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

Form 10-Q

|X| Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended September 30, 2002.

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: 1-14100

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
Preferred Share Purchase Rights	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 |X| No |_|

On November 11, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $451.7 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 November 11, 2002 was 43,477,853.

IMPAC MORTGAGE HOLDINGS, INC.

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)
(unaudited)

	September 30, 2002	December 31, 2001
ASSETS		
Cash and cash equivalents	$ 110,060	$ 51,887
Investment securities available-for-sale	27,494	32,989
Loans Receivable:		
CMO collateral	4,006,065	2,229,168
Finance receivables	916,439	466,649
Mortgage loans held-for-investment	274,138	20,078
Allowance for loan losses	(21,564)	(11,692)
Net loans receivable	5,175,078	2,704,203
Accrued interest receivable	22,948	14,565
Investment in Impac Funding Corporation	19,226	19,126
Due from affiliates	14,500	14,500
Other real estate owned	11,181	8,137
Derivative assets	13,535	5,128
Other assets	2,235	4,199
Total assets	$ 5,396,257	$ 2,854,734
LIABILITIES		
CMO borrowings	$ 3,918,500	$ 2,151,400
Reverse repurchase agreements	1,167,680	469,491
Borrowings secured by investment securities available-for-sale	8,391	12,997
Accumulated dividends payable	19,309	14,081
Other liabilities	7,849	3,400
Total liabilities	5,121,729	2,651,369
STOCKHOLDERS' EQUITY		
Preferred stock; $0.01 par value; 7,500,000 and 6,300,00 shares authorized; none outstanding at September 30, 2002 and December 31, 2001, respectively	--	--
Series A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none outstanding at September 30, 2002 and December 31, 2001	--	--
Series C 10.5% cumulative convertible preferred stock, $0.01 par value; none and 1,200,000 shares authorized; none outstanding at September 30, 2002 and December 31, 2001, respectively	--	--
Common stock; $0.01 par value; 200,000,000 shares authorized; 42,908,092 and 32,001,997 shares outstanding at September 30, 2002 and December 31, 2001, respectively	429	320
Additional paid-in capital	453,191	359,279
Accumulated other comprehensive loss	(44,195)	(19,857)
Notes receivable from common stock sales	--	(920)
Net accumulated deficit:		
Cumulative dividends declared	(179,200)	(126,952)
Retained earnings (accumulated deficit)	44,303	(8,505)
Net accumulated deficit	(134,897)	(135,457)
Total stockholders' equity	274,528	203,365
Total liabilities and stockholders' equity	$ 5,396,257	$ 2,854,734

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
and COMPREHENSIVE EARNINGS (LOSS)
(in thousands, except earnings per share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
INTEREST INCOME:				
Mortgage assets	$ 59,736	$ 38,355	$ 150,438	$ 114,157
Other interest income	1,963	613	3,558	1,875
Total interest income	61,699	38,968	153,996	116,032
INTEREST EXPENSE:				
CMO borrowings	31,091	19,249	79,021	57,016
Reverse repurchase agreements	6,086	7,688	15,724	25,485
Borrowings secured by investment securities	431	620	1,455	1,958
Other borrowings	982	24	1,487	743
Total interest expense	38,590	27,581	97,687	85,202
Net interest income	23,109	11,387	56,309	30,830
Provision for loan losses	5,361	2,615	13,302	10,559
Net interest income after provision for loan losses	17,748	8,772	43,007	20,271
NON-INTEREST INCOME:				
Equity in net earnings of Impac Funding Corporation	2,755	3,039	12,816	7,857
Loan servicing fees	28	228	145	809
Other income	1,194	1,094	3,074	2,610
Total non-interest income	3,977	4,361	16,035	11,276
NON-INTEREST EXPENSE:				
Professional services	708	646	2,649	1,728
General and administrative and other expense	533	415	1,099	1,339
Personnel expense	534	290	1,326	866
Loss (gain) on disposition of other real estate owned	514	(619)	120	(1,584)
Write-down on investment securities	2	1,841	1,040	1,949
Mark-to-market loss on derivative instruments	--	2,269	--	3,713
Total non-interest expense	2,291	4,842	6,234	8,011
Earnings before extraordinary item and cumulative effect of change in accounting principle	19,434	8,291	52,808	23,536
Extraordinary item	--	--	--	(1,006)
Cumulative effect of change in accounting principle	--	--	--	(4,313)
Net earnings	19,434	8,291	52,808	18,217
Less: Cash dividends on 10.5% cumulative convertible preferred stock	--	--	--	(1,575)
Net earnings available to common stockholders	19,434	8,291	52,808	16,642
Comprehensive earnings (loss):				
Unrealized losses on securities arising during period:				
Unrealized holding gains (losses) on investment securities available-for-sale	(487)	10,724	(1,041)	12,624
Unrealized holding losses on derivative instruments	(13,818)	(23,496)	(23,112)	(23,740)
Less: Reclassification of realized losses included in net earnings	(28)	(123)	(185)	(924)
Net unrealized losses arising during period	(14,333)	(12,895)	(24,338)	(12,040)
Comprehensive earnings (loss)	$ 5,101	$ (4,604)	$ 28,470	$ 6,177

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
and COMPREHENSIVE EARNINGS (LOSS) - continued
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
Earnings per share before extraordinary item and cumulative effect of change in accounting principle:				
Basic	$ 0.47	$ 0.37	$ 1.36	$ 0.97
Diluted	$ 0.47	$ 0.31	$ 1.34	$ 0.87
Net earnings per share:				
Basic	$ 0.47	$ 0.37	$ 1.36	$ 0.74
Diluted	$ 0.47	$ 0.31	$ 1.34	$ 0.68
Dividends declared per common share	$ 0.45	$ 0.25	$ 1.28	$ 0.25

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Nine Months Ended September 30, 2002	2001
Cash flows from operating activities:		
Net earnings	$ 52,808	$ 22,530
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	--	(4,313)
Equity in net earnings of Impac Funding Corporation	(12,816)	(7,857)
Provision for loan losses	13,302	10,559
Amortization of loan premiums and securitization costs	26,185	9,949
Gain on disposition of other real estate owned	(120)	(1,584)
Write-down of investment securities available-for-sale	1,040	1,949
Write-off of securitization costs from senior subordinated debentures	--	1,006
Gain on sale of investment securities available-for-sale	--	(159)
Net change in accrued interest receivable	(8,383)	42
Net change in other assets and liabilities	(1,994)	(26,066)
Net cash provided by operating activities	70,022	6,056
Cash flows from investing activities:		
Net change in CMO collateral	(1,835,450)	(315,015)
Net change in finance receivables	(449,790)	(59,671)
Net change in mortgage loans held-for-investment	(258,888)	(143,976)
Proceeds from sale of other real estate owned, net	8,295	7,980
Dividend from Impac Funding Corporation	9,900	6,419
Sale of investment securities available-for-sale	--	5,154
Net principal reductions on investment securities available-for-sale	5,480	2,660
Net cash used in investing activities	(2,520,453)	(496,449)
Cash flows from financing activities:		
Net change in reverse repurchase agreements and other borrowings	693,583	193,469
Proceeds from CMO borrowings	2,433,254	758,296
Repayments of CMO borrowings	(666,154)	(451,644)
Dividends paid	(47,020)	(2,363)
Retirement of senior subordinated debentures	--	(7,747)
Proceeds from sale of common stock	83,957	--
Proceeds from sale of common stock via Sales Agency Agreement	9,310	--
Proceeds from exercise of stock options	754	337
Reductions (advances) on notes receivable-common stock	920	(28)
Net cash provided by financing activities	2,508,604	490,320
Net change in cash and cash equivalents	58,173	(73)
Cash and cash equivalents at beginning of period	51,887	17,944
Cash and cash equivalents at end of period	$ 110,060	$ 17,871
Supplementary information:		
Interest paid	$ 96,398	$ 86,592
Non-cash transactions:		
Transfer of mortgage loans held-for-investment to CMO collateral	$ 2,449,994	$ 763,123
Dividends declared and unpaid	19,309	6,708
Accumulated other comprehensive loss	(24,338)	(12,040)
Loans transferred to other real estate owned	11,219	7,793
Redemption of preferred stock into common stock	--	28,658

See accompanying notes to consolidated financial statements.

