



## **Impac Mortgage Holdings, Inc. Announces a Loss of \$8.1 million for the Fourth Quarter of 1998 and a Loss of \$5.9 million for the Year Ended December 31, 1998**

02/10/99

Thursday, February 11, 1999

**Santa Ana Heights, CA.**

– Impac Mortgage Holdings, Inc. (the "Company" or "IMH": AMEX-IMH), a real estate investment trust ("REIT"), announced a net loss of \$(8.1) million, or \$(0.33) per basic and diluted common share, for the fourth quarter of 1998 as compared to a net loss of \$(34.8) million, or \$(1.70) per basic and diluted common share, for the fourth quarter of 1997. The Company's net loss for the fourth quarter of 1998 was primarily the result of a tax adjusted loss of \$6.0 million on the sale of mortgage loans held-for-sale at Impac Funding Corporation ("IFC"), the Company's conduit operations, and a tax-adjusted non-cash charge of \$2.9 million for the write-down of IFC's mortgage loan servicing rights ("MSRs") and investment securities available-for-sale. The Company records 99% of earnings or losses from IFC as the Company owns 100% of IFC's preferred stock, which represents 99% of the economic interest in IFC. In addition, the Company's earnings for the fourth quarter of 1998 were negatively affected by a loss on sale of mortgage loans of \$2.1 million, loss on disposition of real estate owned of \$1.6 million, and a non-cash charge of \$1.3 million on write-down of a mortgage-backed security. Excluding the consolidated tax adjusted losses on mortgage loan sales of \$8.1 million and consolidated tax adjusted non-cash charges of \$4.2 million, the Company's earnings for the fourth quarter of 1998 would have been \$4.2 million, or \$0.17 per basic and diluted common share, as compared to earnings of \$9.6 million, or \$0.47 per basic and diluted common share, for the fourth quarter of 1997, after excluding a non-cash charge of \$44.4 million for the Company's buyout of its management agreement with Imperial Credit Advisors, Inc. ("ICAI") in December of 1997.

The Company's net loss for the year ended December 31, 1998 was \$(5.9) million, or \$(0.25) per basic and diluted common share, as compared to net loss of \$(16.0) million, or \$(0.99) per basic and diluted common share, for the same period of 1997. The Company's net loss for 1998 was primarily the result of a tax adjusted loss of \$7.3 million on the sale of mortgage loans held-for-sale at IFC and a tax adjusted non-cash charge of \$2.9 million on the write-down of IFC's MSRs and investment securities available-for-sale. In addition, the Company's 1998 earnings were negatively affected by a \$9.1 million loss on the sale of its equity investment in Impac Commercial Holdings, Inc. ("ICH"), which reflects the price the Company received on the sale of its ICH common stock on October 19, 1998, an impairment charge of \$14.1 million on investment securities available-for-sale, a loss on sale of mortgage loans of \$3.1 million, and a loss on disposition of real estate owned of \$1.7 million. Excluding the consolidated tax adjusted losses on mortgage loan sales of \$10.4 million, consolidated tax adjusted non-cash charges of \$17.0 million, and the loss on sale of equity investment in ICH of \$9.1 million, the Company's earnings for the year ended December 31, 1998 would have been \$30.6 million, or \$1.28 per basic and diluted common share, as compared to earnings of \$28.3 million, or \$1.74 per basic and diluted common share, for the same period of 1997, after excluding a non-cash charge of \$44.4 million for the Company's buyout of its management agreement. Earnings per share for 1998, on an adjusted basis, were lower as compared to earnings per share for 1997 due to an increase in the number of common shares outstanding during 1998.

The loss on the sale of mortgage loans and the write-down of mortgage assets by the Company and IFC was precipitated by the deterioration of the mortgage-backed securitization market during the third and fourth quarters of 1998. The deterioration of the mortgage-backed securitization market in 1998 created liquidity problems for the Company as the Company's lenders made margin calls on their warehouse and reverse repurchase facilities. These margin calls resulted in the Company delaying its third quarter dividend, which was paid on January 6, 1999, and selling mortgage loans and mortgage-backed securities at losses in order to reduce outstanding borrowings on these facilities. Although a loss was recorded for the fourth quarter of 1998, the Company was successful in improving liquidity and protecting stockholder value by selling out of its mortgage loan positions rather than continuing to expose the Company to further market risk while accumulating these loans for securitization. To further enhance the Company's liquidity, the Company completed the issuance of 1,200,000 shares of Series B 10.5% Cumulative Convertible Preferred Stock in December of 1998, which generated net proceeds of \$28.8 million. The Company's cash and cash equivalents at December 31, 1998 were \$33.9 million as compared to \$2.2 million at September 30, 1998.

