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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 March 31, 2012

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 x 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 7,845,146 shares of common stock outstanding as of May 11, 2012.

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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

(in thousands, except share data)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 7,302	$ 7,653
Restricted cash	1,404	5,019
Trust assets		
Investment securities available-for-sale	189	688
Securitized mortgage collateral	5,573,365	5,449,001
Derivative assets	38	37
Real estate owned	50,064	56,467
Total trust assets	5,623,656	5,506,193
Mortgage loans held-for-sale	58,916	61,718
Assets of discontinued operations	316	264
Other assets	32,398	31,193
Total assets	$ 5,723,992	$ 5,612,040
LIABILITIES		
Trust liabilities		
Securitized mortgage borrowings	$ 5,579,512	$ 5,454,901
Derivative liabilities	21,685	24,786
Total trust liabilities	5,601,197	5,479,687
Warehouse borrowings	55,415	58,691
Long-term debt	12,163	11,561
Notes payable	6,797	5,182
Liabilities of discontinued operations	9,966	9,932
Other liabilities	11,895	15,890
Total liabilities	5,697,433	5,580,943
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 March 31, 2012 and December 31, 2011, 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 March 31, 2012 and December 31, 2011, respectively		14		14
Common stock, $0.01 par value; 200,000,000 shares authorized; 7,835,746 and 7,814,946 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		78		78
Additional paid-in capital		1,076,799		1,076,723
Net accumulated deficit:				
Cumulative dividends declared		(822,520)		(822,520)
Retained deficit		(229,124)		(224,334)
Net accumulated deficit		(1,051,644)		(1,046,854)
Total Impac Mortgage Holdings, Inc. stockholders equity		25,254		29,968
Noncontrolling interests		1,305		1,129
Total equity		26,559		31,097
Total liabilities and stockholders equity	$	5,723,992	$	5,612,040

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 March 31, 2012	2011
INTEREST INCOME	$ 142,792	$ 218,082
INTEREST EXPENSE	141,738	216,547
Net interest income	1,054	1,535
NON-INTEREST INCOME:		
Change in fair value of net trust assets, excluding REO	6,400	4,896
Losses from REO	(9,427)	(4,249)
Non-interest (loss) income - net trust assets	(3,027)	647
Mortgage and real estate services fees	14,036	12,240
Other	(615)	(17)
Total non-interest income	10,394	12,870
NON-INTEREST EXPENSE:		
Personnel expense	10,485	10,766
General, administrative and other	4,219	4,579
Total non-interest expense	14,704	15,345
Loss from continuing operations before income taxes	(3,256)	(940)
Income tax expense from continuing operations	30	12
Loss from continuing operations	(3,286)	(952)
Loss from discontinued operations, net of tax	(1,268)	(350)
Net loss	(4,554)	(1,302)
Net (earnings) loss attributable to noncontrolling interests	(236)	315
Net loss attributable to IMH	$ (4,790)	$ (987)
Loss per common share - basic and diluted:		
Loss from continuing operations attributable to IMH	$ (0.45)	$ (0.08)
Loss from discontinued operations	(0.16)	(0.04)
Net loss per share available to common stockholders	$ (0.61)	$ (0.12)

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 Three Months Ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,554)	$ (1,302)
Losses from REO	9,427	4,249
Extinguishment of debt	423	
Change in fair value of mortgage servicing rights	(257)	99
Gain on sale of loans	(8,650)	(90)
Change in fair value of mortgage loans held-for-sale	533	(625)
Provision for repurchases	293	117
Origination of mortgage loans held-for-sale	(354,033)	(53,444)
Sale and principal reduction on mortgage loans held-for-sale	362,498	26,554
Change in fair value of net trust assets, excluding REO	(10,167)	(21,950)
Change in fair value of long-term debt	93	(238)
Accretion of interest income and expense	69,553	87,158
Change in REO impairment reserve	(7,785)	(10,305)
Stock-based compensation	67	76
Net change in restricted cash	3,615	(1,012)
Amortization of discount on note payable	89	
Net cash provided by (used in) operating activities of discontinued operations	26	(1,076)
Net change in other assets and liabilities	1,340	(1,741)
Net cash provided by operating activities	62,511	26,470
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	136,934	178,988
Net change in mortgages held-for-investment	3	3
Purchase of premises and equipment	(33)	(351)
Net principal change on investment securities available-for-sale	69	56
Proceeds from the sale of real estate owned	26,763	49,736
Net cash provided by investing activities	163,736	228,432
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of warehouse borrowings	(350,228)	(25,675)
Borrowings under warehouse agreement	346,952	55,884
Repayment of line of credit	(5,500)	
Borrowings under line of credit	1,500	
Repayment of securitized mortgage borrowings	(220,239)	(287,146)
Issuance of note payable	7,500	
Principal payments on notes payable	(6,457)	(1,826)
Principal payments on capital lease	(91)	
Proceeds from exercise of stock options	9	
Net cash used in financing activities	(226,554)	(258,763)