1. Basis of Financial Statement Presentation

The accompanying consolidated financial statements of Impac Mortgage Holdings, Inc. and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (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-and nine-month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

References to the Company refers to Impac Mortgage Holdings, Inc., a Maryland corporation incorporated in August 1995, and its subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG) and, its affiliate, Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. and Novelle Financial Services, Inc. (NFS). References to Impac Mortgage Holdings, Inc. (IMH) are made to differentiate IMH, the publicly traded company, as a separate entity from IMH Assets, IWLG and IFC. IMH is organized as a real estate investment trust (REIT) for federal income tax purposes, which generally allows it to pass through income to stockholders without federal income tax at the corporate level.

The Company's results of operations have been presented in the consolidated financial statements for the three- and nine- months ended September 30, 2002 and 2001 and include the financial results of IMH's equity interest in net earnings of IFC, the mortgage operations. The results of operations of IFC, of which 100% of IFC's preferred stock and 99% of its economic interest is owned by IMH, are included in the results of operations as "Equity in net earnings of Impac Funding Corporation." Additionally, the Company's results of operations include the financial results of IMH Assets and IWLG as stand-alone entities.

2. Organization

The Company acquires, originates, securitizes and invests primarily in non-conforming Alt-A mortgage loans (Alt-A). Alt-A mortgage loans consist primarily of mortgage loans that are first lien mortgage loans made to borrowers whose credit is generally within typical Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) guidelines, but that have loan characteristics that make them non-conforming under those guidelines. For instance, the loans may have higher loan-to-value (LTV) ratios than allowable under those guidelines or they may have been originated without certain documentation or verifications required under those guidelines. Therefore, in making credit decisions, the Company is more reliant upon the borrower's credit score and the adequacy of the underlying collateral. Management believes that Alt-A mortgage loans provide an attractive net earnings profile by producing higher yields without commensurately higher credit losses than other types of mortgage loans. Since 1999, the Company has acquired and originated primarily Alt-A mortgage loans. The Company also provides warehouse and repurchase financing to originators of mortgage loans. Our ultimate goal is to generate consistent and reliable income for distribution to our stockholders primarily from the earnings of our long-term investment operations.

The Company primarily operates three core businesses: the long-term investment operations, the mortgage operations and the warehouse lending operations.

The long-term investment operations, conducted by IMH and IMH Assets, invest primarily in Alt-A mortgage loans acquired from IFC. This business primarily generates net interest income on its mortgage loan investment portfolio and, to a lesser extent, its investment securities portfolio. Alt-A mortgage loans are financed with collateralized mortgage obligations (CMO), reverse repurchase agreements and proceeds from the sale of capital stock.

The mortgage operations, conducted by IFC, acquire, originate, sell and securitize primarily Alt-A mortgage loans and, to a lesser extent, sub-prime mortgage loans (B/C loans). The mortgage operations generate income by securitizing and selling loans to permanent investors, including the long-term investment operations. This business also earns revenues from fees associated with mortgage servicing rights, master servicing agreements and interest income earned on loans held for sale. The mortgage operations primarily use warehouse lines of credit to finance the acquisition and origination of mortgage loans.

The warehouse lending operations, conducted by IWLG, provide short-term financing to mortgage loan originators by funding mortgage loans from their closing date until they are sold to pre-approved investors. The warehouse lending operations earn fees, as well as a spread, from the difference between its cost of borrowings and the interest earned on advances. Generally, the Company seeks to acquire Alt-A mortgage loans funded with warehouse facilities provided by the warehouse lending operations which provides synergies with the long-term investment operations and mortgage operations.

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. Significant estimates made by management include accounting for derivative instruments, hedging activities and loan loss provisions.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," (SFAS 142). SFAS 142 applies to all acquired intangible assets whether acquired singularly, as part of a group, or in a business combination. SFAS 142 supersedes Accounting Principles Bulletin (APB) Opinion No. 17, "Intangible Assets," and carries forward provisions in APB Opinion No. 17 related to internally developed intangible assets. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Goodwill should no longer be amortized, but instead tested for impairment at least annually at the reporting unit level. The accounting provisions are effective for fiscal years beginning after December 31, 2001. As of September 30, 2002, the Company's intangible assets and goodwill are not significant. The financial impact of adopting this statement did not have a material impact on the Company's financial condition and results of operations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143), addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management anticipates that the financial impact of SFAS 143 will not have a material effect on the Company's financial condition and results of operations.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144), addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a business segment. SFAS 144 also eliminates the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The provisions of SFAS 144 generally are to be applied prospectively. Management anticipates that the financial impact of SFAS 144 will not have a material effect on the Company's financial condition and results of operations.

SFAS No. 145, "Rescission of SFAS Statements No. 4, 44, and 64, Amendment of SFAS Statement No. 13, and Technical Corrections," (SFAS 145), updates, clarifies and simplifies existing accounting pronouncements. SFAS 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." SFAS 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for eleven certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The provisions of SFAS 145 related to SFAS No. 4 and SFAS No. 13 are effective for fiscal years beginning and transactions occurring after May 15, 2002, respectively. Management anticipates that the financial impact of SFAS 145 will not have a material effect on the Company's financial condition and results of operations.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," (SFAS 146), requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 replaces Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of SFAS 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management anticipates that the financial impact of SFAS 145 will not have a material effect on the Company's financial condition and results of operations.

SFAS No. 147, "Acquisitions of Certain Financial Institutions," (SFAS 147), is an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9 and addresses the financial accounting and reporting for the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. SFAS 147 removes acquisitions of financial institutions, other than transactions between two or more mutual enterprises, from the scope of SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," (SFAS 72), and FASB Interpretation No. 9, "Applying APB Opinions No. 16 and 17." The provisions of SFAS 147 are to be applied on October 1, 2002. Management anticipates that the financial impact of SFAS 147 will not have a material effect on the Company's financial condition and results of operations.

4. Accounting for Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138, collectively, (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including a number of 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 specific conditions are met, a derivative may be specifically designated as (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) 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.

On January 1, 2001, the Company adopted SFAS 133 and the fair market value of derivative instruments are reflected on the Company's financial statements. On August 10, 2001, the Derivatives Implementation Group (DIG) of the FASB published DIG G20, which further interpreted SFAS 133. On October 1, 2001, the Company adopted the provisions of DIG G20 and net income and accumulated other comprehensive income were adjusted by the amount needed to reflect the cumulative impact of adopting the provisions of DIG G20.

The following table presents certain information related to derivative instruments and hedging activities as of September 30, 2002 (in thousands):

	Fair Value of Derivatives	Index	Related Amount in Other Comprehensive Income	Unamortized Derivative Instruments	Related Amount in Derivative Asset Account	Related Amount in CMO Collateral
Caps and collars not associated with CMOs	$(10,426)	1 mo. LIBOR	$(13,001)	$ 2,574	$(10,427)	$ --
Cash in margin account	23,962	N/A	--	--	23,962	--
Caps, collars and swaps associated with CMOs	(25,362)	1 mo. LIBOR	(36,276)	10,914	--	(25,362)
99% OCI activity at IFC	--	FNMA	(1,291)	--	--	--
Totals	$(11,826)		$(50,568)	$13,488	$ 13,535	$(25,362)

The following table presents certain information related to derivative instruments and hedging activities as of December 31, 2001 (dollars in thousands):

	Fair Value of Derivatives	Index	Related Amount in Other Comprehensive Income	Unamortized Derivative Instruments	Related Amount in Derivative Asset Account	Related Amount in CMO Collateral
Caps and collars not associated with CMOs	$(13,659)	1 mo. LIBOR	$(15,240)	$ 1,581	$(13,659)	$ --
Cash in margin account	18,787	N/A	--	--	18,787	--
Caps, collars and swaps associated with CMOs	(4,372)	1 mo. LIBOR	(12,722)	8,350	--	(4,372)
99% OCI activity at IFC	(158)	FNMA	(90)	--	--	--
Totals	$ 598		$(28,052)	$ 9,931	$ 5,128	$ (4,372)

5. Reconciliation of Net Earnings per Share

The following table presents the computation of basic and diluted net earnings per share as if all stock options were outstanding for the periods indicated and 10.5% cumulative convertible preferred stock (Preferred Stock) was outstanding during the three months ending September 30, 2001 (in thousands, except earnings per share):

	For the Three Months Ended September 30,	
	2002	2001
Numerator for earnings per share:		
Net earnings available to common stockholders	$19,434	$ 8,291
Denominator for earnings per share:		
Basic weighted average number of common shares outstanding	41,010	22,687
Diluted weighted average number of common shares outstanding	41,010	26,823
Net effect of dilutive stock options	766	361
Diluted weighted average common and common equivalent shares ..	41,776	27,184
Net earnings per share:		
Basic	$ 0.47	$ 0.37
Diluted	$ 0.47	$ 0.31

The Company had 424 and 560,978 stock options during the three months ended September 30, 2002 and September 30, 2001, respectively, that were not considered in the dilutive calculation of earnings per share as the exercise price was greater than the average market price during the period. In August 2001, 1,200,000 shares of preferred stock were converted into 6,355,932 shares of common stock.

