T11 Capital Management

One Park Plaza, Suite 600
Irvine, CA. 92614
tel: 949-441-5152 fax: 949-441-5099
www.T11Capital.com

email: mail@T11Capital.com

NAME: IMPAC MORTGAGE HOLDINGS	SYMBOL: IMH (AMEX)
MARKET CAP (1/9/15): $75 million	PRICE PER SHARE (1/9/15): 7.80
FLOAT: 7.58 MILLION SHARES	AVG VOLUME (3 MONTHS): 12,000

T11 has taken a position in IMH during Q4 2014 at prices between 5.50-6.50 per share.

What Opportunities Does T11 Seek?

1. Small companies with less than a $500 million market cap.
2. Possess hidden assets not easily uncovered or analyzed.
3. Little to no analyst coverage.
4. Significant tax attributes.
5. Have advanced partnerships or technology that have gone unnoticed by marketplace.
6. Are involved in businesses that are out of favor by Wall Street.
7. Earnings cannot be easily modeled through traditional means.
8. Management is heavily involved in future outcome of company through insider ownership, preferably with an accompanying significant outside investor, activist or otherwise.

The Parallel

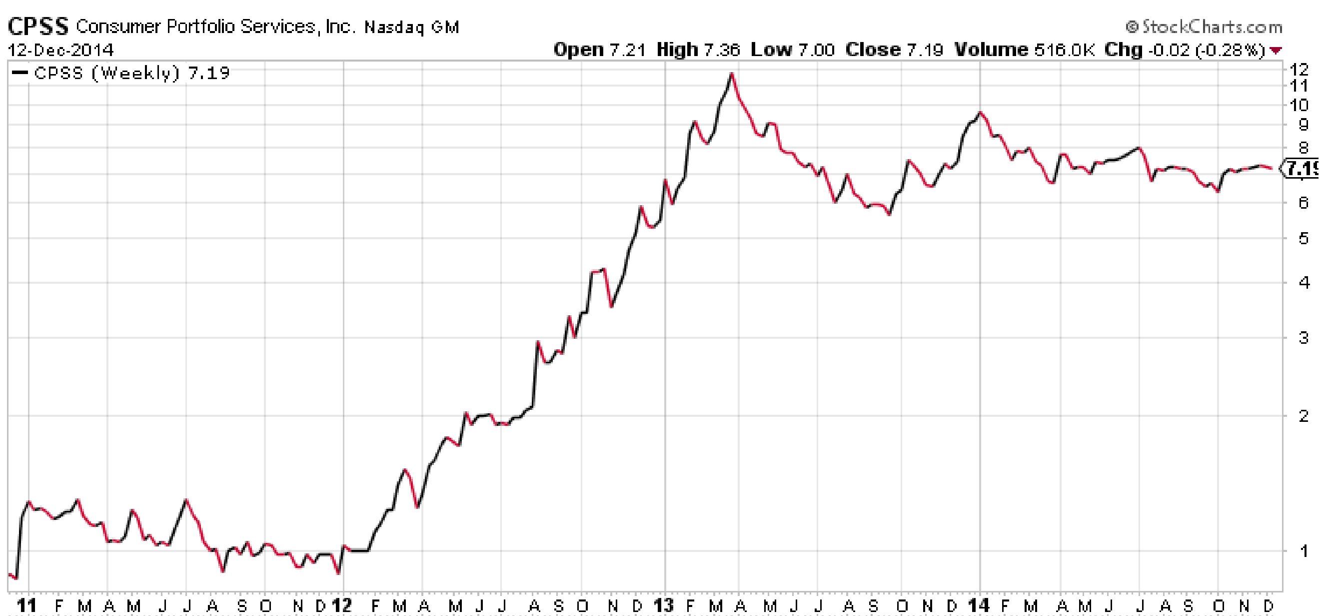
In June of 2011, I wrote an [article for TheStreet] briefly outlining three opportunities in the small-cap space. One of the opportunities described was CPSS, a company that offers credit to subprime borrowers for the purpose of car loans. At the time of the article CPSS was trading at $1 per share.

One of the most attractive attributes that the company possessed was that it was gaining access to a tremendous amount of credit facilities through major Wall Street banks while the share price languished. Very simply, these credit facilities provided the firepower to be able to create significant revenues and profits in the future. The only job of CPSS at the time was to find borrowers.