Net change in cash and cash equivalents		(307)		(3,861)
Cash and cash equivalents at beginning of year		7,665		11,620
Cash and cash equivalents at end of year - continuing operations		7,302		7,750
Cash and cash equivalents at end of year - discontinued operations		56		9
Cash and cash equivalents at end of year	$	7,358	$	7,759
NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):				
Transfer of securitized mortgage collateral to real estate owned	$	22,002	$	25,735
Acquisition of equipment purchased through capital leases		199		

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) and Impac Funding Corporation (IFC).

The Company s continuing operations include the mortgage and real estate fee-based business activities conducted by IRES and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets.) The discontinued operations include the former non-conforming mortgage and retail operations conducted by IFC and subsidiaries.

The information set forth in these notes is presented on a continuing operations basis, unless otherwise stated.

Market Update and Liquidity

While there were positive economic signs during the first quarter of 2012, the United States economy continues to face a number of challenges. Employment conditions began to show signs of improvement during the first quarter. Unemployment continues to be on a favorable downward trend, although still remains high above 8%. However, according to the Wall Street Journal, most of the declines were due to more Americans leaving the work force. As economic recovery continues at a slow rate, Federal Reserve policymakers currently anticipate that economic conditions are likely to warrant exceptionally low levels for the federal funds interest rate at least through late 2014.

Real estate activity showed some encouraging signs of stability although home prices continued to decline in many parts of the U.S. during the first quarter. Although the pace of new foreclosures has fallen from its peak, in part due to industry-wide compliance issues, further declines in home prices may be necessary before substantial progress in reducing the inventory of homes occurs. Serious threats to economic growth remain however, including continued pressure and uncertainty in the housing market and elevated unemployment levels. Although the economy added jobs in 2012, the pace of new job creation continues to be slower than needed to meaningfully reduce unemployment. As a result, there continues to be uncertainty as to how pronounced the economic recovery will be and whether it can be sustained.

The Company believes that current cash balances, cash flows from its mortgage lending activities, mortgage 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 current operating needs. However, the Company believes the mortgage lending and real estate services markets are volatile, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which have offices in the Company s market area as well as operations throughout the United States. The Company competes for loans principally on the basis of the interest rates and loan fees charged, the types of loans originated and the quality of services provided to borrowers. Additionally, competition for real estate recovery services, loss mitigation servicing, loan modification services and other portfolio services has increased due to the unprecedented difficult mortgage environment and severe credit tightening, coupled with the stagnant economy. The Company s competitors include large mortgage servicers, established special servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market the Company s ability to provide mortgage and real estate services for others is more difficult than many of its competitors because the Company has not historically provided such services to unrelated third parties, and the Company is not a rated primary or special servicer of residential mortgage loans as designated by a rating agency. Additionally, performance of the long-term mortgage portfolio is subject to the continued deterioration in the real estate market and current economic conditions. Cash flows from the residual interests in securitizations can be volatile, because they are sensitive to delinquencies, defaults and credit losses associated with the securitized loans and interest rates associated with the securitized bonds. Losses in excess of current estimates will reduce the residual interest cash receipts from the long-term mortgage portfolio.

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

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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 months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011, 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, mortgage servicing rights and mortgage loans held-for-sale. Actual results could differ from those estimates and assumptions.

Recently Adopted Accounting Pronouncements

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment.* Under this new standard, entities testing goodwill for impairment now have an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. This ASU was effective beginning January 1, 2012, with early adoption permitted under certain conditions. The adoption of this standard did not have a material impact on the Company s consolidated results of operations or financial condition.

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 amends guidance listed under ASC Topic 820, *Fair Value Measurement*, and represents the converged guidance of the FASB and the International Accounting Standards Board on fair value measurement. This Update also permits entities to measure fair value on a net basis for financial instruments that are managed based on net exposure to market risks and/or counterparty credit risk. ASU 2011-04 requires new disclosures for financial instruments classified as Level 3, including: 1) quantitative information about unobservable inputs used in measuring fair value, 2) qualitative discussion of the sensitivity of fair value measurements to changes in unobservable inputs, and 3) a description of valuation processes used. This update also requires disclosure of fair value levels for financial instruments that are not recorded at fair value but for which fair value is required to be disclosed. ASU 2011-04 became effective prospectively for interim and annual periods beginning after December 15, 2011. The Company has conformed to the new disclosures required in ASU 2011-04 during the first quarter of 2012.