The following table presents the computation of basic and diluted net earnings per share as if all stock options were outstanding for the periods indicated and Preferred Stock was outstanding during the nine months ending September 30, 2001 (in thousands, except earnings per share):

	For the Nine Months Ended September 30,	
	2002	2001
Numerator for earnings per share:		
Earnings before extraordinary item and cumulative effect of change in accounting principle	$52,808	$ 23,536
Extraordinary item	--	(1,006)
Cumulative effect of change in accounting principle	--	(4,313)
Earnings after extraordinary item and cumulative effect of change in accounting principle	52,808	18,217
Less: Dividends paid to preferred stockholders	--	(1,575)
Net earnings available to common stockholders	$52,808	$ 16,642
Denominator for earnings per share:		
Basic weighted average number of common shares outstanding	38,850	22,573
Diluted weighted average number of common shares outstanding	38,850	26,793
Net effect of dilutive stock options	662	174
Diluted weighted average common and common equivalent shares	39,512	26,967
Net earnings per share before extraordinary item and cumulative effect of change in accounting principle:		
Basic	$ 1.36	$ 0.97
Diluted	$ 1.34	$ 0.87
Net earnings per share:		
Basic	$ 1.36	$ 0.74
Diluted	$ 1.34	$ 0.68

The Company had 229,694 and 195,277 stock options during the nine months ended September 30, 2002 and September 30, 2001, respectively, that were not considered in the dilutive calculation of earnings per share as the exercise price was greater than the average market price during the period.

6. Mortgage Assets

Mortgage assets consist of investment securities available-for-sale, mortgage loans held-for-investment, CMO collateral and finance receivables. As of September 30, 2002 and December 31, 2001, mortgage assets consisted of the following (in thousands):

	September 30, 2002	December 31, 2001
Investment securities available-for-sale:		
Subordinated securities collateralized by mortgages	$ 21,147	$ 26,661
Net unrealized gain (1)	6,347	6,328
Carrying value of investment securities available-for-sale ..	27,494	32,989
Loans Receivable:		
CMO collateral--		
CMO collateral, unpaid principal balance	3,959,957	2,186,561
Unamortized net premiums on loans	55,153	35,397
Securitization expenses	16,317	11,582
Fair value of derivative instruments	(25,362)	(4,372)
Carrying value of CMO collateral	4,006,065	2,229,168
Finance receivables, net of pledge balances (2)--		
Due from affiliates	439,742	166,078
Due from other mortgage banking companies	476,697	300,571
Carrying value of finance receivables	916,439	466,649
Mortgage loans held-for-investment--		
Mortgage loans held-for-investment, unpaid principal balance ..	270,073	20,086
Unamortized net premiums (discounts) on loans	4,065	(8)
Carrying value of mortgage loans held-for-investment	274,138	20,078
Carrying value of gross loans receivable	5,196,642	2,715,895
Allowance for loan losses	(21,564)	(11,692)
Carrying value of net loans receivable	5,175,078	2,704,203
Total carrying value of mortgage assets	$ 5,202,572	$ 2,737,192

(1) Unrealized gains on investment securities available-for-sale is a component of accumulated other comprehensive loss in stockholders' equity.

(2) Outstanding advances on warehouse lines that the warehouse lending operations makes to affiliates and external customers.

7. Allowance for Loan Losses

The Company makes a monthly provision for estimated loan losses on its long-term investment portfolio as an increase to allowance for loan losses. The provision for estimated loan losses is primarily based on a migration analysis based on historical loss statistics, including cumulative loss percentages and loss severity, of similar loans in the Company's long-term investment portfolio. The loss percentage is used to determine the estimated inherent losses in the investment portfolio. Provision for loan losses is also based on management's judgment of net loss potential, including specific allowances for known impaired loans, changes in the nature and volume of the portfolio, the value of the collateral and current economic conditions that may affect the borrowers' ability to pay.

The adequacy of the allowance for loan losses is evaluated on a monthly basis by management to maintain the allowance at levels sufficient to provide for inherent losses. The migration system analyzes historical migration of mortgage loans from original current status to 30-, 60- and 90-day delinquency, foreclosure, and other real estate owned and liquidated. The principal balance of all loans currently in the long-term investment portfolio are included in the migration analysis until the principal balance of loans either become real estate owned or are paid in full. The statistics generated by the migration analysis are used to establish the general valuation for loan losses.

The following tables present activity for allowance for loan losses for the periods shown (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
Balance, beginning of period	$ 16,934	$ 7,817	$ 11,692	$ 5,090
Provision for loan losses	5,361	2,615	13,302	10,558
Charge-offs, net of recoveries	(731)	(2,490)	(3,430)	(7,706)
Balance, end of period	$ 21,564	$ 7,942	$ 21,564	$ 7,942

8. Segment Reporting

The Company internally reviews and analyzes its operating segments as follows:

- o the long-term investment operations, conducted by IMH and IMH Assets, invests primarily in non-conforming Alt-A residential mortgage loans acquired from the mortgage operations and mortgage-backed securities secured by or representing interests in such loans and in second mortgage loans;

- o the warehouse lending operations, conducted by IWLG, provides warehouse and repurchase financing to affiliated companies and to approved mortgage bankers, a majority of which are correspondents of IFC, to finance mortgage loans; and

- o the mortgage operations, conducted by IFC, Impac Lending Group (ILG), a division of IFC, and NFS, a subsidiary of IFC, purchases and originates primarily non-conforming Alt-A mortgage loans, and, to a lesser extent, B/C mortgage loans and second mortgage loans from its network of third party correspondent sellers, mortgage brokers and retail customers. IFC is an unconsolidated taxable REIT subsidiary of IMH and its results of operations are shown as "Equity interest in net earnings of IFC."

The following table shows reporting segments as of and for the nine months ended September 30, 2002 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	(a) Eliminations and Others	Consolidated
Balance Sheet Items				
CMO collateral	$4,006,065	$ --	$ --	$4,006,065
Total assets	4,636,313	1,258,645	(498,701)	5,396,257
Total stockholders' equity	423,361	85,320	(234,153)	274,528
Income Statement Items				
Interest income	$ 127,306	$ 28,956	$ (2,266)	$ 153,996
Interest expense	83,689	16,264	(2,266)	97,687
Equity interest in net earnings of IFC (b)	--	--	12,816	12,816
Net earnings	27,435	12,557	12,816	52,808

The following table shows reporting segments for the three months ended September 30, 2002 (in thousands):

Income Statement Items				
Interest income	$ 51,316	$ 11,699	$ (1,316)	$ 61,699
Interest expense	33,760	6,146	(1,316)	38,590
Equity interest in net earnings of IFC (b)	--	--	2,755	2,755
Net earnings	11,066	5,613	2,755	19,434

The following table shows reporting segments as of and for the nine months ended September 30, 2001 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	(a) Eliminations and Others	Consolidated
Balance Sheet Items				
CMO collateral	$1,672,581	$ --	$ --	$1,672,581
Total assets	2,020,644	669,628	(293,530)	2,396,742
Total stockholders' equity	264,164	70,065	(157,638)	176,591
Income Statement Items				
Interest income	$ 89,380	$ 34,266	$ (7,614)	$ 116,032
Interest expense	67,260	25,556	(7,614)	85,202
Equity interest in net earnings of IFC (b)	--	--	7,857	7,857
Net earnings	2,591	7,769	7,857	18,217

The following table shows reporting segments for the three months ended September 30, 2001 (in thousands):

Income Statement Items				
Interest income	$ 30,975	$ 11,003	$ (3,010)	$ 38,968
Interest expense	22,899	7,692	(3,010)	27,581
Equity interest in net earnings of IFC (b)	--	--	3,039	3,039
Net earnings	2,339	2,913	3,039	8,291

(a) Elimination of inter-segment balance sheet and income statement items.

