

IMPAC MORTGAGE HOLDINGS INC  
Form 10-Q  
August 16, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2010**

or

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

**For the transition period from            to            .**

**Commission File Number: 1-14100**

**IMPAC MORTGAGE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**33-0675505**  
(I.R.S. Employer  
Identification No.)

**19500 Jamboree Road, Irvine, California 92612**

(Address of principal executive offices)

**(949) 475-3600**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically 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  No

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

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

There were 7,763,646 shares of common stock outstanding as of August 13, 2010.

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**IMPAC MORTGAGE HOLDINGS, INC.**

**FORM 10-Q QUARTERLY REPORT**

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	June 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,912	\$ 25,678
Restricted cash	1,000	1,253
Short-term investments		5,002
Trust assets		
Investment securities available-for-sale	1,269	813
Securitized mortgage collateral	6,215,213	5,666,122
Derivative assets	39	146
Real estate owned	112,086	142,364
Total trust assets	6,328,607	5,809,445
Assets of discontinued operations	624	4,480
Other assets	28,648	27,054
Total assets	\$ 6,373,791	\$ 5,872,912
<b>LIABILITIES</b>		
Trust liabilities		
Securitized mortgage borrowings	\$ 6,200,592	\$ 5,659,865
Derivative liabilities	100,762	126,603
Total trust liabilities	6,301,354	5,786,468
Long-term debt	11,357	9,773
Note payable	12,518	31,060
Liabilities of discontinued operations	13,646	19,152
Other liabilities	9,671	11,026
Total liabilities	6,348,546	5,857,479
Commitments and contingencies		
<b>STOCKHOLDERS EQUITY</b>		
Series A junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued and outstanding		
Series B 9.375% redeemable preferred stock, \$0.01 par value; liquidation value \$16,639; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	7	7
	14	14

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Series C 9.125% redeemable preferred stock, \$0.01 par value; liquidation value \$35,127; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively

Common stock, \$0.01 par value; 200,000,000 shares authorized; 7,743,746 and 7,698,146 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively

	77	77
Additional paid-in capital	1,076,315	1,075,707
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(228,648)	(237,852)
Net accumulated deficit	(1,051,168)	(1,060,372)
Total stockholders' equity	25,245	15,433
Total liabilities and stockholders' equity	\$ 6,373,791	\$ 5,872,912

See accompanying notes to consolidated financial statements.

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## IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
<b>INTEREST INCOME</b>	\$ 248,213	\$ 454,258	\$ 528,090	\$ 1,166,907
<b>INTEREST EXPENSE</b>	246,658	451,305	525,765	1,160,312
Net interest income	1,555	2,953	2,325	6,595
<b>NON-INTEREST INCOME:</b>				
Change in fair value of net trust assets, excluding REO	(4,244)	54,912	3,128	187,842
Gains (losses) from REO	4,965	(46,723)	3,857	(174,923)
Non-interest income - net trust assets	721	8,189	6,985	12,919
Change in fair value of long-term debt	75	329	(216)	341
Mortgage and real estate services fees	15,677	13,233	27,002	18,782
Other	(103)	(185)	(95)	(226)
Total non-interest income	16,370	21,566	33,676	31,816
<b>NON-INTEREST EXPENSE:</b>				
General and administrative	4,630	6,110	9,409	10,449
Personnel expense	10,768	10,359	20,449	16,637
Total non-interest expense	15,398	16,469	29,858	27,086
Earnings from continuing operations before income taxes	2,527	8,050	6,143	11,325
Income tax expense from continuing operations	45	20	129	2,018
Earnings from continuing operations	2,482	8,030	6,014	9,307
Earnings (loss) from discontinued operations, net of tax	804	(4,195)	3,190	(6,591)
Net earnings	3,286	3,835	9,204	2,716
Cash dividends on preferred stock		(7,443)		(7,443)
Earnings (loss) available to common stockholders before redemption of preferred stock (Note 4)	\$ 3,286	\$ (3,608)	\$ 9,204	\$ (4,727)
<b>Earnings (loss) per common share - basic:</b>				
Earnings from continuing operations	\$ 0.32	\$ 0.08	\$ 0.78	\$ 0.24
Earnings (loss) from discontinued operations	0.11	(0.55)	0.41	(0.86)
Earnings (loss) available to common stockholders before redemption of preferred stock (Note 4)	\$ 0.43	\$ (0.47)	\$ 1.19	\$ (0.62)
<b>Earnings (loss) per common share - diluted:</b>				
Earnings from continuing operations	\$ 0.30	\$ 0.08	\$ 0.72	\$ 0.24
Earnings (loss) from discontinued operations	0.09	(0.55)	0.38	(0.86)

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Earnings (loss) available to common stockholders before redemption of preferred stock (Note 4)	\$	0.39	\$	(0.47)	\$	1.10	\$	(0.62)
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See accompanying notes to consolidated financial statements



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## IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Earnings from continuing operations	\$ 6,014	\$ 9,307
(Gains) losses from real estate owned	(3,857)	174,923
Amortization and impairment of deferred charge, net		1,998
Change in fair value of net trust assets, excluding REO	(67,817)	(297,870)
Change in fair value of long-term debt	216	(341)
Accretion of interest income and expense	224,061	381,079
Stock-based compensation	472	2,858
Net change in other assets and liabilities	(14,727)	(1,864)
Net cash used in operating activities of discontinued operations	(150)	(63,288)
<b>Net cash provided by operating activities</b>	<b>144,212</b>	<b>206,802</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in securitized mortgage collateral	392,211	439,369
Net change in mortgages held-for-investment	141	397
Purchase of premises and equipment	(746)	(284)
Maturity (purchase) of short-term investments	5,000	(5,041)
Net principal change on investment securities available-for-sale	77	2,593
Proceeds from the sale of real estate owned	130,492	407,573
Net cash provided by investing activities of discontinued operations	1,693	5,949
<b>Net cash provided by investing activities</b>	<b>528,868</b>	<b>850,556</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Settlement of trust preferred securities		(3,900)
Repurchase of preferred stock		(1,259)
Preferred stock dividends paid		(7,443)
Principal payments on notes payable	(18,542)	
Repayment of securitized mortgage borrowings	(665,308)	(1,042,689)
Proceeds from exercise of stock options	8	
Net cash used in financing activities of discontinued operations		(16,969)
<b>Net cash used in financing activities</b>	<b>(683,842)</b>	<b>(1,072,260)</b>
Net change in cash and cash equivalents	(10,762)	(14,902)
Cash and cash equivalents at beginning of period	25,850	46,228
Cash and cash equivalents at end of period - Continuing Operations	14,912	30,694
Cash and cash equivalents at end of period - Discontinued Operations	176	632
Total cash and cash equivalents at end of period	\$ 15,088	\$ 31,326
<b>NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):</b>		
Common stock issued per marketing service agreement	\$ 129	\$
Transfer of loans held-for-sale and held-for-investment to real estate owned		9,555

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Transfer of securitized mortgage collateral to real estate owned	80,569	192,388
Net effect of consolidation of net trust assets from adoption of accounting principle	119,631	
Net effect of consolidation of net trust liabilities from adoption of accounting principle	(119,631)	

See accompanying notes to consolidated financial statements.

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**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**Note 1. Summary of Business, Significant Accounting Policies and Legal Proceedings**

***Business Summary***

Impac Mortgage Holdings, Inc. (the Company or IMH) is a Maryland corporation incorporated in August 1995 and has the following subsidiaries: Integrated Real Estate Service Corporation (IRES), IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG) and Impac Funding Corporation (IFC).

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

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

***Financial Statement Presentation***

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009, 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.

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Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. The items affected by such estimates and assumptions include the valuation of trust assets and trust liabilities, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt and the carrying amount and evaluation of impairment of loans held-for-sale. Actual results could differ from those estimates and assumptions.

### *Recently Adopted Accounting Pronouncements*

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-9 Amendments to Certain Recognition and Disclosure Requirements (ASU 2010-9). The ASU amends FASB Accounting Standards Codification Topic 855 Subsequent Events to address certain implementation issues related to an entity's requirement to perform and disclose subsequent events procedures. ASU 2010-9 requires (a) SEC filers and (b) conduit debt obligors for conduit debt securities that are traded in a public market to evaluate subsequent events through the date the financial statements are issued. All other entities are required to evaluate subsequent events through the date the financial statements are available to be issued. ASU 2010-9 exempts SEC filers from disclosing the date through which subsequent events have been evaluated. For the Company, ASU 2010-9 is effective immediately for financial statements that are to be issued or revised. The adoption of ASU 2010-9 did not have an impact on the Company's consolidated financial statements.

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

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In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets – An Amendment of FASB Statement 140* which eliminates the concept of QSPEs and provides additional criteria transferors must use to evaluate transfers of financial assets. This standard modifies certain guidance contained in FASB ASC 860 *Transfers and Servicing* and is adopted into the Codification through the issuance of ASU 2009-16 *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*. In order to determine whether a transfer is accounted for as a sale, the transferor must assess whether it and all of its consolidated entities have surrendered control of the financial assets. The standard also requires financial assets and liabilities retained from a transfer accounted for as a sale to be initially recognized at fair value. The Company adopted this standard effective January 1, 2010 with no impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which amends several key consolidation provisions related to VIEs. This standard amends guidance contained in FASB ASC 810 *Consolidation* and is adopted into the Codification through the issuance of ASU 2009-17 *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. Former QSPEs will be evaluated for consolidation based on the provisions of FASB ASC 810-10-25, which changes the approach to determining a VIE's primary beneficiary and requires companies to more frequently reassess whether they must consolidate or deconsolidate VIEs. The accounting standard requires a qualitative, rather than quantitative, analysis to determine the primary beneficiary of a VIE for consolidation purposes. The primary beneficiary of a VIE is the enterprise that has (a) the power to direct the VIE activities that most significantly affect the VIE's economic performance, and (b) the right to receive benefits of the VIE that could potentially be significant to the VIE or the obligation to absorb losses of the VIE that could potentially be significant to the VIE. This standard is effective for fiscal years and interim periods beginning after November 15, 2009 and applies to all current QSPEs and VIEs, and all VIEs created after the effective date. In accordance with this standard, the Company may consolidate QSPEs and VIEs at carrying value or elect the fair value option. The Company intends to elect the fair value option, in which all of the financial assets and liabilities of certain designated QSPEs and VIEs would be recorded at fair value upon the adoption of this standard and continue to be recorded at fair value thereafter with changes in fair value reported in earnings.

In connection with the adoption of this standard on January 1, 2010, the Company consolidated \$253.7 million of trust assets and trust liabilities at fair value. Additionally, the Company deconsolidated \$134.1 million of trust assets and liabilities at fair value. The following is a summary of the impact of adopting the new consolidation provisions of FASB ASC 810.

	(prior to adoption)		Variable Interest Entities		(after adoption)	
	December 31, 2009		Consolidated	Deconsolidated	January 1, 2010	
Investment securities available-for-sale	\$	813	\$	(298)	\$	515
Securitized mortgage collateral		5,666,122		249,523		5,783,030
REO		142,364		4,499		145,385
Securitized mortgage borrowings		(5,649,865)		(244,683)		(5,760,483)
Derivative liabilities, net		(126,457)		(9,041)		(135,470)
Net trust assets	\$	32,977			\$	32,977

There was no overall impact on stockholders' equity as a result of the consolidation and deconsolidation of these trust assets and liabilities on January 1, 2010.

*Income Taxes and Deferred Charge*

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Effective January 1, 2009, the Company revoked its election to be taxed as a REIT. As a result of revoking this election, the Company is subject to income taxes as a regular (Subchapter C) corporation.

The Company recorded income tax expense of \$45 thousand and \$129 thousand for the three and six months ended June 30, 2010, respectively. Income tax expense for the three and six months ended June 30, 2009 was \$20 thousand and \$2.0 million, respectively. The income tax expense for 2010 is the result of state income taxes. The income tax expense for 2009 is primarily the result of the amount of the deferred charge amortized and/or impaired resulting from credit losses, which does not result in any tax liability required to be paid. The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statement of operations over the estimated life of the mortgages retained in the securitized mortgage collateral.

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As of December 31, 2009, the Company had estimated federal and California net operating loss carryforwards in the amount of \$835.8 million and \$837.3 million, respectively, of which \$277.6 million (federal) relate to discontinued operations. Federal and state net operating loss (NOL) carryforwards begin to expire in 2020 and 2013, respectively. The Company recorded a full valuation allowance against the deferred tax assets as it believes that as of June 30, 2010 it is more likely than not that the deferred tax assets will not be recoverable.

During the fourth quarter of 2009, the Company received a federal income tax refund in the amount of \$8.9 million as a result of an election to carryback NOLs five years pursuant to 2009 federal legislation, *The Worker, Homeownership, and Business Assistance Act of 2009*. The Company files income tax returns in the U.S. federal and various state jurisdictions. The Company is subject to routine income tax audits in the various jurisdictions. A subsidiary of the Company is currently under examination by the Internal Revenue Service for tax year 2008. Management believes that there are no unresolved issues or claims likely to be material to our financial position. As of June 30, 2010, the Company has no material uncertain tax positions.

***Legal Proceedings***

The Company is party to litigation and claims which arise in the ordinary course of business.

With respect to Sheldon Pittleman v. Impac Mortgage Holdings, Inc., et al, which is further described in the Company's Form 10-K for the year ended December 31, 2009, on June 29, 2010, the United States Court of Appeals for the Ninth Circuit affirmed the District's Court's dismissal of the plaintiff's Third Amended Complaint.

Please refer to IMH's reports on Form 10-K for the year ended December 31, 2009 and Form 10-Q for the quarter ended March 31, 2010 for a description of other litigation and claims.

**Note 2. Fair Value of Financial Instruments**

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

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.





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

	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 14,912	\$ 14,912	\$ 25,678	\$ 25,678
Restricted cash	1,000	1,000	1,253	1,253
Short-term investments			5,002	5,002
Investment securities available-for-sale	1,269	1,269	813	813
Securitized mortgage collateral	6,215,213	6,215,213	5,666,122	5,666,122
Derivative assets	39	39	146	146
<b>Liabilities</b>				
Securitized mortgage borrowings	6,200,592	6,200,592	5,659,865	5,659,865
Derivative liabilities	100,762	100,762	126,603	126,603
Long-term debt	11,357	11,357	9,773	9,773
Note payable	12,518	11,511	31,060	27,789

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.

The carrying amount of cash and cash equivalents and restricted cash approximates fair value. The fair value of short-term investments was determined using quoted prices in active markets.

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 and long-term debt.

