Form

Unknown document format

ze: 10pt;"> In calculating the cash flows to assess the fair value of the securitized mortgage collateral, we estimate 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.

Table of Contents

Results of Operations

For the year ended December 31, 2017 as compared to 2016 and 2015

	For the Year Ended December 31,		
	2017	2016	2015
Revenues	$ 138,705	$ 297,756	$ 166,957
Expenses (1)	(156,430)	(238,043)	(95,681)
Net interest income	4,343	2,790	1,946
Loss on extinguishment of debt	(1,265)	—	—
Change in fair value of long-term debt	(2,949)	(14,436)	(8,661)
Change in fair value of net trust assets, including trust REO gains (losses)	6,213	(304)	(5,638)
Income tax (expense) benefit	(20,138)	(1,093)	21,876
Net (loss) earnings	$ (31,521)	$ 46,670	$ 80,799
(Loss) earnings per share available to common stockholders—basic	$ (1.62)	$ 3.54	$ 8.00
(Loss) earnings per share available to common stockholders—diluted	$ (1.62)	$ 3.31	$ 6.40

(1) Includes changes in contingent consideration liability resulting in income of $13.3 million, expense of $30.1 million and income of $45.9 million for the years ended December 31, 2017, 2016 and 2015.

Revenues

	For the Year Ended December 31,			
	2017	2016	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 136,147	$ 311,017	$ (174,870)	(56) %
Real estate services fees, net	5,856	8,395	(2,539)	(30)
Servicing fees, net	31,902	13,734	18,168	132
Loss on mortgage servicing rights, net	(35,880)	(36,441)	561	2
Other revenues	680	1,051	(371)	(35)
Total revenues	$ 138,705	$ 297,756	$ (159,051)	(53)

Gain on sale of loans, net. For the year ended December 31, 2017, gain on sale of loans, net totaled $136.1 million compared to $311.0 million in the comparable 2016 period. The $174.9 million decrease is primarily due to a $134.2 million decrease in premiums from the sale of mortgage loans, a $72.2 million decrease in premiums from servicing retained loan sales, a $19.5 million increase in realized and unrealized net losses on derivative instruments and a $1.2 million increase in provision for repurchases. Partially offsetting the reduction was a $43.9 million decrease in direct origination expenses and an $8.4 million increase in mark-to-market gains on LHFS.

The overall decrease in gain on sale of loans, net was primarily due to a 45% decrease in volumes as well as a decrease in gain on sale margins. For the year ended December 31, 2017, we originated and sold $7.1 billion and $6.9 billion of loans, respectively, as compared to $12.9 billion and $12.8 billion of loans originated and sold, respectively, during the same period in 2016. Margins decreased to approximately 191 bps for the year ended December 31, 2017 as compared to 241 bps for the same period in 2016 due to margin compression across all three channels as a result of

the increase in interest rates as compared to 2016 as well as an increase in competition for volume.

Real estate services fees, net. For the year ended December 31, 2017, real estate services fees, net were $5.9 million compared to $8.4 million in the comparable 2016 period. The $2.5 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2016.

Servicing income, net. For the year ended December 31, 2017, servicing fees, net was $31.9 million

Table of Contents

compared to $13.7 million in the comparable 2016 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 91% to an average balance of $14.7 billion for the year ended December 31, 2017 as compared to an average balance of $7.7 billion for the year ended December 31, 2016. The increase in the average balance of the servicing portfolio is a result of servicing retained loan sales of $6.1 billion during the year ended December 31, 2017 partially offset by a bulk sale of MSRs of approximately $155.9 million.

Loss on mortgage servicing rights, net. For the year ended December 31, 2017, loss on MSRs was $35.9 million compared to $36.4 million in the comparable 2016 period. For the year ended December 31, 2017, we recorded a $37.9 million loss from a change in fair value of MSRs primarily the result of mark-to-market changes related to amortization as well as an increase in prepayments and prepayment speed assumptions. For the year ended December 31, 2017, we had a $93 thousand loss on sale of mortgage servicing rights related to refunds of premiums to investors for loan payoffs partially offset by recoveries of previously written off holdbacks associated with sales of servicing rights in previous periods. Partially offsetting the loss was a $2.1 million increase in realized and unrealized gains from hedging instruments related to MSRs.

	For the Year Ended December 31,				
			Increase	%	
	2016	2015	(Decrease)	Change	
Gain on sale of loans, net	$ 311,017	$ 169,206	$ 141,811	84	%
Real estate services fees, net	8,395	9,850	(1,455)	(15)	
Servicing fees, net	13,734	6,102	7,632	125	
Loss on mortgage servicing rights, net	(36,441)	(18,598)	(17,843)	(96)	
Other revenues	1,051	397	654	165	
Total revenues	$ 297,756	$ 166,957	$ 130,799	78	

Gain on sale of loans, net. Gain on sale of loans, net includes the operating expenses of CCM in the first quarter of 2015 before we closed the transaction on March 31, 2015. We received the economic benefit of the CCM transactions from the beginning of 2015 but did not hire the employees of CCM or incur direct operating expenditures of CCM until after the close of the transaction. Accordingly, operating expenses for CCM in the first quarter of 2015 were included within gain on sale of loans, net as loan origination costs in the consolidated statements of operations. Beginning with the second quarter of 2015 the operating expenses of CCM were included in personnel, business promotion, general, administrative and other expense, as normally presented.

For the year ended December 31, 2016, gain on sale of loans, net totaled $311.0 million compared to $169.2 million in the comparable 2015 period. The $141.8 million increase is primarily due to increased volumes and gain on sale margins. For the year ended December 31, 2016, we originated and sold $12.9 billion and $12.8 billion of loans, respectively, as compared to $9.3 billion and $9.2 billion of loans originated and sold, respectively, during the same period in 2015. Margins increased to approximately 241 bps for the year ended December 31, 2016 as compared to 183 bps for the same period in 2015 due to a higher concentration of retail loans which have higher margins as well as the aforementioned expenses of CCM being included in gain on sale of loans, net in the first quarter of 2015.

