

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 1999

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____

Commission File Number: 0-19861

Impac Mortgage Holdings, Inc.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

33-0675505
(I.R.S. Employer
Identification No.)

1401 Dove Street
Newport Beach, CA
(Address of Principal Executive Offices)

92660
(Zip Code)

Registrant's telephone number, including area code: (949) 475-3600

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------|--|
|---------------------|--|

| | |
|-------------------------------|-------------------------|
| Common Stock \$0.01 par value | American Stock Exchange |
|-------------------------------|-------------------------|

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

On May 12, 1999 the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$122.2 million, based on the closing sales price of the Common Stock on the American Stock Exchange. For purposes of the calculation only, in addition to affiliated companies, all directors and executive officers of the registrant have been deemed affiliates. The number of shares of Common Stock outstanding as of May 12, 1999 was 22,725,770.

Documents incorporated by reference: None

IMPAC MORTGAGE HOLDINGS, INC.
1999 FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

| | March 31, 1999 | December 31, 1998 |
|---|----------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents..... | \$ 15,574 | \$ 33,876 |
| Investment securities available-for-sale..... | 104,373 | 93,486 |
| Loan Receivables: | | |
| CMO collateral..... | 1,217,289 | 1,161,220 |
| Finance receivables..... | 200,191 | 311,571 |
| Mortgage loans held-for-investment..... | 53,030 | 20,627 |
| Allowance for loan losses..... | (5,970) | (6,959) |
| Net loan receivables..... | 1,464,540 | 1,486,459 |
| Investment in Impac Funding Corporation..... | 14,336 | 13,246 |
| Other real estate owned..... | 10,559 | 8,456 |
| Accrued interest receivable..... | 10,521 | 10,039 |
| Due from affiliates..... | 10,142 | 17,904 |
| Other assets..... | 1,982 | 2,038 |
| Total assets..... | \$ 1,632,027 | \$ 1,665,504 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CMO borrowings..... | \$ 1,112,376 | \$ 1,072,316 |
| Reverse repurchase agreements..... | 255,047 | 323,625 |
| Senior subordinated debentures..... | 6,448 | -- |
| Due to affiliates..... | 4,752 | 2,670 |
| Accrued dividends payable..... | 3,156 | 12,129 |
| Other liabilities..... | 2,500 | 3,158 |
| Total liabilities..... | 1,384,279 | 1,413,898 |
| Stockholders' Equity: | | |
| Preferred stock; \$.01 par value; 6,300,000 shares authorized; none issued or outstanding at March 31, 1999 and at December 31, 1998, respectively..... | -- | -- |
| Series A junior participating preferred stock, \$.01 par value; 2,500,000 shares authorized; none issued and outstanding at March 31, 1999 and December 31, 1998, respectively..... | -- | -- |
| Series B 10.5% cumulative convertible preferred stock, \$.01 par value; liquidation value \$30,000; 1,200,000 shares authorized; 1,200,000 issued and outstanding at March 31, 1999 and December 31, 1998, respectively..... | 12 | 12 |
| Common stock; \$.01 par value; 50,000,000 shares authorized; 22,725,567 and 24,557,657 shares issued and outstanding at March 31, 1999 and at December 31, 1998, respectively..... | 227 | 246 |
| Additional paid-in capital..... | 333,388 | 342,945 |
| Accumulated other comprehensive earnings (loss)..... | 930 | (1,736) |
| Notes receivable from common stock sales..... | (905) | (918) |
| Accumulated deficit: | | |
| Cumulative dividends declared..... | (82,332) | (79,176) |
| Accumulated deficit..... | (3,572) | (9,767) |
| Net accumulated deficit..... | (85,904) | (88,943) |
| Total stockholders' equity..... | 247,748 | 251,606 |
| Total liabilities and stockholders' equity..... | \$ 1,632,027 | \$ 1,665,504 |

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE EARNINGS

(in thousands, except per share data)

| | For the Three Months Ended March 31, | |
|--|---|-----------|
| | 1999 | 1998 |
| INTEREST INCOME: | | |
| Mortgage assets..... | \$ 29,687 | \$ 37,861 |
| Other interest income..... | 712 | 708 |
| | ----- | ----- |
| Total interest income..... | 30,399 | 38,569 |
| INTEREST EXPENSE: | | |
| CMO borrowings..... | 17,081 | 16,029 |
| Reverse repurchase agreements..... | 4,827 | 12,044 |
| Senior subordinated debentures..... | 7 | -- |
| Other borrowings..... | 238 | 728 |
| | ----- | ----- |
| Total interest expense..... | 22,153 | 28,803 |
| Net interest income..... | 8,246 | 9,766 |
| Provision for loan losses..... | 1,499 | 1,904 |
| | ----- | ----- |
| Net interest income after provision for loan losses..... | 6,747 | 7,862 |
| NON-INTEREST INCOME: | | |
| Equity in net earnings of Impac Funding Corporation..... | 1,090 | 2,156 |
| Equity in net earnings of Impac Commercial Holdings, Inc..... | -- | 378 |
| Servicing fees..... | 466 | 314 |
| Other income..... | 154 | 514 |
| | ----- | ----- |
| Total non-interest income..... | 1,710 | 3,362 |
| NON-INTEREST EXPENSE: | | |
| Professional services..... | 811 | 343 |
| (Gain) loss on sale of other real estate owned..... | 551 | (692) |
| Write-down on investment securities available-for-sale..... | 422 | -- |
| General and administrative and other expense..... | 359 | 361 |
| Personnel expense..... | 119 | 108 |
| | ----- | ----- |
| Total non-interest expense..... | 2,262 | 120 |
| Net earnings..... | 6,195 | 11,104 |
| Less: Cash dividends on Series B 10.5% cumulative convertible preferred stock..... | (888) | -- |
| | ----- | ----- |
| Net earnings available to common stockholders..... | 5,307 | 11,104 |
| Other comprehensive earnings: | | |
| Unrealized gains (losses) on securities: | | |
| Unrealized holding gains (losses) arising during period..... | 2,715 | (15) |
| Reclassification of realized gain (losses) included in earnings..... | (49) | -- |
| | ----- | ----- |
| Net unrealized gains (losses) arising during period..... | 2,666 | (15) |
| | ----- | ----- |
| Comprehensive earnings..... | \$ 4,501 | \$ 11,089 |
| | ===== | ===== |
| Net earnings per share--basic..... | \$ 0.22 | \$ 0.48 |
| Net earnings per share--diluted..... | \$ 0.20 | \$ 0.48 |

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | For the Three Months Ended March 31, | |
|---|---|-----------|
| | 1999 | 1998 |
| Cash flows from operating activities: | | |
| Net earnings.....\$ | 6,195 | \$ 11,104 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Equity in net earnings of Impac Funding Corporation..... | (1,090) | (2,156) |
| Equity in net earnings of Impac Commercial Holdings, Inc..... | -- | (378) |
| Provision for loan losses..... | 1,499 | 1,904 |
| Depreciation and amortization..... | -- | 54 |
| Loss (gain) on sale of other real estate owned..... | 551 | (692) |
| Write-down of investment securities available-for-sale..... | 422 | -- |
| Net change in accrued interest receivable..... | (482) | 1,098 |
| Net change in other assets and liabilities..... | 9,079 | 17,718 |
| | 16,174 | 28,652 |
| Cash flows from investing activities: | | |
| Net change in CMO collateral..... | (56,377) | (546,076) |
| Net change in finance receivables..... | 111,219 | 223,092 |
| Net change in mortgage loans held-for-investment..... | (38,632) | 100,156 |
| Proceeds from sale of other real estate owned, net..... | 1,556 | 3,058 |
| Purchase of investment securities available-for-sale..... | (9,084) | (24,094) |
| Net principal reductions on investment securities available-for-sale..... | 441 | 1,236 |
| Purchase of premises and equipment..... | -- | (70) |
| | 9,123 | (243,390) |
| Cash flows from financing activities: | | |
| Net change in reverse repurchase agreements..... | (68,578) | (290,596) |
| Proceeds from CMO borrowings..... | 186,140 | 582,195 |
| Repayments of CMO borrowings..... | (146,080) | (78,468) |
| Dividends paid..... | (12,129) | (10,371) |
| Proceeds from exercise of stock options..... | -- | 80 |
| Repurchase of common stock..... | (3,874) | -- |
| Proceeds from dividend reinvestment and stock purchase plan..... | 909 | 16,803 |
| Advances to purchase common stock, net of principal reductions..... | 13 | 84 |
| | (43,599) | 219,727 |
| Net change in cash and cash equivalents..... | (18,302) | 5,681 |
| Cash and cash equivalents at beginning of period..... | 33,876 | 16,214 |
| | 15,574 | 21,895 |
| Supplementary information: | | |
| Interest paid.....\$ | 22,787 | \$ 30,291 |
| Non-cash transactions: | | |
| Exchange of common stock for 11% senior subordinated debentures.....\$ | 6,448 | \$ -- |
| Dividends declared and unpaid..... | 3,156 | 11,332 |
| Increase in accumulated other comprehensive earnings (loss)..... | 2,166 | (15) |
| Loans transferred to other real estate owned..... | 4,210 | 1,853 |

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. and SUBSIDIARIES
Notes to Consolidated Financial Statements
(unaudited)

Unless the context otherwise requires, references herein to the "Company" refer to Impac Mortgage Holdings, Inc. (IMH) and its subsidiaries, IMH Assets Corporation (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), IMH/ICH Dove St., LLC (Dove), and Impac Funding Corporation (together with its wholly-owned subsidiary, Impac Secured Assets Corporation, IFC), collectively. References to IMH refer to Impac Mortgage Holdings, Inc. as a separate entity from IMH Assets, IWLG, Dove and IFC.

