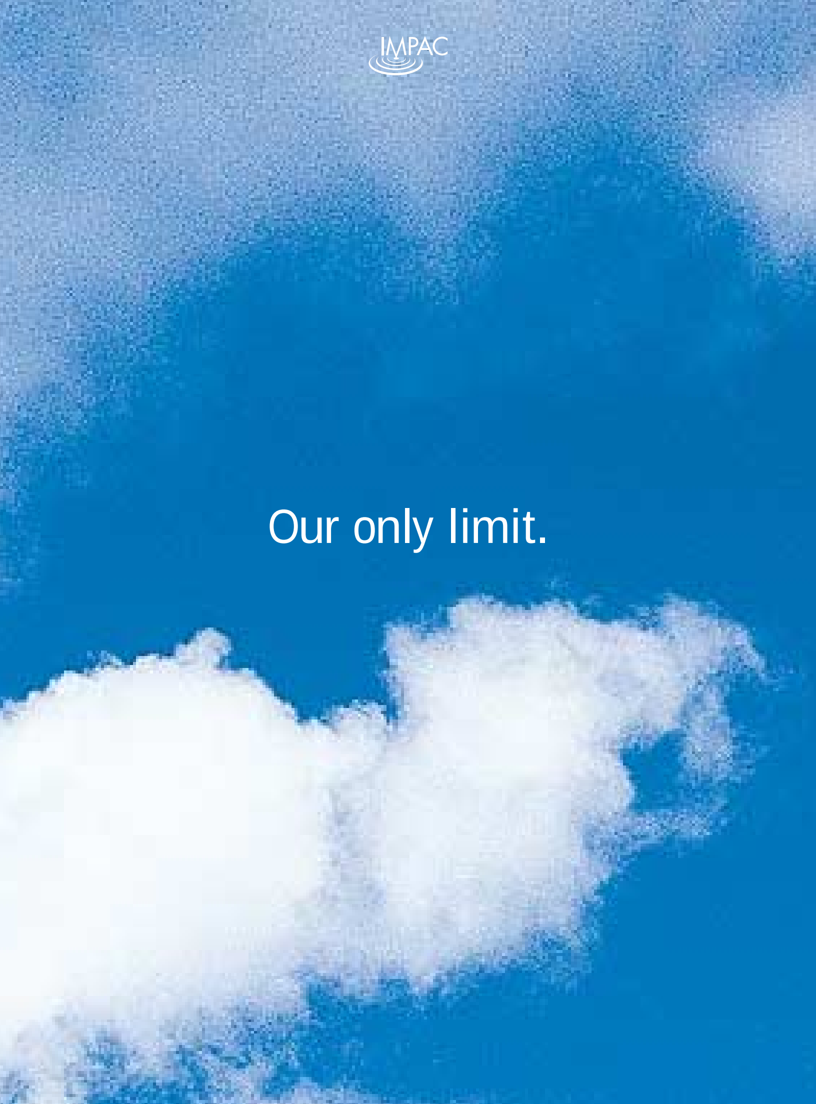
IMPAC
Our only limit.

In 2001,
through our
dedication,
experience
and resources,
we built a better
company for our
shareholders
and employees.

By minimizing volatility and maximizing the potential of our core businesses, we've positioned ourselves for consistent long-term growth. Now, it seems, the sky is our only limit.

This is a
small book with
a big story to tell
and even bigger
numbers to show.

Impac Mortgage Holdings, Inc. ("Impac" or "the Company") is a mortgage Real Estate Investment Trust "REIT" which operates three businesses: (1) the Long-Term Investment Operations, (2) the Mortgage Operations, and (3) the Warehouse Lending Operations. The Long-Term Investment Operations invests primarily in non-conforming Alt-A mortgage loans. The Mortgage Operations acquires, originates, sells and securitizes primarily non-conforming Alt-A mortgage loans, and the Warehouse Lending Operations provides short-term financing to originators of mortgage loans. The Company is organized as a REIT for tax purposes, which allows it generally to pass through earnings to stockholders without federal income tax at the corporate level.

