loan originations by either selling newly originated loans to GSEs or issuing Ginnie Mae mortgage-backed securities. We typically attempt to sell our mortgage loans within 10 to15 days from acquisition or origination.

Table of Contents

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

Data Security

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

Real Estate Services

We provide loss mitigation and recovery services primarily on our long-term mortgage portfolio. Our portfolio loss mitigation and real estate services operations include the following services:

- Default surveillance and loss recovery services for residential and multifamily mortgage portfolios (primarily our own long-term mortgage portfolio) for loan servicers and investors to assist them with overall portfolio performance and maximizing cash recovery;

- Loan modification solutions to individual borrowers. We interact with loan servicers on behalf of the borrowers to assist them in lowering the monthly mortgage payments, which allows them to make their mortgage payments and possibly remain in their homes. We earn fees for these services once the modification is completed;

- REO surveillance and disposition services. We provide these services to portfolio managers and servicers to assist them with improving portfolio performance by maximizing liquidation proceeds from managing foreclosed real estate assets. We also provide short sale (where a lender agrees to take less than the balance owed from the borrower) services on pre-foreclosure properties for servicers, investors and institutions with distressed and delinquent residential and multifamily mortgage portfolios, these services also included real estate brokerage services; and

- Monitoring, reconciling and reporting services for residential and multifamily mortgage portfolios for investors and servicers.

We intend to continue to provide these services predominantly for our long-term mortgage portfolio. We expect these revenues to gradually decline over time as our long-term mortgage portfolio declines. To the extent that opportunities arise, we may expand our loss mitigation and real estate services to third parties.

Long-Term Mortgage Portfolio

Our long-term mortgage portfolio consists of our residual interests in securitizations represented on our consolidated balance sheet as the difference between total trust assets and total trust liabilities.

Our long-term mortgage portfolio includes adjustable rate and, to a lesser extent, fixed rate Alt-A single-family residential mortgages and commercial (primarily multifamily residential loans) mortgages that were acquired and originated primarily by our discontinued, non-conforming mortgage lending operations and retained in our long-term portfolio before 2008. Alt-A mortgages are primarily first lien

mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines but have loan characteristics that make them non-conforming under those guidelines.

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

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

Historically, we securitized mortgages in the form of collateralized mortgage obligations, or CMOs, which were consolidated and accounted for as secured borrowings for financial statement purposes. Securitized mortgages in the form of real estate mortgage investment conduits, or REMICs, were either consolidated or unconsolidated depending on the design of the securitization structure. We consolidated the variable interest entity, or VIE, as the primary beneficiary of the sole residual interest in each securitization trust where we also performed the master servicing. Amounts consolidated were included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets. At December 31, 2013, our residual interests in securitizations (represented by the difference between total trust assets and total trust liabilities) decreased to $10.6 million, compared to $15.9 million at December 31, 2012.

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

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

Master Servicing

Until 2007, we retained master servicing rights on substantially all of our non-conforming single-family residential and commercial mortgage acquisitions and originations that were retained or sold through securitizations. The function of a master servicer includes collecting loan payments from loan servicers and remitting loan payments, less master servicing fees receivable and other fees, to a trustee or other purchaser for each series of mortgage-backed securities or mortgages master serviced. In addition, as master servicer, we monitor compliance with the servicing guidelines and perform or contract with third parties to perform all functions not adequately performed by any loan servicer. The master servicer is also required to advance funds, or cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages, but only to the extent that it is determined that such advances are recoverable either from the borrower or from the liquidation of the property. Master servicing fees are generally 0.03% per

Table of Contents

annum on the unpaid principal balance of the mortgages serviced. As a master servicer, we also earn income or incur expense on principal and interest payments received from borrowers until those payments are remitted to the investors of those mortgages. Fees from the master servicing portfolio have declined significantly due to a decrease in principal balances and a decline in interest rates since the end of 2008, which affects the amount we earn on balances held in custodial accounts. At December 31, 2013, we were the master servicer for approximately 32,000 mortgages with an unpaid principal balance of approximately $8.7 billion of which $2.1 billion of those loans were 60 or more days delinquent. At December 31, 2013, we were also the master servicer for unconsolidated securitizations (included in the total master servicing portfolio above) totaling approximately $1.1 billion in unpaid principal balance of which $0.4 billion of those loans were 60 or more days delinquent. Fees earned from master servicing are separate from those earned from mortgage servicing which are generated from servicing rights from new originations since 2011.

Corporate

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

At our corporate headquarters in Irvine, California, we occupy office space under our lease agreement. The leased office space includes office space we are attempting to sublet as well as space we are maintaining for future growth. The cost of unused space is recorded in the corporate segment since it is not attributed to mortgage lending or real estate services segments.

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