Impac Mortgage Holdings, Inc. Announces second quarter of 1999 earnings

July 26, 1999

Monday, July 26, 1999

Newport Beach, CA.

– Impac Mortgage Holdings, Inc. (the "Company" or "IMH": AMEX-IMH), a real estate investment trust, announced net earnings of $6.0 million, or $0.21 per diluted common share, for the second quarter of 1999 as compared to net earnings of $6.2 million, or $0.20 per diluted common share, for the first quarter of 1999. Excluding write-down of investment securities available for sale of $1.3 million as a result of increased prepayment speeds, net earnings for the second quarter of 1999 were $7.2 million, or $0.25 per diluted common share, as compared to $6.6 million, or $0.22 per diluted common share, for the first quarter of 1999. Second quarter of 1999 results include significant favorable trends including increased book value per share, improved liquidity, increased loan production and improved profitability on the sale of loans as compared to the first quarter of 1999, as described below.

Earnings per share for the second quarter of 1999 increased as weighted average common shares outstanding decreased to 22,725,844 as compared to 24,365,997 for the first quarter of 1999. Weighted average common shares outstanding decreased during the second quarter of 1999 as the Company repurchased 684,100 common shares and exchanged 1,355,325 common shares for senior subordinated debt during the latter part of the first quarter of 1999. Net earnings for the second quarter of 1998 were $11.7 million, or $0.49 per diluted common share.

Return on average equity and average assets were 9.86% and 1.44%, respectively, for the second quarter of 1999 as compared to 10.12% and 1.52%, respectively, during the first quarter of 1999. Return on average equity and average assets were 19.21% and 2.25%, respectively, for the second quarter of 1998. The Company's book value per common share increased to $9.49 ((calculated assuming liquidation value of the Company's Series B Cumulative Convertible Preferred Stock ("Preferred Stock") at June 30, 1999 as compared to book value per common share of $9.02 at December 31, 1998. Total assets decreased 6% to $1.6 billion at June 30, 1999 as compared to $1.7 billion at December 31, 1998.

Liquidity and Leverage

During the second quarter of 1999, the Company continued to maintain a conservative debt to equity ratio that decreased to 5.37:1 at June 30, 1999 as compared to 5.55:1 at December 31, 1998. The Company's liquidity position at June 30, 1999 includes cash and cash equivalents of $12.4 million and investment securities of $92.3 million, a total of $104.7 million, as compared to total liquidity of $127.4 million at December 31, 1998. Liquidity at June 30, 1999 reflected a $14.5 million cash infusion made to Impac Funding Corporation ("IFC") during the second quarter of 1999 in exchange for a note. The Company continues to work to enhance the diversity and stability of its funding sources and to reduce its reliance on reverse repurchase agreements, which were $234.1 million at June 30, 1999 as compared to $323.6 million at December 31, 1998.

Acquisition of California Industrial Thrift and Loan

During the first quarter of 1999, the Company completed a definitive agreement to acquire a California Industrial Thrift and Loan ("Bank"). As such, the Company has submitted its completed application to federal and state regulatory agencies, the Federal Deposit Insurance Corporation ("FDIC") and the Department of Financial Institutions ("DFI") for their approval, including the proposed relocation of the Bank's headquarters to the Company's new location in Newport Beach, California. The Company has undergone an initial field review by the regulators in connection with the application that included a satisfactory Year 2000 review, interviews of executive management and a review of the proposed business plan and policies. The Company is not aware of any outstanding issues that would impede its ability to obtain regulatory approval by September 1, 1999. The acquisition of the Bank will provide access to a relatively low cost of funds from a stable and diverse deposit base, along with financing from the Federal Home Loan Bank.