The company prospered as a result of having a substantial amount of capital for consumers to borrow within a consumer space that needed access to that capital. The stock price went from $1 in June of 2011 to a high of near $13 in April of 2013.

IMH is a similar situation within a different realm of financial borrowing. As I will describe, the company has what amounts to an open-ended credit facility that will allow them to originate as many nonqualified mortgages (non-QM) as can be originated through a recent deal signed with Macquarie Group, which is essentially the Goldman Sachs of Australia. Additionally, company management has been at the helm for over 20 years, having during that time accumulated a significant amount of experience in originating mortgage loans, with a specialty in the non-traditional mortgage space.

Similar to CPSS during the past and present for auto loans, there is no lack of demand for mortgage loans to borrowers that don't meet the stringent present day standards to qualify for a loan. IMH's only job then is to tell the world that they have these non-QM loans available.

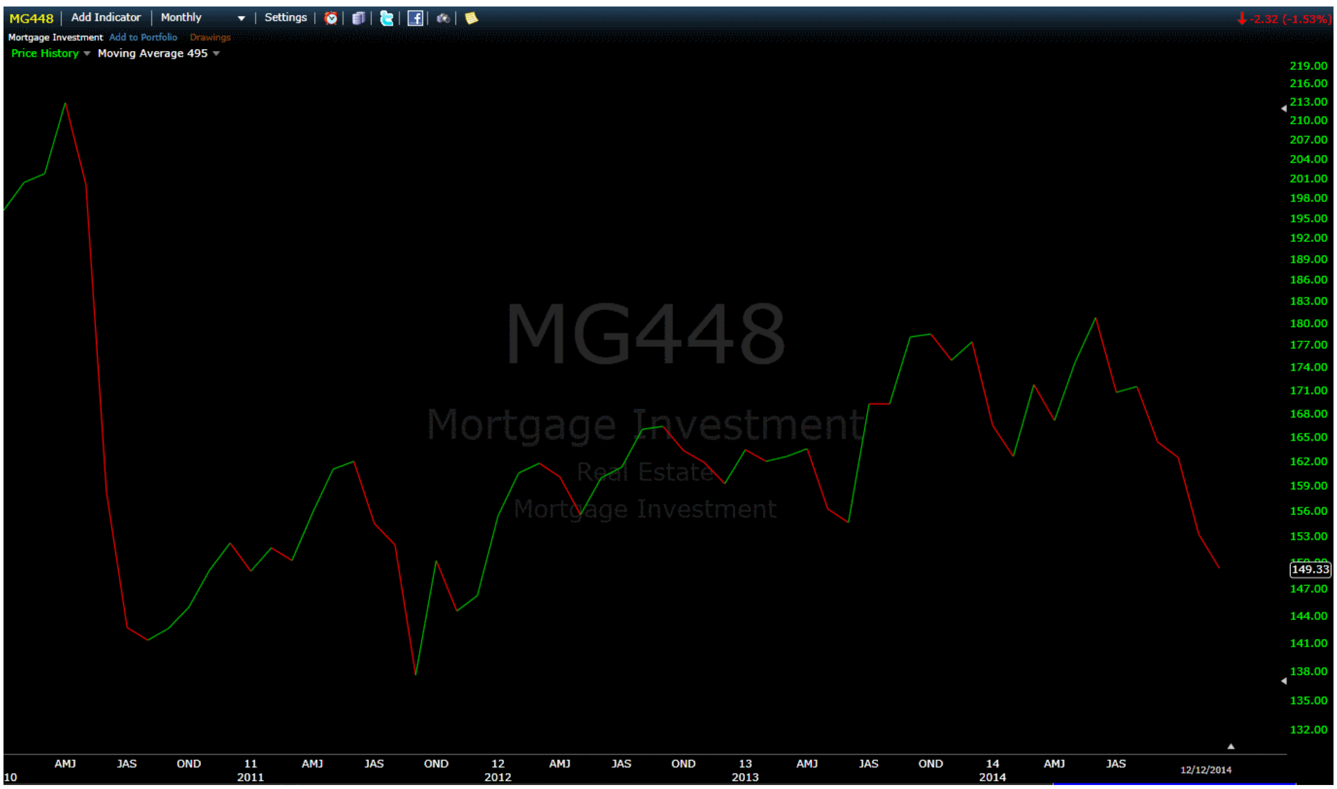


CPSS STOCK PRICE 2011-PRESENT

Past and Present Trauma In The Mortgage Space

With any cycle there are inevitable peaks and troughs that not only recalibrate the net worth of those involved, but also the psychological capacity to deal with future events. It is not until the cycle dissolves completely that investors become incapable of making accurate assessments regarding potentially positive future events due to the fact that avoiding pain takes precedent over all else.