Note payable is recorded at amortized cost. Fair value of note payable is determined using a discounted cash flow model which factors in expected changes in interest rates and the Company's own credit risk.

***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.

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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.

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- 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 and long-term debt as Level 3 fair value measurements at June 30, 2010 and December 31, 2009. Level 3 assets and liabilities were 100% of total assets and total liabilities measured at estimated fair value at June 30, 2010 and December 31, 2009.

***Recurring Fair Value Measurements***

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three and six months ended June 30, 2010. The adoption of ASU 2009-17 resulted in the Company consolidating and deconsolidating certain trust assets and liabilities at fair value as of January 1, 2010. The details of the effect of the adoption of this standard are illustrated in Note 1. Summary of Business, Significant Accounting Policies and Legal Proceedings.

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at June 30, 2010 and December 31, 2009, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	June 30, 2010			December 31, 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Investment securities available-for-sale	\$	\$	\$ 1,269	\$	\$	\$ 813
Securitized mortgage collateral			6,215,213			5,666,122
Total assets at fair value	\$	\$	\$ 6,216,482	\$	\$	\$ 5,666,935
<b>Liabilities</b>						
Securitized mortgage borrowings	\$	\$	\$ 6,200,592	\$	\$	\$ 5,659,865
Derivative liabilities, net (1)			100,723			126,457
Long-term debt			11,357			9,773
Total liabilities at fair value	\$	\$	\$ 6,312,672	\$	\$	\$ 5,796,095

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(1) At June 30, 2010, derivative liabilities, net included \$39 thousand in derivative assets and \$100.8 million in derivative liabilities, included within trust assets and trust liabilities, respectively. At December 31, 2009, derivative liabilities, net included \$146 thousand in derivative assets and \$126.6 million in derivative liabilities, included within trust assets and trust liabilities, respectively.

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The following tables present a reconciliation for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2010 and 2009:

	Level 3 Recurring Fair Value Measurements For the three months ended June 30, 2010				
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt
Fair value, March 31, 2010	\$ 670	\$ 6,366,855	\$ (6,351,890)	\$ (117,876)	\$ (10,732)
Total gains (losses) included in earnings:					
Interest income (1)	66	123,970			
Interest expense (1)			(221,491)		(700)
Change in fair value	541	(30,644)	37,152	(11,293)	75
Total gains (losses) included in earnings	607	93,326	(184,339)	(11,293)	(625)
Transfers in and/or out of Level 3					
Purchases, issuances and settlements	(8)	(244,968)	335,637	28,446	
Fair value, June 30, 2010	\$ 1,269	\$ 6,215,213	\$ (6,200,592)	\$ (100,723)	\$ (11,357)
Unrealized gains (losses) still held (2)	\$ 969	\$ (5,206,813)	\$ 6,909,596	\$ (101,937)	\$ 59,406

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

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

	Level 3 Recurring Fair Value Measurements For the three months ended June 30, 2009				
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt
Fair value, March 31, 2009	\$ 1,322	\$ 5,505,729	\$ (5,691,028)	\$ (232,320)	\$ (11,090)
Total gains (losses) included in earnings:					
Interest income (1)	53	233,411			
Interest expense (1)			(417,215)		(325)
Change in fair value	805	594,624	(536,336)	(4,181)	329
Total gains (losses) included in earnings	858	828,035	(953,551)	(4,181)	4
Transfers in and/or out of Level 3					
Purchases, issuances and settlements	(848)	(315,373)	563,942	51,829	1,289
Fair value, June 30, 2009	\$ 1,332	\$ 6,018,391	\$ (6,080,637)	\$ (184,672)	\$ (9,797)

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Unrealized gains (losses) still held										
(2)	\$	27	\$	(7,070,940)	\$	8,303,670	\$	(187,188)	\$	63,823

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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. The total net interest income, including cash received and paid, was \$3.0 million for the three months ended June 30, 2009, as reflected in the accompanying consolidated statement of operations.

(2) Represents the amount of unrealized (losses) gains relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at June 30, 2009.

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	Level 3 Recurring Fair Value Measurements For the six months ended June 30, 2010				
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt
Fair value, December 31, 2009	\$ 813	\$ 5,666,122	\$ (5,659,865)	\$ (126,457)	\$ (9,773)
Total gains (losses) included in earnings:					
Interest income (1)	113	254,199			
Interest expense (1)			(477,004)		(1,368)
Change in fair value	718	650,765	(619,047)	(29,308)	(216)
Total gains (losses) included in earnings	831	904,964	(1,096,051)	(29,308)	(1,584)
Adoption of ASU 2009-17 (2)	(298)	116,907	(110,618)	(9,013)	
Transfers in and/or out of Level 3					
Purchases, issuances and settlements	(77)	(472,780)	665,942	64,055	
Fair value, June 30, 2010	\$ 1,269	\$ 6,215,213	\$ (6,200,592)	\$ (100,723)	\$ (11,357)

(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 \$2.3 million for the six months ended June 30, 2010, as reflected in the accompanying consolidated statement of operations.

(2) Amounts represent the consolidation and deconsolidation of trust assets and liabilities as a result of the adoption of ASU 2009-17 on January 1, 2010.

	Level 3 Recurring Fair Value Measurements For the six months ended June 30, 2009				
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net	Long-term debt
Fair value, December 31, 2008	\$ 2,068	\$ 5,894,424	\$ (6,193,984)	\$ (273,547)	\$ (15,403)
Total gains (losses) included in earnings:					
Interest income (1)	147	710,121			
Interest expense (1)			(1,091,022)		(325)
Change in fair value	1,710	45,603	160,867	(20,338)	341
Total gains (losses) included in earnings	1,857	755,724	(930,155)	(20,338)	16
Transfers in and/or out of Level 3					
Purchases, issuances and settlements	(2,593)	(631,757)	1,043,502	109,213	5,590
Fair value, June 30, 2009	\$ 1,332	\$ 6,018,391	\$ (6,080,637)	\$ (184,672)	\$ (9,797)

(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 \$6.6 million for the six months ended June 30, 2009, as reflected in the accompanying consolidated statements of operations.

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The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three and six months ended June 30, 2010 and 2009:

	<b>Recurring Fair Value Measurements</b>				
	<b>Changes in Fair Value Included in Net Earnings</b>				
	<b>For the three months ended June 30, 2010</b>				
	<b>Change in Fair Value of</b>		<b>Change in Fair Value of</b>		
	<b>Interest Income (1)</b>	<b>Interest Expense (1)</b>	<b>Net Trust Assets</b>	<b>Long-term Debt</b>	<b>Total</b>
Investment securities available-for-sale	\$ 66	\$	\$ 541	\$	\$ 607
Securitized mortgage collateral	123,970		(30,644)		93,326
Securitized mortgage borrowings		(221,491)	37,152		(184,339)
Derivative instruments, net			(11,293)(2)		(11,293)
Long-term debt		(700)		75	(625)
<b>Total</b>	<b>\$ 124,036</b>	<b>\$ (222,191)</b>	<b>\$ (4,244)</b>	<b>\$ 75</b>	<b>\$ (102,324)</b>

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

(2) Included in this amount is \$17.5 million in changes in the fair value of derivative instruments, offset by \$28.8 million in cash payments from the securitization trusts for the three months ended June 30, 2010.



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	Recurring Fair Value Measurements Changes in Fair Value Included in Net Loss For the three months ended June 30, 2009					Total
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt		
Investment securities available-for-sale	\$ 53	\$	\$ 805	\$	\$	\$ 858
Securitized mortgage collateral	233,411		594,624			828,035
Securitized mortgage borrowings		(417,215)	(536,336)			(953,551)
Derivative instruments, net			(4,181)(2)			(4,181)
Long-term debt		(325)		329		4
<b>Total</b>	<b>\$ 233,464</b>	<b>\$ (417,540)</b>	<b>\$ 54,912</b>	<b>\$ 329</b>	<b>\$</b>	<b>(128,835)</b>

(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 \$3.0 million for the three months ended June 30, 2009, as reflected in the accompanying consolidated statement of operations.

(2) Included in this amount is \$48.0 million in changes in the fair value of derivative instruments, offset by \$52.2 million in cash payments from the securitization trusts for the three months ended June 30, 2009.

	Recurring Fair Value Measurements Changes in Fair Value Included in Net Earnings For the six months ended June 30, 2010					Total
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt		
Investment securities available-for-sale	\$ 113	\$	\$ 718	\$	\$	\$ 831
Securitized mortgage collateral	254,199		650,765			904,964
Securitized mortgage borrowings		(477,004)	(619,047)			(1,096,051)
Derivative instruments, net			(29,308)(2)			(29,308)
Long-term debt		(1,368)		(216)		(1,584)
<b>Total</b>	<b>\$ 254,312</b>	<b>\$ (478,372)</b>	<b>\$ 3,128(3)</b>	<b>\$ (216)</b>	<b>\$</b>	<b>(221,148)</b>

(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 \$2.3 million for the six months ended June 30, 2010, as reflected in the accompanying consolidated statement of operations.

(2) Included in this amount is \$35.4 million in changes in the fair value of derivative instruments, offset by \$64.7 million in cash payments from the securitization trusts for the six months ended June 30, 2010.

(3) For the six months ended June 30, 2010, change in the fair value of trust assets, excluding REO was \$3.1 million. Excluded from the \$67.8 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$64.7 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

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**Recurring Fair Value Measurements  
Changes in Fair Value Included in Net Loss  
For the six months ended June 30, 2009**

	Interest Income (1)		Interest Expense (1)		Change in Fair Value of		
					Net Trust Assets	Long-term Debt	Total
Investment securities available-for-sale	\$	147	\$		\$ 1,710	\$	\$ 1,857
Securitized mortgage collateral		710,121			45,603		755,724
Securitized mortgage borrowings			(1,091,022)		160,867		(930,155)
Derivative instruments, net					(20,338)(2)		(20,338)
Long-term debt				(325)		341	16
<b>Total</b>	<b>\$</b>	<b>710,268</b>	<b>\$</b>	<b>(1,091,347)</b>	<b>\$ 187,842(3)</b>	<b>\$ 341</b>	<b>\$ (192,896)</b>

(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 \$6.6 million for the six months ended June 30, 2009, as reflected in the consolidated statements of operations.

(2) Included in this amount is \$89.7 million in changes in the fair value of derivative instruments, offset by \$110.0 million in cash payments from the securitization trusts for the six months ended June 30, 2009.

(3) For the six months ended June 30, 2009, change in the fair value of trust assets, excluding REO was \$187.8 million. Excluded from the \$297.9 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$110.0 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

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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* The Company elected to carry all of its investment securities available-for-sale 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 June 30, 2010 and December 31, 2009, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants' assumptions.

*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 June 30, 2010, securitized mortgage collateral had an unpaid principal balance of \$11.4 billion, compared to an estimated fair value of \$6.2 billion. The aggregate unpaid principal balance exceeds the fair value by \$5.2 billion at June 30, 2010. As of June 30, 2010, the unpaid principal balance of loans 90 days or more past due was \$2.3 billion compared to an estimated fair value of \$0.7 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by \$1.6 billion at June 30, 2010.

*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 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 June 30, 2010, securitized mortgage borrowings had an outstanding principal balance of \$13.1 billion compared to an estimated fair value of \$6.2 billion. The aggregate outstanding principal balance exceeds the fair value by \$6.9 billion at June 30, 2010.

*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 June 30, 2010, long-term debt had an unpaid principal balance of \$70.5 million compared to an estimated fair value of \$11.4 million. The aggregate unpaid principal balance exceeds the fair value by \$59.1 million at June 30, 2010.

*Derivative assets and liabilities.* 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.

***Nonrecurring Fair Value Measurements***

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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.

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The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at June 30, 2010 and 2009, respectively:

	Nonrecurring Fair Value Measurements			Total Gains (Losses)	
	Level 1	Level 2	Level 3	For the Three Months Ended June 30, 2010 (5)	For the Six Months Ended June 30, 2010 (5)
Loans held-for-sale	\$	\$	\$	\$	\$
REO (1)		70,326		(195)	(220)
Lease liability (2)			(2,776)	(200)	828
Deferred charge (3)			13,144	78	557
Intangible asset (4)			1,000		

(1) The \$70.3 million in REO is within continuing operations at June 30, 2010. For the three months ended June 30, 2010, the \$200 thousand loss related to additional impairment write-downs during the period was within continuing operations. For the six months ended June 30, 2010, the \$828 thousand gains during the period included \$473 thousand and \$355 thousand within continuing and discontinued operations, respectively.

(2) Amounts are included in discontinued operations. For the three and six months ended June 30, 2010, the Company recorded \$78 thousand and \$557 thousand in recoveries resulting from reductions in lease liabilities as a result of changes in our expected minimum future lease payments, respectively.

(3) Amounts are included in continuing operations. For the three and six months ended June 30, 2010, the Company recorded zero in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

(4) Amount is included in other assets in the accompanying consolidated balance sheets.

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

	Non-recurring Fair Value Measurements			Total Gains (Losses)	
	Level 1	Level 2	Level 3	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2009
Loans held-for-sale					
(1)	\$	\$	\$ 85,235	\$ (7,445)	\$ (7,517)
REO (2)		172,019		(9,580)	(95,238)
Lease liability (3)			(3,935)	2,503	2,560
Deferred charge (4)			13,144		

(1) Includes \$332 thousand and \$84.9 million of loans held-for-sale within continuing and discontinued operations, respectively at June 30, 2009.

(2) Includes \$167.3 million and \$4.7 million in REO within continuing and discontinued operations, respectively at June 30, 2009. For the three months ended June 30, 2009, the \$9.6 million loss related to additional impairment write-downs during the period included \$9.1 million and \$0.5 million within continuing and discontinued operations, respectively. For the six months ended June 30, 2009, the \$95.2 million loss related to additional impairment write-downs during the period included \$93.3 million and \$1.9 million within continuing and discontinued operations, respectively.

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(3) Amounts are included in discontinued operations. For the three and six months ended June 30, 2009, the Company recorded \$2.5 million and \$2.6 million in gains resulting from reductions in lease liabilities as a result of changes in our expected minimum future lease payments, respectively.

(4) Amounts are included in continuing operations. For the three months ended June 30, 2009, the Company recorded zero in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

*Loans held-for-sale* Loans held-for-sale for which the fair value option was not elected are carried at the lower of cost or market (LOCOM). When available, such measurements are based upon what secondary markets offer for portfolios with similar characteristics, and are considered Level 2 measurements. If market pricing is not available, such measurements are significantly impacted by the Company's expectations of other market participants' assumptions, and are considered Level 3 measurements. The Company utilizes internal pricing processes to estimate the fair value of loans held-for-sale, which is based on recent loan sales and estimates of the fair value of the underlying collateral. Loans held-for-sale, which are primarily included in assets of discontinued operations, are considered Level 3 fair value measurements at June 30, 2010 and December 31, 2009 based on the lack of observable market inputs.