Real estate services fees, net. For the year ended December 31, 2016, real estate services fees, net were $8.4 million compared to $9.9 million in the comparable 2015 period. The $1.5 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2015.

Servicing income, net. For the year ended December 31, 2016, servicing fees, net was $13.7 million compared to $6.1 million in the comparable 2015 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 118% to an average balance of $7.7 billion for the year ended December 31, 2016 as compared to an average balance of $3.5 billion for the year ended December 31, 2015.   The increase in the average balance of the servicing portfolio is a result of servicing retained loan sales of $12.6 billion during the year ended December 31, 2016 partially offset by a bulk sale of MSRs of approximately $815.0 million.

Loss on mortgage servicing rights, net. For the year ended December 31, 2016, loss on MSRs was $36.4 million compared to $18.6 million in the comparable 2015 period. For the year ended December 31, 2016,

Table of Contents

we recorded a $24.4 million loss from a change in fair value of MSRs primarily the result of $2.9 billion in prepayments due to the low mortgage interest rate environment during 2016 which resulted in an increase in actual prepayments as well as prepayment speed assumptions. For the year ended December 31, 2016, as a result of our successful retention efforts, we recaptured and refinanced approximately 76% of these prepayments at a lower coupon rate and thus a higher servicing value. Despite the mark-to-market (MTM) loss from loan prepayments recorded as a loss on MSRs, there was also a corresponding income from the recaptured loan with a higher MSR value recognized in gain on sale of loans, net in the consolidated statement of operations.

During the year ended December 31, 2016, we had a $9.7 million loss on sale of mortgage servicing rights related to refunds of premiums to investors for loan payoffs associated with sales of servicing rights in previous periods as compared to $8.0 million in the comparable 2015 period as well as a $1.0 million loss on the sale of $815.0 million UPB of MSRs. In addition to the loss, we had a $1.4 million decrease in realized and unrealized losses from hedging instruments related to MSRs. During the third quarter of 2016, we amended a previous MSR sale agreement, extending the early prepayment protection, in return allowing us to solicit the sold portfolio. As a result, we booked a $7.5 million charge during the third quarter related to this amendment. The amendment gave us the option to terminate the agreement with a 90 day notification. In November, we exercised our option to terminate the agreement.

Expenses

	For the Year Ended December 31,			
	2017	2016	Increase (Decrease)	% Change
Personnel expense	$ 89,647	$ 124,559	$ (34,912)	(28) %
Business promotion	40,276	42,571	(2,295)	(5)
General, administrative and other	37,775	33,771	4,004	12
Accretion of contingent consideration	2,058	6,997	(4,939)	(71)
Change in fair value of contingent consideration	(13,326)	30,145	(43,471)	(144)
Total expenses	$ 156,430	$ 238,043	$ (81,613)	(34)

Total expenses were $156.4 million for the year ended December 31, 2017, compared to $238.0 million for the comparable period of 2016. Personnel expense decreased $34.9 million to $89.6 million for the year ended December 31, 2017. The decrease is primarily related to a reduction in commission expense due to a decrease in loan originations as well as staff reductions made in the first quarter of 2017. With the decline in origination volumes in the first quarter of 2017 we made staff reductions. As a result, average headcount decreased 15% for the year ended December 31, 2017 as compared to the same period in 2016.

Business promotion totaled $40.3 million for the year ended December 31, 2017, compared to $42.6 million for the comparable period of 2016. Our centralized call center purchases leads and promotes its business through radio and television advertisements. During 2017, business promotion only declined $2.3 million or 5%, despite the 45% decrease in production due to efforts to increase NonQM and purchase money production with the reduction in refinance activity as a result of the increase in interest rates as compared to 2016.

General, administrative and other expenses increased to $37.8 million for the year ended December 31, 2017, compared to $33.8 million for the same period in 2016. The increase was primarily related to a $5.1 million increase in legal and professional fees associated with defending litigation, as discussed in Item 8. Note 17 – Commitments and Contingencies of this Form 10-K, and $351 thousand in goodwill impairment related to the wind down of certain services within our real estate services segment. Partially offsetting the increase was a $637 thousand decrease in other general and administrative expenses, a $436 thousand decrease in premises and equipment and a $406 thousand decrease in data processing expense.

Beginning in the second quarter of 2015, as part of the acquisition of CCM, we record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017, which increases the contingent consideration liability. The estimated contingent consideration liability is based on discounted cash flows which represent the time value of money of the liability during the earn-out period. In 2017, accretion increased the contingent consideration liability by $2.1 million as

compared to $7.0 million during 2016. The reduction in accretion is due to the reduction in the estimated future pre-tax earnings as compared to projections in 2016. Beginning in the first quarter of 2018, the accretion will no longer be recognized.

We recorded a $13.3 million change in fair value associated with a decrease in the contingent consideration liability for 2017 related to updated assumptions including current market. The change in fair value of contingent consideration was related to margin compression as well as a reduction in origination volume. The fair value of contingent consideration changed from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM. The decrease in the contingent consideration liability resulted in an increase in earnings of $13.3 million for the year ended December 31, 2017. At December 31, 2017, the outstanding balance of the contingent consideration was $554 thousand which was paid in February 2018.