Legal Proceedings

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any case, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company s maximum loss exposure. At March 31, 2012, the Company does not have an accrued liability recorded for such estimated loss exposure.

Based on the Company s current understanding of these pending legal actions and proceedings, management cannot ascertain whether the judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company s control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company s results of operations or cash flows for any particular reporting period.

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Updates to legal matters since the filing of our Form 10-K for the year ended December 31, 2011 are as follows:

On April 30, 2012 a matter was filed in the Superior Court of the State of California, Orange County entitled Rene Marentes and Martha Marentes v. Impac Mortgage Holdings, Inc. The complaint is a putative class action matter contending that certain loan modification activities of the company constitute an unfair business practice, that they constitute false advertising and marketing and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney s fees and pre-judgment interest.

On May 26, 2011, a matter was filed in the United States District Court, Central District of California as Case No. CV11-4514 DSF entitled Citigroup Global Markets, Inc. v. Impac Secured Assets Corp., Impac Funding Corporation and Impac Mortgage Holdings, Inc. The action alleges a violation of Section 18 and Section 20 of the Securities and Act of 1933 and negligent misrepresentation, all involved in the issuance and sale of bonds from a securitization trust. The plaintiff alleges they relied on certain documents filed with the Securities and Exchange Commission (SEC) that were subsequently the subject of an amended filing. The matter seeks unspecified damages, interest, legal fees and litigation expenses. On May 3, 2012, the Court granted a motion by the plaintiffs for partial summary judgment except with respect to the negligent misrepresentation claim against Impac Mortgage Holdings, Inc.

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.

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

	March 31, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 7,302	$ 7,302	$ 7,653	$ 7,653
Restricted cash	1,404	1,404	5,019	5,019
Investment securities available-for-sale	189	189	688	688
Securitized mortgage collateral	5,573,365	5,573,365	5,449,001	5,449,001
Derivative assets, securitized trusts	38	38	37	37
Derivative assets, lending	1,674	1,674	1,179	1,179
Mortgage servicing rights	4,807	4,807	4,141	4,141
Mortgage loans held-for-sale	58,916	58,916	61,718	61,718
Call option	280	280	253	253
Liabilities				
Securitized mortgage borrowings	5,579,512	5,579,512	5,454,901	5,454,901
	21,685	21,685	24,786	24,786

Derivative liabilities, securitized trusts				
Derivative liabilities, lending			624	624
Long-term debt	12,163	12,163	11,561	11,561
Warehouse borrowings	55,415	55,415	58,691	58,691
Notes payable	6,797	6,797	5,182	5,941
Line of credit			4,000	4,000

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.

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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.

Refer to *Recurring Fair Value Measurements* below for a description of the valuation methods used to determine the fair value of investment securities available for sale, securitized mortgage collateral and borrowings, derivative assets and liabilities, long-term debt, mortgage servicing rights, 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 and do not present unanticipated interest rate or credit concerns.

Line of credit fair value approximates carrying amount due to the short-term nature of the liability and does 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.

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 March 31, 2012 and December 31, 2011.

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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 months ended March 31, 2012.

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 March 31, 2012 and December 31, 2011, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	March 31, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment securities available-for-sale	$	$	$ 189	$	$	$ 688
Mortgage loans held-for-sale		58,916			61,718	
Derivative assets, net, lending (1)		1,674			555	
Mortgage servicing rights (2)			4,807			4,141
Call option (2)			280			253
Securitized mortgage collateral			5,573,365			5,449,001
Total assets at fair value	$	$ 60,590	$ 5,578,641	$	$ 62,273	$ 5,454,083
Liabilities						
Securitized mortgage borrowings	$	$	$ 5,579,512	$	$	$ 5,454,901
Derivative liabilities, net, securitized trusts (3)			21,647			24,749
Long-term debt			12,163			11,561
Total liabilities at fair value	$	$	$ 5,613,322	$	$	$ 5,491,211

(1) At March 31, 2012, derivative assets, net, lending, included $1.6 million in interest rate lock commitments (IRLCs) and $118 thousand in hedging instruments, respectively, associated with the Company s mortgage lending operations, and is included in other assets and other liabilities in the accompanying consolidated balance sheets.