*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. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at June 30, 2010.

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*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 June 30, 2010.

*Deferred charge* Deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The deferred charge is amortized as a component of income tax expense over the estimated life of the mortgages retained in the securitized mortgage collateral. The Company evaluates the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. Deferred charge is considered a Level 3 measurement at June 30, 2010.

*Intangible asset* Intangible assets deemed to have an indefinite life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment losses are recognized if carrying amount of an intangible asset exceeds its estimated fair value. Intangible asset is considered a Level 3 measurement at June 30, 2010.

**Note 3. Stock Options**

The fair value of stock options granted, which is amortized to expense over the service period, is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions:

	<b>Six Months Ended June 30, 2009</b>
Risk-free interest rate	2.86%
Expected lives (in years)	5.50
Expected volatility (1)	259.16%
Expected dividend yield (2)	0.00%
Grant date fair value of share options	\$ 0.53

(1) Expected volatility is based on the historical volatility of the Company's stock over the expected life of the stock option.

(2) Expected dividend yield is zero because a dividend on the common stock was not probable over the expected life of the options granted during the six months ended June 30, 2009.

There were no options granted during the six months ended June 30, 2010.

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The following table summarizes activity, pricing and other information for the Company's stock options for the six months ended June 30, 2010:

	<b>Number of Shares</b>		<b>Weighted- Average Exercise Price (\$)</b>
Options outstanding at January 1, 2010	1,294,585	\$	13.47
Options granted			
Options exercised	15,600		0.53
Options forfeited / cancelled	20,967		14.65
Options outstanding at June 30, 2010	1,258,018	\$	13.61
Options exercisable at June 30, 2010	1,237,534	\$	13.41

As of June 30, 2010, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Company's stock-based incentive compensation plan.



Table of Contents**Note 4. Reconciliation of Earnings Per Share**

The following table presents the computation of basic and diluted earnings (loss) per common share, including the dilutive effect of stock options and cumulative redeemable preferred stock outstanding for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Numerator for basic earnings (loss) per share:</b>				
Earnings from continuing operations	\$ 2,482	\$ 8,030	\$ 6,014	\$ 9,307
Cash dividends on cumulative redeemable preferred stock		(7,443)		(7,443)
Earnings (loss) from discontinued operations	804	(4,195)	3,190	(6,591)
Earnings (loss) per share available to common stockholders before redemption of preferred stock (1)	\$ 3,286	\$ (3,608)	\$ 9,204	\$ (4,727)
<b>Denominator for basic earnings (loss) per share (2):</b>				
Weighted average number of common shares outstanding during the period	7,723	7,618	7,711	7,618
<b>Denominator for diluted earnings per share (2):</b>				
Weighted average number of common shares outstanding during the period	7,723	7,618	7,711	7,618
Net effect of dilutive stock options	625		622	
Diluted weighted average common shares	8,348	7,618	8,333	7,618
<b>Earnings (loss) per common share - basic:</b>				
Earnings from continuing operations	\$ 0.32	\$ 0.08	\$ 0.78	\$ 0.24
Earnings (loss) from discontinued operations	0.11	(0.55)	0.41	(0.86)
Earnings (loss) per share available to common stockholders before redemption of preferred stock (1)	\$ 0.43	\$ (0.47)	\$ 1.19	\$ (0.62)
<b>Earnings (loss) per common share - diluted:</b>				
Earnings from continuing operations	\$ 0.30	\$ 0.08	\$ 0.72	\$ 0.24
Earnings (loss) from discontinued operations	0.09	(0.55)	0.38	(0.86)
Earnings (loss) per share available to common stockholders before redemption of preferred stock (1)	\$ 0.39	\$ (0.47)	\$ 1.10	\$ (0.62)

(1) As discussed below, the difference between the carrying value of the tendered preferred stock (\$106.1 million) and the amount paid for the shares (\$1.3 million) was recognized as a decrease in retained deficit in 2009. Including the redemption, total basic and diluted earnings per share from continuing operations available to common stockholders for the three and six month period ended June 30, 2009, were \$13.29 and \$13.14, respectively.

(2) Share amounts presented in thousands.

In June 2009, the Company completed the Offer to Purchase and Consent Solicitation (the Offer to Purchase) of all of its 9.375% Series B Cumulative Redeemable Preferred Stock and 9.125% Series C Cumulative Redeemable Preferred Stock (which are sometimes collectively hereinafter referred to as the Preferred Stock). The aggregate purchase price for the Preferred Stock was \$1.3 million. In addition, in connection with completing the Offer to Purchase the Company paid \$7.4 million of accumulated but unpaid dividends on its Preferred Stock. With the

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total cash payment of \$8.7 million, the Company eliminated \$109.5 million of liquidation preference on its Preferred Stock. After the completion of the Offer to Purchase, the Company has outstanding \$52.3 million liquidation preference of Series B and Series C Preferred Stock. As this transaction is considered a redemption for accounting purposes, in accordance with FASB ASC 505-10 and 260-10-S99, the difference between the carrying value of the tendered preferred stock (\$106.1 million) and the amount paid for the shares (\$1.3 million) was recognized as a decrease in retained deficit in 2009. Including the redemption, total basic and diluted earnings per share from continuing operations available to common stockholders for the three and six month ended June 30, 2009, were \$13.29 and \$13.14, respectively.

For the three and six months ended June 30, 2010, stock options to purchase 452 thousand shares were outstanding but not included in the above weighted average share calculations because they were anti-dilutive.

For the three and six months ended June 30, 2009, stock options to purchase 1.4 million shares were outstanding but not included in the above weighted average share calculations because they were anti-dilutive.

Table of Contents**Note 5. Segment Reporting**

The Company has three reporting segments, consisting of the long-term mortgage portfolio, mortgage and real estate services and discontinued operations. The following tables present the selected financial data and operating results by reporting segment for the periods indicated:

	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
<b>Balance sheet items as of June 30, 2010:</b>					
Cash and cash equivalents	\$ 710	\$ 14,202	\$ 176	\$ (176)	14,912
Restricted cash		1,000	391	(391)	1,000
Securitized mortgage collateral	6,215,213				6,215,213
Other assets	126,124	15,918	57	(57)	142,042
Total assets	6,342,047	31,120	624		6,373,791
Total liabilities	6,329,416	5,484	13,646		6,348,546
Total stockholders' equity (deficit)	12,631	25,636	(13,022)		25,245

**Balance sheet items as of December 31, 2009:**

Cash and cash equivalents	\$ 7,940	\$ 17,738	\$ 172	\$ (172)	25,678
Restricted cash		1,253	501	(501)	1,253
Short-term investment	5,002				5,002
Securitized mortgage collateral	5,666,122				5,666,122
Loans held-for-sale			2,371	(2,371)	
Other assets	162,829	7,548	1,436	(1,436)	170,377
Total assets	5,841,893	26,539	4,480		5,872,912
Total liabilities	5,831,936	6,391	19,152		5,857,479
Total stockholders' equity (deficit)	9,957	20,148	(14,672)		15,433

	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
<b>Statement of Operations Items for the three months ended June 30, 2010:</b>					
Net interest income	\$ 1,549	\$ 6	\$ 17	\$ (17)	\$ 1,555
Non-interest income- net trust assets	721				721
Mortgage and real estate services fees		15,677			15,677
Other non-interest income (expense)	(23)	(5)	48	(48)	(28)
Non-interest expense and income taxes	(4,574)	(10,869)	739	(739)	(15,443)
(Loss) earnings from continuing operations	\$ (2,327)	\$ 4,809			2,482
Earnings from discontinued operations, net of tax			\$ 804		804
Net earnings					\$ 3,286

**Statement of Operations Items**

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**for the six months ended June 30,  
2010:**

Net interest income (expense)	\$	2,314	\$	11	\$	44	\$	(44)	\$	2,325
Non-interest income- net trust assets		6,985								6,985
Mortgage and real estate services fees				27,002						27,002
Other non-interest income (expense)		(313)		2		2,133		(2,133)		(311)
Non-interest expense and income taxes		(9,218)		(20,769)		1,013		(1,013)		(29,987)
(Loss) earnings from continuing operations	\$	(232)	\$	6,246						6,014
Earnings from discontinued operations, net of tax					\$	3,190				3,190
Net earnings									\$	9,204

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	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
<b>Statement of Operations Items for the three months ended June 30, 2009:</b>					
Net interest income (expense)	\$ 2,961	\$ (8)	\$ (665)	\$ 665	\$ 2,953
Non-interest income- net trust assets	8,189				8,189
Mortgage and real estate services fees		13,233			13,233
Other non-interest income (expense)	301	(157)	(6,859)	6,859	144
Non-interest expense and income taxes	(8,992)	(7,497)	3,329	(3,329)	(16,489)
Earnings from continuing operations	\$ 2,459	\$ 5,571			8,030
Loss from discontinued operations, net of tax			\$ (4,195)		(4,195)
Net earnings					\$ 3,835

	Long-term Portfolio	Mortgage and Real Estate Services	Discontinued Operations	Reclassifications (1)	Consolidated
<b>Statement of Operations Items for the six months ended June 30, 2009:</b>					
Net interest income (expense)	\$ 6,601	\$ (6)	\$ (1,078)	\$ 1,078	\$ 6,595
Non-interest income- net trust assets	12,919				12,919
Mortgage and real estate services fees		18,782			18,782
Other non-interest income (expense)	301	(186)	(8,780)	8,780	115
Non-interest expense and income taxes	(17,539)	(11,565)	3,267	(3,267)	(29,104)
Earnings from continuing operations	\$ 2,282	\$ 7,025			9,307
Loss from discontinued operations, net of tax			\$ (6,591)		(6,591)
Net earnings					\$ 2,716

(1) Amounts represent reclassifications of activity in the discontinued operations segment into loss from discontinued operations, net of tax as presented in the accompanying consolidated statements of operations.

**Note 6. Real Estate Owned (REO)**

The Company's REO consisted of the following:

	June 30, 2010	December 31, 2009
REO	\$ 133,283	\$ 176,800
Impairment (1)	(21,125)	(34,080)
Ending balance	\$ 112,158	\$ 142,720
REO inside trusts	\$ 112,086	\$ 142,364
REO outside trusts	72	356

Total	\$	112,158	\$	142,720
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(1) Impairment represents the cumulative write-downs of REO to estimated net realizable value subsequent to foreclosure.

**Note 7. Long-term Debt**

*Trust Preferred Securities*

The following table shows the remaining balance of Trust Preferred Securities issued as of June 30, 2010 and December 31, 2009:

		<b>June 30, 2010</b>		<b>December 31, 2009</b>
Trust preferred securities (1)	\$	8,500	\$	8,500
Common securities		263		263
Fair value adjustment		(6,134)		(6,501)
Total	\$	2,629	\$	2,262

(1) Stated maturity of July 30, 2035. Redeemable at par at any time after July 30, 2010. Requires quarterly distributions initially at a fixed rate of 8.55% per annum through July 30, 2010 and thereafter at a variable rate of three-month LIBOR plus 3.75% per annum.

Table of Contents*Junior Subordinated Notes*

The following table shows the remaining balance of junior subordinated notes issued as of June 30, 2010 and December 31, 2009:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Junior subordinated notes (1)	\$ 62,000	\$ 62,000
Fair value adjustment	(53,272)	(54,489)
<b>Total</b>	<b>\$ 8,728</b>	<b>\$ 7,511</b>

(1) Stated maturity of March 2034. Requires quarterly distributions initially at a fixed rate of 2.00% through 2013 with increases of 1.00% per annum through 2017. Starting in 2018, the interest rates become variable at three-month LIBOR plus 3.75% per annum.

**Note 8. Note Payable**

In October 2009, the Company entered into a settlement agreement (the Settlement Agreement) with its remaining reverse repurchase facility lender to settle the restructured financing. The Settlement Agreement retired the facility and removed any further exposure associated with the line or the loans that secured the line. Pursuant to the terms of the Settlement Agreement, the Company settled the \$140.0 million balance of the reverse repurchase line by (i) transferring the loans securing the line to the lender at their approximate carrying values, (ii) making in a cash payment of \$20.0 million and (iii) entering into a credit agreement with the lender (the Credit Agreement) for a \$33.9 million note payable. The borrowing under the Credit Agreement, which is to be paid over 18 months, bears interest at a rate of one-month LIBOR plus 350 basis points and requires a monthly principal and interest payment of \$1.5 million. An additional \$10.0 million principal payment was due and paid in April 2010 as part of the Credit Agreement. At June 30, 2010, the balance of the note payable was \$12.5 million.

The borrowing under the Credit Agreement may be prepaid by the Company at any time. Upon any sale of assets, excluding mortgage assets, issuance of debt, excluding warehouse borrowings, or equity by the Company, then all of the proceeds there from are required to be applied to the borrowing under the Credit Agreement.

In addition to the restrictions above, the Credit Agreement requires the Company to maintain certain business and financial covenants until the borrowing is paid in full. These covenants place several restrictions on the Company and its operations, including limiting its ability to pay dividends, issue equity interests, make investments over certain amounts without prior consent or enter into any transaction to merge or consolidate. The covenants also require the Company to maintain cash and cash equivalents of \$10.0 million (based on certain calculations) and stockholders' equity greater than zero (based on certain calculations). At June 30, 2010, the Company was in compliance with these covenants.

**Note 9. Warehouse Line**

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On June 24, 2010, the Company, through IRES and its subsidiaries, entered into a Master Repurchase Agreement with East West Bank providing a \$10 million warehouse facility. The warehouse facility will be used to fund and will be secured by single family residential mortgage loans that are held for sale. As of June 30, 2010, there were no borrowings against this facility. The agreement expires June 2011. The rate range in excess of one month LIBOR is 4.00%, with a floor no less than 5.00%. Under the terms of the warehouse facility, IRES and its subsidiaries are required to maintain various financial and other covenants, including maintaining a minimum tangible net worth of \$17.0 million and cash or cash equivalents of at least \$5.0 million.



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**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

Unless the context otherwise requires, the terms Company, we, us, and our refer to Impac Mortgage Holdings, Inc. (the Company or IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, Integrated Real Estate Service Corporation (IRES), IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG) and Impac Funding Corporation (IFC).