(b) The mortgage operations is accounted for using the equity method and is an unconsolidated qualified REIT subsidiary of the Company.

9. Investment in Impac Funding Corporation

The Company is entitled to 99% of the earnings or losses of IFC through its ownership of 100% 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.

The following tables present consolidated financial information for Impac Funding Corporation for the periods presented (in thousands):

BALANCE SHEETS

	September 30, 2002	December 31, 2001
ASSETS		
Cash	$ 19,251	$ 28,612
Investment securities available-for-sale	186	3,394
Mortgage loans held-for-sale	456,640	174,172
Mortgage servicing rights	10,023	8,468
Premises and equipment, net	5,303	5,333
Accrued interest receivable	335	130
Other assets	40,897	19,693
Total assets	$ 532,635	$ 239,802
LIABILITIES AND SHAREHOLDERS' EQUITY		
Borrowings from IWLG	$ 454,083	$ 174,136
Due to affiliates	14,500	14,500
Deferred revenue	6,147	4,479
Accrued interest expense	763	453
Other liabilities	37,722	26,914
Total liabilities	513,215	220,482
Shareholders' Equity:		
Preferred stock	18,053	18,053
Common stock	182	182
Retained earnings	21,669	8,722
Cumulative dividends declared	(18,984)	(8,984)
Accumulated other comprehensive gain (loss)	(1,500)	1,347
Total shareholders' equity	19,420	19,320
Total liabilities and shareholders' equity	$ 532,635	$ 239,802

STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
Interest income	$ 8,072	$ 5,569	$ 22,644	$ 18,314
Interest expense	5,991	4,629	16,882	16,601
Net interest income	2,081	940	5,762	1,713
Gain on sale of loans	13,656	12,423	49,387	32,947
Loan servicing income (expense)	(473)	507	(1,221)	2,308
Other non-interest income	9	210	2,089	319
Total non-interest income	13,192	13,140	50,255	35,574
Personnel expense	6,575	4,138	18,418	10,776
General and administrative and other expense	4,549	2,844	13,006	8,500
Provision for repurchases	1,324	501	2,154	515
Amortization of mortgage servicing rights	1,037	1,313	3,529	3,757
Mark-to-market gain on derivative instruments	(2,937)	(62)	(3,393)	(45)
Total non-interest expense	10,548	8,734	33,714	23,503
Earnings before income taxes and cumulative effect of change in accounting principle	4,725	5,346	22,303	13,784
Income taxes	1,942	2,257	9,357	5,865
Earnings before cumulative effect of change in accounting principle	2,783	3,089	12,946	7,919
Cumulative effect of change in accounting principle	--	--	--	17
Net earnings	2,783	3,089	12,946	7,936
Less: Cash dividends on preferred stock	(4,208)	(2,000)	(9,900)	(6,419)
Net earnings available to common stockholders	$ (1,425)	$ 1,089	$ 3,046	$ 1,517

10. Stockholders' Equity

During the nine months ended September 30, 2002 accumulated other comprehensive loss increased by $24.3 million due to a $22.5 million increase in unrealized loss on derivative instruments and a $1.8 million increase in unrealized gain on investment securities available-for-sale.

During the nine months ended September 30, 2002 the Company issued approximately 9.9 million shares of common stock and received net proceeds of $84.0 million (excluding issuance of shares from the exercise of stock options and shares sold under the Sales Agency Agreement).

During the nine months ended September 30, 2002 the Company sold 854,600 shares of common stock pursuant to its Sales Agency Agreement and received net proceeds of $9.3 million.

On September 24, 2002 the Company declared a third quarter cash dividend of $0.45 per common share, or $19.3 million, which was paid on October 9, 2002 to common stockholders of record on October 2, 2002.

On June 25, 2002 the Company declared a second quarter cash dividend of $0.43 per common share, or $17.2 million, which was paid on July 12, 2002 to common stockholders of record on July 3, 2002.

On March 26, 2002 the Company declared a first quarter cash dividend of $0.40 per common share, or $15.8 million, which was paid on April 16, 2002 to common stockholders of record on April 3, 2002.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report contains forward-looking statements including statements relating to the expected performance of the Company's businesses and dividend and earnings expectations. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, among other things, failure to achieve projected earning levels, the timely and successful implementation of strategic initiatives, the ability to generate sufficient liquidity, the size and frequency of our securitizations and the amount of interest we earn on our mortgage loans, interest rate fluctuations on our assets that differ from those on our liabilities, changes in the difference between short-term and long-term interest rates, increases in prepayment rates on our mortgage assets, changes in assumptions regarding estimated loan losses, changes in assumptions regarding estimated fair value amounts, the availability of financing and, if available, the terms of any financing, changes in origination and resale pricing of mortgage loans, growth in markets which the Company serves, changes in general market and economic conditions and other factors described in this report and under "Risk Factors." Caution must be exercised in relying on these and other forward-looking statements. Due to known and unknown risks and other factors not presently identified, the Company's results may differ materially from its expectations and projections. We may update and revise our estimates based on actual conditions experienced, however, it is not practicable to publish all revisions and as a result, no one should assume that results projected in or contemplated by the forward-looking statements included above may continue to be accurate in the future.

The terms "Company," "we," "us," and "our" refer to Impac Mortgage Holdings, Inc., a Maryland corporation incorporated in August 1995, and its subsidiaries, IMH Assets Corp., or "IMH Assets," Impac Warehouse Lending Group, Inc., or "IWLG," and its affiliate, Impac Funding Corporation, or "IFC," together with its wholly-owned subsidiaries Impac Secured Assets Corp. and Novelle Financial Services, Inc., or "NFS."

Together with our subsidiaries and affiliates we acquire, originate, securitize and invest nationwide primarily in non-conforming Alt-A mortgage loans, or "Alt-A." Alt-A mortgage loans consist primarily of mortgage loans that are first lien mortgage loans made to borrowers whose credit is generally within typical Federal National Mortgage Association, or "Fannie Mae," and the Federal Home Loan Mortgage Corporation, or "Freddie Mac," guidelines, but that have loan characteristics that make them non-conforming under those guidelines. For instance, Alt-A mortgage loans may have higher loan-to-value LTV ratios than allowable under those guidelines or they may have been originated without certain documentation or verifications required under those guidelines. Therefore, in making credit decisions, we are more reliant upon the borrower's credit score and the adequacy of the underlying collateral. Alt-A credit quality loans generally have a credit score of 600 or better while "A" credit quality loans generally have a credit score of 640 or better.

We believe that the non-conforming Alt-A mortgage market is expanding because this market niche provides mortgage borrowers with valuable financing alternatives to Fannie Mae, Freddie Mac and sub-prime lenders. We also believe that Alt-A mortgage loans provide an attractive net earnings profile by producing higher yields without commensurately higher credit losses than other types of mortgage loans. Since 1999, we have acquired and originated primarily Alt-A mortgage loans. We also provide warehouse and repurchase financing to originators of mortgage loans. Our ultimate goal is to generate consistent and reliable income for distribution to our stockholders primarily from the earnings of our long-term investment operations.

Critical Accounting Policies

Certain accounting policies require us to make significant estimates and assumptions, which materially affect the carrying value of certain assets and liabilities, and we consider these to be critical accounting policies. The estimates and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions which could materially affect the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. We believe the following are critical accounting policies that require the most significant estimates and assumptions that are particularly susceptible to significant change in the preparation of our financial statements:

- Allowance for losses on loans. For further information, see note 7 on pages 12 and 13 of notes to consolidated financial statements and pages 21 and 26 of this section; and

- Accounting for Derivative Instruments and Hedging Activities. For further information, see note 4 on pages 9 and 10 of notes to consolidated financial statements and "Item 3. Quantitative and Qualitative Disclosures About Market Risk" on page 45.

Operating Segments

We primarily operate three core businesses: the long-term investment operations, the mortgage operations, and the warehouse lending operations.