A book about
Impac Mortgage
Holdings, Inc.
A Company that
had a vision and
a goal, made
some tough
decisions and
followed through
in every way.
A Company
and a year with
many triumphs
to talk about.

In 2001, we took steps to maximize the potential of our core businesses: the Long-Term Investment Operations, the Mortgage Operations, and the Warehouse Lending Operations. As the numbers show, we emerged a stronger and more profitable organization.

Our Long-Term Investment Operations invests primarily in non-conforming Alt-A mortgage loans and generates income based on the difference between the interest it earns on its investment portfolio and the expenses associated with its financing.

# We've expanded our businesses

## increased transactions

Over the past year, our Long-Term Investment Operations increased its mortgage acquisitions by 232 percent. It acquired $1.5 billion of primarily adjustable-rate non-conforming Alt-A mortgages from our Mortgage Operations in 2001 as compared to $450.7 million acquired during the previous year which resulted in the balance sheet growing to an all time high of $2.9 billion at year end.

The Long-Term Investment Operations is focused on providing consistent and reliable cash flows in changing interest rate environments. Our non-conforming Alt-A mortgage loans have historically had low annualized loss rates with prepayment penalty features mitigating the effect of early refinancing activity. Non-conforming Alt-A mortgage loans consist primarily of first lien mortgage loans made to borrowers whose credit is generally within Fannie Mae or Freddie Mac guidelines, but have loan characteristics, such as lack of documentation or verifications, which make them ineligible under their guidelines.

Our Mortgage Operations generates income by securitizing and selling primarily non-conforming Alt-A mortgage loans to permanent investors, including our Long-Term Investment Operations. It also earns revenues from fees associated with mortgage servicing rights, master service agreements, and interest income earned from loans held-for-sale.

With net earnings up $12.8 million and a 52 percent increase in loan production over the previous year, our Mortgage Operations had an outstanding year in 2001. We saw the continued reduction in our per loan acquisition and origination costs, as a result of the increased efficiency of our centralized operations and technology initiatives. We also benefited from the expansion of our wholesale lending business. Wholesale originations in 2001 were 25% of overall loan production as compared to 13% in 2000. Wholesale originations reduce the overall weighted average premium we pay for mortgage loans and increase profitability upon the subsequent sale.

Our Warehouse Lending Operations provides short-term financing to loan originators. Through this operation, we fund mortgage loans from their closing date until they are sold to pre-approved investors. A consistent contributor to the Company's overall earnings, again this year the Warehouse Lending Operation's performance remained strong. Thanks to our automation initiatives completed during the year, it increased its average finance receivables to non-affiliates by 53% in 2001 -$205.5 million as compared to $134.7 million in 2000.

# We've MINIMIZED our volatility

Over the past year, we have made significant efforts to minimize risk in order to maximize consistency of earnings and dividends.

minimized

vola

To create a more consistent and reliable income stream from our Long-Term Investment Operations, we finance our long term borrowings with collateralized mortgage obligations (CMO's). In addition, we have acquired various financial instruments to hedge and protect our net interest margins against changes in short term interest rates. As a result of this hedging policy, we have given up some of the potential gain from further rate reductions in order to generate more consistent earnings in various rising interest rate scenarios.

To mitigate the effect of early payoffs or runoff aggravated by declining interest rates, we continue to acquire adjustable rate non-conforming Alt-A mortgage loans with prepayment penalty features. By year-end 2001, 54% of our CMO portfolio had prepayment penalties as compared to 36% at year end 2000. Furthermore, with as much as 65% of 2001 loan production having prepayment penalties in conjunction with similar trends for 2002, we expect continued increases in the percentage of loans in our investment portfolio with prepayment penalties.

# tility

Minimizing credit risk has been a key objective for us in 2001. Impac's primary defense against credit loss is in its strategy to invest in non-conforming Alt-A mortgage loans that were acquired from, or originated by, our Mortgage Operations and which have shown superior historical performance. At year end 2001, the Company's investment portfolio was approximately 95% Alt-A credit with an average loan size of approximately $179,000 and an average loan to value of 83%.

Furthermore, in light of the uncertainty in the economic environment, over the past year we felt it was prudent to increase our allowance for loan losses to $11.7 million or 43 basis points of the portfolio as compared to $5.1 million or 28 basis points of the portfolio in 2000.