**Forward-Looking Statements**

This report on Form 10-Q 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, or similar terms or variations on those terms or the negative thereof. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: the ongoing volatility in the mortgage industry; our ability to successfully manage through the current market environment; our ability to meet liquidity needs from current cash flows or generate new sources of revenue; management's ability to successfully manage and grow the Company's mortgage and real estate fee-based business activities; the ability to make interest payments; increases in default rates or loss severities and mortgage related losses; the ability to satisfy conditions (payment and covenants) in the note payable with a major creditor; our ability to obtain additional financing and the terms of any financing that we do obtain; inability to effectively liquidate properties to mitigate losses; increase in loan repurchase requests and ability to adequately settle repurchase obligations; decreases in value of our residual interests that differ from our assumptions; the ability of our common stock to continue trading in an active market; the outcome of litigation or regulatory actions pending against us or other legal contingencies; our compliance with applicable local, state and federal laws and regulations 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 Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the period ended December 31, 2009, the other reports we file under the Securities and Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to publicly release 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 Mortgage Industry and Discussion of Relevant Fiscal Periods**

The mortgage industry is continually vulnerable to current events that occur in the financial services industry. These events include changes in economic indicators, government regulation, interest rates, price competition, geographic shifts, disposable income, housing prices, market liquidity, market anticipation, and customer perception, as well as others. The factors that affect the industry change rapidly and can be unforeseeable.

Current events can diminish the relevance of quarter over quarter and year-to-date over year-to-date comparisons of financial information. In such instances, the Company attempts to present financial information in its Management's Discussion and Analysis of Financial Condition and Results of Operations that is the most relevant to its financial information.

### **Status of Operations, Liquidity and Capital Resources**

#### *Mortgage and real estate services*

In 2009, the Company sought to create an integrated services platform to provide solutions to the mortgage and real estate markets. Pursuant to that, the Company initiated various mortgage and real estate fee-based business activities, including loan modifications, real estate disposition, monitoring and surveillance services, real estate brokerage and lending services and title and escrow services. The Company has been able to develop and enhance its service offerings in providing services to investors, servicers and individual borrowers primarily by focusing on loss mitigation and performance of our own long-term mortgage portfolio. These business activities have been developed as part of a centralized platform to operate synergistically to maximize their success. The Company has established the following business activities:

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- *Loss Mitigation* The Company has established loss mitigation operations to provide outsourced services including loan modification and short sale services to investors and institutions with distressed and delinquent residential and multifamily mortgage portfolios. In addition, we provide modification solutions to individual borrowers by interacting with loan servicers on behalf of the borrowers to assist them in lowering the monthly mortgage payments to an affordable level allowing them to remain in their homes. The Company receives fees paid by the borrower for loan modification services performed for the borrower. During the first quarter of 2010, the Company established operations to market debt resolution services to consumers and assist them in entering a program that helps them repay their unsecured debt at a discount.
- *Real Estate Owned (REO) Services* The Company has established REO services operations to provide REO surveillance services to servicers and portfolio managers to assist them in maximizing loss mitigation performance in managing distressed mortgage portfolios and foreclosed real estate assets, along with disposition of such assets. In addition, we perform default surveillance and monitoring services for residential and multifamily mortgage portfolios for investors and servicers to assist them with overall portfolio performance.
- *Real Estate Brokerage* The Company has established real estate brokerage operations which primarily serves the southern California area. The primary business of the real estate brokerage business is the listing and selling of REO and pre-foreclosure properties associated with short sales.
- *Mortgage Lending Operations* The Company has established mortgage lending operations as it seeks to re-enter the mortgage lending industry. The mortgage lending activities include earning fees for brokering loans to third-party lenders since 2008 and originating loans through our mortgage banking platform under the Impac brand name. Although we originated only a minimal amount of loans in 2009, we expect to increase our loan originations in 2010 through retail channels, real estate broker channels and captive financing from the Company's portfolio of transactions, focusing on originating only loans that are eligible for sale to HUD and other government-sponsored enterprises.
- *Title and Escrow* During the fourth quarter of 2009, the Company received California Department of Insurance approval for our acquisition of a title insurance agency and escrow operations. Upon the approval, the Company acquired the operations effective December 31, 2009. The title insurance company services California and selected national markets to provide title insurance, escrow and settlement services to residential mortgage lenders, real estate agents, asset managers and REO companies in the residential market sector of the real estate industry. We deliver services through a proprietary integrated technology platform.

For the three and six months ended June 30, 2010, mortgage and real estate services fees were \$15.7 million and \$27.0 million, respectively. The mortgage and real estate services fees of \$15.7 million for the three months ended June 30, 2010, was primarily comprised of \$7.8 million in monitoring, surveillance and recovery fees, \$3.5 million in title and escrow fees, \$2.7 million in loan modification fees, and \$1.7 million in servicing income. The mortgage and real estate services fees of \$27.0 million for the six months ended June 30, 2010, was primarily comprised of \$12.8 million in monitoring, surveillance and recovery fees, \$6.0 million in title and escrow fees, \$5.8 million in loan modification fees, and \$2.4 million in servicing income. Although the Company intends to generate more fees by providing these services to third parties in the marketplace, the revenues from these businesses have primarily been generated from the Company's long-term mortgage portfolio. Furthermore, since these businesses are recently established there remains uncertainty about their future success. During the first quarter of 2010, the Company began to expand the portfolio surveillance and recovery services operations and entered into an agreement with a third party to assist in credit risk management and portfolio surveillance services.

In June 2010, the Company signed a definitive agreement with a regional bank providing the Company with a \$10 million warehouse facility.

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This facility provides the company with a funding source to originate residential conforming loans that are eligible for sale to HUD and other government-sponsored enterprises. As of June 30, 2010, there were no borrowings against this facility. The interest rate on the facility is one month LIBOR plus 4.00%, with a floor no less than 5.00%. The agreement expires June 2011.

### *Liquidity and capital resources*

During the first six months of 2010, the Company continued to fund its operations primarily from the cash flows generated from its long-term mortgage portfolio, which included mortgage and real estate services fees and cash flows from our residual interests in securitizations.

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The ability to meet our long-term liquidity requirements is subject to several factors, such as generating fees from our mortgage and real estate fee-based business activities and realizing cash flows from our long-term mortgage portfolio. Our future financial performance and success are dependent in large part upon our ability to grow our mortgage and real estate fee-based business activities. We believe that current cash balances, cash flows from mortgage and real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs. However, we believe the mortgage and real estate services market is volatile and highly competitive. The Company's ability to successfully compete in the mortgage and real estate services industry is uncertain as its business activities are recently established and many competitors have recently entered or have established businesses delivering similar services. If we are unsuccessful, we may be unable to satisfy our future operating costs and liabilities, including repayment of the note payable and long-term debt.

To understand the financial position of the Company better, we believe it is important to understand the composition of the Company's stockholders' equity (deficit) and to which component of the business it relates. At June 30, 2010, the equity (deficit) within our continuing and discontinued operations was comprised of the following significant assets and liabilities:

	Condensed Components of Stockholders' Equity (Deficit)		
	As of June 30, 2010		
	Continuing Operations	Discontinued Operations	Total
Cash	\$ 14,912	\$ 176	\$ 15,088
Residual interests in securitizations	27,253		27,253
Note payable	(12,518)		(12,518)
Long-term debt (\$71,120 par)	(11,357)		(11,357)
Repurchase reserve		(7,570)	(7,570)
Lease liability (1)		(2,776)	(2,776)
Deferred charge	13,144		13,144
Net other assets (liabilities)	6,833	(2,852)	3,981
<b>Stockholders' equity (deficit)</b>	<b>\$ 38,267</b>	<b>\$ (13,022)</b>	<b>\$ 25,245</b>

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(1) Guaranteed by IMH.

*Continuing operations*

At June 30, 2010, cash within our continuing operations decreased to \$14.9 million from \$25.7 million at December 31, 2009. The primary sources of cash between periods were \$27.0 million in fees generated from the mortgage and real estate fee-based businesses and \$7.9 million from residual interests in securitizations. Offsetting the sources of cash were operating expenses totaling \$30.0 million and \$19.0 million in payments on the note payable.

Since our consolidated and unconsolidated securitization trusts are nonrecourse, we have netted trust assets and liabilities to present the Company's interest in these trusts more simply, which are considered our residual interests in securitizations. For unconsolidated securitizations our residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, our residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and net derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining overcollateralization levels within the trusts. The estimated fair value of the residual

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interests, represented by the difference in the fair value of trust assets and trust liabilities, was \$27.3 million at June 30, 2010, compared to \$23.0 million at December 31, 2009.

At June 30, 2010, note payable decreased \$18.5 million from December 31, 2009, as a result of monthly payments totaling \$9.0 million comprising of principal and interest. Additionally, during April 2010, the Company made a \$10.0 million principal payment that was due per the terms of the note payable.

At June 30, 2010, we had deferred charges of \$13.1 million, which is amortized as a component of income tax expense in the consolidated statements of operations over the estimated life of the mortgages retained in the securitized mortgage collateral. The deferred charges represent the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. This balance is recorded as required by GAAP and does not have any realizable cash value.

Net other assets include \$3.4 million in accounts receivable, \$2.8 million in premises and equipment, \$1.7 million in prepaid expenses and \$1.0 million in restricted cash.

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*Discontinued operations*

The Company's most significant liabilities in discontinued liabilities at June 30, 2010 relate to its repurchase reserve and a lease liability associated with the former non-conforming mortgage operations.

In previous years when our discontinued operations sold loans to investors, we were required to make normal and customary representations and warranties about the loans we had previously sold to investors. Our whole loan sale agreements generally required us to repurchase loans if we breached a representation or warranty given to the loan purchaser. In addition, we also could be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale. The repurchase reserve is an estimate of losses from expected repurchases, and is based, in part, on the recent settlement of claims. At June 30, 2010, the repurchase reserve was \$7.6 million.

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. At June 30, 2010, the Company had a liability of \$2.8 million 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.

**Market Conditions**

During the first half of 2010, economic conditions in the United States showed modest signs of improvement, although the pace of improvement began to show signs of slowing during the second quarter. While housing prices have stabilized in many markets and have begun to recover in others, particularly in the middle and lower price sectors, the first-time homebuyer tax credit, which expired in May 2010, as well as low interest rates attributable to government monetary policy actions have been the main stabilizing forces improving home sales and reducing home inventories. How sustainable these improvements will be in the absence of these government actions remains to be seen.

The job market also continued to slightly improve in the first half of 2010, as the economy began to add jobs in March which continued into the second quarter. Despite improving job creation, U.S. unemployment rates, which have been a major factor in the deterioration of credit quality in the U.S., remained high at 9.50 percent in June 2010, a decrease of 20 basis points during the quarter and 50 basis points since December 2009. However, a significant number of U.S. residents are no longer looking for work and, therefore, are not reflected in the U.S. unemployment rates. Unemployment rates in 18 states are greater than the U.S. national average. The increases in unemployment rates have generally been most pronounced in the markets which had previously experienced the highest appreciation in home values. Unemployment rates in 6 states are at or above 11 percent, including California and Florida. California and Florida represent 51 percent and 12 percent of the aggregate unpaid principal of the long-term portfolio, respectively, at June 30, 2010.

Although we noted signs of improvement in mortgage lending industry trends during the first half of 2010, we continue to be affected by the following:

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- Overall levels of delinquencies remain elevated;
- Mortgage loan originations from 2005 to 2008 continue to perform worse than originations from prior periods;
- Real estate markets in a large portion of the United States continue to be affected by stagnation or declines in property values experienced over the last three years;
- While home prices have begun to stabilize in most markets, including some parts of California, they remain under pressure due to elevated foreclosure levels; and
- Tighter lending standards by mortgage lenders which impacts the ability of borrowers to refinance existing mortgage loans.

Concerns about the future of the U.S. economy, including the pace and magnitude of recovery from the recent economic recession, consumer confidence, volatility in energy prices, volatility experienced by the credit markets including the possibility the recent European sovereign debt crisis will spread and trends in corporate earnings will continue to influence the U.S. economic recovery and the capital markets. In particular, continued improvement in unemployment rates and a sustained recovery of the housing market remain critical components of a broader U.S. economic recovery. Further weakening in these components as well as in consumer confidence may result in additional deterioration in consumer payment patterns and credit quality. Although consumer confidence has improved from the levels seen early in 2009, it remains low on a historical basis. Weak consumer fundamentals,



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including declines in wage income, reduced consumer spending, declines in wealth and a difficult job market continue to depress consumer confidence. Additionally there is uncertainty as to the future course of monetary policy and uncertainty as to the impact on the economy and consumer confidence when the remaining actions taken by the government to restore faith in the capital markets and stimulate consumer spending. These conditions in combination with general economic weakness and the impact of recent and proposed regulatory changes will continue to impact our results in 2010, the degree of which is largely dependent upon the nature and timing of the economic recovery.

*Financial Regulatory Reform* On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. This legislation is a sweeping overhaul of the financial regulatory system.

The legislation provides for new legislation on financial institutions, creates new supervisory and advisory bodies, including the new Consumer Financial Protection Bureau, and contains many consumer related provisions including provisions addressing mortgage reform. In the area of mortgage origination, there is the elimination of stated income loans and a requirement to apply a net tangible benefit test for all refinancing transactions. There are also numerous revised servicing requirements for mortgage loans.

The legislation will have a significant impact on the operations of many financial institutions in the U.S. As the legislation calls for extensive regulations to be promulgated to interpret and implement the legislation, it is not possible to precisely determine the impact to operations and financial results at this time.

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We believe there is currently no index for Alt-A mortgage products, but the general direction and magnitude of price movement in the ABX 2007-1 index is reflective of the disruption in the market and general price movement experienced by the Company's securities. The index, which does not include any IMH bonds, is being used for illustrative purposes only because it is a non-conforming single-family mortgage index that has traded consistently in recent years. The ABX 2007-1 Index illustrates market prices for designated groups of subprime securities by credit rating. The index is shown here as an illustration of the price volatility in the general non-conforming subprime mortgage market since the beginning of 2007 and does not reflect actual pricing on IMH bonds, which are backed by Alt-A loans rather than subprime loans. As shown below, the ABX 2007-1 Index displays dramatic declines in the value of such securities.

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*Effects of Recent Market Activity*

As a result of the Company's inability to sell or securitize non-conforming loans during the second half of 2007, the Company discontinued funding loans and discontinued substantially all of its mortgage (non-conforming single-family loans and commercial loans, which consist primarily of multifamily loans) and warehouse lending operations. Market conditions deteriorated in 2008 and continued to be depressed for most of 2009 before recovering slightly towards the end of 2009 and early 2010. As a result, the Company's investment in securitized non-conforming loans (residual interests) has been affected by the increase in estimated defaults and severities, evidenced by significant home price depreciation. The decline in single-family home prices can be seen in the chart below.