Long-Term Investment Operations

The long-term investment operations, conducted by IMH and IMH Assets, primarily invest in Alt-A mortgage loans acquired and originated by the mortgage operations. In addition, during the third quarter of 2002 the Company began operations of a new subsidiary called Impac Multi-Family Capital Corporation, or "IMCC," which intends to originate mortgage loans on multi-family properties with loan balances between $250,000 and $1.5 million. These businesses primarily generate net interest income on its mortgage investment portfolio and, to a lesser extent, its investment securities portfolio. Alt-A mortgage loans are financed with collateralized mortgage obligations, or "CMOs," reverse repurchase agreements and proceeds from the sale of capital stock.

During the first nine months of 2002 the long-term investment operations acquired $2.5 billion of primarily Alt-A adjustable-rate mortgages, or "ARMs," and $200.9 million of fixed-rate mortgages, or "FRMs." Of the mortgages acquired during the first nine months of 2002, 93% were ARMs, of which 65% were indexed to six-month London Interbank Offered Rate, or "LIBOR," 62% were purchase money transactions and 77% had prepayment penalty features. Mortgages acquired during the first nine months of 2002 had a weighted average coupon of 6.60% and a weighted average credit score of 686.

As of September 30, 2002, the long-term mortgage investment portfolio was $4.3 billion of which approximately 91% were ARMs and 9% were FRMs. The long-term mortgage investment portfolio had a weighted average coupon of 6.84%, a weighted average margin of 3.07% (mainly LIBOR based) and an original weighted average credit score of 680. 97% of the long-term mortgage investment portfolio were Alt-A mortgages, 71% had prepayment penalty features with a weighted average prepayment expiration period of approximately 22 months, 48% were six-month LIBOR indexed ARMs, or "six month ARMs," and 42% were six-month LIBOR indexed hybrid loans, or "six month hybrids." Six months hybrids have initial fixed interest rate periods of two to five years, which subsequently adjust to ARMs, and had an average interest rate adjustment period of approximately 14 months as of September 30, 2002.

Mortgage Operations

The mortgage operations, conducted by IFC, acquire, originate, sell and securitize primarily Alt-A mortgage loans and, to a lesser extent, sub-prime mortgage loans, or "B/C loans." The mortgage operations primarily generate income by securitizing and selling loans to permanent investors, including the long-term investment operations. This business also earns revenues from fees associated with mortgage servicing rights, master servicing agreements and interest income earned on loans held for sale. The mortgage operations primarily use warehouse lines of credit to finance the acquisition and origination of mortgage loans.

Loan acquisitions and originations during the first nine months of 2002, excluding premiums, were $4.3 billion. Of mortgages acquired or originated during the first nine months of 2002, 93% were Alt-A, 77% had prepayment penalty features, 68% were ARMs and 58% were purchase money transactions. During the first nine months of 2002 the mortgage operations sold $2.7 billion of mortgage loans to the long-term investment operations, issued real estate mortgage investment conduits, or "REMICs," totaling $594.7 million and sold $680.4 million of mortgage loans to third party investors.

As of September 30, 2002 the master servicing portfolio was $7.9 billion and the loan delinquency rate of mortgages in the master servicing portfolio which were 60 or more days past due, inclusive of foreclosures and delinquent bankruptcies, was 4.45%.

Warehouse Lending Operations

The warehouse lending operations, conducted by IWLG, provide short-term financing to mortgage loan originators by funding mortgage loans from their closing date until they are sold to pre-approved investors. The warehouse lending operations earn fees, as well as a spread, from the difference between its cost of borrowings and the interest earned on advances.

As of September 30, 2002 the warehouse lending operations had extended $564.0 million of short-term warehouse lines of credit available to 60 non-affiliated customers, of which $476.7 million was outstanding.

Results of Operations--Impac Mortgage Holdings, Inc.

For the Three Months Ended September. 30, 2002 as compared to the Three Months Ended September 30, 2001

Net earnings for the third quarter of 2002 increased to $19.4 million, or $0.47 per diluted share, as compared to net earnings of $8.3 million, or $0.31 per diluted share, for the third quarter of 2001 primarily due to an $11.7 million increase in net interest income. Return on average assets and equity was 1.64% and 29.27%, respectively, during the third quarter of 2002 as compared to 1.45% and 17.16%, respectively, during the third quarter of 2001.

Book value per outstanding common share was $6.40 at quarter-end as compared to $6.44 per outstanding common share as of June 30, 2002. Book value decreased during the third quarter primarily due to a $14.9 million increase in accumulated other comprehensive loss, which offset the incremental increase in book value from the issuance of new shares. The increase in other comprehensive loss was the result of fair market adjustments on derivative instruments, in accordance with Statement of Financial Accounting Standards No. 133, or "SFAS 133," "Accounting for Derivative Instruments and Hedging Activities."

Estimated taxable income for the third quarter was $25.5 million, or $0.61 per diluted share, as compared to $7.4 million, or $0.27 per diluted share, during the third quarter of 2001. Estimated taxable income during the third quarter of 2002 was greater than net earnings as excess provision for loan losses cannot be deducted from taxable income. In addition, estimated taxable income for the third quarter of 2002 reflects a $4.2 million dividend from IFC. After filing its 2001 tax returns, the Company had a federal net operating loss carryforward of $29.3 million, which expires in the year 2020, and a state net operating loss carryforward of $29.3 million, which expires in the year 2010, that are available to offset future taxable income.

The following table summarizes the calculation of estimated taxable income and a reconciliation of estimated taxable income to net earnings for the periods shown (in thousands, except earnings per share amounts):

	For the Three Months Ended September 30,	
	2002 (2)	2001 (3)
Net earnings	$ 19,434	$ 8,291
Adjustments to net earnings:		
Loan loss provision	5,361	2,615
Dividends from IFC	4,208	2,000
Tax deduction for actual loan losses	(731)	(2,491)
Equity in net earnings of IFC	(2,755)	(3,039)
Estimate taxable income (1)	$ 25,517	$ 7,376
Estimated taxable income per share	$ 0.61	$ 0.27

(1) Estimated taxable income includes estimates of book to tax adjustments and can differ from actual taxable income as calculated when the Company files its annual tax return.

(2) Excludes deduction for dividends paid and the availability of a deduction attributable to a net operating loss carryforward.

(3) Excludes deduction for dividends paid, the availability of a deduction attributable to a net operation loss carryforward and quarterly tax deductions of approximately $2.7 million for amortization of the termination of the Company's management agreement.

Net interest income increased 103% to $23.1 million during the third quarter of 2002 as compared to $11.4 million during the third quarter of 2001 as average mortgage assets rose. Average mortgage assets increased as mortgage rates declined to historic lows during 2002 which contributed to record mortgage acquisitions and originations by the mortgage operations. Although, in the near term, we believe that mortgage demand for both fixed and adjustable rate mortgages will remain high, we are mindful that this may not always be the case. Therefore, we believe that we must take advantage of this market opportunity and continue the growth of our balance sheet, which increased 26% to $5.4 billion as of quarter-end as compared to $4.3 billion as of June 30, 2002.

Total assets increased as the long-term investment operations acquired $1.1 billion of mortgages from the mortgage operations, which included $200.0 million of FRMs. The FRMs were securitized as our first fixed rate CMO since 1998. The fixed rate CMO utilizes matched fixed rate borrowings that provides a locked-in interest spread over the life of the mortgage loans which, we believe, will have a longer life than adjustable rate assets. The fixed rate CMO had a weighted average fixed borrowing cost of 4.98%. We also completed one variable rate CMO during the third quarter for $497.5 million that had a weighted average adjustable borrowing cost of one-month LIBOR plus 49 basis points. By acquiring and securitizing FRMs, in addition to acquiring and securitizing ARMs, we believe that we can generate more consistent revenue from our mortgage loan investment portfolio as opposed to revenue generated from gain on sale of loans, which are more susceptible to fluctuations in mortgage activity. In the future, we expect to acquire as much as 50% of the mortgage operations' fixed rate acquisitions and originations.

To sustain our strategy of growing the balance sheet, it has become apparent that we need to raise capital more quickly through the block sale of common shares as opposed to raising capital strictly through the sale of common shares via our Sales Agency Agreement. Therefore, during the third quarter we completed the sale of approximately 2.5 million common shares at a public offering price of $11.25 per share. We expect to continue to access the capital markets through our Sales Agency Agreement or periodically issue shares from our shelf registration as the market, economics and sound business practice dictates.