In no other industry is this mentality more prevalent than mortgage lending. After all, aggressively packaged mortgages were nearly responsible for the meltdown of not just the U.S. financial system, but the global financial system as a whole. The pain experienced by investors in this sector during the crisis has certainly not been forgotten. For proof of this, simply look at the performance of the dedicated mortgage companies remaining in the public landscape. You will find erratic stock prices, unpredictable earnings and a generally agnostic stance towards future possibilities.



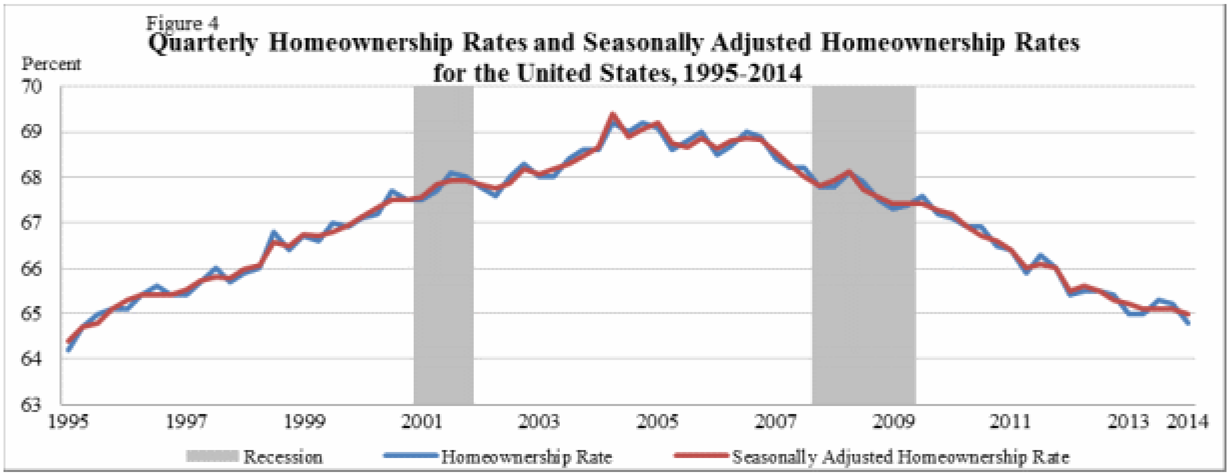
MORTGAGE INVESTMENT SECTOR 2010-2014

The opportunity here lies in the terrible memories of the past. These memories, more specifically the inability of investors to see past them, are causing a lag in value creation despite the prospect for a dramatic increase in earnings over the next 12-36 months.

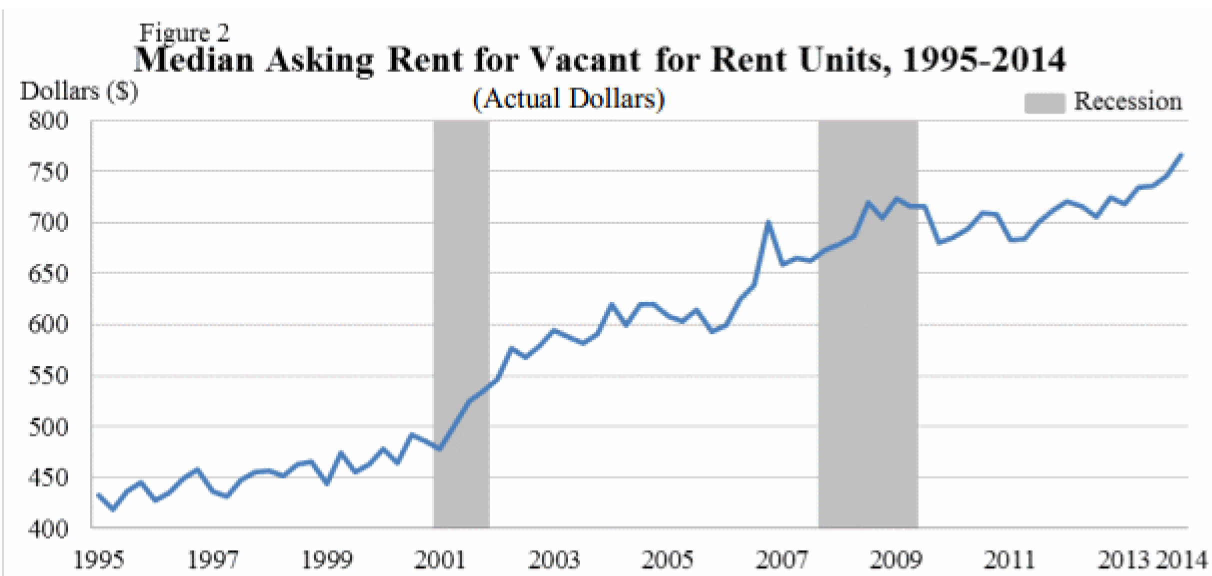
Buying A Home Has Taken A Backseat To Renting