The healthy credit characteristics of Impac's portfolio and the substantial increase in provision for loan losses should insulate the Company from significant credit quality erosion.

During 2001, Impac once again proved itself to be a low cost operation that can take advantage of market opportunities.

Through its centralized operating platform, the Company can react quickly to changing market conditions and competitive environments with minimal increases of resources and personnel. As a result, we have developed an impressive track record for being able to adjust product mix to take advantage of current market conditions and to react to the demands of our customers.

We've **ENHANCED** our

# EFFICIENCIES

# enhanced

To accomplish this not only requires keen observation, deep experience, and the ability to move quickly, but it also requires the scalability, quality control and cost efficiencies afforded us by our streamlined centralized operations.

During 2001, we continued to implement technology initiatives to increase efficiencies and enhance our competitive advantage. Our proprietary Web-based system, Impac Direct Access System for Lending ("IDASL") now automates the entire underwriting process, enabling our customers to pre-qualify borrowers for various loans, lock-in loan rates, receive automated loan approval decisions, and if necessary, obtain mortgage insurance approvals. The system is also being expanded under a new name IDASL Gen2. With an expected launch in Fall of 2002, the new system will provide improved functionality and reporting capabilities, automated loan level pricing and further improved response times.

IDASL allows for broader access to markets nationwide, and provides us with a low-cost centralized operating network with which to expand geographically. In addition, and perhaps more importantly, it improves our customer relationships and enhances client satisfaction with faster approval process that results from the automated system.

Virtually all of our correspondents are underwriting loans through IDASL and 100% of all wholesale loans delivered by brokers are directly underwritten through IDASL. This technology continues to enable us to expand and grow our loan volume, improve margins and lower the cost of originations. Competitively-speaking, it also serves as a barrier of entry to those who may not have the capital, resources or experience to build such a system themselves.

# EFFICIENCIES

# We've become More CONSISTENT

At Impac, we understand that consistency of performance is important. Over the past year, we have taken significant steps to ensure our consistency.

# More CONSISTENT

A strong balance sheet has become the cornerstone of our consistent performance. The Company has focused on investing primarily in its own high credit quality, non-conforming Alt-A adjustable rate mortgages and funding them through collateralized mortgage obligations ("CMOs"). We have also invested in various financial instruments that will help insulate the Company to maintain its net interest margins from rising interest rates. Furthermore, Impac continues to require prepayment penalties which mitigate the adverse affect of refinancing activity.

To reduce our exposure to interest rate risk and pricing volatility during the accumulation period of our loans, the Company securitizes more frequently. Loans are generally sold servicing released and recorded as cash gains, which provide additional liquidity that can be deployed in our operations.

As a result of all of these measures coupled with more aggressive reserve building, we believe Impac is better positioned than ever before to deliver more consistent performance for the foreseeable future.

Finally, consistency of performance is greatly enhanced by quality and longevity of management. Impac's executive management team has been directing the Company's mortgage operations since 1992, and the majority of senior management has been with the organization for seven years or more – an astounding accomplishment given the highly competitive and dynamic nature of the mortgage banking industry. This accounts for our ability to chart a course and stay with it, which is paying off with the impressive results we have been able to achieve over the past year.

# We continue to enhance our creativity

Impac was among the first companies to focus on non-conforming Alt-A mortgages, those not currently meeting the stringent purchase guidelines of government-sponsored entities such as Freddie Mac and Fannie Mae. Since 1995, we have become a dominant force in the non-conforming Alt-A mortgage market. We believe that Alt-A non-conforming investment grade loans provide an attractive net earnings profile, producing higher yields without commensurately higher credit risk.

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We have become a leader in our markets by embracing innovation in everything we do as a company, starting with questioning the basic assumptions of making mortgage loans. We have maintained our strong presence by continuing to deliver innovative products that marry the needs of our customers with those of the secondary market investors.

Our legacy of innovation began with our SMART series loan products, which provided mortgage originators across the country with among the first loan programs designed to compete directly with the traditional portfolio lenders, banks and thrifts. Among our most innovative products ever is our Progressive Express™ Series, with a streamlined application, no income or asset verification requirement and same-day credit approval, based on the borrower's credit score, an electronic evaluation of past and present accounts on the borrower's credit bureau report.