In addition to issuing common shares to finance our growth, we utilized new reverse repurchase agreements to provide financing for the acquisition of mortgages during the third quarter. New reverse repurchase agreements of $650.0 million were secured with various investment banks during the year. The new reverse repurchase agreements provide us with a higher aggregate credit limit to fund the acquisition and origination of mortgage loans at terms comparable to those we have received in the past and the flexibility of having financial relationships with a larger cross-section of financial institutions. However, we continue to securitize or sell mortgage loans every 30 to 45 days to limit our exposure to possible margin calls on our financing facilities.

We believe that we effectively manage interest rate risk by purchasing interest rate hedging instruments that result in reliable and consistent net interest margins in changing interest rate environments. Net interest margins on mortgage assets decreased 4 basis points to 1.92% during the third quarter of 2002 as compared to 1.96% during the third quarter of 2001. As short-term interest rates and mortgage rates declined, yields on mortgage assets decreased 178 basis points during the third quarter of 2002 to 5.18% as compared to 6.96% during the third quarter of 2001. Borrowing costs on mortgage assets also declined as yields dropped 192 basis points to 3.37% during the third quarter of 2002 as compared to 5.29% during the third quarter of 2001. We believe that our interest rate hedging strategy will continue to provide reliable and consistent net interest margins in a changing interest rate environment.

The following table summarizes average balance, interest and weighted average yield on Mortgage Assets and borrowings on Mortgage Assets for the third quarters of 2002 and 2001 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 September 30, 2002			For the Three Months Ended September 30, 2001		
	Average Balance	Interest	Wtd. Avg Yield	Average Balance	Interest	Wtd. Avg Yield
Mortgage Assets						
Securities collateralized by mortgages	$ 28,442	$ 362	5.09%	$ 33,491	$ 679	8.11%
Loans receivable:				--	--	--
CMO collateral (1)	3,725,003	48,286	5.19	1,515,450	27,219	7.18
Mortgage loans held-for-investment (1)	131,267	1,665	5.07	195,891	2,529	5.16
Finance receivables:						
Affiliated	377,922	4,358	4.61	251,140	4,027	6.41
Non-affiliated	347,691	5,065	5.83	208,164	3,901	7.50
Total finance receivables	725,613	9,423	5.19	459,304	7,928	6.90
Total loans receivable	4,581,883	59,374	5.18	2,170,645	37,676	6.94
Total Mortgage Assets	$4,610,325	$59,736	5.18%	$2,204,136	$38,355	6.96%
Borrowings on Mortgage Assets						
CMO borrowings (2)	$3,635,351	$31,091	3.42%	$1,435,864	$19,249	5.36%
Reverse repurchase agreements - mortgages	816,923	6,086	2.98	633,248	7,688	4.86
Borrowings secured by investment securities	9,255	431	18.63	16,183	620	15.32
Total Borrowings on Mortgage Assets	$4,461,529	$37,608	3.37%	$2,085,295	$27,557	5.29%
Net Interest Spread (3)			1.81%			1.67%
Net Interest Margin (4)			1.92%			1.96%

(1) Interest income includes amortization of acquisition costs.

(2) Interest expense includes amortization of securitization costs.

(3) Net interest spread is calculated by subtracting the weighted average yield on total borrowings on Mortgage Assets from the weighted average yield on total Mortgage Assets.

(4) Net interest margin is calculated by subtracting interest expense on total borrowings on Mortgage Assets from interest income on total Mortgage Assets and then dividing by the total average balance for Mortgage Assets.

Mortgage loans acquired from the mortgage operations with prepayment penalty features help to mitigate Constant Prepayment Rate, or "CPR," and corresponding premium and securitization cost amortization as a result of refinancing activity. Loan premiums paid for acquiring mortgage loans and securitization costs for obtaining financing are amortized to interest income and interest expense over the estimated lives of the mortgage loans or related borrowings. Prepayments on a pool of mortgage loans are commonly measured relative to a CPR that represents an annual rate at which prepayments occur each month relative to the then outstanding balance of the pool of mortgage loans. The prepayment experience for our mortgage assets for the third quarter of 2002 equaled 24% CPR, which represents an improvement over the third quarter of 2001, a period for which prepayment experience equaled 36% CPR. Additionally, the acquisition of mortgage loans at current market rates during the third quarter also contributed to a decline in CPR.

We believe that we mitigate loan losses and a potential increase in foreclosure rates by maintaining an adequate allowance for loan loss, by acquiring mortgage loans with favorable credit profiles and by acquiring mortgage loans with conservative loan-to-value ratios with mortgage insurance enhancements, which reduces our effective loan-to-value ratio. Allowance for loan losses increased 85% to $21.6 million at quarter-end, or 0.41% of total loans receivable, which includes CMO collateral, mortgage loans held-for-investment and finance receivables, as compared to $11.7 million, or 0.43% of total loans receivable, as of December 31, 2001. During the third quarter of 2002 provision for loan losses was $5.4 million on mortgage acquisitions of $1.1 billion as compared to $2.6 million and $360.9 million, respectively, for the third quarter of 2001.

As of September 30, 2002 total non-performing assets were $105.6 million, or 1.96% of total assets, as compared to $69.3 million, or 2.43% of total assets, as of December 31, 2001. Mortgage loans that were 60 or more days delinquent, including foreclosures and delinquent bankruptcies, was 2.92% of the long-term mortgage investment portfolio as of September 30, 2002 as compared to 3.84% as of December 31, 2001.

We make monthly provisions for estimated loan losses on our long-term investment portfolio as an increase to allowance for loan losses. The provision for estimated loan losses is primarily based on a migration analysis based on historical loss statistics, including cumulative loss percentages and loss severity, of similar loans in our long-term investment portfolio. The loss percentage is used to determine the estimated inherent losses in the investment portfolio. Provision for loan losses is also based on management's judgment of net loss potential, including specific allowances for known impaired loans, changes in the nature and volume of the portfolio, the value of the collateral and current economic conditions that may affect the borrowers' ability to pay.

We acquire mortgage loans from the mortgage operations that fit within our criteria, which are primarily non-conforming Alt-A ARMs and, to a lesser extent, FRMs with good credit profiles, with insurance enhancements (when required), prepayment penalty features and purchase money transactions. The following table summarizes mortgage loan acquisitions for the periods indicated (in thousands):

LOAN ACQUISITION SUMMARY (1)

	For the Three Months Ended September 30,			
	2002		2001	
	Balance	%	Balance	%
Volume by Type:				
Adjustable rate	$ 892,092	82	$353,290	98
Fixed rate	200,004	18	7,608	2
Total Loan Acquisitions	$1,092,096		$360,898	
Volume by Product:				
Six month LIBOR indexed ARMs	$ 619,225	57	$ 92,925	26
Six month LIBOR indexed hybrids (2)	272,867	25	260,365	72
Fixed first trust deeds	200,004	18	0	0
Fixed second trust deeds	0	0	7,608	2
Total Loan Acquisitions	$1,092,096		$360,898	
Volume by Credit Quality:				
Alt-A loans	$1,086,719	100	$358,492	99
B/C loans	5,377	0	2,406	1
Total Loan Acquisitions	$1,092,096		$360,898	
Volume by Purpose:				
Purchase	$ 681,739	62	$253,224	70
Refinance	410,357	38	107,674	30
Total Loan Acquisitions	$1,092,096		$360,898	
Volume by Prepayment Penalty:				
With prepayment penalty	$ 913,959	84	$194,697	54
Without prepayment penalty	178,137	16	166,201	46
Total Loan Acquisitions	$1,092,096		$360,898	

(1) Excludes premiums paid upon acquiring mortgages.

(2) Mortgage loans are fixed rate for initial two to five year periods and subsequently adjust to the indicated index plus a margin.

Equity in net earnings of IFC decreased 7% to $2.8 million during the third quarter as compared to $3.0 million during the third quarter of 2001. However, net earnings of IFC would have been higher during the third quarter of 2002 if IFC had sold $200.0 million of FRMs to non-affiliated investors as whole loan sales or as REMICs instead of selling FRMs to the long-term investment operations. Sale of mortgage loans to the long-term investment operations results in a deferral of the gain over the life of the mortgage loans. These FRMs were securitized as our first fixed rate CMO since 1998 and should provide positive cash flows over the life of the loans. Refer to "Results of Operations--Impac Funding Corporation" for more information on the operating results of IFC.