1. Basis of Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

The operations of IMH have been presented in the consolidated financial statements for the three months ended March 31, 1999 and 1998 and include the financial results of IMH's equity interest in net earnings of IFC, IMH's equity interest in net earnings of Impac Commercial Holdings, Inc. (ICH) and results of operations of IMH, IMH Assets, IWLG and Dove only as stand-alone entities. Equity interest in net earnings of Impac Commercial Holdings, Inc. and financial results for Dove are for 1998 only.

The results of operations of IFC, of which 99% of the economic interest is owned by IMH, are included in the results of operations of the Company as "Equity in net earnings of Impac Funding Corporation." The results of operations of ICH, of which 9.8% of ICH's common stock was owned by IMH prior to the sale of ICH common stock on October 21, 1998, are included in the results of operations of IMH as "Equity in net earnings of Impac Commercial Holdings, Inc."

2. Organization

The Company is a mortgage loan finance company which, together with its subsidiaries and related companies, primarily operates three businesses: (1) the Long-Term Investment Operations, (2) the Conduit Operations, and (3) the Warehouse Lending Operations. The Long-Term Investment Operations invests primarily in non-conforming residential mortgage loans and securities backed by such loans. The Conduit Operations purchases and sells or securitizes primarily non-conforming mortgage loans. The Warehouse Lending Operations provides warehouse and repurchase financing to originators of mortgage loans. IMH is organized as a real estate investment trust (REIT) for federal income tax purposes, which generally allows it to pass through qualified income to stockholders without federal income tax at the corporate level, provided that the Company distributes 95% of its taxable income to common stockholders.

Long-Term Investment Operations. The Long-Term Investment Operations, conducted by IMH and IMH Assets, invests primarily in non-conforming residential mortgage loans and mortgage-backed securities secured by or representing interests in such loans and, to a lesser extent, in second mortgage loans. Non-conforming residential mortgage loans are residential mortgages that do not qualify for purchase by government-sponsored agencies such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The principal differences between conforming loans and non-conforming loans include applicable loan-to-value ratios, credit and income histories of the mortgagors, documentation required for approval of the mortgagors, type of properties securing the mortgage loans, loan sizes, and the mortgagors' occupancy status with respect to the mortgaged properties. Second mortgage loans are mortgage loans secured by a second lien on the property and made to borrowers owning single-family homes for the purpose of debt consolidation, home improvements, education and a variety of other purposes.

Conduit Operations. The Conduit Operations, conducted by IFC, purchases primarily non-conforming mortgage loans and, to a lesser extent, second mortgage loans from its network of third party correspondents and other sellers, IFC subsequently securitizes or sells such loans to permanent investors, including the Long-Term Investment Operations. IMH owns 99% of the economic interest in IFC, while Joseph R. Tomkinson, Chairman and Chief Executive Officer, William S. Ashmore, President and Chief Operating Officer, and Richard J. Johnson, Executive Vice President and Chief Financial Officer, are the holders of all the outstanding voting stock of, and 1% of the economic interest in, IFC.

Warehouse Lending Operations. The Warehouse Lending Operations, conducted by IWLG, provides warehouse and repurchase financing to affiliated companies and to approved mortgage banks, most of which are correspondents of IFC, to finance mortgage loans during the time from the closing of the loans to their sale or other settlement with pre-approved investors.

3. Summary of Significant Accounting Policies

Method of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from those estimates.

Reclassifications

Certain amounts in the consolidated financial statements as of and for the three months ended March 31, 1998 have been reclassified to conform to the 1999 presentation.

New Accounting Statements

In October 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held-for-sale by a Mortgage Banking Enterprise" (SFAS 134). SFAS 134 is an amendment to SFAS No. 65, which required that after the securitization of a mortgage loan held-for-sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed security as a trading security. SFAS 134 further amends SFAS No. 65 and requires that after the securitization of mortgage loans held-for-sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or to hold those investments. SFAS 134 conforms the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking enterprise with the subsequent accounting for securities retained after the securitization of other types of assets by non-mortgage banking enterprises. SFAS 134 is effective for the first fiscal quarter beginning after December 15, 1998. The Company adopted SFAS 134 and determined it did not have a material impact on the Company's financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company believes that the adoption of SFAS 133 will not have a material impact on the Company's financial position or results of operations.

4. Net Earnings per Share

Basic earnings per share is computed on the basis of the weighted average number of shares outstanding for the period. Diluted earnings per share is computed on the basis of the weighted average number of shares and common equivalent shares outstanding for the period.

The following table represents the computation of basic and diluted earnings per share for the three months ended March 31, 1999 and 1998 (in thousands, except per share data):

| | For the Three Months Ended March 31, | |
|---|---|-----------|
| | 1999 | 1998 |
| ----- | | |
| Numerator: | | |
| Numerator for basic earnings per share-- | | |
| Net earnings | \$ 6,195 | \$ 11,104 |
| Less: Dividends paid to preferred stockholders | (888) | -- |
| | ===== | ===== |
| Net earnings available to common stockholders | \$ 5,307 | \$ 11,104 |
| | ===== | ===== |
| Denominator: | | |
| Denominator for basic earnings per share-- | | |
| Weighted average number of common shares outstanding during the period | 24,366 | 22,940 |
| Impact of assumed conversion of convertible preferred stock | 6,061 | -- |
| Net effect of dilutive stock options | 26 | 197 |
| | ----- | ----- |
| Weighted average common and common equivalent shares | 30,453 | 23,137 |
| | ===== | ===== |
| Net earnings per share--basic | \$ 0.22 | \$ 0.48 |
| | ===== | ===== |
| Net earnings per share--diluted | \$ 0.20 | \$ 0.48 |
| | ===== | ===== |

5. Mortgage Assets

Mortgage Assets consist of investment securities available-for-sale, mortgage loans held-for-investment, CMO collateral, finance receivables and loans held-for-sale. At March 31, 1999 and December 31, 1998, Mortgage Assets consisted of the following (in thousands):

| | March 31, 1999 | December 31, 1998 |
|--|-------------------|----------------------|
| | ----- | ----- |
| Investment securities available-for-sale: | | |
| Subordinated securities collateralized by mortgages | \$ 92,642 | \$ 89,825 |
| Subordinated securities collateralized by other loans | 10,801 | 5,397 |
| Net unrealized gains (losses) | 930 | (1,736) |
| | ----- | ----- |
| Carrying value | 104,373 | 93,486 |
| | ----- | ----- |
| Loan Receivables: | | |
| CMO collateral-- | | |
| CMO collateral, unpaid principal balance | 1,165,057 | 1,109,577 |
| Unamortized net premiums on loans | 39,028 | 39,369 |
| Securitization expenses | 13,204 | 12,274 |
| | ----- | ----- |
| Carrying value | 1,217,289 | 1,161,220 |
| Finance receivables-- | | |
| Due from affiliates | 138,936 | 198,104 |
| Due from other mortgage banking companies | 61,255 | 113,467 |
| | ----- | ----- |
| Carrying value | 200,191 | 311,571 |
| Mortgage loans held-for-investment-- | | |
| Mortgage loans held-for-investment, unpaid principal balance | 52,362 | 20,145 |
| Unamortized net premiums on loans | 668 | 482 |
| | ----- | ----- |
| Carrying value | 53,030 | 20,627 |
| Carrying value of Gross Loan Receivables | 1,470,510 | 1,493,418 |
| Allowance for loan losses | (5,970) | (6,959) |
| | ----- | ----- |
| Carrying value of Net Loan Receivables | 1,464,540 | 1,486,459 |
| | ----- | ----- |
| Total carrying value of Mortgage Assets | \$ 1,568,913 | \$ 1,579,945 |
| | ===== | ===== |

6. Segment Reporting

The Company's basis for its segments is to divide the entities into (a) the segments that derive income from long-term assets, (b) the segments that derive income by providing financing, and (c) the segment that derives income from the purchase and sale of mortgage loans.