At Impac, innovation is fueled by a corporate culture and flat management structure that support proactive, "self" thinking. Our employees are among the best in the industry, because we do everything we can to nurture their commitment and dedication at every level of our business. More important, we give them the authority to make decisions and take ownership of their actions. We believe it is this commitment to personal empowerment that is responsible for the longer tenures, increased efficiencies and innovative ideas that are the norm in our Company.

Our Company is always looking for new ways to better serve and command a growing share of the non-conforming Alt-A mortgage loan industry – and to complete transactions faster and easier. Our products will continue to meet a wide spectrum of borrowers' needs, and provide more profitable alternatives for our customers, and ultimately deliver consistent and reliable earnings for our shareholders.

# *Letter to* SHAREHOLDERS

**Last year was an overwhelming success for us.** We set out to implement a business plan that would allow us to improve profitability, reduce volatility of earnings and position ourselves for future growth. We are pleased to announce that we executed the plan flawlessly. We grew the balance sheet during 2001, by $1.0 billion to an all-time high of $2.9 billion with high quality non-conforming Alt-A mortgage loans from our Mortgage Operations. Our net income in 2001 increased impressively to $33.2 million as compared to a loss in 2000, our taxable income increased to $46.4 million and we declared common stock dividends of $0.69 per common share.

## A year of sizeable accomplishments.

Looking back, there is a great deal of accomplishments to be proud of. We caused conversion of all of our outstanding preferred stock to common stock. We retired our senior subordinated debt more than two years before maturity. We completed a record number of 12 mortgage securitizations or $3.2 billion. We resumed the regular payment of common stock dividends, six months ahead of schedule. We raised additional capital by selling 5.1 million new shares of common stock. We increased our allowance for loan losses by 129% to $11.7 million and increased loan production by 52% over the prior year. And Impac ended the year with combined available liquidity of $37.9 million.

If there was one word to describe our results in 2001, it would have to be consistency. We focused on growing our balance sheet, minimizing interest rate risk, strengthening the credit quality of our portfolio, and developing a steadier stream of income. Here, too, we made impressive gains. As a result of our increased loan production and acquisitions, the size and credit quality of our Long-Term Investment portfolio has improved dramatically. Today, 95% or $2.1 billion of the Company's CMO collateral is high credit quality, Alt-A nonconforming mortgages with an average credit score of 678 as compared to 90% or $1.3 billion and 675 for last year, respectively. Scores above 640 are considered "A" quality.

As a result of the performance of our Alt-A mortgage loans, credit rating agencies are requiring us to invest less capital in our securities, allowing the Company to utilize more leverage. Consequently, we have been successful in growing the balance sheet with more efficient use of capital. To minimize volatility in our earnings from changes in interest rates, we maintained stringent risk management policies. To reduce the effect of refinancing activity during decreasing interest rate environments, the Company continues to acquire adjustable rate non-conforming Alt-A mortgages with prepayment penalties and pays reduced premiums for loans. Furthermore, the Company purchases various financial instruments to hedge and protect our net interest margins against rising short- term interest rates.

As a result of these measures, we believe our Long-Term Investment portfolio will provide a more consistent and reliable income stream despite changes in interest rates.

## Looking Ahead

We remain committed to the same initiatives we carried out so successfully in 2001. We will continue to offer innovative, non-conforming Alt-A loan programs and operate under a low cost model with our centralization strategy being a key component in our ability to efficiently and effectively scale our operations up or down. We will also continue to sustain stringent standards for maintaining high credit quality and reduced interest rate risk.

In 2002, we expect the Long-Term Investment Portfolio to grow to $3.7 billion, investing only in loan products originated or acquired by our Mortgage Operations. We intend to continue to grow our Mortgage Operations, with special focus on the expansion of the wholesale lending division. This area grew significantly in 2001 and continues to offer tremendous opportunity for us because it allows us to get closer to the customer, which lends itself to lower premiums and greater profitability. At the same time, we plan to expand our Warehouse Lending Operations which has a been a consistent contributor to earnings.