	For the Year Ended December 31,			
	2016	2015	Increase (Decrease)	% Change
Personnel expense	$ 124,559	$ 77,821	$ 46,738	60 %
Business promotion	42,571	27,650	14,921	54
General, administrative and other	33,771	27,988	5,783	21
Accretion of contingent consideration	6,997	8,142	(1,145)	(14)
Change in fair value of contingent consideration	30,145	(45,920)	76,065	166
Total expenses	$ 238,043	$ 95,681	$ 142,362	149

Total expenses were $238.0 million for the year ended December 31, 2016, compared to $95.7 million for the comparable period of 2015. The increase in expenses is due to the CCM acquisition and the presentation of CCM operating expenses in the first quarter of 2015 before we closed the transaction on March 31, 2015. We received the economic benefit of the CCM transaction from the beginning of 2015 but did not hire the employees of CCM or incur direct operating expenditures of CCM until the transaction closed on March 31, 2015. Accordingly, operating expenses for CCM in the first quarter of 2015 were included within gain on sale of loans, net as loan origination costs in the consolidated statements of operations. Beginning with the second quarter of 2015 the operating expenses of CCM were included in personnel, business promotion, general, administrative and other expense, as normally presented.

Personnel expense increased $46.7 million to $124.6 million for the year ended December 31, 2016. In addition to the aforementioned presentation of CCM in 2015, the increase is primarily due to an increase in commission expense due to an increase in loan origination volumes as well as an increase in personnel related costs due to the addition of new personnel to accommodate the increase in mortgage loan volumes.

Business promotion totaled $42.6 million for the year ended December 31, 2016, compared to $27.7 million for the comparable period of 2015. Our centralized call center purchases leads and promotes its business through radio and

television advertisements. In addition to the aforementioned presentation of CCM in 2015, the increase in business promotion is primarily due to the focus on growing market share and geographic scope within the CashCall Mortgage retail channel as well as growth in the correspondent and wholesale lending channels.

General, administrative and other expenses increased to $33.8 million for the year ended December 31, 2016, compared to $28.0 million for the same period in 2015. In addition to the aforementioned presentation of CCM in 2015, the increase was primarily related to a $1.9 million increase in data processing and information technology support, a $1.9 million increase in other general and administrative expenses, a $1.2 million increase in amortization of intangible and other assets and a $745 thousand increase in legal and professional fees.

Beginning in the second quarter of 2015, as part of the acquisition of CCM, we record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017, which increases the contingent consideration liability. The estimated contingent consideration liability is based on discounted cash flows which represent the time value of money of the liability during the earn-out period. In 2016, accretion increased the contingent consideration liability by $7.0 million as compared to $8.1 million during 2015. The reduction in accretion is due to the reduction in the estimated future

Table of Contents

pre-tax earnings as compared to projections in 2015. The accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period in the fourth quarter of 2017.

We recorded a $30.1 million change in fair value associated with an increase in the contingent consideration liability for 2016 related to updated assumptions including current market conditions and increased mortgage loan originations for CCM. The change in fair value of contingent consideration was related to the estimated increase in future pre-tax earnings of CCM over the remaining earn-out period of four quarters. The fair value of contingent consideration may change from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM. Even though this projected increase in mortgage volume for CCM is favorable, it resulted in a corresponding charge to earnings of $30.1 million for the year ended December 31, 2016.

Other Income (Expense)

	For the Year Ended December 31,		
	2017	2016	2015
Interest income	$ 230,330	$ 263,600	$ 276,799
Interest expense	(225,987)	(260,810)	(274,853)
Loss on extinguishment of debt	(1,265)	—	—
Change in fair value of long-term debt	(2,949)	(14,436)	(8,661)
Change in fair value of net trust assets, including trust REO (losses) gains	6,213	(304)	(5,638)
Total other income (expense)	$ 6,342	$ (11,950)	$ (12,353)

Net Interest Income (Expense)

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, mortgage 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 warehouse borrowings and to a lesser extent, interest expense paid on long term debt, Convertible Notes, notes payable and line of credit. Interest income and interest expense during the period primarily represents the effective yield, based on the fair value of the trust assets and liabilities.

The following tables summarize average balance, interest and weighted average yield on interest earning assets and interest bearing liabilities, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our

Table of Contents

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 Year Ended December 31,					
	2017			2016		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	$ 3,824,312	$ 209,432	5.48 %	$ 4,281,564	$ 245,662	5.74 %
Mortgage loans held-for-sale	384,383	18,424	4.79	418,968	15,652	3.74
Finance receivables	38,216	2,316	6.06	41,237	2,207	5.35
Other	37,398	158	0.42	35,373	79	0.22
Total interest-earning assets	$ 4,284,309	$ 230,330	5.38	$ 4,777,142	$ 263,600	5.52
LIABILITIES						
Securitized mortgage borrowings	$ 3,816,577	$ 201,341	5.28 %	$ 4,280,913	$ 235,733	5.51 %
Warehouse borrowings (1)	414,149	16,834	4.06	449,598	15,302	3.40
MSR financing facilities	18,790	1,035	5.51	—	—	—
Long-term debt	46,266	4,453	9.62	36,414	4,188	11.50
Convertible notes	24,970	1,884	7.55	24,961	2,521	10.10
Term financing	3,358	408	12.15	29,819	3,034	10.17
Other	435	32	7.36	568	32	5.63
Total interest-bearing liabilities	$ 4,324,545	$ 225,987	5.23	$ 4,822,273	$ 260,810	5.41
Net Interest Spread (2)		$ 4,343	0.15 %		$ 2,790	0.11 %
Net Interest Margin (3)			0.10 %			0.06 %

(1) Warehouse borrowings include the borrowings from mortgage loans held for sale and finance receivables.

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

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

Net interest spread increased $1.6 million for the year ended December 31, 2017 primarily attributable to an increase in the net interest spread between loans held-for-sale and finance receivables and their related warehouse borrowings, a decrease in interest expense from the conversion of the Convertible Notes in January 2016 and a decrease in interest expense related to the payoff of the Term Financing. Offsetting the increase in net spread was a decrease in the net interest spread on the securitized mortgage collateral and securitized mortgage borrowings, an increase in the interest expense on the long-term debt as well as an increase in interest expense as a result of the MSR financing facilities. As a result, net interest margin increased to 0.10% for the year ended December 31, 2017 as compared to 0.06% for the year ended December 31, 2016.