Results of Operations--Impac Funding Corporation

For the Three Months Ended September 30, 2002 as compared to the Three Months Ended September 30, 2001

Net earnings decreased 10% to $2.8 million during the third quarter of 2002 as compared to $3.1 million during the third quarter of 2001. The decrease in net earnings was primarily due to the sale of $200.0 million of FRMs to the long-term investment operations during the third quarter of 2002 as compared to the sale of FRMs to non-affiliated investors or as REMICs during the third quarter of 2001. Sale of mortgage loans to the long-term investment operations results in a deferral of the gain over the life of the mortgage loans. The sale of $200.0 million of FRMs to the long-term investment operations should provide positive cash flows over the life of the mortgage assets as opposed to one-time cash gain on sale of loans.

Net interest income increased to $2.1 million during the third quarter of 2002 as compared to $940,000 during the third quarter of 2001 as average loans held for sale increased and net interest margins widened. Average loans held for sale increased to $396.2 million during the third quarter of 2002 as compared to $263.0 million during the third quarter of 2001 as a result of higher loan acquisitions and originations. Net interest margins increased to 2.42% during the third quarter of 2002 as compared to 2.04% during the third quarter of 2001 as interest rate spreads widened.

Gain on sale of loans increased to $13.7 million on loan sales of $1.5 billion during the third quarter of 2002 as compared to gain on sale of loans of $12.4 million on loan sales of $769.9 million during the third quarter of 2001. The mortgage operation sells or securitizes loans between 30 and 45 days from the date of acquisition and origination. Frequent sale or securitization of mortgage loans requires less capital, maintains higher liquidity and provides less interest rate and price volatility during the mortgage loan accumulation period.

Excluding mark-to-market gain on derivative instruments, total non-interest expense increased to $13.5 million during the third quarter of 2002 as compared to $8.8 million during the third quarter of 2001. The increase in total non-interest expense during the third quarter of 2002 was primarily due to $1.4 million of operating expenses from NFS, which began operations during the fourth quarter of 2001. In addition, staff and operating expenses were higher as staff was hired to meet greater correspondent loan acquisition and wholesale origination volumes during the third quarter of 2002.

Although non-interest expense increased during the third quarter of 2002, fully loaded costs to acquire and originate an Alt-A mortgage loan at IFC declined to 69 basis points during the third quarter of 2002 as compared to 97 basis points during the third quarter of 2001. Fully loaded costs to acquire and originate a B/C mortgage loan at NFS was 198 basis points during the third quarter of 2002. Fully loaded expense includes both direct costs incurred to acquire and originate mortgage loans, which includes loan origination and sales and marketing costs, and indirect costs, which includes accounting, administration, legal and information technology costs.

Mortgage loan acquisitions and originations increased 109% to $1.7 billion during the third quarter of 2002 as compared to $815.5 million during the third quarter of 2001. The following table summarizes mortgage loan acquisitions and originations for the periods indicated (in thousands):

LOAN PRODUCTION SUMMARY (1)

	For the Three Months Ended September 30,			
	2002		2001	
	Balance	%	Balance	%
Volume by Type:				
Fixed rate first trust deeds	$ 552,751	33	$335,257	41
Fixed rate second trust deeds	24,032	1	10,083	1
Adjustable rate:				
Six month LIBOR ARMs	724,101		133,557	
Six month LIBOR hybrids	379,102		336,618	
Total adjustable rate	1,103,203	66	470,175	58
Total Loan Production	$1,679,986		$815,515	
Volume by Channel:				
Correspondent acquisitions	$1,258,485	75	$606,905	74
Wholesale and retail originations	295,518	18	188,629	23
Novelle Financial Services, Inc.	125,983	7	19,981	3
Total Loan Production	$1,679,986		$815,515	
Volume by Credit Quality:				
Alt-A loans	$1,545,239	92	$791,037	97
B/C loans	134,747	8	24,478	3
Total Loan Production	$1,679,986		$815,515	
Volume by Purpose:				
Purchase	$ 985,755	59	$531,935	65
Refinance	694,231	41	283,580	35
Total Loan Production	$1,679,986		$815,515	
Volume by Prepayment Penalty:				
With prepayment penalty	$1,372,735	82	$515,814	63
Without prepayment penalty	307,251	18	299,701	37
Total Loan Production	$1,679,986		$815,515	

(1) Excludes premiums paid upon acquiring and originating mortgages.

Results of Operations--Impac Mortgage Holdings, Inc.

For the Nine Months Ended September 30, 2002 as compared to the Nine Months Ended September 30, 2001

Net earnings for the first nine months of 2002 were $52.8 million, or $1.34 per diluted share, as compared to net earnings of $18.2 million, or $0.68 per diluted share, for the same period of 2001. Net earnings rose as net interest income increased by $25.5 million, equity in net earnings of IFC increased by $5.0 million and mark-to-market loss on derivative instruments and cumulative effect of change in accounting policy decreased by $8.0 million. Return on average assets and equity was 1.82% and 27.72%, respectively, during the first nine months of 2002 as compared to 1.16% and 13.13%, respectively, during the same period of 2001.

Estimated taxable income for the first nine months of 2002 was $59.8 million, or $1.51 per diluted share, as compared to $19.6 million, or $0.73 per diluted share, during the same period of 2001. Estimated taxable income during the first nine months of 2002 was greater than net earnings as excess provision for loan losses cannot be deducted from taxable earnings. During the first nine months of 2002 provision for loan losses of $13.3 million were in excess of actual loan charge-offs, net of recoveries, of $3.4 million. In addition, estimated taxable income for the first nine months of 2002 reflects dividends of $9.9 million from IFC.

The following table summarizes the calculation of estimated taxable income and a reconciliation of estimated taxable income to net earnings for the periods shown (in thousands, except earnings per share amounts):

	For the Nine Months Ended September 30,	
	2002 (2)	2001 (3)
Net earnings	$ 52,808	$ 18,217
Adjustments to net earnings:		
Loan loss provision	13,302	10,559
Dividends from IFC	9,900	6,419
Tax deduction for actual loan losses	(3,430)	(7,707)
Equity in net earnings of IFC	(12,816)	(7,857)
Estimate taxable income (1)	$ 59,764	$ 19,631
Estimated taxable income per share	$ 1.51	$ 0.73

(1) Estimated taxable income includes estimates of book to tax adjustments and can differ from actual taxable income as calculated when the Company files its annual tax return.

(2) Excludes deduction for dividends paid and the availability of a deduction attributable to a net operating loss carryforward.

(3) Excludes deduction for dividends paid, the availability of a deduction attributable to a net operating loss carryforward and tax deductions of approximately $8.1 million for amortization of the termination of the Company's management agreement.

Net interest income increased 83% to $56.3 million during the first nine months of 2002 as compared to $30.8 million during the same period of 2001 as total average mortgage assets rose. Total average mortgage assets increased 90% to $3.8 billion during the first nine months of 2002 as compared to $2.0 billion during the same period of 2001 as the long-term investment operations acquired $2.7 billion of mortgage loans during the first nine months of 2002. Net interest margins on mortgage assets decreased 3 basis points to 1.92% during the first nine months of 2002 as compared to 1.95% during the same period of 2001. As short-term interest rates and mortgage rates declined, yields on mortgage assets decreased 218 basis points during the first nine months of 2002 to 5.32% as compared to 7.50% during the same period of 2001. Borrowing costs on mortgage assets also declined as yields dropped 236 basis points to 3.55% during the first nine months of 2002 as compared to 5.91% during the same period of 2001.