As with any trauma, the natural reaction tends towards caution in the time following the event. We have seen an abundance of caution in the mortgage space as numerous measures have been put into place to make sure a disaster does not replicate itself in some form or another in the future.

What this overabundance of caution has done, however, is make it inordinately difficult for even qualified buyers to obtain financing to purchase homes. As a result, renting has become a popular option over buying during the past several years as home ownership rates have plunged.



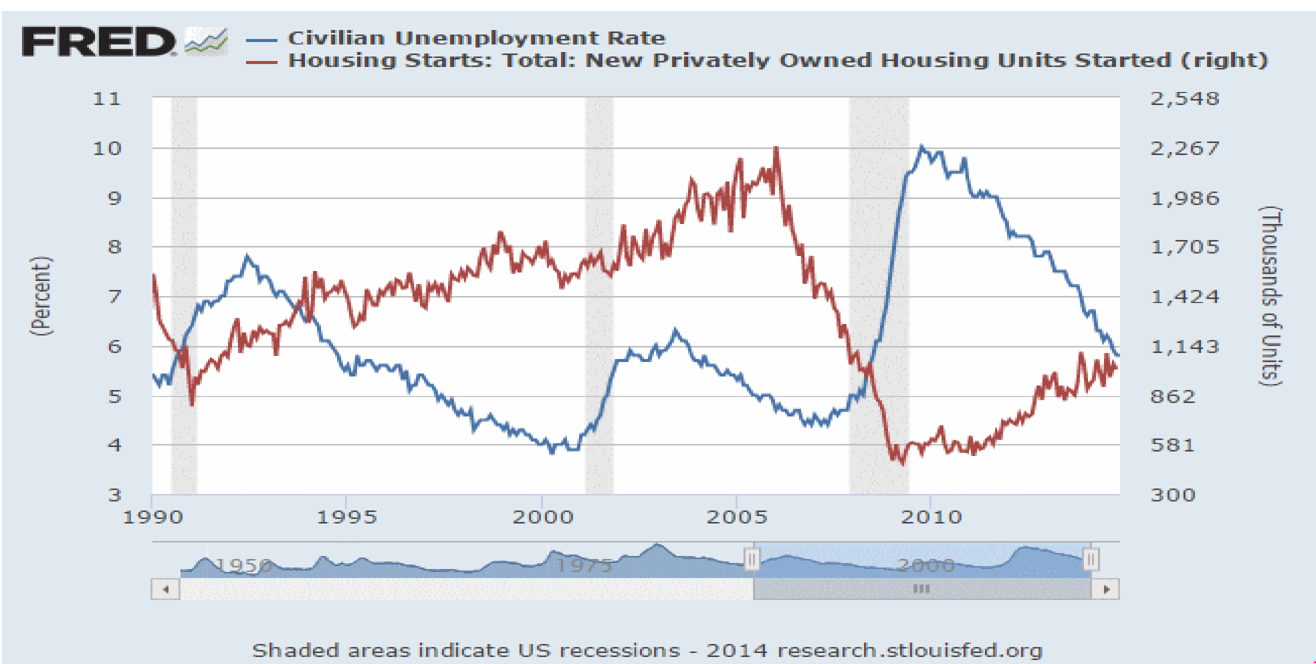
All the meanwhile, rents continue to rise.



Falling Unemployment + Easier Access to Mortgages Could Reverse The Trend

The biggest burden facing prospective buyers has been a lack of job security and prohibitive lending practices by financial institutions. This has resulted in mortgage applications essentially flat-lining for most of this decade.