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

(3) At March 31, 2012, derivative liabilities, net securitized trusts, included $38 thousand in derivative assets and $21.7 million in derivative liabilities, included within trust assets and trust liabilities, respectively. At December 31, 2011, derivative liabilities, net securitized trusts, included $37 thousand in derivative assets and $24.8 million in derivative liabilities, included within trust assets and trust liabilities, respectively.

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 months ended March 31, 2012 and 2011:

Level 3 Recurring Fair Value Measurements
For the three months ended March 31, 2012

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Mortgage servicing rights	Call option	Long-term debt
Fair value, December 31, 2011	$ 688	$ 5,449,001	$ (5,454,901)	$ (24,749)	$ 4,141	$ 253	$ (11,561)
Total gains (losses) included in earnings:							
Interest income (1)	13	51,940					
Interest expense (1)			(120,997)				(509)
Change in fair value	(443)	231,360	(223,956)	(561)	257	27	(93)
Total gains (losses) included in earnings	(430)	283,300	(344,953)	(561)	257	27	(602)
Transfers in and/or out of Level 3							
Purchases, issuances and settlements							
Purchases							
Issuances					2,454		
Settlements	(69)	(158,936)	220,342	3,663	(2,045)		
Fair value, March 31, 2012	$ 189	$ 5,573,365	$ (5,579,512)	$ (21,647)	$ 4,807	$ 280	$ (12,163)
Unrealized gains (losses) still held (2)	$ 72	$ (3,685,532)	$ 5,694,493	$ (20,884)	$	$	$ 58,600

(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 $1.1 million for the three months ended March 31, 2012, 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 March 31, 2012.

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Level 3 Recurring Fair Value Measurements
For the three months ended March 31, 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)	28	107,369						
Interest expense (1)			(194,015)					(540)
Change in fair value	(202)	139,446	(137,278)	2,930	(99)	(223)		238)
Total gains (losses) included in earnings	(174)	246,815	(331,293)	2,930	(99)	(223)		(302)
Transfers in and/or out of Level 3								
Purchases, issuances and settlements								
Purchases								
Issuances								
Settlements	(56)	(204,724)	287,461	16,741				
Fair value, March 31, 2011	$ 415	$ 6,053,766	$ (6,056,577)	$ (46,205)	$ 1,340	$ 483	$ (61)	$ (12,030)
Unrealized gains (losses) still held (2)	$ 202	$ (4,342,090)	$ 6,222,257	$ (46,475)	$	$	$	$ 58,733

(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 $1.5 million for the three months ended March 31, 2011, as reflected in the accompanying consolidated statement of operations.

(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 March 31, 2011.

The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and non-recurring basis at March 31, 2012.

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs
Assets and liabilities backed by real estate				
Investment securities available-for-sale,	$ 189		Discount rates	6.00 - 30.0%
Securitized mortgage collateral, and	5,573,365	DCF	Prepayment rates	0.9 - 15.5%
Securitized mortgage borrowings	(5,579,512)		Default rates	0.23 - 8.2%
			Loss severities	15.4 - 71.8%
Other assets and liabilities				
Mortgage servicing rights	$ 4,807	DCF	Discount rate	12.0%
			Prepayment rates	11.9 - 14.7%
Derivative liabilities, net, securitized trusts	(21,647)	DCF	1M forward LIBOR	0.24 - 3.8%

Long-term debt	(12,163)	DCF	Discount rate	25.0%
Lease Liability	(2,201)	DCF	Discount rate	12.0%

DCF = Discounted Cash Flow

1M = 1 Month

For assets and liabilities backed by real estate, a significant increase in discount rates, default rates or loss severities would result in a significantly lower estimated fair value. The impact of changes in prepayment speeds would have differing impacts depending on the seniority or other characteristics of the instrument. For other assets and liabilities, a significant increase in discount rates would result in a significantly lower estimated fair value. A significant increase in one-month LIBOR would result in a significantly higher estimated fair value for derivative liabilities, net, securitized trusts. The Company believes that the imprecision of an estimate could be significant.