During the year ended December 31, 2017, the yield on interest-earning assets decreased to 5.38% from 5.52% in the comparable 2016 period. The yield on interest-bearing liabilities decreased to 5.23% for the year ended December 31, 2017 from 5.41% for the comparable 2016 period. In connection with the fair value accounting for securitized mortgage collateral and borrowings and long-term debt, 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 increased prices on mortgage-backed bonds which resulted in a decrease in yield as compared to the previous period.

54

	For the Year Ended December 31,					
	2016			2015		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	$ 4,281,564	$ 245,662	5.74 %	$ 4,942,276	$ 262,902	5.32 %
Mortgage loans held-for-sale	418,968	15,652	3.74	320,917	11,737	3.66
Finance receivables	41,237	2,207	5.35	52,707	2,120	4.02
Other	35,373	79	0.22	20,547	40	0.19
Total interest-earning assets	$ 4,777,142	$ 263,600	5.52	$ 5,336,447	$ 276,799	5.19
LIABILITIES						
Securitized mortgage borrowings	$ 4,280,913	$ 235,733	5.51 %	$ 4,941,440	$ 254,626	5.15 %
Warehouse borrowings (1)	449,598	15,302	3.40	353,750	11,574	3.27
Long-term debt	36,414	4,188	11.50	28,872	3,773	13.07
Convertible notes	24,961	2,521	10.10	36,301	2,777	7.65
Term financing	29,819	3,034	10.17	15,123	1,587	10.49
Short-term borrowings	—	—	—	3,491	398	11.40
Other	568	32	5.63	2,526	118	4.67
Total interest-bearing liabilities	$ 4,822,273	$ 260,810	5.41	$ 5,381,503	$ 274,853	5.11
Net Interest Spread (2)		$ 2,790	0.11 %		$ 1,946	0.08 %
Net Interest Margin (3)			0.06 %			0.04 %

(1) Warehouse borrowings include the borrowings from mortgage loans held for sale and finance receivables.

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

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

Net interest spread increased $844 thousand for the year ended December 31, 2016 primarily attributable to an increase in the net interest spread on securitized mortgage collateral and securitized mortgage borrowings, an increase in the net interest spread between loans held-for-sale and finance receivables and their related warehouse borrowings and a decrease in interest expense on the convertible debt. The decrease in interest expense from the Convertible Notes is due to the conversion of the Notes in the first quarter of 2016. Offsetting the increase in net spread was an increase in interest expense on the long-term debt and term financing. As a result, net interest margin increased to 0.06% for the year ended December 31, 2016 as compared to 0.04% for the year ended December 31, 2015.

During the year ended December 31, 2016, the yield on interest-earning assets increased to 5.52% from 5.19% in the comparable 2015 period. The yield on interest-bearing liabilities increased to 5.41% for the year ended December 31, 2016 from 5.11% for the comparable 2015 period. In connection with the fair value accounting for

investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The increase in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to decreased prices on mortgage-backed bonds which resulted in an increase in yield as compared to the previous period.

Loss on extinguishment of debt

We recorded a $1.3 million loss on extinguishment of debt during the year ended December 31, 2017. In May 2017, we exchanged 412,264 shares of common stock for the remaining trust preferred securities which had an aggregate liquidation amount of $8.5 million. The value of the shares on the issuance date exceeded the carrying value of debt by $1.3 million.

Change in the fair value of long term debt

Long term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an internal analysis which considers our own credit risk and discounted cash flow analyses. Improvements in our financial results and financial condition in the future could result in additional increases in the estimated fair value of the long term debt, while deterioration in financial results and financial condition could result in a decrease in the estimated fair value of the long term debt.

Table of Contents

Change in the fair value of long-term debt resulted in an expense of $2.9 million for the year ended December 31, 2017, compared to an expense of $14.4 million for the comparable 2016 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt during 2017 was primarily due to a decrease in the discount rate attributable to an improvement in our credit risk profile, financial condition as well as an increase in LIBOR during 2017.

Change in the fair value of long-term debt resulted in an expense of $14.4 million for the year ended December 31, 2016, compared to an expense of $8.7 million for the comparable 2015 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt during 2016 was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile associated with our capital raise during the third quarter, improvement in our financial condition and results of operations from the mortgage lending segment during 2016. The increase in the estimated fair value of long-term debt during the 2015 was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, improvement in our financial condition and results of operations from the mortgage lending segment including the acquisition of CCM during the first quarter of 2015 as well as an increase in forward LIBOR interest rates during the second quarter of 2015.

Change in fair value of net trust assets, including trust REO gains (losses)

	For the Year Ended December 31,		
	2017	2016	2015
Change in fair value of net trust assets, excluding REO	$ (1,212)	$ 5,630	$ 957
Gains (losses) from REO	7,425	(5,934)	(6,595)
Change in fair value of net trust assets, including trust REO (losses) gains	$ 6,213	$ (304)	$ (5,638)

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $6.2 million for the year ended December 31, 2017. The change in fair value of net trust assets, including trust REO was due to $7.4 million in gains on REO attributable to lower expected loss severities on properties held in the long-term mortgage portfolio during the period, partially offset by $1.2 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of $304 thousand for the year ended December 31, 2016. The change in fair value of net trust assets, including trust REO was due to $5.9 million in losses on REO during the period attributed to higher expected loss severities on properties held in the long-term mortgage portfolio during the period, partially offset by $5.6 million in gains from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with a decrease in LIBOR as well as updated assumptions on certain later vintage trusts with improved performance.

The change in fair value related to our net trust assets was a loss of $304 thousand for the year ended December 31, 2016, compared to a loss of $5.6 million in the comparable 2015 period. The change in fair value of net trust assets, including trust REO was due to $6.6 million in losses on REO during the period attributed to higher expected loss severities on properties held in the long term mortgage portfolio primarily during the period, partially offset by $957 thousand in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available for sale primarily associated with lower interest rates during 2015 and updated assumptions of decreased collateral losses during 2015.

Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code by, among other things, reducing the federal corporate income tax rate and business deductions.

The Tax Act reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Under FASB ASC 740, the effects of changes in tax rates and laws are recognized

Table of Contents

in the period in which the new legislation is enacted. As a result of the reduction in the U.S. corporate income tax rate, we re-measured the net deferred tax assets at December 31, 2017 at the rate at which they are expected to reverse in the future and recognized a tax expense of $89.5 million, which was offset by a $66.4 million change in the valuation allowance and other items resulting in income tax expense of $20.1 million in 2017. We are still analyzing certain aspects of the Tax Act, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

We recorded income tax expense (benefit) of $20.1 million, $1.1 million and $(21.9) million for the years ended December 31, 2017, 2016 and 2015, respectively. The income tax expense of $20.1 million for the year ended December 31, 2017 is primarily the result of income tax expense due to a reduction in our deferred tax asset as a result of a reduction in future utilization, changes in tax rates due to the Tax Act re-measurement of deferred tax assets and liabilities, amortization of the deferred charge and state income taxes from states where we donot have net operating loss carryforwards or state minimum taxes, including AMT. The income tax expense of $1.1 million for the year ended December 31, 2016 is primarily the result of the amortization of the deferred charge, federal AMT and state income taxes from states where we do not have net operating loss carryforwards or state minimum taxes, including AMT. For the year ended December 31, 2015, we recorded a deferred income tax benefit of $24.4 million primarily the result of a reversal of valuation allowance partially offset by federal alternative minimum tax (AMT), amortization of the deferred charge and state income taxes from states where we do not have net operating loss carryforwards or state minimum taxes, including AMT.

In accordance with FASB ASC 810 10 45 8, we record a deferred charge representing 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 represents the deferral of income tax expense on inter company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge is amortized and/or impaired, which does not result in any tax liability to be paid. 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. We recorded a tax expense in the amount of $858 thousand, $1.3 million and $1.6 million for the years ended December 31, 2017, 2016 and 2015 respectively, related to the deferred charge impairment, which did not result in any tax liability to be paid. In the first quarter of 2018, with the adoption of FASB issued Accounting Standards Update (ASU) 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory”, we will eliminate the remaining $7.8 million of deferred charge with a cumulative effect adjustment to opening retained earnings.

As of December 31, 2017, we had estimated federal net operating loss (NOL) carryforwards of approximately $619.9 million. Federal net operating loss carryforwards begin to expire in 2027. As of December 31, 2017, the estimated Federal NOL carryforward expiration schedule is as follows (in millions):

Tax Year Established	Amount	Expiration Date
12/31/2007	$ 228.8	12/31/2027
12/31/2008	3.6	12/31/2028

12/31/2009	101.6	12/31/2029
12/31/2010	89.7	12/31/2030
12/31/2011	44.1	12/31/2031
12/31/2012	—	12/31/2032
12/31/2013	28.5	12/31/2033
12/31/2014	—	12/31/2034
12/31/2015	30.5	12/31/2035
12/31/2016	55.0	12/31/2036
12/31/2017 *	38.1	12/31/2037
Total Federal NOLs	$ 619.9	

*NOL amounts are estimates until final tax return is filed in October 2018.

As of December 31, 2017, we had estimated California NOL carryforwards of approximately $431.0 million, which begin to expire in 2028 We may not be able to realize the maximum benefit due to the nature and tax entity that holds the NOL.

Table of Contents

Our deferred tax assets are primarily the result of net operating losses and other fair value write downs of financial assets and liabilities. Our net deferred tax assets declined to $4.3 million at December 31, 2017, as a result of the reduction in projected future utilization, changes in tax rates due to the Tax Act re-measurement of deferred tax assets and liabilities and an increase in deferred tax liabilities as a result of the amortization of goodwill. We recorded a valuation allowance against our remaining net deferred tax assets at December 31, 2017 as it is more likely than not that not all of the deferred tax assets will be realized. The valuation allowance is based on the management's assessment that it is more likely than not that certain deferred tax assets, primarily net operating loss carryforwards, may not be realized in the foreseeable future due to objective negative evidence that we may not generate sufficient taxable income to realize the deferred tax assets.

We are subject to federal income taxes as a regular (Subchapter C) corporation and file a consolidated U.S. federal income tax return for qualifying subsidiaries.

A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

Results of Operations by Business Segment

We have three primary operating segments: Mortgage Lending, Real Estate Services and Long Term Mortgage Portfolio. Unallocated corporate and other administrative costs, including the cost associated with being a public company, are presented in Corporate. Segment operating results are as follows:

Mortgage Lending

Condensed Statements of Operations Data

	For the Year Ended December 31,				
	2017	2016	Increase (Decrease)	% Change	
Gain on sale of loans, net	$ 136,147	$ 311,017	$ (174,870)	(56)	%
Servicing fees, net	31,902	13,734	18,168	132	
Loss on mortgage servicing rights, net	(35,880)	(36,441)	561	2	
Other	22	79	(57)	(72)	
Total revenues	132,191	288,389	(156,198)	(54)	
Other income	2,931	2,582	349	14	
Personnel expense	(82,614)	(122,509)	39,895	33	
Business promotion	(40,175)	(42,420)	2,245	5	
General, administrative and other	(20,213)	(20,302)	89	0	
Accretion of contingent consideration	(2,058)	(6,997)	4,939	71	

Change in fair value of contingent consideration	13,326	(30,145)	43,471	144
Earnings before income taxes	$ 3,388	$ 68,598	$ (65,210)	(95)

For the year ended December 31, 2017, gain on sale of loans, net were $136.1 million compared to $311.0 million in the comparable 2016 period. The $174.9 million decrease is primarily due to a $134.2 million decrease in premiums from the sale of mortgage loans, a $72.2 million decrease in premiums from servicing retained loan sales, a $19.5 million increase in realized and unrealized net losses on derivative instruments and a $1.2 million increase in provision for repurchases. Partially offsetting the reduction was a $43.9 million decrease in direct origination expenses and an $8.4 million increase in mark-to-market gains on LHFS.