The Company internally reviews and analyzes its entities as follows: (1) the Long-Term Investment Operations, conducted by IMH and IMH Assets, invests primarily in non-conforming residential mortgage loans and mortgage-backed securities secured by or representing interests in such loans and in second mortgage loans, (2) the Warehouse Lending Operations provides warehouse and repurchase financing to affiliated companies and to approved mortgage banks, most of which are correspondents of IFC, to finance mortgage loans, and (3) the Conduit Operations, conducted by IFC, purchases non-conforming mortgage loans and second mortgage loans from its network of third party correspondents and other sellers (a).

The following table separates the Company's reporting segments as of March 31, 1999 and for the three months ended March 31, 1999 (in thousands):

| | Long-Term Investment Operations | Warehouse Lending Operations | Other (b) | Intercompany Elimination (c) | Consolidated |
|----------------------------|---------------------------------------|------------------------------------|-----------|---------------------------------|--------------|
| Balance Sheet Items: | | | | | |
| CMO collateral | \$ 1,217,289 | \$ -- | \$ -- | \$ -- | \$ 1,217,289 |
| Total assets | 1,487,795 | 273,699 | 5,442 | (134,909) | 1,632,027 |
| Total stockholders' equity | 291,567 | 40,486 | 658 | (84,963) | 247,748 |
| Income Statement Items: | | | | | |
| Interest income | \$ 24,879 | \$ 6,343 | \$ 17 | \$ (840) | \$ 30,399 |
| Interest expense | 18,493 | 4,496 | 4 | (840) | 22,153 |
| Equity in IFC | -- | -- | -- | 1,090 | 1,090 |
| Net earnings | 2,105 | 1,741 | 43 | 2,306 | 6,195 |

The following table separates the Company's reporting segments as of March 31, 1998 and for the three months ended March 31, 1998 (in thousands):

| | Long-Term Investment Operations | Warehouse Lending Operations | Other (b) | Intercompany Elimination (c) | Consolidated |
|-------------------------------|---------------------------------------|------------------------------------|-----------|---------------------------------|--------------|
| Balance Sheet Items: | | | | | |
| CMO collateral | \$ 1,339,116 | \$ -- | \$ -- | \$ -- | \$ 1,339,116 |
| Total assets | 1,726,985 | 493,322 | 6,559 | (221,642) | 2,005,224 |
| Total stockholders' equity | 265,546 | 28,072 | 3,877 | (51,741) | 245,754 |
| Income Statement Items: | | | | | |
| Interest income | \$ 28,934 | \$ 16,723 | \$ 53 | \$ (7,141) | \$ 38,569 |
| Interest expense | 23,626 | 12,257 | 61 | (7,141) | 28,803 |
| Depreciation and amortization | 4 | -- | 50 | -- | 54 |
| Equity in IFC | -- | -- | -- | 2,156 | 2,156 |
| Net earnings (loss) | 4,197 | 4,385 | (12) | 2,534 | 11,104 |

(a) The Conduit Operations is accounted for using the equity method and is an unconsolidated subsidiary of the Company.

(b) Primarily includes the operations of Dove, of which the Company owned a 50% interest until the Company sold its interest to ICH in 1998, and account reclassifications.

(c) Elimination of intercompany balance sheet and income statement items.

7. Investment in Impac Funding Corporation

The Company is entitled to 99% of the earnings or losses of IFC through its ownership of all of the non-voting preferred stock of IFC. As such, the Company records its investment in IFC using the equity method. Under this method, original investments are recorded at cost and adjusted by the Company's share of earnings or losses. Gain or loss on the sale of loans or securities by IFC to IMH are deferred and amortized or accreted over the estimated life of the loans or securities using the interest method.

The following is financial information for IFC for the periods presented (in thousands):

BALANCE SHEETS

| | March 31, 1999 | December 31, 1998 |
|---|-------------------|----------------------|
| ASSETS | | |
| Cash | \$ 9,533 | \$ 422 |
| Investment securities available-for-sale | 635 | 5,965 |
| Investment securities available-for-trading | -- | 5,300 |
| Mortgage loans held-for-sale | 114,210 | 252,568 |
| Mortgage servicing rights | 10,111 | 14,062 |
| Due from affiliates | 7,596 | 9,152 |
| Premises and equipment, net | 2,066 | 1,978 |
| Accrued interest receivable | 829 | 1,896 |
| Other assets | 13,565 | 22,529 |
| | \$ 158,545 | \$ 313,872 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Borrowings from IWLG | \$ 109,323 | \$ 192,900 |
| Other borrowings | 649 | 67,058 |
| Due to affiliates | 17,542 | 24,382 |
| Deferred revenue | 11,089 | 10,605 |
| Other liabilities | 5,356 | 6,064 |
| Total liabilities | 143,959 | 301,009 |
| Shareholders' Equity: | | |
| Preferred stock | 18,053 | 18,053 |
| Common stock | 182 | 182 |
| Retained earnings | (3,751) | (4,852) |
| Accumulated other comprehensive earnings (loss) | 102 | (520) |
| Total shareholders' equity | 14,586 | 12,863 |
| Total liabilities and shareholders' equity | \$ 158,545 | \$ 313,872 |

STATEMENTS OF OPERATIONS

| | For the Three Months Ended March 31, | |
|--|---|-----------|
| | 1999 | 1998 |
| Interest income | \$ 4,833 | \$ 14,799 |
| Interest expense | 4,746 | 10,783 |
| Net interest income | 87 | 4,016 |
| Gain on sale of loans | 5,007 | 3,719 |
| Loan servicing income | 2,141 | 1,001 |
| Other non-interest income | 339 | 196 |
| Total non-interest income | 7,487 | 4,916 |
| Personnel expense | 1,790 | 2,560 |
| Amortization of mortgage servicing rights | 1,427 | 1,392 |
| General and administrative and other expense | 1,196 | 1,042 |
| Loss on sale of mortgage servicing rights | 567 | -- |
| Write-down on securities available-for-sale | 559 | -- |
| Provision for repurchases | 20 | 170 |
| Total non-interest expense | 5,559 | 5,164 |
| Earnings before income taxes | 2,015 | 3,768 |
| Income taxes | 914 | 1,591 |
| Net earnings | \$ 1,101 | \$ 2,177 |

8. Investment in Impac Commercial Holdings, Inc.

Subsequent to ICH's initial public offering on August 4, 1997, the Company was entitled to 17.4% of the earnings or losses of ICH through its ownership of 1,394,000 shares, or 9.8%, of the combined ICH voting Common Stock and ICH non-voting Class A Common Stock. The Company recorded its investment in ICH using the equity method. Under this method, original investments were recorded at cost and adjusted by the Company's share of earnings or losses. On October 21, 1998, ICH repurchased from IMH 937,084 shares of Common Stock and 456,916 shares of Class A Common Stock at a price of \$4.375 per share for a total repurchase of \$6.1 million, representing a loss to IMH of \$9.1 million. The Company had no investment in ICH at March 31, 1999 or December 31, 1998.

9. Stockholders' Equity

During the three months ended March 31, 1999, the Company raised capital of \$909,000 from the sale of 209,426 shares of Common Stock issued through its Dividend Reinvestment and Stock Purchase Plan (DRSPP). The Company repurchased 684,100 shares of Common Stock for \$3.9 million. The Company exchanged 1,357,416 shares of its Common Stock, at an average price of \$5.70 per share, for 11% senior subordinated debentures due to mature on February 15, 2004.

On March 31, 1999, the Company declared a first quarter dividend of \$2.3 million, or \$0.10 per share. This dividend was paid on April 23, 1999 to common stockholders of record on April 9, 1999.

On March 23, 1999, the Company declared a first quarter dividend of \$888,000 to Series B preferred stockholders. This dividend was paid on April 27, 1999.