As depicted in the chart above, average home prices peaked in June 2006 at 226.29 and continued their dramatic decline through much of the first half of 2009, while increasing slightly over the remaining half of the year. The Standard & Poor's Case-Shiller 10-City Composite Home Price Index (the Index) for May 2010 was 159.36 (with the base of 100.00 for January 2000) and hasn't been this low since November 2003 when the Index was 159.55. Beginning in the third quarter of 2007, the Company began to believe that there was a correlation between the borrowers' perceived equity in their homes and defaults. The original loan-to-value (defined as loan amount as a percentage of collateral value, LTV) and original combined loan-to-value (defined as first lien plus total subordinate liens to collateral value, CLTV) ratios of single-family mortgages remaining in the Company's securitized mortgage collateral as of June 30, 2010 was 72% and 80%, respectively. The current LTV and CLTV ratios likely increased from origination date as a result of the deterioration in the real estate market. We believe that home prices that have declined below the borrower's original purchase price have a higher risk of default within our portfolio. Based on the Index, home prices

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have declined 30% through May 2010 from the 2006 peak. Further, we believe the home prices in general within California and Florida, the states with the highest concentration of our mortgages, have declined even further than the Index. We have considered the deterioration in home prices and its impact on our loss severities, which are a primary assumption used in the valuation of securitized mortgage collateral and borrowings.

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**Critical Accounting Policies**

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the affect of changing market conditions and/or consumer behavior. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include the following:

Please refer to IMH's report on Form 10-K on pages 33 through 39 of Management's Discussion and Analysis of Results of Operations for the year ended December 31, 2009 for a detailed discussion of our significant accounting policies. Such policies have not changed during 2010 except those outlined below:

***Variable Interest Entities and Transfers of Financial Assets and Liabilities***

Historically, the Company securitized mortgages in the form of collateralized mortgage obligations (CMO), which were consolidated and accounted for as secured borrowings for financial statement purposes. The Company also securitized mortgages in the form of real estate mortgage investment conduits (REMICs), which were either consolidated or unconsolidated depending on the design of the securitization structure. CMO and certain REMIC securitizations were designed so that the transferee (securitization trust) was not a qualifying special purpose entity (QSPE), and therefore the Company consolidated the variable interest entity (VIE) as it was the primary beneficiary of the sole residual interest in each securitization trust. Generally, this was achieved by including terms in the securitization agreements that gave the Company the ability to unilaterally cause the securitization trust to return specific mortgages, other than through a clean-up call. Amounts consolidated are 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.

Our estimate of the fair value of our net retained residual interests in unconsolidated securitizations, which are included in investment securities available-for-sale in the consolidated balance sheets, requires us to exercise significant judgment as to the timing and amount of future cash flows from the residual interests. We are exposed to credit risk from the underlying mortgage loans in unconsolidated securitizations to the extent we retain subordinated interests. Changes in expected cash flows resulting from changes in expected net credit losses will impact the value of our subordinated retained interests and those changes are recorded as a component of change in fair value of net trust assets.

In contrast, for securitizations that are structured as secured borrowings, we recognize interest income over the life of the securitized mortgage collateral and interest expense incurred for the securitized mortgage borrowings. We refer to these transactions as consolidated securitizations. The mortgage loans collateralizing the debt securities for these financings are included in securitized mortgage collateral and the debt securities payable to investors in these securitizations are included in securitized mortgage borrowings in our consolidated balance sheet.

Whether a securitization is consolidated or unconsolidated, investors in the securities issued by the securitization trust have no recourse to our non-securitized assets or to us and have no ability to require us to provide additional assets, but rather have recourse only to the assets transferred to the trust. Whereas the accounting differences are significant, the underlying economic impact to us, over time, will be the same

regardless of whether the securitization trust is consolidated or unconsolidated.

Effective January 1, 2010, former QSPEs are evaluated for consolidation based on the provisions of FASB ASC 810-10-25, which eliminates the concept of a QSPE and changes the approach to determining a securitization trust's primary beneficiary. Refer to Note 1. *Summary of Business, Significant Accounting Policies and Legal Proceedings* in the notes to the consolidated financial statements for a discussion of the impact of this new standard on the Company's consolidated balance sheet at January 1, 2010.

### **Income Taxes**

While the Company has generated significant net operating loss carryforwards in recent periods, we do not expect to generate sufficient taxable income in future periods to be able to realize these tax benefits. Therefore, we have recorded a full valuation allowance against the net deferred tax assets as we believe that as of June 30, 2010 it is more likely than not that the net deferred tax assets will not be recoverable.

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**Selected Financial Results for the Three Months Ended June 30, 2010**

*Continuing Operations*

- Earnings from continuing operations of \$2.5 million for the second quarter of 2010, compared to \$8.0 million for the comparable 2009 period.
- Net interest income of \$1.6 million for the second quarter of 2010, primarily from our long-term mortgage portfolio, compared to \$3.0 million for the comparable 2009 period.
- Non-interest income net trust assets of \$721 thousand for the second quarter of 2010, compared to \$8.2 million for the comparable 2009 period.
- Mortgage and real estate services fees of \$15.7 million for the second quarter of 2010, compared to \$13.2 million for the comparable 2009 period.
- Personnel expense of \$10.8 million for the second quarter of 2010, compared to \$10.4 million for the comparable 2009 period.

*Discontinued Operations*

- Earnings from discontinued operations of \$804 thousand for the second quarter of 2010, compared to a loss of \$4.2 million for the comparable 2009 period.
- Repurchase reserve was \$7.6 million at June 30, 2010, compared to \$11.0 million at December 31, 2009.

**Selected Financial Results for the Six Months Ended June 30, 2010**

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- Earnings from continuing operations of \$6.0 million for the six months ended June 30, 2010, compared to \$9.3 million for the comparable 2009 period.
- Net interest income of \$2.3 million for the six months ended June 30, 2010, primarily from our long-term mortgage portfolio, compared to \$6.6 million for the comparable 2009 period.
- Non-interest income net trust assets of \$7.0 million for the six months ended June 30, 2010, compared to \$12.9 million for the comparable 2009 period.
- Mortgage and real estate services fees of \$27.0 million for the six months ended June 30, 2010, compared to \$18.8 million for the comparable 2009 period.
- Personnel expense of \$20.4 million for the six months ended June 30, 2010, compared to \$16.6 million for the comparable 2009 period.

### *Discontinued Operations*

- Earnings from discontinued operations of \$3.2 million for the six months ended June 30, 2010, compared to a loss of \$6.6 million for the comparable 2009 period.



Table of Contents**Financial Condition and Results of Operations***Financial Condition*

## Condensed Balance Sheet Data

	June 30, 2010	December 31, 2009	Increase (Decrease)	% Change
Investment securities available-for-sale	\$ 1,269	\$ 813	\$ 456	56%
Securitized mortgage collateral	6,215,213	5,666,122	549,091	10
Derivative assets	39	146	(107)	(73)
Real estate owned	112,086	142,364	(30,278)	(21)
<b>Total trust assets</b>	<b>6,328,607</b>	<b>5,809,445</b>	<b>519,162</b>	<b>9</b>
Assets of discontinued operations	624	4,480	(3,856)	(86)
Other assets	44,560	58,987	(14,427)	(24)
<b>Total assets</b>	<b>\$ 6,373,791</b>	<b>\$ 5,872,912</b>	<b>\$ 500,879</b>	<b>9%</b>
Securitized mortgage borrowings	\$ 6,200,592	\$ 5,659,865	\$ 540,727	10%
Derivative liabilities	100,762	126,603	(25,841)	(20)
<b>Total trust liabilities</b>	<b>6,301,354</b>	<b>5,786,468</b>	<b>514,886</b>	<b>9</b>
Liabilities of discontinued operations	13,646	19,152	(5,506)	(29)
Other liabilities	33,546	51,859	(18,313)	(35)
<b>Total liabilities</b>	<b>6,348,546</b>	<b>5,857,479</b>	<b>491,067</b>	<b>8</b>
Total stockholders' equity	25,245	15,433	9,812	64
<b>Total liabilities and stockholders' equity</b>	<b>\$ 6,373,791</b>	<b>\$ 5,872,912</b>	<b>\$ 500,879</b>	<b>9%</b>

Total assets and total liabilities were \$6.4 billion and \$6.3 billion, respectively, at June 30, 2010 as compared to \$5.9 billion at December 31, 2009. The increase in total assets and liabilities are primarily attributable to increases in the Company's trust assets and trust liabilities as summarized below.

The Company updates its collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, the Company updates the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. At March 31, 2010, the Company decreased the investor yield requirements for senior bonds of the securitized mortgage borrowings as yields have tightened significantly over the past few quarters. The Company has seen a corresponding increase in the prices for senior bonds from our pricing services. The decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings resulted in an increase in the value of these trust assets and liabilities. However, this change in assumption did not have any effect on the consolidated statement of operations or equity of the Company as the increase in the value of collateral directly offset the increase in the value of the borrowings. The Company did not make any changes to the discount rate assumptions for residual interests during the first six months of 2010.

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- Securitized mortgage collateral increased \$549.1 million during the six months ended June 30, 2010. The increase in securitized mortgage collateral from \$5.7 billion at December 31, 2009 to \$6.2 billion at June 30, 2010 was primarily due to decreased loss assumptions for single-family collateral, reduction in investor yield requirements as discussed below, and the net consolidation of trust assets, partially offset by reductions in principal balances from defaults and principal payments during the period. For the six months ended June 30, 2010, the balance increased due to increases in fair value of \$905.0 million and net consolidation of trust assets related to the adoption of ASU 2009-17 of \$116.9 million, offset by reductions in principal balances (resulting from transfers to REO and principal paydowns) of \$472.8 million.
  
- REO within the Company's securitization trusts decreased \$30.3 million to \$112.1 million at June 30, 2010. Decreases in REO were due to liquidations of \$114.4 million. Offsetting the decrease from liquidations were increases in REO from foreclosures of \$80.6 million, \$3.0 million in the net consolidation of trust assets related to the adoption of ASU 2009-17, and \$473 thousand in recovery of the net realizable value.

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- Securitized mortgage borrowings increased \$540.7 million to \$6.2 billion at June 30, 2010. The increase in securitized mortgage borrowings was primarily due to decreased loss assumptions for single-family collateral, reduction in investor yield requirements as discussed below, and the net consolidation of trust liabilities, offset by reductions in principal balances during the period. For the six months ended June 30, 2010, the balance increased due to increases in fair value of \$1.1 billion, net consolidation of trust liabilities related to the adoption of ASU 2009-17 of \$110.6 million, offset by reductions in outstanding balances of \$665.9 million.
- Derivative liabilities, net decreased \$25.8 million to \$100.7 million at June 30, 2010. The decrease is the result of \$64.1 million in derivative cash payments from the securitization trusts, offset by a \$29.3 million increase in fair value resulting from decreases in the forward LIBOR curve and the net consolidation of off balance sheet trusts related to the adoption of ASU 2009-17 of \$9.0 million.

Since our consolidated and unconsolidated securitization trusts are nonrecourse to the Company, our economic risk is limited to our residual interests in these securitization trusts. Therefore, in the following table we have netted trust assets and trust liabilities to present these residual interests more simply. Our residual interests in securitizations are segregated between our single-family (SF) residential and multifamily (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities. The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at June 30, 2010:

Origination Year	Estimated Fair Value of Residual Interests by Vintage Year		
	SF	MF	Total
2002-2003 (1)	\$ 12,589	\$ 4,168	\$ 16,757
2004	3,143	7,125	10,268
2005 (2)	14	178	192
2006 (2)		36	36
2007 (2)			
<b>Total</b>	<b>\$ 15,746</b>	<b>\$ 11,507</b>	<b>\$ 27,253</b>
Weighted avg. prepayment rate	6%	6%	6%
Weighted avg. discount rate	30%	20%	26%

(1) 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.

(2) The estimated fair values of residual interests in vintage years 2005 through 2007 is reflective of higher estimated future losses and investor yield requirements compared to earlier vintage years.

The Company utilizes a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). The Company uses the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, the Company uses different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions. The table below reflects the estimated

future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage:

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	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	7%	5%	21%	12%
2004	14%	1%	19%	10%
2005	26%	5%	14%	13%
2006	41%	13%	21%	12%
2007	38%	7%	19%	10%

(2) Estimated future losses derived by dividing future projected losses by unpaid principal balances at June 30, 2010.

(3) Investor yield requirements represent the Company's estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.

As illustrated in S&P's Case Shiller 10-City Composite Home Price Index, from 2002 through 2007, home price appreciation escalated to historic levels. During 2005 through 2007, the company originated or acquired mortgages supported by these elevated real estate values. Beginning in 2007, deterioration in the economy resulting in high unemployment and a dramatic drop in home prices resulted in significant negative equity for borrowers. These factors have led to significant increases in loss severities resulting from deterioration in the credit quality of borrowers, as well as strategic defaults, whereby borrowers with the ability to pay are defaulting on their mortgages based on the belief that home prices will not recover in a reasonable amount of time. Home prices have deteriorated back to October 2003 levels which has significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

We believe that in order for us to generate cash flows from the long-term mortgage portfolio, we must successfully manage the following operational and market risks:

- interest rate risk;
- liquidity risk;
- credit risk; and
- prepayment risk.

*Interest Rate Risk.* The Company's earnings depend largely on our interest rate spread, represented by the relationship between the yield on our interest-earning assets (primarily investment securities available-for-sale and securitized mortgage collateral) and the cost of our interest-bearing liabilities (primarily securitized mortgage borrowings, long-term debt and note payable). Our interest rate spread is impacted by several factors, including general economic factors, forward interest rates and our own credit quality.

The residual interests in our long-term mortgage portfolio are sensitive to changes in interest rates on securitized mortgage collateral and the related securitized mortgage borrowings. Changes in interest rates can significantly affect the cash flows and fair values of the Company's assets and liabilities, as well as our earnings and stockholders' equity.

The Company uses derivative instruments to manage some of its interest rate risk. However, the Company does not attempt to completely hedge interest rate risk. To help mitigate some of the exposure to the effect of changing interest rates on cash flows on securitized mortgage borrowings, the Company utilized derivative instruments primarily in the form of interest rate swap agreements (swaps) and, to a lesser extent, interest rate cap agreements (caps) and interest rate floor agreements (floors). These derivative instruments are recorded at fair value in the consolidated balance sheets. 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 value 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.