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The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three months ended March 31, 2012 and 2011:

Recurring Fair Value Measurements
Change in Fair Value Included in Net Earnings
For the three months ended March 31, 2012

	Interest Income (1)	Interest Expense (1)	Change in Fair Value of Net Trust Assets	Change in Fair Value of Long-term Debt	Other Non-interest Income	Mortgage and real estate services fees	Total
Investment securities available-for-sale	$ 13	$	$ (443)	$	$	$	$ (430)
Securitized mortgage collateral	51,940		231,360				283,300
Securitized mortgage borrowings		(120,997)	(223,956)				(344,953)
Mortgage servicing rights					257		257
Call option					27		27
Derivative liabilities, net			(561) (2)				(561)
Long-term debt		(509)		(93)			(602)
Mortgage loans held-for-sale						(534)	(534)
Derivative assets - IRLCs						377	377
Derivative liabilities - Hedging Instruments						742	742
Total	**$ 51,953**	**$ (121,506)**	**$ 6,400** (3)	**$ (93)**	**$ 284**	**$ 585**	**$ (62,377)**

(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.

(2) Included in this amount is $3.2 million in change in the fair value of derivative instruments, offset by $3.8 million in cash payments from the securitization trusts for the three months ended March 31, 2012.

(3) For the three months ended March 31, 2012, change in the fair value of trust assets, excluding REO was $6.4 million. Excluded from the $10.2 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is $3.8 million in cash payments from the securitization trusts related to the Company s net derivative liabilities.

Recurring Fair Value Measurements
Change in Fair Value Included in Net Loss
For the three months ended March 31, 2011

	Interest Income (1)	Interest Expense (1)	Change in Fair Value of Net Trust Assets	Change in Fair Value of Long-term Debt	Other Non-interest Income	Mortgage and real estate services fees	Total
Investment securities available-for-sale	$ 28	$	$ (202)	$	$	$	$ (174)
	107,369		139,446				246,815

Securitized mortgage collateral							
Securitized mortgage borrowings		(194,015)	(137,278)				(331,293)
Mortgage servicing rights					(99)		(99)
Call option					(223)		(223)
Derivative liabilities, net			2,930 (2)				2,930
Long-term debt		(540)		238			(302)
Mortgage loans held-for-sale						625	625
Total	**$ 107,397**	**$ (194,555)**	**$ 4,896** (3)	**$ 238**	**$ (322)**	**$ 625**	**$ (81,721)**

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(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.

(2) Included in this amount is $20.0 million in change in the fair value of derivative instruments, offset by $17.1 million in cash payments from the securitization trusts for the three months ended March 31, 2011.

(3) For the three months ended March 31, 2011, change in the fair value of trust assets, excluding REO was $4.9 million. Excluded from the $22.0 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is $17.1 million in cash payments from the securitization trusts related to the Company s net derivative liabilities.

The following is a description of the measurement techniques for items recorded at estimated fair value on a recurring basis.

Investment securities available-for-sale Investment securities available-for-sale are carried at fair value. The investment securities consist primarily of non-investment grade mortgage-backed securities. The fair value of the investment securities is measured based upon the Company s expectation of inputs that other market participants would use. Such assumptions include judgments about the underlying collateral, prepayment speeds, future credit losses, forward interest rates and certain other factors. Given the market disruption and lack of observable market data as of March 31, 2012 and December 31, 2011, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants assumptions. Investment securities available-for-sale are considered a Level 3 measurement at March 31, 2012.

Mortgage servicing rights The Company elected to carry all of its mortgage servicing rights arising from its mortgage loan origination operation at fair value. The fair value of mortgage servicing rights is based upon an internal discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at March 31, 2012.

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Mortgage loans held-for-sale The Company elected to carry its mortgage loans held-for-sale originated from its mortgage loan origination operation at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for conforming mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at March 31, 2012.

Call option As part of the acquisition of AmeriHome as more fully discussed in Note 21. *Business Combinations* of our Annual Report on Form 10-K for the year ended December 31, 2011, the purchase agreement included a call option to purchase an additional 39% of AmeriHome. The estimated fair value is based on a multinomial model incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. The call option is considered a Level 3 measurement at March 31, 2012.

Put option As part of the acquisition of AmeriHome, a put option which allows the noncontrolling interest holder to sell his remaining 49% of AmeriHome to the Company in the event the Company does not exercise the call option discussed above. The estimated fair value is based on a multinomial model incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. The put option is considered a Level 3 measurement at March 31, 2012.

Securitized mortgage collateral The Company elected to carry all of its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company s internal models used to compute the net present value of future expected cash flows, with observable market participant assumptions, where available. The Company s assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2012, securitized mortgage collateral had an unpaid principal balance of $9.3 billion, compared to an estimated fair value of $5.6 billion. The aggregate unpaid principal balance exceeds the fair value by $3.7 billion at March 31, 2012. As of March 31, 2012, the unpaid principal balance of loans 90 days or more past due was $1.6 billion compared to an estimated fair value of $0.5 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by $1.1 billion at March 31, 2012. Securitized mortgage collateral is considered a Level 3 measurement at March 31, 2012.