10. Subsequent Events

On May 5, 1999, ICH executed a stock purchase agreement pursuant to which it issued to Fortress Partners LP ("Fortress") \$12.0 million of Series B Convertible Preferred Stock of ICH. In addition, FIC Management Inc. ("FIC"), an affiliate of Fortress, entered into a definitive agreement with RAI Advisors, LLC ("RAI") for the assignment of RAI's rights and interests in the Management Agreement with ICH. In connection with these transactions, the submanagement agreement among RAI, IMH and IFC was terminated and a new submanagement agreement was entered into among FIC, IMH and IFC and the Right of First Refusal Agreement among RAI, ICH, ICC, IMH and IFC was terminated. Under the new submanagement agreement, IMH and IFC will provide various services including accounting, data processing and secondary marketing to ICH as Fortress deems necessary for an annual fee of \$250,000.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain information contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "should," "anticipate," "estimate," or "believe" or the negatives thereof or other variations thereon or comparable terminology. The Company's actual results may differ materially from those contained in the forward-looking statements. Factors which may cause a difference to occur include the success of the Company's new divisions, any delays with respect to the acquisition of the thrift and loan, increased costs and delays related to Year 2000 compliance, the availability of suitable opportunities for the acquisition, ownership and disposition of Mortgage Assets (which depend on the type of Mortgage Asset involved) and yields available from time to time on such Mortgage Assets, interest rates, changes in estimates of book basis and tax basis earnings, the availability of suitable financing and investments, and trends in the economy which affect confidence and demand on the Company's portfolio of Mortgage Assets.

SIGNIFICANT TRANSACTIONS

Exchange Offering

The Company exchanged 1,357,416 shares of its Common Stock, at an average price of \$5.70 per share, for 11% senior subordinated debentures due to mature on February 15, 2004. The debentures are unsecured obligations of the Company subordinated to all indebtedness of the Company's subsidiaries. The debentures will bear interest at 11% per annum from their date of issuance, payable quarterly, commencing May 15, 1999, until the debentures are paid in full. The debentures mature on February 15, 2004, which date may be extended once by the Company to a date not later than May 15, 2004, provided that the Company satisfies certain conditions. Commencing on February 15, 2001, the debentures are redeemable, at the Company's option, in whole at any time or in part from time to time, at the principal amount to be redeemed plus accrued and unpaid interest thereon to the redemption date.

Collateralized Mortgage Obligations ("CMO")

The Company completed its first CMO since June of 1998. The CMO was issued in February of 1999 for \$186.1 million and was collateralized by \$124.0 million of adjustable-rate mortgages and \$77.8 million of residential loans secured by second trust deeds.

Definitive Agreement to Acquire a California Thrift and Loan

During the first quarter of 1999, the Company entered into a definitive agreement to acquire a California thrift and loan. The Company currently does not anticipate any significant regulatory impediments during the application process. The thrift and loan will be headquartered at the Company's new location in Newport Beach, California, where the Company consolidated its business operations during the first quarter of 1999.

New Divisions at IFC

During the first quarter of 1999, IFC introduced two new divisions. The new divisions are focused on getting closer to the borrower through a retail based portfolio retention program, along with interacting directly with the mortgage broker community.

BUSINESS OPERATIONS

Long-Term Investment Operations: During the first quarter of 1999, the Long-Term Investment Operations, conducted by IMH and IMH Assets, acquired \$202.0 million of mortgages from IFC as compared to \$677.7 million acquired during the same period in 1998. Mortgages purchased by the Long-Term Investment Operations during the first quarter of 1999 consisted of \$343,000 of fixed-rate mortgages ("FRMs") and \$122.3 million of adjustable-rate mortgages ("ARMs") secured by first liens on residential property and \$79.4 million of fixed-rate second trust deeds secured by residential property. During the first quarter of 1999, IMH Assets issued CMOs totaling \$186.1 million as compared to CMOs totaling \$583.0 million during the same period in 1998. As of March 31, 1999, the Long-Term Investment Operations portfolio of mortgage loans consisted of \$1.2 billion of mortgage loans held in trust as collateral for CMOs and \$53.0 million of mortgage loans held-for-investment, of which approximately 46% were FRMs and 54% were ARMs. The weighted average coupon of the Long-Term Investment Operations portfolio of mortgage loans was 9.35% at March 31, 1999 with a weighted average margin of 4.43%. The portfolio of mortgage loans included 65% of "A" credit quality, non-conforming mortgage loans and 35% of "B" and "C" credit quality, non-conforming mortgage loans, as defined by the Company. The Long-Term Investment Operations also sold \$5.8 million of mortgage loans to IFC during the first quarter of 1999 as compared to \$136.7 million during the same period in 1998. In addition, during the first quarter of 1999 the Long-Term Investment Operations acquired \$9.1 million of securities from by IFC as compared to \$24.1 million during the same period in 1998. These securities were generated mainly from the periodic issuance of real estate mortgage investment conduits ("REMICs") As of March 31, 1999, the Long-Term Investment Operations had \$104.4 million of investment securities available-for-sale.

Conduit Operations: The Conduit Operations, conducted by IFC, continues to support the Long-Term Investment Operations of the Company by supplying IMH and IMH Assets with mortgages for IMH's long-term investment portfolio. In acting as the mortgage conduit for the Company, IFC's mortgage acquisitions decreased 58% to \$257.6 million during the first quarter of 1999 as compared to \$608.0 million of mortgages acquired during the same period in 1998. IFC did not issue any REMICs in the first quarter of 1999. In addition, IFC sold whole loans to third party investors totaling \$163.0 million, resulting in gain on sale of loans of \$5.0 million, during the first quarter of 1999. This compares to securitizations and whole loan sales to third parties of \$367.2 million, resulting in gain on sale of loans of \$3.7 million, during the same period in 1998. IFC had deferred income of \$11.1 million at March 31, 1999 as compared to \$10.6 million at December 31, 1998. The increase in deferred income relates to the sale of \$198.8 million in principal balance of mortgages to IMH during the first quarter of 1999, which are deferred and amortized or accreted over the estimated life of the loans. IFC's servicing portfolio decreased 13% to \$2.8 billion at March 31, 1999 as compared to \$3.2 billion at March 31, 1998. The loan delinquency rate of mortgages in IFC's servicing portfolio which were 60 or more days past due, inclusive of foreclosures and delinquent bankruptcies, was 5.66% at March 31, 1999 as compared to 4.82%, 5.21%, 4.29%, and 3.20% for the last four quarter-end periods.

Warehouse Lending Operations: At March 31, 1999, the Warehouse Lending Operations, conducted by IWLG, had \$860.2 million of warehouse lines of credit available to 29 borrowers, of which \$246.4 million was outstanding thereunder, including \$109.3 million outstanding to IFC, \$50.3 million outstanding to the Long-Term Investment Operations, and \$25.5 million outstanding to Walsh Securities, Inc. ("WSI"). James Walsh, Executive Vice President of WSI, is also a Director of IMH and ICH.

RESULTS OF OPERATIONS-- IMPAC MORTGAGE HOLDINGS, INC.

For the Three Months Ended March 31, 1999 as compared to the Three Months Ended March 31, 1998

Results of Operations

The Company recorded net earnings of \$6.2 million, or \$0.20 per diluted common share, during the first quarter of 1999 as compared to net earnings of \$11.1 million, or \$0.48 per diluted common share, during the first quarter of 1998. Net earnings decreased primarily due to the following: (1) a \$1.5 million decrease in net interest income as a result of the Company reducing leverage in its balance sheet and increasing liquidity in response to the global liquidity crisis, which occurred during the latter part of 1998, (2) an increase in non-interest expense of \$2.1 million primarily due to losses on REO properties and partially from an increase in professional services and write-down on investment securities available-for-sale, and (3) a decrease of \$1.1 million in equity in net earnings of Impac Funding Corporation.

Net earnings during the first quarter of 1999 decreased as compared to the first quarter of 1998 as the Company moved towards reducing leverage in its balance sheet and increasing liquidity during the first quarter of 1999 and the fourth quarter of 1998. In response to the global liquidity crisis during the latter part of 1998, which resulted in a deterioration of the mortgage-backed securitization market, the Company sold Mortgage Assets at significant losses as the Company reduced its market risk exposure rather than continue to expose its stockholders to further risk. As a result of the sale of Mortgage Assets, liquidity increased during the first quarter of 1999 as cash and cash equivalents averaged \$21.3 million, which reflected the payment of the Company's third quarter dividend of \$12.1 million on January 6, 1999, as compared to average cash and cash equivalents of \$8.7 million during the fourth quarter of 1998. Because liquidity improved during the first quarter of 1999 over the fourth quarter of 1998 the Company was able to complete its first CMO issuance since June of 1998. The CMO was issued in February of 1999 for \$186.1 million and was collateralized by \$124.0 million of adjustable-rate mortgages and \$77.8 million of residential loans secured by second trust deeds. The issuance of CMOs provides the Company with immediate liquidity, a locked-in net interest rate spread and eliminates the Company's exposure to margin calls on such loans. The Company's ratio of debt to equity decreased to 5.54 at March 31, 1999 as compared to 5.55 at December 31, 1998 and 7.90 at September 30, 1998 due to the sale of Mortgage Assets during the fourth quarter of 1998, the issuance of 1,200,000 shares of Series B 10.5% Cumulative Convertible Preferred Stock in December of 1998 and the issuance of the CMO during the first quarter of 1999.