The overall decrease in gain on sale of loans, net was primarily due to a 45% decrease in volumes as

well as a decrease in gain on sale margins. For the year ended December 31, 2017, we originated and sold $7.1 billion and $6.9 billion of loans, respectively, as compared to $12.9 billion and $12.8 billion of loans originated and sold, respectively, during the same period in 2016. Margins decreased to approximately 192 bps for the year ended December 31, 2017 as compared to 241 bps for the same period in 2016 due to margin compression across all three channels as a result of the increase in interest rates as compared to 2016 as well as an increase in competition for volume.

For the year ended December 31, 2017, servicing fees, net was $31.9 million compared to $13.7 million in the comparable 2016 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 91% to an average balance of $14.7 billion for the year ended December 31, 2017 as compared to an average balance of $7.7 billion for the year ended December 31, 2016. The increase in the average balance of the servicing portfolio is a result of servicing retained loan sales of $6.1 billion during the year ended December 31, 2017 partially offset by a bulk sale of MSRs of approximately $155.9 million.

For the year ended December 31, 2017, loss on MSRs was $35.9 million compared to $36.4 million in the comparable 2016 period. For the year ended December 31, 2017, we recorded a $37.9 million loss from a change in fair value of MSRs primarily the result of mark-to-market changes related to amortization as well as an increase in prepayments and prepayment speed assumptions. For the year ended December 31, 2017, we had a $93 thousand loss on sale of mortgage servicing rights related to refunds of premiums to investors for loan payoffs partially offset by recoveries of previously written off holdbacks associated with sales of servicing rights in previous periods. Partially offsetting the loss was a $2.1 million increase in realized and unrealized gains from hedging instruments related to MSRs.

Personnel expense decreased $39.9 million to $82.6 million for the year ended December 31, 2017. The decrease is primarily related to a reduction in commission expense due to a decrease in loan originations as well as staff reductions made in the first quarter of 2017. With the decline in origination volumes in the first quarter of 2017 we made staff reductions. As a result, the average headcount of the mortgage lending division decreased 18% for the year ended December 31, 2017 as compared to the same period in 2016.

Business promotion totaled $40.2 million for the year ended December 31, 2017, compared to $42.4 million for the comparable period of 2016. Our centralized call center purchases leads and promotes its business through radio and television advertisements. During 2017, business promotion only declined $2.2 million or 5%, despite the 45% decrease in production due to efforts to increase NonQM and purchase money production with the reduction in refinance activity as a result of the increase in interest rates as compared to 2016.

General, administrative and other expenses decreased to $20.2 million for the year ended December 31, 2017, compared to $20.3 million for the same period in 2016. The decrease was primarily related to a $781 thousand decrease in in other general and administrative expenses, partially offset by a $692 thousand increase in occupancy expense.

Beginning in the second quarter of 2015, as part of the acquisition of CCM, we record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017, which increases the contingent consideration liability. The estimated contingent consideration liability is based on discounted cash flows which represent the time value of money of the liability during the earn-out period. In 2017, accretion increased the contingent consideration liability by $2.1 million as compared to $7.0 million during 2016. The reduction in accretion is due to the reduction in the estimated future pre-tax earnings as compared to projections in 2016. Beginning in the first quarter of 2018, the accretion will no longer be recognized.

We recorded a $13.3 million change in fair value associated with a decrease in the contingent consideration liability for 2017 related to updated assumptions including current market. The change in fair value of contingent consideration was related to margin compression as well as a reduction in origination volume. The fair value of contingent consideration changed from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM. The decrease in the contingent consideration liability resulted in an increase in earnings of $13.3 million for the year ended December 31, 2017. At December 31, 2017, the outstanding balance of the contingent consideration was $554

thousand which was paid in February 2018.

	For the Year Ended December 31,			
	2016	2015	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 311,017	$ 169,206	$ 141,811	84 %
Servicing fees, net	13,734	6,102	7,632	125
Loss on mortgage servicing rights, net	(36,441)	(18,598)	(17,843)	(96)
Other	79	25	54	216
Total revenues	288,389	156,735	131,654	84
Other income	2,582	2,037	545	27
Personnel expense	(122,509)	(75,925)	(46,584)	(61)
Business promotion	(42,420)	(27,494)	(14,926)	(54)
General, administrative and other	(20,302)	(15,842)	(4,460)	(28)
Accretion of contingent consideration	(6,997)	(8,142)	1,145	14
Change in fair value of contingent consideration	(30,145)	45,920	(76,065)	(166)
Earnings before income taxes	$ 68,598	$ 77,289	$ (8,691)	(11)

Gain on sale of loans, net includes the operating expenses of CCM in the first quarter of 2015 before we closed the transaction on March 31, 2015. We received the economic benefit of the CCM transactions from the beginning of 2015 but did not hire the employees of CCM or incur direct operating expenditures of CCM until after the close of the transaction. Accordingly, operating expenses for CCM in the first quarter of 2015 were included within gain on sale of loans, net as loan origination costs in the consolidated statements of operations. Beginning with the second quarter of 2015 the operating expenses of CCM were included in personnel, business promotion, general, administrative and other expense, as normally presented.

For the year ended December 31, 2016, gain on sale of loans, net were $311.0 million compared to $169.2 million in the comparable 2015 period. The $141.8 million increase is primarily due to increased volumes and gain on sale margins. For the year ended December 31, 2016, we originated and sold $12.9 billion and $12.8 billion of loans, respectively, as compared to $9.3 billion and $9.2 billion of loans originated and sold, respectively, during the same period in 2015. Margins increased to approximately 241 bps for the year ended December 31, 2016 as compared to 183 bps for the same period in 2015 due to a higher concentration of retail loans which have higher margins as well as the aforementioned expenses of CCM being included in gain on sale of loans, net in the first quarter of 2015.

