

# How To Build A BETTER COMPANY

**INCLUDES:**

- Report to Shareholders
- Highlights
- and Much More

*Impac Mortgage Holdings, Inc.  
2000 Annual Report*



**How To Build  
A BETTER COMPANY**

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## REMINDER

### **Forward Looking Statements**

The matters discussed in this annual report to stockholders include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of forward-looking terminology such as “may,” “will,” “intend,” “should,” “expect,” “anticipate,” “estimate” or “continue” or the negatives thereof or other such comparable terminology. The Company’s actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including but not limited to economic conditions, product demand, competitive products and pricing, state and federal regulations and other risks indicated in filings with the Securities and Exchange Commission.

## PROFILE

### **Company Profile**

Impac Mortgage Holdings, Inc. (“Impac”) is a mortgage real estate investment trust (“REIT”) which together with its subsidiaries and related companies, The Long-Term Investment Operations, The Conduit Operations, and The Warehouse Lending Operations, acquire and invest in nonconforming residential mortgage loans and securities backed by such loans and provide warehouse financing to originators. We specialize in providing the mortgage industry with innovative products, competitive pricing and excellent service. In an industry where price, product and service are everything, we have differentiated ourselves in numerous ways. The core elements of the Company’s business model are chapters in our book on How to Build a Better Company for the future.

opportunities, as we believe those are vital to both personal and organizational growth. We motivate, promote and reward from within, and we sustain open communications to ensure that opportunities and issues surface.

We believe our commitment to this empowerment is responsible for the long tenures, increased efficiencies and innovative ideas among our staff. We believe our corporate culture is a significant factor in attracting and retaining top quality people. The Company has created an environment that encourages pro-active thinking, open communications, consistent recognition and camaraderie.

We are proud that we have created a corporate culture that empowers our employees to manage the business as if it were their own, a motivation that we believe promotes both innovation and bottom-line thinking.



– Letter to Shareholders –

# TO OUR SHAREHOLDERS

In 2000, we set out to show you and ourselves How to Build a Better Company. That meant undertaking a thorough evaluation of our business strategy, followed by refocusing on our core operations. It meant making some tough decisions and implementing three strategic initiatives. During the year, we believe that we successfully set the foundation for our long-term growth and stability. In that regard, we view 2000 as one of the most dynamic and important years in our history. The one that sets the stage for our future success.

## **Our Plan**

The most important issues facing the mortgage industry in general, and Impac Mortgage Holdings, Inc. (“Impac”) in particular, have been volatility and liquidity. Over the past year, we implemented three strategic initiatives designed to increase the Company’s stability and position it for improved overall future performance.



The first step was to restructure and rebuild our balance sheet, an initiative that required some tough decisions and aggressive actions. Among these were writing off \$52.6 million in non-performing investment securities. In addition, to protect ourselves from similar charges and losses in the future, we added loan loss provisions of \$14.5 million. These one-time, extraordinary charges resulted in a net loss of \$54.2 million for the year ended December 31, 2000.

Since 1998, we have limited our investments to non-conforming investment grade loans purchased or originated by our Mortgage Operations, a move taken to better ensure the quality of the investments in our portfolio.

We also issued two Collateralized Mortgage Obligations (CMOs) for \$943.6 million. These securities act as financing vehicles that are secured by Impac’s mortgage loans. CMOs enable us to more closely lock in our interest rate spreads, eliminate margin calls and significantly reduce our invested capital.

In contrast to a number of our competitors, we have continued to require prepayment penalties on the mortgage loans generated by our Mortgage Operations and retained for investment in our Long-Term Investment Portfolio. As a result, in 2000 we increased the percentage of prepayment penalties on our non-conforming mortgage loans to over 50% of all loans acquired or held for investment. This increases our ability both to more accurately predict future revenues and to hedge against the effects of early prepayments.