Because of reduced leverage, the Company's net interest income decreased, (as discussed below) however, the Company experienced no margin calls on its reverse repurchase agreements during the first quarter of 1999. As the mortgage sector stabilized and recovered from the volatility that occurred during the latter part of 1998, the Company returned to profitability on the sale of its mortgage loans. In addition to the Company's success in raising cash, the Company was successful in increasing the Company's book value per common share, which increased to \$9.58 per common share at March 31, 1999 as compared to \$9.02 per common share at December 31, 1998. The Company's book value per common share increased, in part, due to the retention of \$3.0 million of earnings in excess of the first quarter dividend distribution to common and preferred stockholders. The Company expects that the retention of earnings in excess of dividend distributions for the remainder of 1999 will continue to improve the Company's book value per common share. The Company's current common stock dividend policy is to base quarterly dividends per common share 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 taxable earnings during the first quarter of 1999 were the amortization of the termination of the Company's management agreement with Imperial Credit Advisors, Inc. in December of 1997, which resulted in quarterly amortization of approximately \$2.7 million, and the exclusion of \$1.1 million of equity in net earnings of Impac Funding Corporation.

Net Interest Income

Net interest income decreased \$1.6 million, or 16%, to \$8.2 million during the first quarter of 1999 as compared to \$9.8 million during the first quarter of 1998 due to a decrease in average Mortgage Assets. Interest income is primarily interest earned on Mortgage Assets and includes interest earned on cash and cash equivalents and due from affiliates. Interest expense is primarily interest paid on borrowings on Mortgage Assets and includes interest paid on due to affiliates and senior subordinated debentures. Average Mortgage Assets decreased 16% to \$1.6 billion during the first quarter of 1999 as compared to \$1.9 billion during the first quarter of 1998 due to the following: (1) the sale of Mortgage Assets during the fourth quarter of 1998, (2) a reduction in mortgage loan production at IFC, which decreased average outstanding finance receivables, and (3) the Company's concentration on strengthening book value and conserving capital by reducing the Company's leverage. Net interest income also decreased as the Company's net interest spread on Mortgage Assets decreased to 1.16% during the first quarter of 1999 as compared to 1.42% during the first quarter of 1998. The net interest spread on Mortgage Assets decreased primarily as the Company sold or securitized high-yielding residential loans secured by second trust deeds during 1998. As a result, the weighted average yield on mortgage loans held-for-investment decreased to 6.01% during the first quarter of 1999 as compared to 10.30% during the first quarter of 1998.

The following table summarizes average balance, interest and weighted average yield on Mortgage Assets and borrowings on Mortgage Assets for the three months ended March 31, 1999 and 1998 and includes interest income on Mortgage Assets and interest expense related to borrowings on Mortgage Assets only (dollars in thousands):

| | For the Three Months Ended March 31, 1999 | | | For the Three Months Ended March 31, 1998 | | |
|--|--|-----------|-----------------------|--|-----------|-----------------------|
| | Average Balance | Interest | Weighted Avg Yield | Average Balance | Interest | Weighted Avg Yield |
| MORTGAGE ASSETS | | | | | | |
| Investment securities available-for-sale: | | | | | | |
| Sub-securities collateralized by mortgages | \$ 92,576 | \$ 3,102 | 13.40 % | \$ 66,505 | \$ 1,814 | 10.91 % |
| Sub-securities collateralized by other loans | 7,911 | 223 | 11.28 | 5,319 | 231 | 17.37 |
| Total investment securities available-for-sale | 100,487 | 3,325 | 13.24 | 71,824 | 2,045 | 11.39 |
| Loan receivables: | | | | | | |
| CMO collateral | 1,176,853 | 20,009 | 6.80 | 1,049,111 | 17,750 | 6.77 |
| Mortgage loans held-for-investment | 53,376 | 802 | 6.01 | 328,318 | 8,453 | 10.30 |
| Finance receivables: | | | | | | |
| Affiliated | 183,941 | 3,984 | 8.66 | 379,756 | 8,151 | 8.59 |
| Non-affiliated | 69,495 | 1,567 | 9.02 | 63,727 | 1,462 | 9.18 |
| Total finance receivables | 253,436 | 5,551 | 8.76 | 443,483 | 9,613 | 8.67 |
| Total Loan Receivables | 1,483,665 | 26,362 | 7.11 | 1,820,912 | 35,816 | 7.87 |
| Total Mortgage Assets | \$ 1,584,152 | \$ 29,687 | 7.50 % | \$ 1,892,736 | \$ 37,861 | 8.00 % |
| BORROWINGS | | | | | | |
| CMO borrowings | \$ 1,078,797 | \$ 17,081 | 6.33 % | \$ 974,106 | \$ 16,029 | 6.58 % |
| Reverse repurchase agreements - mortgages | 281,471 | 4,447 | 6.32 | 716,903 | 11,811 | 6.59 |
| Reverse repurchase agreements - securities | 22,992 | 380 | 6.61 | 15,106 | 233 | 6.17 |
| Total borrowings on Mortgage Assets | \$ 1,383,260 | \$ 21,908 | 6.34 % | \$ 1,706,115 | \$ 28,073 | 6.58 % |
| Net Interest Spread | | | 1.16 % | | | 1.42 % |
| Net Interest Margin | | | 1.96 % | | | 2.07 % |

Interest Income on Mortgage Assets: Interest income on CMO collateral increased 12% to \$20.0 million during the first quarter of 1999 as compared to \$17.8 million during the first quarter of 1998 as average CMO collateral increased 20% to \$1.2 billion as compared to \$1.0 billion, respectively. Average CMO collateral increased as the Long-Term Investment Operations issued CMOs totaling \$371.1 million, which were collateralized by \$391.0 million of mortgage loans held by the Long-Term Investment Operations since the end of the first quarter of 1998. The weighted average yield on CMO collateral increased to 6.80% during the first quarter of 1999 as compared to 6.77% during the first quarter of 1998. The net interest spread between CMO collateral and borrowings increased to 0.47% during the first quarter of 1999 as compared to 0.19% during the first quarter of 1998.

Interest income on mortgage loans held-for-investment decreased 91% to \$802,000 during the first quarter of 1999 as compared to \$8.5 million during the first quarter of 1998 as average mortgage loans held-for-investment decreased 84% to \$53.4 million as compared to \$328.3 million, respectively. Average mortgage loans held-for-investment decreased due to decreased loan acquisitions by IMH, which were \$202.0 million during the first quarter of 1999 as compared to \$677.7 million during the first quarter of 1998. The weighted average yield on mortgage loans held-for-investment decreased to 6.01%, during the first quarter of 1999, as compared to 10.30% during the first quarter of 1998. The decrease in the weighted average yield was primarily due to the sale of high-yielding second trust deeds throughout 1998 and the securitization of high yielding second trust deeds during the first quarter of 1999.

Interest income on finance receivables decreased 42% to \$5.6 million during the first quarter of 1999 as compared to \$9.6 million during the first quarter of 1998 as average finance receivables decreased 43% to \$253.4 million as compared to \$443.5 million, respectively. The decrease in interest income on finance receivables was primarily the result of a decrease of 52% in average finance receivables to affiliated companies to \$183.9 million, during the first quarter of 1999, as compared to \$380.0 million, during the first quarter of 1998, as IFC's mortgage loan acquisitions decreased to \$257.6 million as compared to \$608.0 million, respectively. Interest income on finance receivables to affiliates

decreased 51% to \$4.0 million during the first quarter of 1999 as compared to \$8.2 million during the first quarter of 1998. The weighted average yield on affiliated finance receivables increased to 8.66% during the first quarter of 1999 as compared to 8.59% during the first quarter of 1998. Interest income on finance receivables to non-affiliated mortgage banking companies increased 7% to \$1.6 million, during the first quarter of 1999, as compared to \$1.5 million, during the first quarter of 1998, as average finance receivables outstanding to non-affiliated mortgage banking companies increased 9% to \$69.5 million as compared to \$63.7 million, respectively. The weighted average yield on non-affiliated finance receivables decreased to 9.02% during the first quarter of 1999 as compared to 9.18% during the first quarter of 1998. The overall weighted average yield on finance receivables increased to 8.76% during the first quarter of 1999 as compared to 8.67% during the first quarter of 1998.