The obvious formula towards reversing this trend is the ease of access to capital paired with sustained unemployment below 6%. In the chart below, you can see that a sustained period of accelerating housing starts coincided with sustained unemployment below 6% starting in 1995.



The Macro Picture Makes One Fact Clear

While the macro picture gives us hints that an acceleration in those seeking mortgages could be imminent, the more relevant message is one of risk or rather, the lack thereof.

It is clear that rental rates have reached points that have once again made buying an attractive proposition. What has been lacking since coming out of the financial crisis are banks that had the chutzpah to start lending on favorable terms, whether those terms involved a lower down payment or more reasonable documentation/qualification requirements.

This is all changing. The ushering in of Fannie Mae participating in a 3% down program for first time home buyers is the first step in the loosening of the overly-stringent requirements born of the credit crisis.

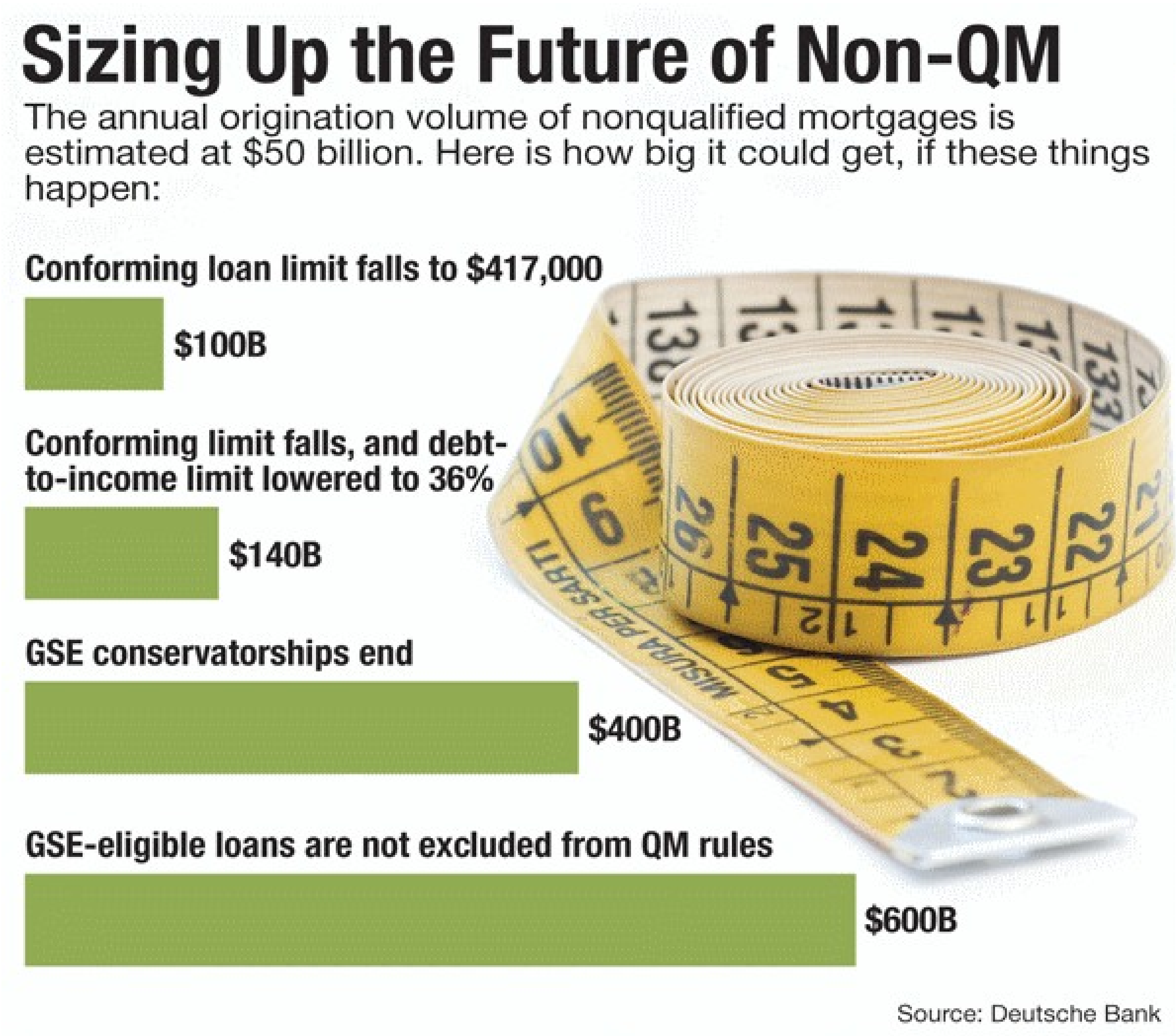
The Mortgage Bankers Association (MBA) is forecasting purchase originations to increase in both 2015 & 2016, with 2016 being the highest number of originations since 2007.