Common Stock Dividends

The Company's current common stock dividend policy is to base quarterly dividends upon the Company's best estimate of taxable earnings for the year ending December 31, 1999. However, the Board of Directors reserves the right to make adjustments to this policy as actual results may differ from earnings projections. The most significant adjustments to generally accepted accounting principles ("GAAP") earnings for the first six months of 1999 were as follows: (1) the amortization of the termination of the management agreement with Imperial Credit Advisors, Inc. in December of 1997, which resulted in a deduction of approximately $5.4 million, (2) the exclusion of $2.5 million of equity in net earnings of IFC, (3) actual loan charge-offs which resulted in a deduction of approximately $4.4 million, and (4) the deduction of Preferred Stock dividends of $1.7 million. The Company's estimate of taxable loss for the first six months of 1999 was approximately $(172,000). The Company's Board of Directors previously declared a second quarter dividend of $0.12 per common share, paid on July 15, 1999 to stockholders of record on June 30, 1999, a 20% increase over the dividend of $0.10 per common share for the first quarter of 1999. The Company also declared a second quarter Preferred Stock dividend of $788,000. For the first six months of 1999, the Company declared common stock dividends of $0.22 per common share, all in excess of estimated taxable earnings, and Preferred Stock dividends of $1.7 million.

IMH Results of Operations

Second Quarter of 1999 compared to First Quarter of 1999

Net Interest Income. Net interest income was unchanged at $8.2 million for the first and second quarters of 1999. The Company earned a yield of 7.40% on its interest earning assets during the second quarter of 1999 as compared to 7.46% during the first quarter of 1999. Net interest margin was 2.07% during the second quarter of 1999 as compared to 2.04% during the first quarter of 1999.

Net interest income earned on Mortgage Assets, or core earnings, increased during the second quarter of 1999 to $8.2 million as compared to $7.8 million during the first quarter of 1999. Mortgage Assets are comprised of mortgage loans held-for-investment, Collateralized Mortgage Obligation ("CMO") collateral, finance receivables and investment securities available-for-sale. During the second quarter of 1999 core earnings increased as average Mortgage Assets rose slightly to $1.613 billion as compared to $1.585 billion during the first quarter of 1999. The increase in average Mortgage Assets was primarily the result of an increase in average finance receivables to $292.3 million during the second quarter of 1999 as compared to $252.8 million during the first quarter of 1999. The yield on average Mortgage Assets during the second quarter of 1999 was 7.41% as compared to 7.49% during the first quarter of 1999. The net interest spread on Mortgage Assets remained relatively unchanged at 1.25% for the second quarter of 1999 as compared to 1.32% during the first quarter of 1999. In addition, the Company completed the issuance of a CMO in June 1999 for $115.0 million that was collateralized by $117.6 million of mortgage loans. For the first six months of 1999, the Company issued CMOs totaling $301.2 million that were collateralized by $319.3 million of mortgage loans.

Non-Interest Income. Non-interest income includes equity in net earnings of IFC and other non-interest income, including primarily loan servicing fees and fees associated with the Company's Warehouse Lending Operations. During the second quarter of 1999, non-interest income increased 18% to $2.0 million as compared to $1.7 million during the first quarter of 1999. This increase was primarily due to an increase of $319,000 in equity in net earnings of IFC to $1.4 million as compared to $1.1 million during the first quarter of 1999.

Non-Interest Expense.

During the second quarter of 1999, non-interest expense increased 17% to $2.7 million as compared to $2.3 million during the first quarter of 1999. This increase was primarily due to an increase in write-down of investment securities to $1.3 million during the second quarter of 1999 as compared to $422,000 during the first quarter of 1999. Excluding the write-down of investment securities, non-interest expense during the second quarter of 1999 decreased 20% to $1.5 million as compared to $1.8 million during the first quarter of 1999.