In addition to asset sales and the issuance of Preferred Stock to improve the Company's liquidity, IFC completed the execution of a master agreement to sell up to \$1.0 billion of its future mortgage loan production to a major institutional investor over the next year. IFC expects to complete its first delivery of mortgage loans under the new agreement in February 1999, and anticipates that the first settlement will occur no later than March 1999. The transaction is a servicing retained agreement, which gives IFC a guaranteed pricing spread and cash gains plus the value of the servicing rights created.

The Company's primary objective in response to the deterioration of the mortgage-backed securitization market was to improve liquidity. However, the Company made other strategic decisions in response to the mortgage market downturn, as follows: (1) adjusted loan interest rates on its loan programs, (2) adjusted purchase pricing on the acquisition of its loans and (3) reduced staff levels at IFC by 25%. As the liquidity crisis improved, the Company made a further strategic decision that it believes will help minimize the Company's exposure to market conditions as occurred during 1998. As such, the Company has signed a letter of intent to acquire a California, federally insured thrift and loan. The acquisition is contingent upon the execution of a definitive agreement and obtaining satisfactory approvals from all regulatory agencies. The Company does not anticipate any significant regulatory impediments. Upon the consummation of the transaction, the Company intends to contribute certain assets of IFC into the thrift and loan charter and operate the entire mortgage banking and selected investment activities from the thrift and loan. This acquisition will reduce the Company's reliance on outside warehouse and reverse repurchase facilities with commercial and investment banks. The thrift and loan charter will give IFC access to low cost funds and borrowings from the Federal Home Loan Bank.

In addition to improving the Company's liquidity during the fourth quarter, the Company has taken steps to increase its book value per share by implementing a stock repurchase plan. During the fourth quarter of 1998, the Board of Directors authorized the repurchase of approximately \$5.0 million of the Company's common stock. Through February 10, 1999, the Company has repurchased 184,100 shares of its common stock for \$ 998,700.00. The Company also intends to increase book value by distributing a only its taxable earnings as dividends during 1999, as is required as a REIT, as opposed to distributing its book basis earnings, or Generally Accepted Accounting Principles ("GAAP") earnings. As a REIT, the Company must distribute a minimum of 95% of its taxable earnings, which are not necessarily GAAP earnings. Taxable earnings are calculated by adjusting the Company's GAAP earnings by various differences between taxable earnings and GAAP earnings. Significant adjustments to the Company's taxable earnings are a tax deduction of approximately \$10.9 million annually for the next three years of amortization expense on the buyout of the Company's management agreement in 1997 and the exclusion from taxable earnings the net earnings or losses from IFC. For the year ended December 31, 1998, the Company's estimated taxable earnings, after adjusting GAAP earnings by various tax differences, was approximately \$29.0 million, or \$1.21 per basic and diluted common share, as compared to GAAP earnings of \$(5.9) million, or \$(0.25) per basic and diluted common share. During 1998, the Company distributed \$37.9 million as cash dividends to its stockholder's, which resulted in return of capital, or excess dividends, to the Company's stockholders of \$8.9 million (\$37.9 million less \$29.3 million), or \$0.37 per basic and diluted common share. The Company expects dividends for the first quarter of 1999 to be less than its GAAP earnings.

During 1998, the Company's net loss was reduced by an increase in the Company's core earnings. Core earnings is defined as net interest income earned on Mortgage Assets. Mortgage Assets are comprised of mortgage loans held-for-investment, Collateralized Mortgage Obligation ("CMO") collateral, finance receivables and investment securities available-for-sale. Core earnings increased 27% to \$42.3 million, or \$1.77 per basic and diluted common share, during 1998 as compared to \$32.0 million, or \$1.96 per diluted common share, during 1997 as a result of continued growth by the Company's Long-Term Investment and Warehouse Lending Operations. Core earnings per share for 1998 were lower as compared to core earnings per share for 1997 due to an increase in the number of common shares outstanding during 1998. During 1998, average Mortgage Assets increased 51% to \$2.0 billion, earning a weighted average yield of 8.12% and net interest spread of 1.49%, as compared to \$1.3 billion, earning a weighted average yield of 8.26% and a net interest spread of 1.87%, during 1997. Consistent with the Company's business strategy of realizing earnings from the Long-Term Investment Operations, the Company issued \$768.0 million of CMOs and acquired \$866.7 million in mortgages from IFC as compared to \$521.7 million and \$877.1 million, respectively, during the same period of 1997. The net spread during 1998 decreased as compared to 1997 due to a decline in the corresponding index interest rates.

The Company's net loss was also reduced by the elimination of advisor fees as a result of the Company's termination of its management agreement with ICAI. As a result of the buyout of the management agreement, the Company paid no advisor fees to ICAI during 1998 as compared to \$6.2 million in advisory fees paid during 1997.