Table: Mortgage originations from 2000 to 2016

	Total Originations ($ Billions)	Purchase Originations ($ Billions)	Refinance Originations ($ Billions)
2000	1,139	905	234
2001	2,243	960	1,283
2002	2,854	1,097	1,757
2003	3,812	1,280	2,532
2004	2,773	1,309	1,463
2005	3,027	1,512	1,514
2006	2,726	1,399	1,326
2007	2,306	1,140	1,166
2008	1,509	731	777
2009	1,995	664	1,331
2010	1,698	530	1,168
2011	1,436	505	931
2012	2,044	587	1,456
2013	1,845	734	1,111
2014	1,106	635	471
2015	1,188	731	457
2016	1,170	791	379

What is clear is that there is not a lot of downside risk in the mortgage market at present. With revenues increasing and high margin initiatives such as non-QM (nonqualified mortgage) loans coming onto the market, the upside potential in the form of an immediate catalyst now exists to see some very relevant value creation. Especially in the face of a market that is essentially asleep at the wheel regarding these recent positive developments. IMH is focusing on the non-QM market as of 2014. A little about non-QM loans....

The Potential Of The Non-QM Market



Source: National Mortgage News
"The decision to finance makers of non-QM loans is significant for Deutsche Bank, one of the many large banks trying to recover from the subprime mortgage crisis. It is also meaningful to the broader housing market, which seeks reassurances that the new mortgage rules, which took effect in January, will not cut off production for all but ultrasafe home loans. The market has the potential to become a $600 billion a year industry for originations, Deutsche Bank researchers said in a recent report."

The conservative regulatory stance the CSFB (Consumer Financial Protection Bureau) enacted in 2014 essentially scares lenders into being held liable under Dodd-Frank for "reasonable, good-faith determination of a borrowers ability to repay." The ability to repay is assessed mostly by gauging debt to income based on maximum percentages allowed.

For those willing to take on the litigation risk, there is certainly an enormous market of borrowers who fall outside of the requirements.

Let's Work IMH Backwards

As I was in the process of writing this report IMH announced a follow-up to its December 12th, 2014 8-K which said the following, "*Impac Mortgage Holdings, Inc. (the "Company") is currently in negotiations to acquire the mortgage origination business of a leading mortgage originator.*"

On January 8, 2015 IMH announced that it had purchased the mortgage origination business of Cash Call Inc. Some highlights from the press release:

- *In the fourth quarter of 2014, CashCall's mortgage division volume was approximately $800 million and is expected to add significant retail direct origination volume to the Impac Mortgage Corp. platform beginning in 2015. CashCall's mortgage operations will operate as a separate division of Impac Mortgage Corp. under the name CashCall Mortgage.*

- *The transaction has been structured with a significant contingent component of the purchase price with the intent to minimize the financial risk for Impac Mortgage Holdings, Inc. while being accretive to earnings. Also, with Impac's significant tax loss carry forwards, all net profits from CashCall Mortgage are expected to generate significant tax benefits.*

Terms of the deal were not released. The main points are that (1) Cash Calls mortgage origination business immediately effectively doubles IMH's revenues (2) It is accretive to earnings (3) IMH is targeting its NOLs instead of allowing the NOLs to simply be an afterthought, which is the modus operandi of a majority of traditional corporate managers.

This deal signals that IMH is hungry for volume and is willing to be aggressive in order to gain that volume. Why would IMH want to dramatically increase their volume in an aggressive fashion?

The answer lies in a recent partnership that is transformative for the company moving forward.

Enter Macquarie

On September 15th, 2014 IMH announced a partnership with Australian investment bank, Macquarie. Essentially, through the partnership Macquarie will purchase all of IMH's non-qm originations, package them up, securitize them and one day in the distant future destabilize the entire global economy through irresponsible financial engineering. That is, of course, some post-recessionary humor.

What the partnership with Macquarie accomplishes is to "derisk" the balance sheet of Impac while providing what amounts to an open-ended consumer of high margin financial product. Impac simply needs to concern itself with originating these loans. As long as they have the volume, they know that Macquarie will pick up the loans off their balance sheet at pre-determined margin that is higher than regular mortgage products.