At June 30, 2010, derivative liabilities, net were \$100.7 million and reflect the securitization trust's liability to pay third-party counterparties based on the estimated value to settle the derivative instruments. Cash payments on these derivative instruments are based on notional amounts that are decreasing over time. Excluding the effects of other factors such as portfolio delinquency and loss

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severities within the securitization trusts, as the notional amount of these derivative instruments decrease over time, payments to counterparties in the current interest rate environment are reduced, thereby potentially increasing cash flows on our residual interests in securitizations. Conversely, increases in interest rates from current levels could potentially reduce overall cash flows on our residual interests in securitizations. Since our consolidated and unconsolidated securitization trusts are nonrecourse to the Company, our economic risk is limited to our residual interests in these securitization trusts.

The Company is also subject to interest rate risk on its long-term debt (consisting of trust preferred securities and junior subordinated notes) and notes payable. These interest bearing liabilities include adjustable rate periods based on one-month LIBOR (note payable) and three-month LIBOR (trust preferred securities and junior subordinated notes). The Company does not currently hedge its exposure to the effect of changing interest rates related to these interest-bearing liabilities. Significant fluctuations in interest rates could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

*Liquidity Risk.* Refer to Liquidity and Capital Resources.

*Credit risk.* We manage credit risk by actively managing delinquencies and defaults through our servicers. Starting with the second half of 2007 we have not retained any additional Alt-A mortgages in our long-term mortgage portfolio. Our securitized mortgage collateral primarily consists of Alt-A mortgages which are generally within typical Fannie Mae and Freddie Mac guidelines but have loan characteristics, which may include higher loan balances, higher loan-to-value ratios or lower documentation requirements (including stated-income loans), that make them non-conforming under those guidelines.

Using historical losses, current portfolio statistics and market conditions and available market data, the Company has estimated future loan losses, which are included in the fair value adjustment to our securitized mortgage collateral. While the credit performance for the loans has been clearly far worse than the Company's initial expectations when the loans were originated, the ultimate level of realized losses will largely be influenced by events that will likely unfold over the next several years, including the severity of housing price declines and overall strength of the economy. If market conditions continue to deteriorate in excess of our expectations, the Company may need to recognize additional fair value reductions to our securitized mortgage collateral, which may also affect the value of the related securitized mortgage borrowings and residual interests.

We monitor our servicers to attempt to ensure that they perform loss mitigation, foreclosure and collection functions according to their servicing practices and each securitization trust's pooling and servicing agreement. We have met with the management of our servicers to assess our borrowers' current ability to pay their mortgages and to make arrangements with selected delinquent borrowers which will result in the best interest of the trust and borrower, in an effort to minimize the number of mortgages which become seriously delinquent. When resolving delinquent mortgages, servicers are required to take timely action. The servicer is required to determine payment collection under various circumstances, which will result in the maximum financial benefit. This is accomplished by either working with the borrower to bring the mortgage current or by foreclosing and liquidating the property. When a borrower fails to make required payments on a mortgage and does not cure the delinquency within 60 days, we generally record a notice of default and commence foreclosure proceedings, or arrange alternative terms of forbearance. If the mortgage is not reinstated within the time permitted by law for reinstatement, the property may then be sold at a foreclosure sale. At a foreclosure sale, the trusts consolidated on our balance sheet generally acquire title to the property.

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 days or more past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days late or greater, foreclosures and delinquent bankruptcies were \$2.7 billion or 22.9% as of June 30, 2010.





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The following table summarizes the unpaid principal balances of non-performing loans in our mortgage portfolio, included in securitized mortgage collateral, loans held-for-investment and loans held-for-sale for continuing and discontinued operations combined, that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

	June 30, 2010	Total Collateral %	December 31, 2009	Total Collateral %
<b><u>Loans held for sale and investment (1)</u></b>				
60 - 89 days delinquent	\$ 42	0.0%	\$ 66	0.0%
90 or more days delinquent	5,809	0.0%	6,928	0.1%
Foreclosures (2)	5,390	0.0%	7,397	0.1%
Total 60+ days delinquent loans held-for-sale and investment	11,241	0.1%	14,391	0.1%
<b><u>Securitized mortgage collateral</u></b>				
60 - 89 days delinquent	\$ 269,102	2.3%	\$ 324,032	2.6%
90 or more days delinquent	957,153	8.1%	1,043,718	8.4%
Foreclosures (2)	1,144,359	9.7%	1,449,538	11.6%
Delinquent bankruptcies (3)	319,093	2.7%	302,314	2.4%
Total 60+ days delinquent long-term mortgage portfolio	2,689,707	22.8%	3,119,602	25.0%
Total 60 or more days delinquent	\$ 2,700,948	22.9%	\$ 3,133,993	25.1%
Total collateral	\$ 11,801,077		\$ 12,492,493	

(1) Loans held-for-sale are substantially included in discontinued operations in the consolidated balance sheets.

(2) Represents properties in the process of foreclosure.

(3) Represents bankruptcies that are 30 days or more delinquent.

The following table summarizes securitized mortgage collateral, loans held-for-investment, loans held-for-sale and real estate owned, that were non-performing for continuing and discontinued operations combined as of the dates indicated (excludes 60-89 days delinquent):

	June 30, 2010	Total Collateral %	December 31, 2009	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 2,431,804	20.6%	\$ 2,809,895	22.5%
Real estate owned	112,158	1.0%	142,676	1.1%
Total non-performing assets	\$ 2,543,962	21.6%	\$ 2,952,571	23.6%

Non-performing assets consist of non-performing loans (mortgages that are 90 days or more delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is our policy to place a mortgage on non-accrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. As of June 30, 2010, non-performing assets (unpaid principal balance of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 22%. At December 31, 2009, non-performing assets to total collateral was 24%. As of June 30, 2010, the estimated fair value of non-performing assets (representing the fair value of loans 90 or more days

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delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total assets was 13%. At December 31, 2009, the estimated fair value of non-performing assets to total assets was 16%.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in the Company's estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as gains or losses from real estate owned in the consolidated statements of operations. REO, for continuing and discontinued operations, at June 30, 2010 decreased \$30.5 million or 21% from December 31, 2009 as a result of liquidations and a decrease in foreclosures.

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We realized gains on the sale of real estate owned in the amount \$5.2 million and \$3.4 million for the three and six months ended June 30, 2010, respectively, compared to gains of \$37.6 million and \$81.6 million, respectively for the comparable 2009 periods. Additionally, during the three and six month ended June 30, 2010, the Company recorded a write-down of and recovery of the net realizable value of the REO in the amount of \$200 thousand and \$473 thousand, respectively, compared to write-downs of \$9.1 million and \$93.3 million, respectively for the comparable 2009 periods. These write-downs of the net realizable value reflect declines in value of the REO subsequent to foreclosure date.

The following table presents the balances of REO for continuing operations:

	June 30, 2010	December 31, 2009
REO	\$ 133,283	\$ 176,800
Impairment (1)	(21,125)	(34,080)
Ending balance	\$ 112,158	\$ 142,720
REO inside trusts	\$ 112,086	\$ 142,364
REO outside trusts	72	356
Total	\$ 112,158	\$ 142,720

(1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.

In calculating the cash flows to assess the fair value of the securitized mortgage collateral, the Company estimates the future losses embedded in our loan portfolio. In evaluating the adequacy of these losses, management takes many factors into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The data is also broken down by collection status. Our estimate of losses for these loans is developed by estimating both the rate of default of the loans and the amount of loss severity in the event of default. The rate of default is assigned to the loans based on their attributes (*e.g.*, original loan-to-value, borrower credit score, documentation type, geographic location, etc.) and collection status. The rate of default is based on analysis of migration of loans from each aging category. The loss severity is determined by estimating the net proceeds from the ultimate sale of the foreclosed property. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the future loan losses.

Management recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring losses in the loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower's ability to pay, changes in value of collateral, political factors, employment and market conditions, competitor's performance, market perception, historical losses, and industry statistics. The assessment for losses, is based on delinquency trends and prior loss experience and management's judgment and assumptions regarding various matters, including general economic conditions and loan portfolio composition. Management continually evaluates these assumptions and various relevant factors affecting credit quality and inherent losses.

*Prepayment Risk.* The Company historically used prepayment penalties as a method of partially mitigating prepayment risk for those borrowers that have the ability to refinance. The recent economic downturn, lack of available credit and declines in property values have limited borrowers ability to refinance. These factors have significantly reduced prepayment risk within our long-term mortgage portfolio. With the seasoning of the long-term mortgage portfolio, a significant portion of prepayment penalties terms have expired, thereby further reducing prepayment penalty income.



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*For the Three and Six Months Ended June 30, 2010 compared to the Three and Six Months Ended June 30, 2009*

## Condensed Statements of Operations Data

	<b>For the Three Months Ended June 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Interest income	\$ 248,213	\$ 454,258	\$ (206,045)	(45)%
Interest expense	246,658	451,305	(204,647)	(45)
Net interest income	1,555	2,953	(1,398)	(47)
Total non-interest income	16,370	21,566	(5,196)	(24)
Total non-interest expense	15,398	16,469	(1,071)	(7)
Income tax expense	45	20	25	125
Earnings from continuing operations	2,482	8,030	(5,548)	(69)
Earnings (loss) from discontinued operations, net	804	(4,195)	4,999	119
Earnings	3,286	3,835	(549)	(14)
Cash dividends on preferred stock		(7,443)	7,443	100
Earnings available to common stockholders before redemption of preferred stock (1)	\$ 3,286	\$ 3,835	\$ (549)	(14)%
Earnings (loss) per share available to common stockholders before redemption of preferred stock (1) - basic				
	\$ 0.43	\$ (0.47)	\$ 0.90	190%
Earnings (loss) per share available to common stockholders before redemption of preferred stock (1) - diluted				
	\$ 0.39	\$ (0.47)	\$ 0.86	183%
	<b>For the Six Months Ended June 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Interest income	\$ 528,090	\$ 1,166,907	\$ (638,817)	(55)%
Interest expense	525,765	1,160,312	(634,547)	(55)
Net interest income	2,325	6,595	(4,270)	(65)
Total non-interest income	33,676	31,816	1,860	6
Total non-interest expense	29,858	27,086	2,772	10
Income tax expense	129	2,018	(1,889)	(94)
Earnings from continuing operations	6,014	9,307	(3,293)	(35)
Earnings (loss) from discontinued operations, net	3,190	(6,591)	9,781	148
Earnings	9,204	2,716	6,488	239
Cash dividends on preferred stock		(7,443)	7,443	100
Earnings available to common stockholders before redemption of preferred stock (1)	\$ 9,204	\$ 2,716	\$ 6,488	239%
Earnings (loss) per share available to common stockholders before redemption of preferred stock (1) - basic				
	\$ 1.19	\$ (0.62)	\$ 1.81	292%

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Earnings (loss) per share available to common stockholders before redemption of preferred stock (1) - diluted	\$	1.10	\$	(0.62)	\$	1.72	278%
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(1) As discussed in Note 4 to the consolidated financial statements, the difference between the carrying value of the tendered preferred stock (\$106.1 million) and the amount paid for the shares (\$1.3 million) was recognized as a decrease in retained deficit in 2009. Including the redemption, total basic and diluted earnings per share from continuing operations available to common stockholders were \$13.29 and \$13.14, respectively. However, because of the special nature of the preferred stock redemption (which the Company considers an infrequently occurring item), management believes that earnings per common share excluding such transaction are more meaningful from an operations standpoint.

### *Net Interest Income*

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, loans held-for-sale and investment securities available-for-sale, or collectively, mortgage assets, and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings secured by mortgage assets, which include securitized mortgage borrowings and to a lesser extent, interest expense paid on long-term debt and note payable. Interest income and interest expense during the period primarily represents the effective yield, based on the fair value of the trust assets and liabilities.

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The following tables summarize average balance, interest and weighted average yield on mortgage assets and borrowings, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the three months ended June 30,					
	2010			2009		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<b>ASSETS</b>						
Investment securities available-for-sale	\$ 969	\$ 66	27.24%	\$ 950	\$ 103	43.37%
Securitized mortgage collateral	6,291,034	248,064	15.77%	6,912,164	454,044	26.28%
Other	6,518	83	5.09%	36,465	111	1.22%
Total interest-earning assets	\$ 6,298,521	\$ 248,213	15.76%	\$ 6,949,579	\$ 454,258	26.15%
<b>LIABILITIES</b>						
Securitized mortgage borrowings	\$ 6,276,241	\$ 245,280	15.63%	\$ 7,029,307	\$ 450,449	25.63%
Long-term debt	11,625	1,197	41.19%	10,443	856	32.79%
Note payable	19,677	181	3.68%			
Total interest-bearing liabilities	\$ 6,307,543	\$ 246,658	15.64%	\$ 7,039,750	\$ 451,305	25.64%
<b>Net Interest Spread (1)</b>		\$ 1,555	0.12%		\$ 2,953	0.51%
<b>Net Interest Margin (2)</b>			0.10%			0.17%

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest income spread decreased \$1.4 million for the three months ended June 30, 2010 to \$1.6 million from \$3.0 million for the comparable 2009 period. The decrease in net interest spread was primarily attributable to overall declines in yields between periods and the resulting decrease in net interest income on securitized mortgage collateral and securitized mortgage borrowings, as well as an increase in interest expense incurred on the note payable of \$181 thousand for the quarter ended June 30, 2010 as compared to none for the comparable 2009 period. As a result, net interest margin decreased from 0.17% for the three months ended June 30, 2009 to 0.10% for the three months ended June 30, 2010.

During the three months ended June 30, 2010, the yield on interest-earning assets decreased to 15.76% from 26.15% in the comparable 2009 period. The yield on interest-bearing liabilities decreased to 15.64% for the three months ended June 30, 2010 from 25.64% for the comparable 2009 period. In connection with the fair value accounting for investment securities available-for-sale and securitized mortgage collateral and borrowings, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to the adoption of FAS ASC 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, during the second quarter of 2009. The fair value of the securitized mortgage collateral and securitized mortgage borrowings increased and the yields decreased as a result of the adoption which clarified the use of quoted prices in

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determining fair value in markets that are inactive, thus moderating the need to use distressed prices in valuing financial assets and liabilities in illiquid markets as the Company had used in prior periods. Furthermore, the Company adjusted the investor yield requirement assumptions for senior mortgage backed bonds during the first quarter of 2010 based on market participant expectations for similar mortgage backed bonds. The decrease in yields resulted in an increase in fair value of both securitized mortgage collateral and borrowings at March 31, 2010. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.