Our second initiative was to suspend the payment of our common stock dividend and retain earnings to increase our assets and grow book value. As a result, at year end 2000, we had repurchased and retired \$2.3 million of the Company's Common Stock, and at the end of the first quarter of 2001 acquired a total of \$10.0 million of Impac's 10.5% Cumulative Convertible Preferred Stock.

Through these actions, we have significantly strengthened and improved our Long-Term Investment Operations. We generated additional liquidity through the restructured CMOs and the dividend suspension, which has been reinvested into the Company, and we have established solid and sustainable cash balances of \$26.2 million at year-end 2000.



Our third initiative toward strengthening the Company and its future has been to implement state-of-the-art technologies, especially within our Mortgage Operations. We successfully rolled out the first edition of the Impac Direct System for Lending (IDASL) system in the first quarter of 2000, and we have already seen a significant increase in our mortgage volume and profit margins. By December 31, 2000, substantially all of Impac's correspondents were submitting loans through IDASL, and 100 percent of all wholesale loans delivered by brokers were underwritten through the system.

Because the system enables customers across the country to get conditional mortgage loan approvals without delivering loan applications to our corporate offices, it has given the Mortgage Operations access to new customers and the capacity to serve an expanded customer base. Perhaps most importantly, IDASL extends our business to geographical markets we could not previously have reached, all without opening new offices, diluting our centralization or incurring startup and operations costs.

We are still refining IDASL and anticipate introducing fraud detection, property appraisals and mortgage insurance approval enhancements by the end of 2001. With all of these options available within minutes via the online system, we envision that

IDASL will become our portal for handling all aspects of the mortgage origination process. It clearly serves as a barrier to entry for other potential entrants in our niche market and is our key strategy for expansion going forward.

Technology is also a key component of our business plan to automate and expand the Warehouse Lending Operations. We believe this core business, which enables mortgage bankers to fund loans to their customers, holds the greatest potential for growth among our businesses. Our goals for 2001 include increasing the group's outstanding balances, an initiative made possible by automating the Warehouse Lending Operation's internal systems and expanding and implementing their Web-based delivery and reporting capabilities.

### **The Future**

As we move into 2001, we are confident that we are poised to capture a greater share of the non-conforming investment grade mortgage market, which is undergoing constant change. Recent interest rate cuts are expected to improve our profit margins at the Long Term Investment Operations and increase the flow of loans we originate, purchase and securitize in our Mortgage Operations. We expect continued consolidation in the mortgage industry and believe that we are well positioned for growth and continued profitability.

In order to mitigate interest rate and market risk, the Company in late 2000 began securitizing its mortgage loans more frequently. Through more frequent securitizations, we can reduce the accumulation and holding period of mortgage loans. That, in turn, requires less capital and affords more liquidity with less interest rate and price volatility.

We believe our leadership position will be further assured by our ability to capitalize on the strengths we have conscientiously built into our business. In 2001 and beyond, we expect that IDASL will become a complete lending system, propelling us to the forefront of our industry. Given that growth, current financial market conditions and the financial safeguards we have incorporated, we foresee much improved performance in the future.

Given the ways we have strengthened our operations and our expectations for early 2001, we may resume dividend payments as early as the third quarter of 2001. We feel the cessation of the dividend payment allowed us to make investments that will return stronger and more sustainable dividends in the future than would otherwise be possible.

We believe the Company is ideally positioned to meet the opportunities and challenges of the future. Our ongoing strategy is to use the combined strengths of our synergistic business lines, cutting-



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**Impac Mortgage Holdings, Inc.**  
brings you the step-by-step  
approach to building a better  
company in a competitive and  
dynamic industry – particularly  
the non-conforming mortgage  
lending market. Included are  
in-depth discussions of the  
Company's expertise and the  
secrets to its success:

- **Introduce innovative products**
- **Create synergistic business lines**
- **Harness cutting-edge technologies**
- **Maintain centralized operations**
- **Promote a viable corporate culture**

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