IMH Results of Operations

Second Quarter of 1999 compared to Second Quarter of 1998

Net earnings for the second quarter of 1999 were $6.0 million, or $0.21 per diluted common share, as compared to net earnings of $11.7 million, or $0.49 per diluted common share, for the second quarter of 1998 primarily due to a decrease in total assets. As stated in earlier press releases, the Company deleveraged its balance sheet and increased liquidity by selling Mortgage Assets during the fourth quarter of 1998 in response to the global liquidity crisis. In addition, the Company is reserving $25.0 million of cash for the initial capitalization of its thrift and loan, see "Acquisition of California Industrial Thrift and Loan" above. As a result of the sale of Mortgage Assets, total assets decreased 24% to $1.6 billion at June 30, 1999 as compared to $2.1 billion at June 30, 1998 and the Company's ratio of debt to equity decreased to 5.37:1 at June 30, 1999 as compared to 7.29:1 at June 30, 1998. Total average Mortgage Assets decreased 20% to $1.6 billion during the second quarter of 1999 as compared to $2.0 billion during the second quarter of 1998, which in large part caused a 29% decrease in net interest income to $8.2 million as compared to $11.5 million, respectively. The yield on average Mortgage Assets during the second quarter of 1999 was 7.41% as compared to 8.39% during the second quarter of 1998. The net interest spread on Mortgage Assets was 1.25% for the second quarter of 1999 as compared to 1.70% during the second quarter of 1998. The decrease in yield and net interest spread on Mortgage Assets was due to higher prepayment rates, and correspondingly higher levels of premium amortization, on CMO collateral during the second quarter of 1999 as compared to the second quarter of 1998. Additionally, net earnings decreased during the second quarter of 1999 as compared to the second quarter of 1998 primarily due to an increase of $1.0 million in provision for loan losses, a decrease of $384,000 in equity in net earnings of IFC, and a decrease of $463,000 in equity in net earnings of Impac Commercial Holdings, Inc. ("ICH"), whose equity holding the Company sold during the fourth quarter of 1998.

Loan Loss Allowance

The Company's total allowance for loan losses expressed as a percentage of Gross Loan Receivables, which includes CMO collateral, finance receivables and loans held-for-investment, was 0.28% at June 30, 1999 as compared to 0.47% at December 31, 1998. The decrease in the allowance as a percentage of Gross Loan Receivables was due to the sale of delinquent loans and the reduction in delinquent loan balances in mortgage loans held-for-investment and CMO collateral, as well as an improved cure rate on delinquent loans. The Company recorded net loan loss provisions of $1.5 million during each of the first two quarters of 1999 as compared to $487,000 during the second quarter of 1998. 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.

Impac Funding Corporation

Loan Production

IFC continues to increase control over flow acquisitions through agreements with certain correspondents providing first right of refusal on their loan production. Additionally, IFC estimates that approximately 40% of new loan production as of the end of the second quarter of 1999 includes prepayment penalties, compared to less than 5% at the same time last year. Absent any external market conditions which may affect overall levels of loan production, IFC's correspondent agreements and increased levels of prepayment penalties should contribute to stability of earnings. IFC's flow acquisitions have increased each month during 1999 with June flow acquisitions higher than in any single month since September 1998, just prior to the global liquidity crisis which occurred last year. IFC's mortgage acquisitions increased 51% to $379.9 million during the second quarter of 1999, which included bulk acquisitions of $3.3 million, as compared to loan acquisitions of $251.8 million, which included bulk acquisitions of $13.7 million, during the first quarter of 1999. Loan acquisitions during the second quarter of 1998 were $665.5 million, which included bulk acquisitions of $203.7 million. Excluding bulk acquisitions, IFC's flow acquisitions were $376.6 million during the second quarter of 1999 as compared to $461.8 million during the second quarter of 1998. In addition, year-to-date loan production from the retail and wholesale loan divisions was $29.1 million as of June 30, 1999.

Servicing

IFC's servicing portfolio decreased 38% to $2.3 billion at June 30, 1999 as compared to $3.7 billion at December 31, 1998. IFC sold approximately $944.9 million of mortgages on a servicing released basis during the latter half of 1998 and an additional $158.3 million of mortgage loans sold on a servicing released basis during the first six months of 1999. The sale of these loans on a servicing released basis increased liquidity and reduced exposure to additional prepayment risk. The servicing portfolio had a weighted average coupon of 9.45% at June 30, 1999 as compared to a weighted average coupon of 9.47% at December 31, 1998. The weighted average coupon of the servicing portfolio at June 30, 1999 and December 31, 1998 includes a high concentration of second trust deed mortgage loans.