This high margin product is then transferred onto Macquarie's balance sheet where Impac services the loan but faces limited liability from that point forward.

Thus, we can understand why the company is determined to increase volume. Their liability is capped while allowing for significant profits moving forward. Impac's only job then is to originate loans. The remainder of the terrain has already been expertly fertilized to allow for proper cultivation of profits.

The Tax Attributes

To a perhaps equal extent a driving force behind the determination to achieve significant profitability lies in the amount of NOLs the company possesses. According to the most recent 10-Q, IMH has roughly $500 million in federal NOLs at its disposable. Further, there are no restrictions on the use of these NOLs moving forward.

Apart from a low-risk/high reward macro environment for mortgages moving forward, the two aforementioned factors are the key enablers behind IMH's future ability to generate significant profits. We have a backstop for the risk in Macquarie that allows management to be aggressive in originating mortgages and we have the ability to leverage profits through tax efficiency that can be used to further grow the business through acquisitions going forward.

On both the mining for profit side of the business and the investing for further profit side of their business, management has the green light to push the envelope. And I believe they will.

Let's look at management.

The Management Team

Joe Tomkinson – Chairman/CEO – Started in the mortgage business in 1981. Founded Impac in 1995.

William Ashmore – President – Over 30 years experience in real estate/mortgage lending. In an executive role with Impac since 1995.

Todd Taylor – CFO – Has been with Impac since 2004.

Ronald Morrison – Exec. VP – Has been with Impac since 1998

This is an extremely experienced and loyal group having been through every conceivable brand of real estate/debt cycle since the 80s. They grew Impac from a small warehouse lender into one of the top lenders in the country. Although on the brink of bankruptcy, they weathered the financial storm of 2008/2009 that sunk a majority of their competition completely.

Management has not been shy about attempting new things from the very start. Impac in 1995 created the Alt-A loan before suspending aggressive mortgage lending right at the onset of the financial crisis in 2007. From 1995 to 2007 Impac had originated or acquired $90 billion in loans, with $60 billion being securitized on Wall Street.

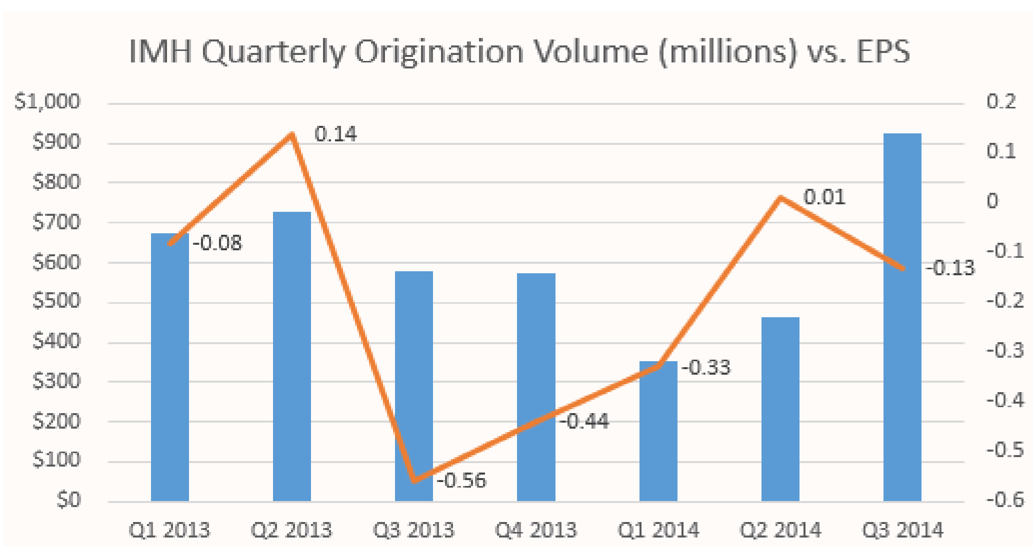
There is a great deal of resilience and entrepreneurship at work here. This type of experienced management team that is solidifying important partnerships while aggressively moving forward can repeat the successes of the past. There is no reason to believe that this will remain a sub-$100 million market cap company with sporadic growth and tepid results moving forward.