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	For the six months ended June 30,					
	2010			2009		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<b>ASSETS</b>						
Investment securities available-for-sale	\$ 818	\$ 113	27.63%	\$ 1,184	\$ 233	39.36%
Securitized mortgage collateral	6,122,707	527,830	17.24%	6,572,918	1,166,124	35.48%
Other	11,443	147	2.57%	39,008	550	2.82%
Total interest-earning assets	\$ 6,134,968	\$ 528,090	17.22%	\$ 6,613,110	\$ 1,166,907	35.29%
<b>LIABILITIES</b>						
Securitized mortgage borrowings	\$ 6,107,655	\$ 522,945	17.12%	\$ 6,750,866	\$ 1,158,914	34.33%
Long-term debt	11,008	2,362	42.91%	12,600	1,398	22.19%
Note payable	23,471	458	3.90%			
Total interest-bearing liabilities	\$ 6,142,134	\$ 525,765	17.12%	\$ 6,763,466	\$ 1,160,312	34.31%
<b>Net Interest Spread (1)</b>		\$ 2,325	0.10%		\$ 6,595	0.98%
<b>Net Interest Margin (2)</b>			0.08%			0.20%

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest income spread decreased \$4.3 million for the six months ended June 30, 2010 to \$2.3 million from \$6.6 million for the comparable 2009 period. The decrease in net interest spread was primarily attributable to overall declines in yields between periods and the resulting decrease in net interest income on securitized mortgage collateral and securitized mortgage borrowings, as well as an increase in interest expense incurred on the note payable of \$458 thousand for the six months ended June 30, 2010 as compared to none for the comparable 2009 period. As a result, net interest margin decreased from 0.20% for the six months ended June 30, 2009 to 0.08% for the six months ended June 30, 2010.

During the six months ended June 30, 2010, the yield on interest-earning assets decreased to 17.22% from 35.29% in the comparable 2009 period. The yield on interest-bearing liabilities decreased to 17.12% for the six months ended June 30, 2010 from 34.31% for the comparable 2009 period. In connection with the fair value accounting for investment securities available-for-sale and securitized mortgage collateral and borrowings, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to the adoption of FAS ASC 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, during the second quarter of 2009. The fair value of the securitized mortgage collateral and securitized mortgage borrowings increased and the yields decreased as a result of the adoption which clarified the use of quoted prices in determining fair value in markets that are inactive, thus moderating the need to use distressed prices in valuing financial assets and liabilities in illiquid markets as the Company had used in prior periods. Furthermore, the Company adjusted the investor yield requirement assumptions for senior mortgage backed bonds during the first quarter of 2010 based on market participant expectations for similar mortgage backed bonds. The decrease in yields resulted in an increase in fair value of both securitized mortgage collateral and borrowings at March 31, 2010. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.



Table of Contents*Non-Interest Income*

## Changes in Non-Interest Income

	For the Three Months Ended June 30,			
	2010	2009	Increase (Decrease)	% Change
Change in fair value of net trust assets, excluding REO	\$ (4,244)	\$ 54,912	\$ (59,156)	(108)%
Gains (losses) from REO	4,965	(46,723)	51,688	111
Non-interest income - net trust assets	721	8,189	(7,468)	(91)
Change in fair value of long-term debt	75	329	(254)	(77)
Mortgage and real estate services fees	15,677	13,233	2,444	18
Other	(103)	(185)	82	44
Total non-interest income	\$ 16,370	\$ 21,566	\$ (5,196)	(24)%

*Non-interest income net trust assets.* Since our consolidated and unconsolidated securitization trusts are nonrecourse to the Company, our economic risk is limited to our residual interests in these securitization trusts. To better understand the economics on our residual interests in securitizations, it is necessary to consider the net effect of changes in fair value of net trust assets and losses from real estate owned. All estimated future losses are included in the estimate of the fair value of securitized mortgage collateral and REO. Losses on REO are reported separately in the consolidated statement of operations as REO is a nonfinancial asset which is the only component of trust assets and liabilities that is not recorded at fair value. Therefore, REO value at the time of sale or losses from further write-downs are recorded separately in the Company's consolidated statement of operations. The net effect of changes in value related to our investment in all trust assets and liabilities is shown as non-interest income net trust assets, which includes losses from REO. Non-interest income related to our net trust assets (residual interests in securitizations) was \$721 thousand for the three months ended June 30, 2010, compared to \$8.2 million in the comparable 2009 period. The \$721 thousand gain on net trust assets was primarily attributable to the gain on sale of REO during the three months ended June 30, 2010. The individual components of the non-interest income from net trust assets are discussed below:

*Change in fair value of net trust assets, excluding REO.* For the quarter ended June 30, 2010, the Company recognized a \$4.2 million loss from the change in fair value of net trust assets, excluding REO. The net loss recognized during the period was comprised of losses resulting from the decrease in the fair market value of securitized mortgage collateral and an increase in the fair value of net derivative liabilities of \$30.6 million and \$11.3 million, respectively. Offsetting these losses were gains resulting from the increase in fair value of investment securities-for-sale and a decrease in the fair value of securitized mortgage borrowings of \$541 thousand and \$37.2 million, respectively.

For the quarter ended June 30, 2009, the Company recognized a \$54.9 million gain from the change in fair value of net trust assets, excluding REO. The gain was the result of the adoption of FSP 157-4, which clarified the use of quoted prices in determining fair values in markets that are inactive, thus moderating the need to use distressed prices in valuing financial assets and liabilities in illiquid markets as the Company had used in prior periods. Offsetting the gain recognized in connection with the adoption of FSP 157-4 were declines in fair value resulting from the Company increasing its loss assumptions for its long-term mortgage portfolio due to the increase in expected defaults and loss severities related to the weak economy and housing market. The net gain recognized during the period was comprised of gains from the increase in fair value of investment securities-for-sale and securitized mortgage collateral of \$0.8 million and \$594.6 million, respectively. Offsetting these gains were losses resulting from increases in the fair value of securitized mortgage borrowings and derivative instruments, net of \$536.3 million and \$4.2 million, respectively.

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*Gains (losses) from REO.* Gains (losses) from REO were \$5.0 million for the three months ended June 30, 2010. This gain was comprised of a \$5.2 million gain on sale of REO, coupled with \$200 thousand in additional impairment write-downs during the period. During the three months ended June 30, 2010, the gain on sale of REO was attributable to mortgage insurance recovery collected in the period as a result of our increased loss mitigation efforts of our portfolio. Additionally, loss severities decreased on properties liquidated during the period as compared to previously reserved.

Losses from real estate owned were \$46.7 million for the three months ended June 30, 2009. This loss was comprised of a \$37.6 million loss on sale of REO, coupled with \$9.1 million in additional impairment write-downs during the period. During the second quarter of 2009, loss severities resulting from liquidations in areas where we have high concentration of foreclosed properties (such as California and Florida) have continued to increase over previous periods as a result of continued deterioration in the U.S. economy and real estate markets. These continued declines in housing prices have resulted in liquidations of foreclosed assets at prices below expected levels as well as additional impairment write-downs of REO since foreclosure

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*Change in the fair value of long-term debt.* Change in the fair value of long-term debt was a gain of \$75 thousand for the three months ended June 30, 2010, compared to a gain of \$329 thousand for the comparable 2009 period. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by the Company, which considers the Company's own credit risk, including consideration of settlements with trust preferred debt holders and discounted cash flow analysis.

*Mortgage and real estate services fees.* Revenues generated from these businesses are primarily from the Company's long-term mortgage portfolio. For the three months ended June 30, 2010, mortgage and real estate services fees, which primarily include loan modification fees and monitoring and surveillance services fees, were \$15.7 million compared to \$13.2 million in monitoring fees in the comparable 2009 period. The mortgage and real estate services fees of \$15.7 million for the three months ended June 30, 2010, was primarily comprised of \$7.8 million in monitoring, surveillance and recovery fees, \$3.5 million in title and escrow fees, \$2.7 million in loan modification fees, and \$1.7 million in servicing income.

	For the Six Months Ended June 30,			
	2010	2009	Increase (Decrease)	% Change
Change in fair value of net trust assets, excluding REO	\$ 3,128	\$ 187,842	\$ (184,714)	(98)%
Gains (losses) from REO	3,857	(174,923)	178,780	102
Non-interest income - net trust assets	6,985	12,919	(5,934)	(46)
Change in fair value of long-term debt	(216)	341	(557)	(163)
Mortgage and real estate services fees	27,002	18,782	8,220	44
Other	(95)	(226)	131	58
Total non-interest income	\$ 33,676	\$ 31,816	\$ 1,860	6%

*Non-interest income net trust assets.* Since our consolidated and unconsolidated securitization trusts are nonrecourse to the Company, our economic risk is limited to our residual interests in these securitization trusts. To better understand the economics on our residual interests in securitizations, it is necessary to consider the net effect of changes in fair value of net trust assets and losses from real estate owned. All estimated future losses are included in the estimate of the fair value of securitized mortgage collateral and REO. Losses on REO are reported separately in the consolidated statement of operations as REO is a nonfinancial asset which is the only component of trust assets and liabilities that is not recorded at fair value. Therefore, REO value at the time of sale or losses from further write-downs are recorded separately in the Company's consolidated statement of operations. The net effect of changes in value related to our investment in all trust assets and liabilities is shown as non-interest income net trust assets, which includes losses from REO. Non-interest income related to our net trust assets (residual interests in securitizations) was \$7.0 million for the six months ended June 30, 2010, compared to \$12.9 million in the comparable 2009 period. The \$7.0 million gain on net trust assets was primarily attributable to increased expected net interest spread as a result of a downward shift in the forward LIBOR curve during the six months ended June 30, 2010. The individual components of the non-interest income from net trust assets are discussed below:

*Change in fair value of net trust assets, excluding REO.* For the six months ended June 30, 2010, the Company recognized a \$3.1 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the increase in fair value of investment securities-for-sale and securitized mortgage collateral of \$718 thousand and \$650.8 million, respectively. Offsetting these gains were losses resulting from increases in the fair value of securitized mortgage borrowings and net derivative liabilities of \$619.0 million and \$29.3 million, respectively.

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For the six months ended June 30, 2009, the Company recognized a \$187.8 million gain from the change in fair value of net trust assets, excluding REO. The gain was the result of the adoption of FASB ASC 820-10-65-4, which clarified the use of quoted prices in determining fair values in markets that are inactive, thus moderating the need to use distressed prices in valuing financial assets and liabilities in illiquid markets as the Company had used in prior periods. Offsetting the gain recognized in connection with the adoption of FASB ASC 820-10-65-4 were declines in fair value resulting from the Company increasing its loss assumptions for its long-term mortgage portfolio due to the increase in expected defaults and loss severities related to the weak economy and housing market. The net gain recognized during the period comprised of gains resulting from the increase in fair value of investment securities-for-sale and securitized mortgage collateral and a reduction in the fair value of securitized mortgage borrowings of \$1.7 million, \$45.6 million and \$160.9 million, respectively. Offsetting these gains were losses from the change in fair value of derivative instruments, net of \$20.3 million.

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*Gains (losses) from REO.* Gains (losses) from REO were \$3.9 million for the six months ended June 30, 2010. This gain was comprised of a \$3.4 million gain on sale of REO, coupled with \$473 thousand in recovery of the net realizable value during the period. During the six months ended June 30, 2010, the gain on sale of REO was attributable to mortgage insurance recovery collected in the period as a result of our increased loss mitigation efforts of our portfolio. Additionally, loss severities decreased on properties liquidated during the period as compared to previously reserved.

Losses from REO were \$174.9 million for the six months ended June 30, 2009. This loss was comprised of an \$81.6 million loss on sale of REO, coupled with \$93.3 million in additional impairment write-downs during the period. During the first six months of 2009, loss severities resulting from liquidations in areas where we have high concentration of foreclosed properties (such as California and Florida) have continued to increase significantly over previous periods as a result of continued deterioration in the U.S. economy and real estate markets. These continued declines in housing prices have resulted in liquidations of foreclosed assets at prices below expected levels as well as additional impairment write-downs of REO since foreclosure.

*Change in the fair value of long-term debt.* Change in the fair value of long-term debt was a loss of \$216 thousand for the six months ended June 30, 2010, compared to a gain of \$341 thousand for the comparable 2009 period. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by the Company, which considers the Company's own credit risk, including consideration of settlements with trust preferred debt holders and discounted cash flow analysis.

*Mortgage and real estate services fees.* Revenues generated from these businesses are primarily from the Company's long-term mortgage portfolio. For the six months ended June 30, 2010, mortgage and real estate services fees, which primarily include loan modification fees and monitoring and surveillance services fees, were \$27.0 million compared to \$18.8 million in monitoring fees in the comparable 2009 period. The mortgage and real estate services fees of \$27.0 million for the six months ended June 30, 2010, was primarily comprised of \$12.8 million in monitoring, surveillance and recovery fees, \$6.0 million in title and escrow fees, \$5.8 million in loan modification fees, and \$2.4 million in servicing income.

*Non-Interest Expense*

## Changes in Non-Interest Expense

	<b>For the Three Months Ended June 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
General and administrative	\$ 4,630	\$ 6,110	\$ (1,480)	(24)%
Personnel expense	10,768	10,359	409	4
Total operating expense	\$ 15,398	\$ 16,469	\$ (1,071)	(7)%

Total non-interest expense was \$15.4 million for the three months ended June 30, 2010, compared to \$16.5 million for the comparable period of 2009. The \$1.1 million decrease in non-interest expense was primarily attributable to a \$1.5 million decrease in general and administrative expenses associated with a \$917 thousand reduction in legal and professional fees.

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	For the Six Months Ended June 30,				
	2010	2009	Increase (Decrease)		% Change
General and administrative	\$ 9,409	\$ 10,449	\$ (1,040)		(10)%
Personnel expense	20,449	16,637	3,812		23
Total operating expense	\$ 29,858	\$ 27,086	\$ 2,772		10%

Total non-interest expense was \$29.9 million for the six months ended June 30, 2010, compared to \$27.1 million for the comparable period of 2009. The \$2.8 million increase in non-interest expense was primarily attributable to a \$3.8 million increase in personnel expense over the previous period as a result of increases in personnel and related costs associated with the initiation of our new mortgage and real estate fee-based business activities. Offsetting the increase in personnel expenses was a \$1.0 million reduction in general and administrative expenses associated with a \$992 thousand reduction in legal and professional fees.



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During 2009, the Company initiated various mortgage and real estate fee-based business activities, including loan modifications, real estate disposition, monitoring and surveillance services, real estate brokerage, mortgage lending and title and escrow services. Although the Company intends to generate fees by providing these services to third parties in the marketplace, the revenues from these business activities have primarily been generated from the Company's long-term mortgage portfolio. Furthermore, since these business activities are recently formed there remains uncertainty about their future success.