In closing, on behalf of the Board and our entire executive management team, we want to thank our shareholders for their continued support and to express our renewed commitment to growing this Company for years to come. We have made enormous strides this year, and we plan to continue this momentum in the future.

Respectfully yours,

**Joseph R. Tomkinson**
Chairman and Chief Executive Officer

William S Ashmore

**William S. Ashmore**
President and Chief Operating Officer

# Financial Highlights

| For the year ended December 31, *( in thousands, except per share data )* | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Total Assets | $ 2,854,734 | $ 1,898,838 | $ 1,675,430 | $ 1,665,504 | $ 1,752,812 |
| Net Earnings | $ 33,178 | $ (54,233) | $ 22,317 | $ (5,933) | $ 28,346 (1) |
| Revenues | $ 173,994 | $ 149,592 | $ 126,360 | $ 150,119 | $ 119,859 |
| Diluted Earnings Per Share | $ 1.19 | $ (2.70) | $ 0.76 | $ (0.25) | $ 1.74 (1) |
| Dividends Declared Per Share | $ 0.69 | 0.36 | $ 0.48 | $ 1.46 | $ 1.68 |
| Return on Equity | 17.40% | (27.04)% | 9.29% | (2.48)% | 17.38% (1) |
| Return on Assets | 1.48% | (2.93)% | 1.38% | (0.29)% | 2.07% (1) |
| Diluted Book Value Per Share (2) | $ 6.35 | $ 6.67 | $ 8.60 | $ 8.22 | $ 10.16 |
| Market Capitalization | $ 272,017 | $ 78,959 | $ 114,636 | $ 139,618 | $ 403,000 |
| Fully Diluted Shares Outstanding (3) | 27,952 | 26,766 | 27,757 | 30,618 | 22,546 |

*(1) Net earnings and earnings per share are stated before a non-recurring charge related to the buyout of the Company's management agreement on December 19, 1997.*

*(2) Diluted Book Value per share calculated assuming conversion of the Company's Cumulative Convertible Preferred Stock into common stock.*

*(3) All references to outstanding shares and earnings per share data give retroactive effect to the Company's 3 for 2 common stock split effective November 24, 1997.*

# Selected Consolidated Financial Data

| Year Ended December 31, *( in thousands, except per share data )* | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| **Statement of Operations Data:** | | | | | |
| Net interest income: | | | | | |
| Total interest income | $ 156,615 | $ 147,079 | $ 119,458 | $ 163,658 | $ 109,533 |
| Total interest expense | 112,012 | 124,096 | 89,795 | 121,695 | 76,577 |
| Net interest income | 44,603 | 22,983 | 29,663 | 41,963 | 32,956 |
| Provision for loan losses | 16,813 | 18,839 | 5,547 | 4,361 | 6,843 |
| Net interest income after loan loss provision | 27,790 | 4,144 | 24,116 | 37,602 | 26,113 |
| Non-interest income: | | | | | |
| Equity in net earnings (loss) of IFC | 10,912 | (1,762) | 4,292 | (13,876) | 8,316 |
| Equity in net loss of ICH | – | – | – | (998) | (239) |
| Loss on sale of mortgage loans | – | – | – | (3,111) | – |
| Gain on sale of securities | – | – | 93 | 427 | 648 |
| Other income | 6,467 | 4,275 | 2,517 | 4,019 | 1,601 |
| Total non-interest income | 17,379 | 2,513 | 6,902 | (13,539) | 10,326 |
| Non-interest expense: | | | | | |
| Write-down on securities available-for-sale | 2,217 | 53,576 | 2,037 | 14,132 | – |
| General and administrative and other operating expense | 4,330 | 7,314 | 6,664 | 6,788 | 1,851 |
| Mark to market loss - SFAS 133 | 3,821 | – | – | – | – |
| Loss on equity investment of ICH | – | – | – | 9,076 | – |
| Advisory fees | – | – | – | – | 6,242 |
| Termination agreement expense | – | – | – | – | 44,375 |
| Total non-interest expense | 10,368 | 60,890 | 8,701 | 29,996 | 52,468 |
| Cumulative effect of change in accounting principle and extraordinary item | $ (1,623) | $ – | $ – | $ – | $ – |
| Net earnings (loss) | $ 33,178 | $ (54,233) | $ 22,317 | $ (5,933) | $ (16,029) |
| Net earnings (loss) per share – basic | $ 1.34 | $ (2.70) | $ 0.83 | $ (0.25) | $ (0.99) |
| Net earnings (loss) per share – diluted | $ 1.19 | $ (2.70) | $ 0.76 | $ (0.25) | $ (0.99) |
| Dividends declared per share | $ 0.69 | $ 0.36 | $ 0.48 | $ 1.46 | $ 1.68 |
| Net earnings (loss) per share before management termination expense (1) | $ 1.19 | $ (2.70) | $ 0.76 | $ (0.25) | $ 1.74 |