Creating Efficiencies Through A Focused Strategy

Some notes from recent conference calls:

- At the end of 2013 IMH **sold off its brick and mortar mortgage lending operation**, which saw a monthly loss of approximately 700,000.
- Without this retail production IMH had a higher concentration of correspondent wholesale volume which **operates with less operational overhead, expenses and compliance risk.**
- During Q2 2014, the company made several changes on the processing and prioritization of loans originated and delivered through its business to business channels resulting in **improved conversion ratios and significant operational efficiencies.**
- As a result of these efforts, **total expenses decreased** by approximately $1 million in Q2 2014 as compared with the first quarter of 2014. This 6% reduction in expenses from first to second quarter also **produced a 32% increase in originations** from quarter-over-quarter.
- At the end of the first quarter of 2014, our **personnel expenses had decreased** to $9.2 million with a monthly average headcount of 301 employees compared to $12.5 million and 458 employees for the fourth quarter of 2013 and $17 million and 586 employees for the first quarter of 2013.
- In December 2013, we began to **aggressively expand our sales force**, hiring experienced lending sales personnel for wholesale and correspondent channels. To-date the results of our sales force expansion and our business to business channels has increased our coverage to over 40 sales people which is on track to exceed our second quarter target.

The result of these efficiencies should be a more sustainable EPS moving forward. Of course, the trajectory of the EPS & origination data pictured in the chart below changes dramatically with the recently announced Cash Call acquisition.



<u>**Recent Earnings Highlights**</u>

Some notes from most recent conference call:

- *With the exception of Q3s significant fluctuation and market-to-market adjustment of the net trust assets IMH has continued to see a* ***consistent, positive quarterly trend of improving consolidated net results over the last five quarters.***

- *Total* ***originations increased nearly 100 percent*** *to $923.6 million from $465 million in the second quarter of 2014.*

- *Overall,* ***trends in mortgage lendings are very positive*** *from second quarter to third quarter with the volume up almost 100 percent,* ***revenues increasing*** *by 30 percent and* ***expenses down*** *quarter over quarter.*

- *According to management, IMH is in the beginning stages of ramping up non-qualified mortgage originations which currently are predominant through the wholesale channel and they expect these originations to continue to grow* ***as they enhance marketing and training efforts which will add to the overall mortgage origination volume.***

- *With emphasis on* ***increasing quarterly origination volume*** *to a billion dollars plus level and* ***reducing expenses*** *on a per loan basis, IMH will continue to make further adjustments in the manufacturing process and focus on certain key customers where they can fund a higher percentage of their production.* Classic increasing volume while margins expand due to previously enacted initiatives scenario. Again, Cash Call acquisition only enhances this effect.

- *It should be noted that the volume increases for 2014 are back end loaded as compared to 2013 where the highest percentage of volume was in the first two quarters. Third quarter of 2014 origination volume was $100 million higher than the combined volumes in the first and second quarter of 2014. This is important because* ***increase in volumes in the third and fourth quarter of 2014 will allow mortgage lending to sustain momentum into the first half of 2015***. Basically, forecasting continued growth in earnings through the first half of 2015.

Risks

- AltQM mortgages carry litigation risk due to the fine line they walk around CSFB regulations. IMH seems to have mitigated a portion of that risk. However, it cannot be said that the risk is eliminated, especially if the environment for mortgage lending sours with default rates increasing for these loans.

- IMH is beholden to the interest rate markets. A spike in long-term rates would adversely affect profitability.

- The ongoing government conversatorship with respect to GSEs poses a risk to IMH. Preservation of the conversatorship would create uncertainty going forward for the company as they have extensive dealings with Fannie and Freddie.

- There is a good bit of macro risk here as the real estate market is tied to numerous variables. Long-term weakness in real estate would create a negative impact on earnings as originations decrease.

The Bottomline

IMH has formed a game changing partnership that allows for the company to aggressively market a high margin mortgage product that is in its infancy. Current market-cap, even following the recent acquisition, allows for sustainable, exponential upside given where the mortgage and real estate markets currently reside within their long-term cycles.

An experienced company management having been through numerous real estate cycles in the past has already shown an aggressive stance towards creating value for shareholders through leveraging upside via acquisitions as they come upon a favorable upside cycle in the coming years.

A disproportionately large amount of tax benefits relative to market-cap will allow IMH to further leverage profits as they are reinvested in accretive acquisitions similar to CashCall.

The favorable macro environment in terms of low interest rates and low relative home ownership rates, while the jobs market continues to stabilize only mitigates risk in IMH further.

Asymmetric properties abound.

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