Securitized mortgage borrowings The Company elected to carry all of its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements are based on the Company s internal models used to compute the net present value of future expected cash flows, with observable market participant assumptions, where available. Fair value measurements include the Company s judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2012, securitized mortgage borrowings had an outstanding principal balance of $9.4 billion compared to an estimated fair value of $5.6 billion. The aggregate outstanding principal balance exceeds the fair value by $3.8 billion at March 31, 2012. Securitized mortgage borrowings is considered a Level 3 measurement at March 31, 2012.

Long-term debt The Company elected to carry all of its long-term debt (consisting of trust preferred securities and junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company s own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of March 31, 2012, long-term debt had an unpaid principal balance of $70.5 million compared to an estimated fair value of $12.2 million. The aggregate unpaid principal balance exceeds the fair value by $58.3 million at March 31, 2012. The long-term debt is considered a Level 3 measurement at March 31, 2012.

Derivative assets and liabilities, Securitized trusts For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair values measurements include the Company s judgments about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account the Company s own credit standing, to the extent applicable; thus, the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract. As of March 31, 2012, the notional balance of derivative assets and liabilities, securitized trusts was $1.3 billion. These derivatives are included in the consolidated securitization trusts, which are nonrecourse to the Company, and thus the economic risk from these derivatives is limited to the Company s residual interests in the securitization trusts. Derivative assets and liabilities, securitized trusts are considered a Level 3 measurement at March 31, 2012.

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Derivative assets and liabilities, Lending The Company s derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivative assets are IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments. The derivative liabilities are Hedging Instruments used to hedge the fair value changes associated with changes in interest rates relating to its mortgage loan origination operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value is based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities, lending as a Level 2 measurement at March 31, 2012.

The following table includes information for the derivative assets and liabilities lending for the periods presented:

		Notional Balance March 31, 2012	Total Gains (Losses) For the Three Months Ended March 31, 2012 (1)
Derivative assets - IRLC s	$	138,675	377
Derivative liabilities - TBA/FNMA s		127,317	(1,287)

(1) Amounts included in mortgage and real estate services fees within the accompanying consolidated statements of operations.

Nonrecurring Fair Value Measurements

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements under FASB ASC 820-10.

The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at March 31, 2012 and 2011, respectively:

	Nonrecurring Fair Value Measurements March 31, 2012						Total Gains (Losses) For the Three Months Ended March 31, 2012 (3)	
		Level 1		Level 2		Level 3		
REO (1)	$		$	37,814	$		$	(9,427)
Lease liability (2)						(2,201)		(217)

(1) Balance represents REO at March 31, 2012 which have been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three months ended March 31, 2012, the $9.4 million loss represents additional impairment write-downs attributable to higher expected loss severities on properties held during the period which resulted in a decrease to net realizable value (NRV).

(2) Amounts are included in discontinued operations. For the three months ended March 31, 2012, the Company recorded $217 thousand in losses resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

(3) Total losses reflect losses from all nonrecurring measurements during the period.

	Nonrecurring Fair Value Measurements March 31, 2011			Total Gains (Losses) For the Three Months Ended March 31, 2011 (3)
	Level 1	Level 2	Level 3	
REO (1)	$	$ 62,656	$	$ (4,247)
Lease liability (2)			(2,246)	(217)

(1) Balance represents REO at March 31, 2011 which have been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the three months ended March 31, 2011, the $4.3 million loss related to additional impairment write-downs during the period is within continuing operations.

(2) Amounts are included in discontinued operations. For the three months ended March 31, 2011, the Company recorded $217 thousand in losses resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

(3) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.

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Real estate owned REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO balance representing REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at March 31, 2012.

Lease liability In connection with the discontinuation of our non-conforming mortgage, retail mortgage, warehouse lending and commercial operations, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. The Company has recorded a liability, included within discontinued operations, representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company s judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at March 31, 2012.

Note 3. Stock Options

There were no options granted during the three months ended March 31, 2012 or 2011, respectively.

The following table summarizes activity, pricing and other information for the Company s stock options for the three months ended March 31, 2012:

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at beginning of period	1,241,808	$ 3.64
Options granted		
Options exercised		