*(1) Per share amounts exclude the effect of expenses related to the termination in December 1997 (the "Termination Agreement Expense") of the Company's Management Agreement with Imperial Credit Advisors, Inc. ("ICAI"), an affiliate of Imperial Credit Industries, Inc. ("ICII").*

## Selected Consolidated Financial Data

| At December 31, *( in thousands )* | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| **Balance Sheet Data:** | | | | | |
| Investment securities available-for-sale | $ 32,989 | $ 36,921 | $ 93,206 | $ 93,486 | $ 67,011 |
| Mortgage loans held-for-investment and CMO collateral | 2,249,246 | 1,389,716 | 1,313,112 | 1,181,847 | 1,052,610 |
| Finance receivables | 466,649 | 405,438 | 197,119 | 311,571 | 533,101 |
| Investment in Impac Funding Corporation | 19,126 | 15,762 | 17,372 | 13,246 | 27,122 |
| Investment in Impac Commercial Holdings, Inc | – | – | – | – | 17,985 |
| Total assets | 2,854,734 | 1,898,838 | 1,675,430 | 1,665,504 | 1,752,812 |
| CMO borrowings | 2,151,400 | 1,291,284 | 850,817 | 1,072,316 | 741,907 |
| Reverse repurchase agreements | 469,491 | 398,653 | 539,687 | 323,625 | 755,559 |
| Total liabilities | 2,651,369 | 1,720,398 | 1,436,586 | 1,413,898 | 1,523,782 |
| Total stockholders' equity | 203,365 | 178,440 | 238,844 | 251,606 | 229,030 |

## Corporate Officers & Directors

**Joseph R. Tomkinson**
Chairman of the Board
and Chief Executive Officer

**William S. Ashmore**
Director, President
and Chief Operating Officer

**Richard J. Johnson**
Executive Vice President,
Chief Financial Officer

**Ronald Morrison**
General Counsel,
Corporate Secretary

**Gretchen Verdugo**
Executive Vice President

**James Walsh**
Director
Managing Director,
Sherwood Trading &
Consulting Corporation

**Frank P. Filipps**
Director
Chairman and Chief
Executive Officer,
Radian Group, Inc.

**Stephen R. Peers**
Director
Managing Director,
Sandler, O'Neill & Partners LP

**William E. Rose**
Director
Managing Director,
HBK Investments LP

**Leigh Abrams**
Director,
Chief Executive
Officer and President,
Drew Industries Inc.

## Corporate Information

**Corporate Information**
Common Stock Listing
American Stock
Exchange Symbol: IMH

**Transfer Agent**
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40 Wall Street
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(800) 937 5449

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Tania Jernigan,
Vice President, Investor Relations
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**Web Site**
Please visit our web site at
www.impaccompanies.com
to obtain information on the
Company and its subsidiaries.

**Form 10K**
A copy of the Company's
annual report on Form 10K
as filed with the Securities
and Exchange Commission
is available to stockholders
without charge by contacting
the Company's investor
relations department or by
accessing our web site at
www.impaccompanies.com.

## Forward Looking Statements

This 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”, “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, product demand, general financial markets and economic conditions, state and federal regulations and other risks as described under “Business Risk Factors” in our Form 10K provided herein and as filed with the Securities and Exchange Commission. The financial information presented in this document 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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