Interest income on investment securities available-for-sale increased 65% to \$3.3 million during the first quarter of 1999 as compared to \$2.0 million during the first quarter of 1998 as average investment securities available-for-sale, net of securities valuation allowance, increased 40% to \$100.5 million as compared to \$71.8 million. The increase in average securities available-for-sale was the result of the Long-Term Investment Operations purchasing and retaining mortgage-backed securities of \$59.1 million, which were issued by IFC as REMICs, since the end of the first quarter of 1998. The weighted average yield on investment securities available-for-sale increased to 13.24% during the first quarter of 1999 as compared to 11.39 % during the first quarter of 1998.

Interest expense on borrowings: Interest expense on CMO borrowings increased 7% to \$17.1 million during the first quarter of 1999 as compared to \$16.0 million during the first quarter of 1998 as average borrowings on CMO collateral increased 13% to \$1.1 billion as compared to \$974.0 million, respectively. Average CMO borrowings increased as the Long-Term Investment Operations issued CMOs totaling \$371.1 million since the end of the first quarter of 1998. The weighted average yield of CMO borrowings decreased to 6.33% during the first quarter of 1999 as compared to 6.58% during the first quarter of 1998.

Interest expense on reverse repurchase borrowings used to fund the acquisition of mortgage loans and finance receivables decreased 63% to \$4.4 million during the first quarter of 1999 as compared to \$11.8 million during the first quarter of 1998. The average balance of these reverse repurchase agreements decreased 61% to \$281.5 million during the first quarter of 1999 as compared to \$716.9 million during the first quarter of 1998. This decrease was primarily related to a decrease in finance receivables made to IFC as IFC's acquisition of mortgage loans were lower during the first quarter of 1999 as compared to the first quarter of 1998. The weighted average yield of these reverse repurchase agreements decreased to 6.32% during the first quarter of 1999 as compared 6.59% during the first quarter of 1998.

The Company also uses mortgage-backed securities as collateral to borrow under reverse repurchase agreements to fund the purchase of mortgage-backed securities and to act as an additional source of liquidity for the Company's operations. Interest expense on these reverse repurchase agreements increased 63% to \$380,000 during the first quarter of 1999 as compared to \$233,000 during the first quarter of 1998. The average balance on these reverse repurchase agreements increased 52% to \$23.0 million during the first quarter of 1999 as compared to \$15.1 million during the first quarter of 1998. The weighted average yield of these reverse repurchase agreements increased to 6.61% during the first quarter of 1999 as compared 6.17% during the first quarter of 1998.

Provision for Loan Losses

The Company recorded loan loss provisions of \$1.5 million during the first quarter of 1999 as compared to \$1.9 million during the first quarter of 1998. The amount provided for loan losses during the first quarter of 1999 decreased primarily due lower levels of mortgage loan acquisitions as compared to the first quarter of 1998. IMH acquired \$202.0 million of mortgage loans during the first quarter of 1999 as compared to loan acquisitions of \$677.7 million during the first quarter of 1998.

Non-Interest Income

Equity in Net Earnings of IFC

During the first quarter of 1999, equity in net earnings of IFC decreased to \$1.1 million as compared to \$2.2 million during the first quarter of 1998. Equity in net earnings of IFC decreased during the first quarter of 1999 primarily due to a decrease of \$3.9 million in IFC's net interest income to \$87,000, as compared to \$4.0 million during the first quarter of 1998. The decrease in IFC's net interest income was partially offset by increases of \$1.3 million in gain on sale of loans and \$1.1 million in loan servicing income.

IFC's net interest income decreased as average mortgage loans held-for-sale decreased 60% to \$209.6 million during the first quarter of 1999 as compared to \$527.7 million during the first quarter of 1998. Average mortgage loans held-for-sale decreased as mortgage loan acquisitions decreased 58% to \$257.6 million during the first quarter of 1999 as compared to mortgage loan acquisitions of \$608.0 million during the first quarter of 1998. Mortgage loan acquisitions decreased as bulk loan acquisitions decreased to \$13.7 million during the first quarter of 1999 as compared to bulk loan acquisitions of \$231.4 million during the first quarter of 1998. Mortgage loan acquisitions also decreased during the first quarter of 1999 as IFC continues to recover from the deterioration of the mortgage-backed securitization market which occurred in 1998. In response to the deterioration of the mortgage market, IFC raised interest rates on its loan programs and decreased the amount of premiums paid on its loan acquisitions. As a result of this strategy, IFC experienced lower loan acquisition levels during the first quarter of 1999 and the fourth quarter of 1998. During the first quarter of 1999, IFC continued to rebuild its mortgage loan acquisitions to previous levels by offering its sellers competitive and flexible mortgage products in addition to the introduction of two new divisions. The new divisions are focused on getting closer to the borrower through a retail based portfolio retention program, along with interacting directly with the mortgage broker community. IFC expects to increase loan origination levels through the introduction of these new divisions, which will be built on the current centralized Conduit Operations' and will employ significant electronic technologies to further increase operational efficiencies.

IFC's net interest income also decreased during the first quarter of 1999 as the weighted average yield on mortgage loans held-for-sale decreased to 8.72% as compared to a weighted average yield of 10.75% during the first quarter of 1998. The weighted average yield decreased as IFC sold or securitized high-yielding second trust deeds it acquired during the latter half of 1997. IFC acquired \$576.1 million of high-yielding second trust deeds from Preferred Credit Corporation, which were sold or securitized during 1998.

IFC's gain on sale of loans increased to \$5.0 million during the first quarter of 1999 as compared to \$3.7 million during the first quarter of 1998. IFC returned to profitability on the sale of its mortgage loans during the first quarter of 1999 as compared to the fourth quarter of 1998 as the mortgage-backed securitization market recovered from the volatility that occurred during 1998. In line with the Company's overall strategy to improve liquidity, IFC sold mortgage loans on a whole loan basis for cash, as opposed to sales through asset-backed securitizations for non-cash gains. The sale of these loans on a servicing released basis reduced IFC's exposure to further prepayment risk. The sale of delinquent loans reduced IFC's and the Company's exposure to future losses. IFC sold mortgages totaling \$163.0 million to third party investors, during the first quarter of 1999, as compared to loan sales of \$100.3 million during the first quarter of 1998. IFC also sold \$198.8 million in principal balance of mortgages to IMH during the first quarter of 1999 as compared to \$658.7 million during the first quarter of 1998. The sale of loans to IMH during the first quarter of 1999 increased IFC's deferred income to \$11.1 million at March 31, 1999 as compared to \$10.6 million at December 31, 1998.

The Company records 99% of the earnings or losses from IFC as the Company owns 100% of IFC's preferred stock, which represents 99% of the economic interest in IFC.

Equity in Net Earnings of ICH

During the first quarter of 1999, equity in net earnings of ICH decreased to none as compared to \$378,000 during the first quarter of 1998. Equity in net earnings of ICH decreased during the first quarter of 1999 as the Company sold its investment in ICH during the fourth quarter of 1998. As such, the Company no longer records earnings or losses of ICH.

Non-Interest Expense

During the first quarter of 1999, net earnings were adversely affected by an increase in non-interest expense to \$2.3 million as compared to \$120,000 during the first quarter of 1998. The increase was primarily due to increases of \$1.2 million in (gain) loss on disposition of real estate owned ("REO"), \$497,000 in professional services and \$422,000 on the write-down of investment securities available-for-sale.

During the first quarter of 1999, (gain) loss on disposition of REO was \$551,000 as compared to \$(692,000) during the first quarter of 1998.

Professional services increased to \$811,000 during the first quarter of 1999 as compared to \$343,000 during the first quarter of 1998 primarily due to legal, tax, printing and accounting services performed for the Company.

The write-down on investment securities available-for-sale increased to \$422,000, during the first quarter of 1999, as compared to none, during the first quarter of 1998, as an investment security available-for-sale was deemed to be other than temporarily impaired.

Credit Exposures

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 was 0.41% at March 31, 1999 as compared to 0.47% at December 31, 1998. The allowance for loan losses was determined primarily on the basis of management's judgment of net loss potential, including specific allowances for any known impaired loans, changes in the nature and volume of the loan portfolio, the value of the collateral, and current economic conditions that may affect the borrowers' ability to pay.

LIQUIDITY AND CAPITAL RESOURCES

Overview. The Company's business operations are primarily funded from monthly interest and principal payments from its mortgage loan and investment securities portfolios, reverse repurchase agreements secured by mortgage loans and mortgage-backed securities, adjustable- and fixed-rate CMO financing, proceeds from the sale of mortgage loans and the issuance of REMICs, and proceeds from the issuance of Common Stock through secondary stock offerings, DRSSP, and its structured equity shelf. The acquisition of mortgage loans and mortgage-backed securities by the Long-Term Investment Operations are primarily funded from monthly principal and interest payments, reverse repurchase agreements, CMO financing, and proceeds from the sale of Common Stock. The acquisition of mortgage loans by the Conduit Operations are funded from reverse repurchase agreements, the sale of mortgage loans and mortgage-backed securities, and the issuance of REMICs. Short-term financing (finance receivables) provided by the Warehouse Lending Operations are funded from reverse repurchase agreements and proceeds from the sale of Common Stock.