For the year ended December 31, 2016, servicing fees, net was $13.7 million compared to $6.1 million in the comparable 2015 period. The increase in servicing fees, net was the result of the servicing portfolio increasing 118% to an average balance of $7.7 billion for the year ended December 31, 2016 as compared to an average balance of $3.5 billion for the year ended December 31, 2015. The increase in the average balance of the servicing portfolio is a result of servicing retained loan sales of $12.6 billion during the year ended December 31, 2016 partially offset by a bulk sale of MSRs of approximately $815.0 million.

For the year ended December 31, 2016, loss on mortgage servicing rights, net was $36.4 million compared to $18.6 million in the comparable 2015 period. For the year ended December 31, 2016, we recorded a $24.4 million loss from a change in fair value of MSRs primarily the result of $2.9 billion in prepayments due to the low mortgage interest rate environment during 2016 which resulted in an increase in actual prepayments as well as prepayment speed assumptions. For the year ended December 31, 2016, as a result of our successful retention efforts, we recaptured and refinanced approximately 76% of these prepayments at a lower coupon rate and thus a higher servicing value. Despite the MTM loss from loan prepayments recorded as a loss on MSRs, there was also corresponding income from the recaptured loan with a higher MSR value recognized in gain on sale of loans, net in the consolidated statement of operations.

During the year ended December 31, 2016 we had a $9.7 million loss on sale of mortgage servicing rights, net related to refunds of premiums to investors for loan payoffs associated with sales of servicing rights in previous periods as compared to $8.0 million in the comparable 2015 period as well as a $1.0 million loss on the sale of $815.0 million UPB of MSRs. In addition to the loss we had a $1.4 million decrease in realized and unrealized losses from hedging instruments related to MSRs. During the third quarter of 2016, we amended a previous MSR sale agreement, extending the early prepayment protection, in return allowing us to solicit the

sold portfolio. As a result we booked a $7.5 million charge during the third quarter related to this amendment. The amendment gave us the option to terminate the agreement with a 90 day notification. In November, we exercised our option to terminate the agreement.

Personnel expense increased $46.6 million to $122.5 million for the year ended December 31, 2016. In addition to the aforementioned presentation of CCM in 2015, the increase is primarily due to an increase in commission expense due to an increase in loan origination volumes as well as an increase in personnel related costs due to the addition of new personnel to accommodate the increase in mortgage loan volumes.

Business promotion totaled $42.4 million for the year ended December 31, 2016, compared to $27.5 million for the comparable period of 2015. Our centralized call center purchases leads and promotes its business through radio and television advertisements. In addition to the aforementioned presentation of CCM in 2015, the increase in business promotion is primarily due to the focus on growing market share and geographic scope within the CashCall Mortgage retail channel as well as growth in the correspondent and wholesale lending channels.

General, administrative and other expenses increased to $20.3 million for the year ended December 31, 2016, compared to $15.8 million for the same period in 2015. In addition to the aforementioned presentation of CCM in 2015, the increase was primarily related to a $1.7 million increase in other general and administrative expenses, a $1.2 million increase in amortization of intangible and other assets, a $1.1 million increase in additional occupancy expense and a $981 thousand increase in data processing. Partially offsetting the increase in general, administrative and other expenses was an $870 thousand decrease in legal and professional fees.

Beginning in the second quarter of 2015, as part of the acquisition of CCM, we record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in December 2017, which increases the contingent consideration liability. The estimated contingent consideration liability is based on discounted cash flows which represent the time value of money of the liability during the earn-out period. In 2016, accretion increased the contingent consideration liability by $7.0 million as compared to $8.1 million during 2015. The reduction in accretion is due to the reduction in the estimated future pre-tax earnings as compared to projections in 2015. The accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period in the fourth quarter of 2017.

We recorded a $30.1 million change in fair value associated with an increase in the contingent consideration liability for 2016 related to updated assumptions including current market conditions and increased mortgage loan originations for CCM. The change in fair value of contingent consideration was related to the estimated increase in future pre-tax earnings of CCM over the remaining earn-out period of four quarters. The fair value of contingent consideration may change from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM. Even though this projected increase in mortgage volume for CCM is favorable, it resulted in a corresponding charge to earnings of $30.1 million for 2016.

Real Estate Services

	For the Year Ended December 31,				
	2017	2016	Increase (Decrease)	% Change	
Real estate services fees, net	$ 5,856	$ 8,395	$ (2,539)	(30)	%
Personnel expense	(2,552)	(5,790)	3,238	56	
General, administrative and other	(1,058)	(746)	(312)	(42)	
Earnings before income taxes	$ 2,246	$ 1,859	$ 387	21	%

For the year ended December 31, 2017, real estate services fees, net were $5.9 million compared to $8.4 million in the comparable 2016 period. The $2.5 million decrease in real estate services fees, net was the result of a $1.3 million decrease in real estate and recovery fees and a $1.3 million decrease in loss mitigation fees partially offset by a $53 thousand increase in real estate service fees. The $2.5 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of

Table of Contents

the long-term mortgage portfolio as compared to 2016.

For the year ended December 31, 2017, the $3.2 million reduction in personnel expense was due to a reduction in personnel and personnel related costs as a result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2016.

General, administrative and other expenses increased to $1.1 million for the year ended December 31, 2017, compared to $746 thousand for the same period in 2016. The increase was due to $351 thousand in goodwill impairment related to the wind down of certain services within our real estate services segment.