IFC Results of Operations

Second Quarter of 1999 compared to First Quarter of 1999

Net earnings during the second quarter of 1999 increased to $1.4 million as compared to net earnings of $1.1 million during the first quarter of 1999. Net earnings during the second quarter of 1999 increased as a result of an increase in gain on sale of loans, which was primarily due to a reduction of mark-to-market allowances of $4.1 million. The reduction of mark to market allowances during the second quarter of 1999 was partially offset by write-down on investment securities of $3.7 million. In addition, net earnings during the second quarter of 1999 were adversely affected by an increase of $823,000 in professional services. Total assets at March 31, 1999 decreased to $198.5 million as compared to $313.9 million at December 31, 1998, while shareholders' equity increased 29% to $16.6 million as compared to $12.9 million, respectively. In addition, liquidity improved as cash balances increased to $17.2 million at June 30, 1999 as compared to $422,000 at December 31, 1998. The increase in liquidity was primarily due to a cash infusion of $14.5 million from IMH in exchange for a note, which is reflected in due to affiliates on the financial statements. The cash infusion was completed in anticipation of the acquisition of the Bank. Liquidity also improved as of June 30, 1999 as a result of whole loan sales for cash during the first six months of 1999 as opposed to non-cash gains from asset-backed securitizations.

After exclusion of the $4.1 million reduction of mark-to-market allowances, gain on sale of loans increased to $5.4 million during the second quarter of 1999 as compared to $5.0 million during the first quarter of 1999. IFC sold mortgages totaling $276.8 million to third party investors during the second quarter of 1999 as compared to loan sales of $163.0 million during the first quarter of 1999. Of the third party loan sales during the second quarter of 1999, IFC sold $45.7 million of loans on a servicing released basis as compared to $112.6 million of loans sold on a servicing released basis during the first quarter of 1999. IFC also sold $88.8 million of mortgages to IMH during the second quarter of 1999 as compared to $204.3 million of mortgage loans sold during the first quarter of 1999. IFC's deferred income from sale of mortgage loans to IMH was $10.9 million at June 30, 1999. Additionally, net earnings during the second quarter of 1999 were adversely affected by an increase of $823,000 in professional services to $957,000 as compared to $134,000 during the first quarter of 1999. This increase was primarily related to non-reimbursable expenses from the retail and wholesale lending divisions that began operations in early 1999.

Loss on Investment Securities

During the second quarter of 1999, the Company recorded a pre-tax impairment charge of $3.7 million, or $0.13 per diluted common share, on its Franchise Mortgage Acceptance Corporation ("FMAC", NASDAQ-FMAX) Series 1996-B Class E and Certificate investment securities. The charge represents a total write-off of the securities' book value. The write-off was due to the restructuring of one of the underlying mortgage loans in the amount of approximately $64 million to $50 million. Subsequent to the end of the second quarter of 1999, the Company received notice for the first time that a problem with the underlying loan required the restructuring and resulted in the write-off. Furthermore, the Company currently owns the related Class D investment security which, due to the foregoing restructuring, is now may be more exposed to the risk of loss should there be any further write-downs or losses on the related mortgage loans. The Company has engaged independent counsel to investigate the restructuring and whether any breach of representations or warranties within the context of the origination and the securitization of the loan occurred. Although the Company is not yet in a position to evaluate whether any breaches of representations or warranties or other violations occurred, the Company intends to vigorously pursue any legal remedies that may be available.

IFC Results of Operations

Second Quarter of 1999 compared to Second Quarter of 1998

Net earnings for the second quarter of 1999 decreased to $1.4 million as compared to $1.8 million for the second quarter of 1998 primarily as net interest income decreased to $363,000 as compared to $1.3 million, respectively. Net interest income decreased as average mortgage loans held-for-sale decreased to $211.2 million during the second quarter of 1999 as compared to $401.7 million during the second quarter of 1998. As stated in earlier press releases, IFC sold mortgage loans during the fourth quarter of 1998 in response to the global liquidity crisis and during 1999 began selling whole loans on a more frequent basis as opposed to accumulation for securitization, which has decreased average mortgage loans held-for-sale during 1999.

The Company is a mortgage loan finance company that invests primarily in non-conforming 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 and originates primarily non-conforming mortgage loans and to a lessor extent, second mortgages, from a network of third party correspondent loan originators and mortgage brokers 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.

Balance Sheet

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