The Company's total allowance for loan losses expressed as a percentage of Gross Loan Receivables which includes loans held-for-investment, CMO collateral and finance receivables, increased 47% to 0.47% at December 31, 1998 as compared to 0.32% at December 31, 1997. The Company recorded net loan loss provisions of \$4.4 million during 1998 as compared to \$6.8 million during 1997. The amount provided for loan losses during 1998 decreased primarily due to a reduction in exposure to future losses through the sale of delinquent loans and the transfer of certain loans from the held-for-investment to the held-for-sale portfolio, which resulted in a mark-to-market adjustment of \$5.9 million. The allowance for loan losses is determined primarily on the basis of management's judgment of net loss potential including specific allowances for known impaired loans, changes in the nature and volume of the portfolio, value of the collateral and current economic conditions that may affect the borrowers' ability to pay.

IFC recorded a net loss of \$(10.1) million and \$(14.0) million, respectively, for the fourth quarter of 1998 and for the year ended December 31, 1998 as compared to net earnings of \$2.2 million and \$8.4 million, respectively, for the same periods in 1997. Earnings decreased for the fourth quarter of 1998 and for the year ended December 31, 1998 as compared to the same periods in 1997 primarily as a result of net losses on sale of mortgage loans and non-cash charges for the write-down of MSR's and investment securities available-for-sale. The net loss on sale of mortgage loans and the non-cash charges were due to the deterioration of the mortgage-backed securitization market, as previously discussed. In addition, earnings for the fourth quarter of 1998 and for the year ended December 31, 1998 were negatively affected by increases in personnel expense, amortization of MSR's, and general and administrative and other expense. Personnel expense and general and administrative and other expense increased during 1998 as IFC's loan acquisition volumes and staff levels were higher than during 1997 and prior to the fourth quarter of 1998 when IFC reduced staffing. Amortization of MSR's increased due to the growth of IFC's servicing portfolio. During 1998, the Company securitized \$927.9 million in principal balance of mortgage loans and, accordingly, capitalized MSR's related to those securitizations, which are amortized in proportion to, and over the period of expected net servicing income. Loan servicing income increased as IFC generally retains servicing rights on mortgages acquired resulting in an increase of 23% in IFC's servicing portfolio to \$3.7 billion at December 31, 1998 as compared to \$3.0 billion at December 31, 1997.

IFC continues to support the Long-Term Investment Operations of the Company by supplying IMH with mortgages for its long-term investment portfolio. In acting as the mortgage conduit for the Company, IFC sold \$866.7 million of mortgages to IMH as compared to \$877.1 million of mortgages sold during the same period in 1997. IFC's mortgage acquisitions decreased 14% to \$2.2 billion during 1998 as compared to \$2.5 billion of mortgages acquired during the same period in 1997. IFC securitized \$927.9 million of mortgages and sold whole loans to third party investors totaling \$856.2 million, resulting in net losses on sale of loans of \$11.7 million, during 1998. This compares to securitizations of \$878.0 million and whole loan sales to third parties of \$304.0 million, resulting in net gain on sale of loans of \$19.4 million, during 1997. Both the reduction in mortgage acquisitions and the increase in loan sales during 1998 as compared to 1997 were due to the deterioration of the mortgage-backed securitization market. Loan acquisitions decreased as IFC made interest rate and purchase price adjustments on its mortgage loan acquisitions, which resulted in lower loan volumes from correspondent sellers. In addition, the lack of liquidity resulting from margin calls on the Company's warehouse and reverse repurchase facilities prohibited IFC from funding loan acquisitions at comparable levels to prior quarters in 1998. Loan sales increased as IFC sold loans, at reduced prices to carrying amounts, to reduce its outstanding borrowings on its warehouse and reverse repurchase facilities in order to meet margin calls from its lenders. IFC's deferred income increased to \$10.6 million at December 31, 1998 as compared to \$7.0 million at December 31, 1997. The increase in deferred income relates to the sale of \$842.9 million in principal balance of mortgages to IMH during 1998, which are deferred and amortized or accreted over the estimated life of the loans.

The Company is a mortgage loan investment company that invests primarily in non-conforming, high-yielding mortgages which, together with its subsidiaries and related companies, operates three businesses. The Company's first business is to act as a long-term investor of primarily non-conforming residential mortgage loans and mortgage-backed securities secured by or representing interests in such loans. The second business is IFC, which purchases primarily non-conforming mortgage loans and to a lesser extent, second mortgages, from a network of third party correspondent loan originators and subsequently securitizes or sells such loans to permanent investors. As the Company's third business, Impac Warehouse Lending Group, a wholly-owned subsidiary of the Company, focuses on providing warehouse and reverse-repurchase financing to

approved mortgage banks, most of which are correspondents of IFC.

*This press release contains 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", "expect", "anticipate", "estimate" or "continue" or the negatives thereof or other 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, changes in the origination and resale pricing of mortgage loans, changes in management's estimates and expectations, general financial markets and economic conditions and other factors described in this press release.. The financial information presented in this release pertaining to actual results should not be taken to predict future earnings, as the Company may not experience similar earnings in future periods.*

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