The Company's ability to meet its long-term liquidity requirements is subject to the renewal of its credit and repurchase facilities and/or obtaining other sources of financing, including additional debt or equity from time to time. Any decision by the Company's lenders and/or investors to make additional funds available to the Company in the future will depend upon a number of factors, such as the Company's compliance with the terms of its existing credit arrangements, the Company's financial performance, industry and market trends in the Company's various businesses, the general availability of and rates applicable to financing and investments, such lenders' and/or investors' own resources and policies concerning loans and investments, and the relative attractiveness of alternative investment or lending opportunities.

During the latter half of 1998, a global liquidity crisis resulted in a deterioration of the mortgage-backed securitization market and created liquidity problems for the Company as the Company's lenders made margin calls on their warehouse and reverse repurchase lines. Margin calls result from the Company's lenders evaluating the market value of underlying collateral securing the borrowings and requiring additional equity or collateral. The Company sold Mortgage Assets at significant losses during the fourth quarter of 1998 to meet the margin calls. The sale of Mortgage Assets and the issuance of Series B 10.5% Cumulative Convertible Preferred Stock provided much needed cash. As a result, the Company had no margin calls on its reverse repurchase agreements during the first quarter of

1999. The Company's ratio of debt to equity decreased to 5.54 at March 31, 1999 as compared to 7.90 at September 30, 1998. Average cash and cash equivalents were \$21.3 million during the first quarter of 1999 as compared to \$8.7 million during the fourth quarter of 1998. The Company paid its third quarter dividend, which had been previously delayed, on January 6, 1999.

Further, the mortgage-backed securitization market stabilized and recovered during the first quarter of 1999 allowing the Company to close its first CMO since June of 1998. The issuance of the CMO provides the Company with immediate liquidity, a locked-in interest rate spread and eliminates the Company's exposure to margin calls on such loans. The reduction of staff at IFC during the fourth quarter of 1998 and a decrease in loan acquisitions during the fourth quarter of 1998 and the first quarter of 1999 along with a return to profitability has provided additional liquidity from operating activities. However, the Company expects loan acquisitions and originations will increase during 1999 along with an increase in staff which will require cash.

The Company does not believe its current operating cash flows are sufficient to fund the growth of its mortgage loan and investment securities portfolios, lending activities, payment of cash dividends due to exposure to margin calls on its reverse repurchase agreements. The Company continues to explore alternatives for increasing liquidity through additional asset sales and capital raising efforts. However, no assurances can be given that such alternatives will be available, or if available, under comparable rates and terms as currently exist. As such, during the first quarter of 1999, the Company entered into a definitive agreement to acquire a California thrift and loan. The Company currently does not anticipate any significant regulatory impediments during the application process. The acquisition of the thrift and loan could reduce the Company's reliance on outside reverse repurchase facilities with commercial and investment banks. In addition, the thrift and loan could give IFC access to lower cost of funds and borrowings from the Federal Home Loan Bank.

Long-Term Investment Operations

Source of funds

The Long-Term Investment Operations uses CMO borrowings to finance substantially all of its mortgage loan portfolio. Terms of the CMO borrowings require that an independent third party custodian hold the mortgages. The maturity of each class is directly affected by the rate of principal prepayments on the related collateral. Equity in the CMOs is established at the time the CMOs are issued at levels sufficient to achieve desired credit ratings on the securities from rating agencies. The amount of equity invested in CMOs by the Long-Term Investment Operations is also determined by the Company based upon the anticipated return on equity as compared to the estimated proceeds from additional debt issuance. Total credit loss exposure is limited to the equity invested in the CMOs at any point in time. The Company issued a CMO in February of 1999 for \$186.1 million which was collateralized by \$124.0 million of adjustable-rate mortgages and \$77.8 million of residential loans secured by second trust deeds. At March 31, 1999, the Long-Term Investment Operations had \$1.1 billion of CMO borrowings used to finance \$1.2 billion of CMO collateral.

The Long-Term Investment Operations may pledge mortgage-backed securities as collateral to borrow funds under reverse repurchase agreements. The terms under these reverse repurchase agreements are generally for 30 days with interest rates ranging from the one-month London Interbank Offered Rate ("LIBOR") plus 0.45% to 2.00% depending on the type of collateral provided. As of March 31, 1999, the Long-Term Investment Operations had \$21.9 million outstanding under these reverse repurchase agreements which were secured by \$73.1 million in fair market value of mortgage-backed securities.

During the first quarter of 1999, the Company raised capital of \$909,000 from the sale of 209,426 shares of Common Stock issued through its DRSPF.

Use of funds

IMH has a reverse repurchase arrangement with a commercial bank, which is an affiliate of ICII, whereby IMH borrowed \$10.0 million for general working capital needs. The reverse repurchase arrangement expires on December 31, 1999. The interest rate on the reverse repurchase arrangement is LIBOR plus 2.0%. Additional funds cannot be advanced under the reverse repurchase arrangement and terms require that principal payments of \$833,000 be paid monthly. As of March 31, 1999, IMH's outstanding borrowings under the reverse repurchase arrangement was \$7.5 million.

IMH purchased \$202.0 million of mortgage loans from IFC during the first quarter of 1999.

The Company repurchased 684,100 shares of Common Stock for \$3.9 million.

Warehouse Lending Operations

Source of funds

The Warehouse Lending Operations finances the acquisition of mortgage loans by the Long-Term Investment Operations and Conduit Operations primarily through borrowings on reverse repurchase agreements with third party lenders. IWLG has obtained reverse repurchase facilities from major investment banks to provide financing as needed. Terms of the reverse repurchase agreements require that the mortgages be held by an independent third party custodian giving the Warehouse Lending Operations the ability to borrow against the collateral as a percentage of the outstanding principal balance. The borrowing rates vary from 85 basis points to 200 basis points over one-month LIBOR, depending on the type of collateral provided. The margins on the reverse repurchase agreements are based on the type of mortgage collateral used and generally range from 75% to 101% of the fair market value of the collateral.

The following table presents information on available reverse repurchase agreements as of March 31, 1999 (dollars in thousands):

| | Borrowing Limit | Amount Outstanding | Interest rate |
|-------------------|--------------------|-----------------------|------------------------|
| | ----- | ----- | ----- |
| Lender A (1)..... | \$ 210,014 | \$ 210,014 | Libor + 0.85% to 2.00% |
| Lender B (1)..... | 23,119 | 23,119 | Libor + 1.00% |
| | ----- | ----- | |
| Total | \$ 231,133 | \$ 231,133 | |
| | ===== | ===== | |

(1) Uncommitted reverse repurchase facility.

Conduit Operations

Source of funds

The Conduit Operations has entered into reverse repurchase agreements to obtain financing of up to \$600.0 million from the Warehouse Lending Operations to provide IFC mortgage loan financing during the period that IFC accumulates mortgage loans and until the mortgage loans are securitized and sold. The margins on the reverse repurchase agreements are based on the type of collateral provided and generally range from 95% to 100% of the fair market value of the collateral. The interest rates on the borrowings are indexed to Prime, which was 7.75% at March 31, 1999. At March 31, 1999, the Conduit Operations had \$109.3 million outstanding under the reverse repurchase agreement.

During the first quarter of 1999, the Conduit Operations sold \$163.0 million in principal balance of mortgage loans to third-party investors on a servicing released basis. In addition, IFC sold \$198.8 million in principal balance of mortgage loans to the Long-Term Investment Operations during the first quarter of 1999. By securitizing and selling loans on a periodic and consistent basis the reverse repurchase agreements were sufficient to handle IFC's liquidity needs during the first quarter of 1999.

Cash Flows

Operating Activities - During the first quarter of 1999 net cash provided by operating activities was \$16.2 million. Cash provided by operating activities was primarily due to an increase in other assets and liabilities of \$9.1 million, which was primarily the result of a \$7.8 million decrease in due from affiliates, and net earnings of \$6.2 million.

Investing Activities - During the first quarter of 1999 net cash provided by investing activities was \$9.1 million. Cash provided by investing activities was primarily due to a decrease in finance receivables of \$111.2 million as loan acquisitions at IFC decreased during the first quarter of 1999. The increase in cash from a reduction in finance receivables was partially offset by an increase of \$56.4 million in CMO collateral and \$38.6 million in mortgage loans held-for-investment as IMH acquired \$202.0 million of mortgage loans from IFC during the first quarter of 1999.