## Condensed Statements of Operations Data

	For the Three Months Ended June 30,			
	2010	2009	Increase (Decrease)	% Change
Net interest income (expense)	\$ 6	\$ (8)	\$ 14	175%
Mortgage and real estate services fees	15,677	13,233	2,444	18
Other non-interest income	(5)	(157)	152	97
Total non-interest income	15,672	13,076	2,596	20
Personnel expense	8,830	5,727	3,103	54
Non-interest expense and income taxes	2,039	1,770	269	15
Net earnings	\$ 4,809	\$ 5,571	\$ (762)	(14)%

For the three months ended June 30, 2010, mortgage and real estate services fees were \$15.7 million compared to \$13.2 million in the comparable period for 2009. The mortgage and real estate services fees of \$15.7 million for the three months ended June 30, 2010, was primarily comprised of \$7.8 million in monitoring, surveillance and recovery fees, \$3.5 million in title and escrow fees, \$2.7 million in loan modification fees, and \$1.7 million in servicing income.

For the three months ended June 30, 2010, personnel expense increased \$3.1 million to \$8.8 million as a result of increases in personnel and related costs associated with the initiation of the new mortgage and real estate fee-based business activities.

	For the Six Months Ended June 30,			
	2010	2009	Increase (Decrease)	% Change
Net interest income (expense)	\$ 11	\$ (6)	\$ 17	283%
	27,002	18,782	8,220	44

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Mortgage and real estate services fees				
Other non-interest income	2	(186)	188	101
Total non-interest income	27,004	18,596	8,408	45
Personnel expense	16,440	8,602	7,838	91
Non-interest expense and income taxes	4,329	2,963	1,366	46
Net earnings	\$ 6,246	\$ 7,025	\$ (779)	(11)%

For the six months ended June 30, 2010, mortgage and real estate services fees were \$27.0 million compared to \$18.8 million in the comparable period for 2009. The mortgage and real estate services fees of \$27.0 million for the six months ended June 30, 2010, was primarily comprised of \$12.8 million in monitoring, surveillance and recovery fees, \$6.0 million in title and escrow fees, \$5.8 million in loan modification fees, and \$2.4 million in servicing income.

For the six months ended June 30, 2010, personnel expense increased \$7.8 million to \$16.4 million as a result of increases in personnel and related costs associated with the initiation of the new mortgage and real estate fee-based business activities.

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For the six months ended June 30, 2010, non-interest expense and income taxes increased \$1.4 million to \$4.3 million. The increase is related to higher business promotion and equipment expenses associated with the new mortgage and real estate fee-based business activities.

*Long-term Portfolio*

## Condensed Statements of Operations Data

	For the Three Months Ended June 30,				% Change
	2010	2009	Increase (Decrease)		
Net interest income	\$ 1,549	\$ 2,961	\$ (1,412)	(48)%	
Change in fair value of net trust assets, excluding REO	(4,244)	54,912	(59,156)	(108)	
Gains (losses) from REO	4,965	(46,723)	51,688	111	
Non-interest income- net trust assets	721	8,189	(7,468)	(91)	
Change in fair value of long-term debt	75	329	(254)	(77)	
Other non-interest income	(98)	(28)	(70)	(250)	
Total non-interest income	698	8,490	(7,792)	(92)	
Personnel expense	1,938	4,632	(2,694)	(58)	
Non-interest expense and income taxes	2,636	4,360	(1,724)	(40)	
Net (loss) earnings	\$ (2,327)	\$ 2,459	\$ (4,786)	(195)%	

Net (loss) earnings for the long-term portfolio was a loss of \$2.3 million for the three months ended June 30, 2010, compared to earnings of \$2.5 million for the comparable period of 2009. The decrease in net earnings is primarily attributable to a \$7.5 million decrease in non-interest income-net trust assets, and a \$1.4 million decrease in net interest income, partially offset by a \$2.7 million reduction in personnel expense and a \$1.7 million reduction in non-interest expense and income taxes.

Non-interest income-net trust assets decreased \$7.5 million primarily due to a decrease in the change in fair value of net trust assets partially offset by a decrease in REO losses. The decrease in the fair value of net trust assets was primarily the result of the adoption of FASB ASC 820-10-65-4 during the second quarter of 2009. This clarified the use of quoted prices in determining fair values in markets that are inactive, thus moderating the need to use distressed prices in valuing financial assets and liabilities in illiquid markets as the Company used in prior periods. The Company recorded a significant increase in the fair value of net trust assets as a result of the adoption of ASC 820-10-65-4 during June of 2009. The decrease in REO losses were attributable to higher mortgage insurance recoveries collected in the period, reduction in loss severities on REO liquidations and a decrease in REO liquidations during the second quarter of 2010 compared to 2009.

Personnel expense decreased \$2.7 million during the three months ended June 30, 2010 as a result of reduced personnel associated with the long-term portfolio segment of the Company.

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Non-interest expense and income taxes decreased \$1.7 million. The decrease is primarily attributable to a \$959 thousand reduction in legal and professional fees as well as an \$801 thousand decrease in general and administrative expenses.

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	For the Six Months Ended June 30,			
	2010	2009	Increase (Decrease)	% Change
Net interest income	\$ 2,314	\$ 6,601	\$ (4,287)	(65)%
Change in fair value of net trust assets, excluding REO	3,128	187,842	(184,714)	(98)
Gains (losses) from REO	3,857	(174,923)	178,780	102
Non-interest income- net trust assets	6,985	12,919	(5,934)	(46)
Change in fair value of long-term debt	(216)	341	(557)	(163)
Other non-interest income	(97)	(40)	(57)	(143)
Total non-interest income	6,672	13,220	(6,548)	(50)
Personnel expense	4,009	8,035	(4,026)	(50)
Non-interest expense and income taxes	5,209	9,504	(4,295)	(45)
Net (loss) earnings	\$ (232)	\$ 2,282	\$ (2,514)	(110)%

Net (loss) earnings for the long-term portfolio was a loss of \$232 thousand for the six months ended June 30, 2010, compared to earnings of \$2.3 million for the comparable period of 2009. This decrease in net earnings is primarily attributable to a \$5.9 million decrease in non-interest income-net trust assets and a \$4.3 million decrease in net interest income, offset by a \$4.3 million reduction in non-interest expense and income taxes and a \$4.0 million reduction in personnel expense.

Non-interest income-net trust assets decreased \$5.9 million primarily due to a decrease in the change in fair value of net trust assets partially offset by a decrease in REO losses. The decrease in the fair value of net trust assets was primarily the result of the adoption of FASB ASC 820-10-65-4 during the second quarter of 2009. This clarified the use of quoted prices in determining fair values in markets that are inactive, thus moderating the need to use distressed prices in valuing financial assets and liabilities in illiquid markets as the Company used in prior periods. The Company recorded a significant increase in the fair value of net trust assets as a result of the adoption of ASC 820-10-65-4 during June of 2009. The decrease in REO losses were attributable to higher mortgage insurance recoveries collected in the period, reduction in loss severities on REO liquidations and a decrease in REO liquidations during the six months ended June 30, 2010 compared to 2009.

Personnel expense decreased \$4.0 million during the six months ended June 30, 2010 as a result of reduced personnel associated with the long-term portfolio segment of the Company.

Non-interest expense and income taxes decreased \$4.3 million. The decrease is primarily attributable to a \$1.2 million reduction in legal and professional fees as well as a \$1.1 million decrease in general and administrative expenses.

**Discontinued Operations**

Condensed Statements of Operations Data

**For the Three Months Ended June 30,**

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	2010		2009		Increase (Decrease)	% Change
Net interest income (expense)	\$	17	\$	(665)	\$ 682	103%
Loss on sale of loans		(111)		(8,052)	7,941	99
(Provision) recoveries for repurchases		(416)		1,932	(2,348)	(122)
Other non-interest income		575		(739)	1,314	178
Total non-interest income		48		(6,859)	6,907	101
Lease impairment adjustment		(554)		(2,610)	2,056	79
Non-interest expense and income taxes		(185)		(719)	534	74
Net earnings (loss)	\$	804	\$	(4,195)	\$ 4,999	119%

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Net earnings from discontinued operations was \$804 thousand for the three months ended June 30, 2010, compared to a loss of \$4.2 million for the comparable period in 2009. Net interest income increased \$682 thousand to \$17 thousand as a result of reductions in overall interest expense from the previous reverse repurchase facility that was settled as a result of the Settlement Agreement reached in October 2009.

Loss on sale of loans decreased \$7.9 million during the quarter to a loss of \$111 thousand as compared to a loss of \$8.1 million in the comparable period in 2009. The decrease in loss on sale of loans was the result of reductions in lower of cost or market (LOCOM) adjustment against loans held-for-sale between periods resulting from the Settlement Agreement in October 2009 with its reverse repurchase facility lender which removed the exposure associated with the loans held for sale that secured the line.

(Provision) recoveries for repurchases decreased \$2.3 million to a provision of \$416 thousand for the three months ended June 30, 2010, compared to a recovery of \$1.9 million for the same period in 2009. The \$2.3 million decrease is the result of settlements reached with whole-loan investors during 2009, coupled with increases in estimated repurchase obligations during 2010.

The \$1.3 million increase in other non-interest income is the result of gains of \$575 thousand on sales of REO properties not in trusts during the three months ended June 30, 2010 as compared to loss on sale of REO properties and write-downs of REO totaling \$742 thousand for the comparable period in 2009.

The \$2.1 million increase in lease impairment adjustment during the three months ended June 30, 2010 over the comparable period was primarily attributable to a \$2.6 million gain in the second quarter of 2009 resulting from reduction in the lease liabilities as a result of changes in our expected minimum future lease payments.

### Condensed Statements of Operations Data

	<b>For the Six Months Ended June 30,</b>		<b>Increase</b>		<b>%</b>
	<b>2010</b>	<b>2009</b>	<b>(Decrease)</b>		<b>Change</b>
Net interest income (expense)	\$ 44	\$ (1,078)	\$ 1,122		104%
Gain (loss) on sale of loans	85	(8,010)	8,095		101
(Provision) recoveries for repurchases	(363)	1,176	(1,539)		(131)
Other non-interest income	2,411	(1,946)	4,357		224
Total non-interest income	2,133	(8,780)	10,913		124
Lease impairment adjustment	(554)	(2,944)	2,390		81
Non-interest expense and income taxes	(459)	(323)	(136)		(42)
Net earnings (loss)	\$ 3,190	\$ (6,591)	\$ 9,781		148%

Net earnings from discontinued operations was \$3.2 million for the six months ended June 30, 2010, compared to a loss of \$6.6 million for the comparable period in 2009. Net interest income increased \$1.1 million to \$44 thousand as a result of reductions in overall interest expense from

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the previous reverse repurchase facility that was settled as a result of the Settlement Agreement reached in October 2009.

Loss on sale of loans decreased \$8.1 million to a gain of \$85 thousand for the six months ended June 30, 2010 as compared to a loss of \$8.0 million in the comparable period in 2009. The decrease in loss on sale of loans was the result of reductions in LOCOM adjustments against loans held-for-sale between periods resulting from the Settlement Agreement in October 2009 with its reverse repurchase facility lender which removed the exposure associated with the loans held for sale that secured the line.

(Provision) recoveries for repurchases decreased \$1.5 million to a provision of \$363 thousand for the six months ended June 30, 2010, compared to a recovery of \$1.2 million for the same period in 2009. The \$1.5 million decrease is the result of settlements reached with whole-loan investors during 2009, coupled with increases in estimated repurchase obligations during 2010.



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The \$4.4 million increase in other non-interest income is primarily the result of gains of \$1.7 million on sales of REO properties not in trusts and recovery of REO write-downs during the six months ended June 30, 2010 as compared to loss on sale of REO and write-downs of REO totaling \$1.9 million for the comparable period in 2009.

The \$2.4 million increase in lease impairment adjustment during the six months ended June 30, 2010 over the comparable period was primarily attributable to a \$2.9 million gain in the second quarter of 2009 resulting from reduction in the lease liabilities as a result of changes in our expected minimum future lease payments.

**ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, we are not required to provide the information required by this Item.

**ITEM 4: CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that, as of that date, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

*Changes in Internal Control Over Financial Reporting*

There has been no change in the Company's internal control over financial reporting during the Company's quarter ended June 30, 2010, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

***PART II. OTHER INFORMATION***

**ITEM 1: LEGAL PROCEEDINGS**

The Company is party to litigation and claims which arise in the ordinary course of business.

With respect to Sheldon Pittleman v. Impac Mortgage Holdings, Inc., et al, which is further described in the Company's Form 10-K for the year ended December 31, 2009, on June 29, 2010, the United States Court of Appeals for the Ninth Circuit affirmed the District's Court's dismissal of the plaintiff's Third Amended Complaint.

Please refer to IMH's reports on Form 10-K for the year ended December 31, 2009 and Form 10-Q for the quarter ended March 31, 2010 for a description of other litigation and claims.

**ITEM 1A: RISK FACTORS**

Our Annual Report on Form 10-K for the year ended December 31, 2009 and our quarterly reports on Form 10-Q for the period ended March 31, 2010, include a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in that Form 10-K.

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**ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On April 23, 2010, the Company issued 30,000 shares of common stock in connection with entering into a marketing services agreement. This issuance of the shares were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act for transactions by an issuer not involving a public offering.

**ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4: RESERVED**

None.

**ITEM 5: OTHER INFORMATION**

On June 24, 2010, the Company, through IRES and its subsidiaries, entered into a Master Repurchase Agreement with East West Bank providing a \$10 million warehouse facility. The warehouse facility will be used to fund and will be secured by single family residential mortgage loans that are held for sale. As of June 30, 2010, there were no borrowings against this facility. The agreement expires June 2011. The rate range in excess of one month LIBOR is 4.00%, with a floor no less than 5.00%. Under the terms of the warehouse facility, IRES and its subsidiaries are required to maintain various financial and other covenants, including maintaining a minimum tangible net worth of \$17.0 million and cash or cash equivalents of at least \$5.0 million.

The above information included in this Item 5 is provided in accordance with Items 1.01 and 2.03 of Form 8-K.

**ITEM 6: EXHIBITS**

(a) Exhibits:

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- 10.1 Master Repurchase Agreement dated as of June 24, 2010 between East West bank and Synergy Capital Mortgage Corp. and Excel Mortgage Servicing, Inc., and Integrated Real Estate Service Corp., as Guarantor.
- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**IMPAC MORTGAGE HOLDINGS, INC.**

/s/ TODD R. TAYLOR

Todd R. Taylor

*Chief Financial Officer*

*(authorized officer of registrant and principal financial officer)*

August 16, 2010