	For the Year Ended December 31,				
			Increase	%	
	2016	2015	(Decrease)	Change	
Real estate services fees, net	$ 8,395	$ 9,850	$ (1,455)	(15)	%
Personnel expense	(5,790)	(5,052)	(738)	(15)	
General, administrative and other	(746)	(899)	153	17	
Earnings before income taxes	$ 1,859	$ 3,899	$ (2,040)	(52)	%

For the year ended December 31, 2016, real estate services fees, net were $8.4 million compared to $9.9 million in the comparable 2015 period. The $1.5 million decrease in real estate services fees, net was the result of a $1.8 million decrease in real estate and recovery fees and a $57 thousand decrease in real estate services partially offset by a $444 thousand increase in loss mitigation fees. The decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio as compared to 2015. Additionally, for the year ended December 31, 2016, personnel expense increased primarily due to increased loss mitigation efforts for the long term mortgage portfolio.

Long Term Mortgage Portfolio

	For the Year Ended December 31,				
			Increase	%	
	2017	2016	(Decrease)	Change	
Other revenue	$ 273	$ 242	$ 31	13	%
Personnel expense	(14)	(18)	4	22	%
General, administrative and other	(325)	(400)	75	19	
Total expenses	(339)	(418)	79	19	

Net interest income	3,639	5,743	(2,104)	(37)	
Loss on extinguishment of debt	(1,265)	—	(1,265)	n/a	
Change in fair value of long-term debt	(2,949)	(14,436)	11,487	80	
Change in fair value of net trust assets, including trust REO gains (losses)	6,213	(304)	6,517	2144	
Total other income	5,638	(8,997)	14,635	163	
Earnings (loss) before income taxes	$ 5,572	$ (9,173)	$ 14,745	161	%

For the year ended December 31, 2017, net interest income totaled $3.6 million as compared to $5.7 million for the comparable 2016 period. Net interest income decreased $2.1 million for the year ended December 31, 2017 primarily attributable to a $1.8 million decrease in net interest spread on the long-term mortgage portfolio as well as a $265 thousand increase in interest expense on the long-term debt due to an increase in three-month LIBOR as compared to the prior year.

During the second quarter of 2017, we exchanged 412,264 shares of common stock for trust preferred securities with an aggregate liquidation amount of $8.5 million. Accrued and unpaid interest on the trust preferred securities was paid in cash in the aggregate amount of approximately $14 thousand. We recorded a

$1.3 million loss on extinguishment of debt due to stock price appreciation after the agreed upon settlement and before the issuance date of the common stock.

Change in the fair value of long-term debt resulted in an expense of $2.9 million for the year ended December 31, 2017, compared to an expense of $14.4 million for the comparable 2016 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt during 2017 was primarily due to a decrease in the discount rate attributable to an improvement in our credit risk profile, financial condition as well as an increase in LIBOR during 2017.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $6.2 million for the year ended December 31, 2017. The change in fair value of net trust assets, including trust REO was due to $7.4 million in gains on REO attributable to lower expected loss severities on properties held in the long-term mortgage portfolio during the period, partially offset by $1.2 million in losses from changes in fair value of securitized mortgage borrowings and securitized mortgage collateral primarily associated with an increase in LIBOR.

	For the Year Ended December 31,				
	2016	2015	Increase (Decrease)	% Change	
Other revenue	$ 242	$ 263	$ (21)	(8)	%
Personnel expense	(18)	(244)	226	93	%
General, administrative and other	(400)	(433)	33	8	
Total expenses	(418)	(677)	259	38	
Net interest income	5,743	4,513	1,230	27	
Change in fair value of long-term debt	(14,436)	(8,661)	(5,775)	(67)	
Change in fair value of net trust assets, including trust REO gains (losses)	(304)	(5,638)	5,334	95	
Total other expense	(8,997)	(9,786)	789	8	
Loss before income taxes	$ (9,173)	$ (10,200)	$ 1,027	10	%

For the year ended December 31, 2016, net interest income totaled $5.7 million as compared to $4.5 million for the comparable 2015 period. Net interest income increased $1.2 million for the year ended December 31, 2016 primarily attributable to a $1.7 million increase in net interest spread on the long-term mortgage portfolio due to an improvement in net interest income and cash flows in trusts with residual interests. Partially offsetting the increase in interest income was a $415 thousand increase in interest expense on the long-term debt due to an increase in 3 month LIBOR as compared to the prior year.

Change in the fair value of long-term debt resulted in an expense of $14.4 million for the year ended December 31, 2016, compared to an expense of $8.7 million for the comparable 2015 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt during 2016 was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile associated with our capital raise during the third quarter, improvement in our financial condition and results of operations from the mortgage lending segment during 2016. The increase in the estimated fair value of long-term debt during the 2015 was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, improvement in our financial condition and results of operations from the mortgage lending segment including the acquisition of CCM during the first quarter of 2015 as well as an increase in forward LIBOR interest rates during the second quarter of 2015.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of $304 thousand for the year ended December 31, 2016. The change in fair value of net trust assets, including trust REO was due to $5.9 million in losses on REO during the period attributed to higher expected loss severities on properties held in the long-term mortgage portfolio during the period, partially offset by $5.6 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with a decrease in LIBOR as well as updated assumptions on certain later vintage trusts with improved performance.

Table of Contents

Corporate

	For the Year Ended December 31,			
	2017	2016	Increase (Decrease)	% Change
Interest expense	$ (2,227)	$ (5,536)	3,309	60 %
Other expenses	(20,362)	(7,985)	(12,377)	(155)
Net loss before income taxes	$ (22,589)	$ (13,521)	$ (9,068)	(67) %

For the year ended December 31, 2017, interest expense decreased to $2.2 million as compared to $5.5 million for the comparable 2016 period. The decrease was primarily due to a $2.6 million decrease in interest expense related to the payoff of the Term Financing in February 2017 as well as a $637 thousand decrease in interest expense related to the conversion of the original $20.0 million Convertible Notes to common stock in January 2016.

For the year ended December 31, 2017, other expenses increased to $20.4 million as compared to $8.0 million for the comparable 2016 peri