Financing Activities - During the first quarter of 1999 net cash used in financing activities was \$43.6 million. Cash used in financing activities was primarily due to a decrease of \$68.6 million in reverse repurchase agreements, a \$12.1 million payment for the Company's third quarter stock dividend and the repurchase of the Company's Common Stock for \$3.9 million. CMO borrowings used to fund the acquisition of mortgage loans partially offset cash used in financing activities by \$186.1 million.

Inflation

The Financial Statements and Notes thereto presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased costs of the Company's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company's operations are monetary in nature. As a result, interest rates have a greater impact on the Company's operations' performance than do the effects of general levels of inflation. Inflation affects the Company's operations primarily through its effect on interest rates, since interest rates normally increase during periods of high inflation and decrease during periods of low inflation. During periods of increasing interest rates, demand for mortgage loans and a borrower's ability to qualify for mortgage financing in a purchase transaction may be adversely affected. During periods of decreasing interest rates, borrowers may prepay their mortgages, which in turn may adversely affect the Company's yield and subsequently the value of its portfolio of Mortgage Assets.

Year 2000 Compliance

Project Status

The Company's Year 2000 project was approximately 85% complete as of the end of April 1999. The Company contracted with an outside vendor to provide coordination, support, testing and implementation in regards to Year 2000 compliance of hardware and software systems, both on an information technology ("IT") and non-IT level.

The Company also has its own in-house IT department that is currently assisting the outside vendor. The Company's primary IT systems include loan servicing, which is contracted to an outside vendor, loan tracking, master servicing and accounting and reporting. The Company has obtained information and the published plan in regards of Year 2000 compliance from the loan servicing systems' outside vendor. The Company's IT department will continue to monitor the vendor's progress on Year 2000 compliance. The loan tracking system is currently in compliance with Year 2000. The master servicing system is currently being tested and the Company expects that this system will be Year 2000 compliant in the second quarter of 1999. The accounting and reporting system is currently Year 2000 compliant. The Company's non-IT systems include its file servers, network systems, workstations and communication systems. As of March 31, 1999, the upgrade of the Company's communication systems has been completed, which regardless of the Year 2000 issue, required an upgrade to comply with terms of the service agreement. Testing on all other in-house hardware has been completed as of March 31, 1999.

The Year 2000 project is divided into two primary phases, as follows:
(1) define scope of project and identify all IT and non-IT systems, and
(2) testing of existing systems and implementation of new systems, if required. The outside contractor on the Year 2000 project submits monthly status reports to the Company's IT manager and communicates with the IT department on a daily basis. The Company's executive committee which includes the CEO and Chairman, President, and Chief Financial Officer review the progress of the Company's Year 2000 project through monthly status reports and reviews with the Company's IT manager.

Phase I - Define Scope of Project

This phase primarily included the inventorying of Year 2000 items, contacting outside vendors, including reviewing contractual terms and conditions, reviewing internal software for compliance and determining costs to complete the project. As of the end of October 1998, Phase I of the project had been completed. Phase I of the project also included the testing and implementation or upgrade of non-IT systems.

Phase II - Testing of Systems

This phase of the Year 2000 project can be divided into four separate processes, as follows: (1) Compliance Questionnaires, (2) Hardware Certification Information, (3) Software/Data Testing, and (4) Hardware Testing.

Compliance Questionnaires and Hardware Certification Information. As of April 30, 1999, these portions of Phase II were complete.

Software/Data Testing. As of April 30, 1999, this portion of Phase II was approximately 80% complete. The remaining tasks within this process include analyzing list of software being used, testing all software programs, testing all data from incoming sources, testing all outgoing data processes and reporting. The Company expects that this process will be complete by June 30, 1999.

Hardware Testing. As of April 30, 1999, this portion of Phase II had not been started. The Company has completed all testing and is compliant with all internal Year 2000 hardware issues.

Costs

The total cost associated with required modifications or installations to become Year 2000 compliant is not expected to be material to the Company's financial condition. The estimated cost of the project is expected to be approximately \$500,000, of which approximately \$108,000 of the cost will be paid by ICH. The total estimate of the project includes the cost to upgrade the Company's communications system, which was \$140,000. As of April 30, 1999, the Company had paid \$268,000 to the outside vendor for completed work on the project. The majority of the Company's estimated cost for the Year 2000 compliance has been or will be spent on software upgrades and writing new program code on existing proprietary software. Since most of the Company's hardware has been purchased within the last two years, the cost of replacing hardware will be minimal.

Risks

The Company does not anticipate any material disruption of its operations as a result of any failure by the Company to be compliant. However, there can be no assurance that there will not be a delay in, or increased costs associated with, the need to address the Year 2000 issue. The Company also relies, directly and indirectly, on other businesses such as third party service providers, creditors and financial organizations and governmental entities. Even if the Company's computer systems are not materially adversely affected by the Year 2000 issue, the Company's business and operations could be materially adversely affected by disruptions in the operations of the enterprises with which the Company interacts.

Contingency Plans

The Company believes its Year 2000 compliance process should enable it to be successful in modifying its computer systems to be Year 2000 compliant. As previously stated, acceptance testing and sign-off has begun with respect to the Company's in-house systems. In addition to Year 2000 compliance system modification plans the Company has also developed contingency plans for all other systems classified as critical and high risk. These contingency plans provide timetables to pursue various alternatives based upon the failure of a system to be adequately modified and/or sufficiently tested and validated to ensure Year 2000 compliance. However, there can be no assurance that either the compliance process or contingency plans will avoid partial or total system interruptions or the costs necessary to update hardware and software would not have a material adverse effect upon the Company's financial condition, results of operation, business or business prospects.

Transactions with Related Parties

In January 1999, IWLG extended a \$50.0 million warehouse line to WSI, which James Walsh, a Director of the Company, is Executive Vice President. Advances under the warehouse line bear interest at a rate of Prime + .50%. As of March 31, 1999, there was \$25.2 million outstanding under the warehouse line agreement.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Securitized/Sales - Hedging Interest Rate Risk. The most significant variable in the determination of gain on sale in a securitization is the spread between the weighted average coupon on the securitized loans and the pass-through interest rate. In the interim period between loan origination or purchase and securitization or sale of such loans, the Company is exposed to interest rate risk. The majority of loans are securitized or sold within 90 days of origination of purchase. However, a portion of the loans are held-for-sale or securitization for as long as 12 months (or longer, in very limited circumstances) prior to securitization or sale. If interest rates rise during the period that the mortgage loans are held, in the case of a securitization, the spread between the weighted average interest rate on the loans to be securitized and the pass-through interest rates on the securities to be sold (the latter having increased as a result of market rate movements) would narrow. Upon securitization or sale, this would result in a reduction of the Company's related gain or loss on sale.

Interest- and Principal-Only Strips. The Company had interest- and principal-only strips of \$41.2 million and \$43.1 million outstanding at March 31, 1999 and December 31, 1998, respectively. These instruments are carried at market value at March 31, 1999 and December 31, 1998. The Company values these assets based on the present value of future cash flow streams net of expenses using various assumptions.

These assets are subject to risk of accelerated mortgage prepayment or losses in excess of assumptions used in valuation. Ultimate cash flows realized from these assets would be reduced should prepayments or losses exceed assumptions used in the valuation. Conversely, cash flows realized would be greater should prepayments or losses be below expectations.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

Not applicable.

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the first quarter of 1999.

ITEM 5: OTHER INFORMATION

On March 1, 1999, H, Wayne Snavely resigned as a director from IMH's Board of Directors.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

27 Financial Data Schedule.

(b) Reports on Form 8-K:

A current report on Form 8-K was filed on February 19, 1999 reporting Items 5 and 7

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMPAC MORTGAGE HOLDINGS, INC.

By: /s/ Richard J. Johnson
Richard J. Johnson
Executive Vice President
and Chief Financial Officer

Date: May 13, 1999

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|-----------|-------------|-----------|
| | 3-MOS | |
| | DEC-31-1998 | |
| | JAN-01-1999 | |
| | MAR-31-1999 | |
| | | 15,574 |
| | | 104,373 |
| | | 1,458,570 |
| | | (5,970) |
| | | 0 |
| | | 236,428 |
| | | 0 |
| | | 0 |
| | | 1,632,027 |
| 262,955 | | 0 |
| | | 0 |
| | | 12 |
| | | 227 |
| | | 247,509 |
| 1,632,027 | | |
| | | 30,399 |
| | | 32,109 |
| | | 0 |
| | | 0 |
| | | 2,262 |
| | | 1,499 |
| | | 22,153 |
| | | 6,195 |
| | | 0 |
| | | 6,195 |
| | | 0 |
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| | | 0 |
| | | 6,195 |
| | | 0.22 |
| | | 0.20 |