The following table summarizes average balance, interest and weighted average yield on Mortgage Assets and borrowings on Mortgage Assets for the first nine months of 2002 and 2001 and includes interest income on Mortgage Assets and interest expense related to borrowings on Mortgage Assets only (dollars in thousands):

	For the Nine Months Ended September 30, 2002			For the Nine Months Ended September 30, 2001		
	Average Balance	Interest	Wtd. Avg Yield	Average Balance	Interest	Wtd. Avg Yield
Mortgage Assets						
Securities collateralized by mortgages	$ 29,806	$ 1,449	6.48%	$ 34,181	$ 2,997	11.69%
Loans receivable:						
CMO collateral	2,981,957	120,487	5.39	1,387,641	77,540	7.45
Mortgage loans held-for-investment	81,195	2,865	4.70	154,678	7,115	6.13
Finance receivables:						
Affiliated	397,980	13,542	4.54	262,002	14,809	7.54
Non-affiliated	279,273	12,095	5.77	191,563	11,696	8.14
Total finance receivables	677,253	25,637	5.05	453,565	26,505	7.79
Total loans receivable	3,740,405	148,989	5.31	1,995,884	111,160	7.43
Total Mortgage Assets	$3,770,211	$150,438	5.32%	$2,030,065	$114,157	7.50%
Borrowings on Mortgage Assets						
CMO borrowings	$2,894,017	$79,021	3.64%	$1,309,069	$57,016	5.81%
Reverse repurchase agreements - mortgages	706,696	15,724	2.97	578,021	25,485	5.88
Borrowings secured by investment securities	10,760	1,455	18.03	18,219	1,958	14.33
Total Borrowings on Mortgage Assets	$3,611,473	$96,200	3.55%	$1,905,309	$84,459	5.91%
Net Interest Spread			1.77%			1.59%
Net Interest Margin			1.92%			1.95%

During the first nine months of 2002 and 2001 provision for loan losses was $13.3 million and $10.6 million, respectively, while actual loan losses, net of recoveries, during the first nine months of 2002 and 2001 were $3.4 million and $7.7 million, respectively. Provision for loan losses increased during the first nine months of 2002 as the long-term investment operations acquired $2.7 billion of mortgage loans for long-term investment as compared to $907.8 million during the same period of 2001. Allowance for loan losses increased 85% to $21.6 million at quarter-end as compared to $11.7 million as of December 31, 2001.

The following table summarizes mortgage loan acquisitions for the periods indicated (in thousands):

LOAN ACQUISITION SUMMARY (1)

	For the Nine Months Ended September 30,			
	2002		2001	
	Balance	%	Balance	%
Volume by Type:				
Adjustable rate	$2,479,017	93	$894,506	99
Fixed rate	200,871	7	13,287	1
Total Loan Acquisitions	$2,679,888		$907,793	
Volume by Product:				
Six month LIBOR indexed ARMs	$1,727,198	65	$116,975	13
Six month LIBOR indexed hybrids (2)	751,819	28	777,531	86
Fixed first trust deeds	200,560	7	0	0
Fixed second trust deeds	311	0	13,287	1
Total Loan Acquisitions	$2,679,888		$907,793	
Volume by Credit Quality:				
Alt-A loans	$2,667,877	100	$901,229	99
B/C loans	12,011	0	6,564	1
Total Loan Acquisitions	$2,679,888		$907,793	
Volume by Purpose:				
Purchase	$1,652,564	62	$614,116	68
Refinance	1,027,324	38	293,677	32
Total Loan Acquisitions	$2,679,888		$907,793	
Volume by Prepayment Penalty:				
With prepayment penalty	$2,050,608	77	$533,987	59
Without prepayment penalty	629,280	23	373,806	41
Total Loan Acquisitions	$2,679,888		$907,793	

(1) Excludes premiums paid upon acquiring mortgages.

(2) Mortgage loans are fixed rate for initial two to five year periods and subsequently adjust to the indicated index plus a margin.

Equity in net earnings of IFC increased to $12.8 million during the first nine months of 2002 as compared to $7.9 million during the same period of 2001 primarily as loan acquisitions and originations and corresponding sales volume increased. The increase in loan production during the first nine months of 2002 resulted in a corresponding increase in loan sales which contributed to gain on sale of loans of $49.4 million as compared to $32.9 million during the same period of 2001. Refer to "Results of Operations--Impac Funding Corporation" for more information on the operating results of IFC.

Mark-to-market loss on derivative instruments and cumulative effect of change in accounting principle, which was the transition adjustment upon adoption of SFAS 133 on January 1, 2001, decreased to zero during the first nine months of 2002 as compared to $8.0 million during the same period of 2001. On January 1, 2001, the Company adopted SFAS 133 and the fair market value of derivative instruments during the first nine months of 2001 was reflected on the Company's financial statements as a decrease to net earnings. On August 10, 2001, the Derivatives Implementation Group, or "DIG," of the Financial Accounting Standards Board published DIG G20, which further interpreted SFAS 133. On October 1, 2001, the Company adopted the provisions of DIG G20 and net income and accumulated other comprehensive income were adjusted by the amount needed to reflect the cumulative impact of adopting the provisions of DIG G20.

Results of Operations-- Impac Funding Corporation

For the Nine Months Ended September 30, 2002 as compared to the Nine Months Ended September 30, 2001

Net earnings increased 63% to $12.9 million during the first nine months of 2002 as compared to $7.9 million during the same period of 2001 primarily due a $16.4 million increase in gain on sale of loans and a $4.0 million increase in net interest income which was partially offset by a $10.2 million increase in operating expense.

Gain on sale of loans increased to $49.4 million on loan sales of $4.0 billion during the first nine months of 2002 as compared to gain on sale of loans of $32.9 million on loan sales of $2.2 billion during the same period of 2001. Additionally, profit margins on mortgage loans sold during the first nine months of 2002 were more favorable as compared to profit margins on mortgage loans sold during the same period of 2001.

Net interest income increased to $5.8 million during the first nine months of 2002 as compared to $1.7 million during the same period of 2001 as average loans held for sale increased and net interest margins widened. Average loans held for sale increased to $412.3 million during the first nine months of 2002 as compared to $269.9 million during the same period of 2001 as a result of higher loan acquisitions and originations. Net interest margins increased to 2.14% during the first nine months of 2002 as compared to 1.22% during the same period of 2001 as interest rate spreads widened.

Excluding mark-to-market gain on derivative instruments, total non-interest expense increased to $37.1 million during the first nine months of 2002 as compared to $23.5 million during the third quarter of 2001. The increase in total non-interest expense during the first nine months of 2002 was primarily due to $6.1 million of operating expenses from NFS, which began operations during the fourth quarter of 2001. In addition, staff and operating expenses increased as staff was hired to meet greater correspondent loan acquisition and wholesale origination volumes during the first nine months of 2002. Although non-interest expense increased during the first nine months of 2002, fully loaded costs to acquire and originate an Alt-A mortgage loan at IFC declined to 74 basis points during the first nine months of 2002 as compared to 100 basis points during the same period of 2001. Fully loaded costs to acquire and originate a B/C mortgage loan at NFS was 235 basis points during the first nine months of 2002.

The following table summarizes mortgage loan acquisitions and originations for the periods indicated (in thousands):

LOAN PRODUCTION SUMMARY (1)

	For the Nine Months Ended September 30,			
	2002		2001	
	Balance	%	Balance	%
Volume by Type:				
Fixed rate first trust deeds	$1,319,446	31	$1,169,007	54
Fixed rate second trust deeds	61,719	1	29,879	1
Adjustable rate:				
Six month LIBOR ARMs	1,875,105		158,880	
Six month LIBOR hybrids	995,520		819,786	
Total adjustable rate	2,870,625	68	978,666	45
Total Loan Production	$4,251,790		$2,177,552	
Volume by Channel:				
Correspondent acquisitions	$3,172,698	75	$1,667,374	77
Wholesale and retail originations	787,317	18	490,197	22
Novelle Financial Services, Inc.	291,775	7	19,981	1
Total Loan Production	$4,251,790		$2,177,552	
Volume by Credit Quality:				
Alt-A loans	$3,940,267	93	$2,143,632	98
B/C loans	311,523	7	33,920	2
Total Loan Production	$4,251,790		$2,177,552	
Volume by Purpose:				
Purchase	$2,473,125	58	$1,373,171	63
Refinance	1,778,665	42	804,381	37
Total Loan Production	$4,251,790		$2,177,552	
Volume by Prepayment Penalty:				
With prepayment penalty	$3,291,851	77	$1,407,519	65
Without prepayment penalty	959,939	23	770,033	35
Total Loan Production	$4,251,790		$2,177,552	

(1) Excludes premiums paid upon acquiring and originating mortgages.

Liquidity and Capital Resources

We recognize the need to have funds available for our operating businesses and our customer's demands for obtaining short-term warehouse financing until the settlement or sale of mortgage loans with us or with other investors. It is our policy to have adequate liquidity at all times to cover normal cyclical swings in funding availability and loan demand and to allow us to meet abnormal and unexpected funding requirements. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

Toward this goal, our asset and liability committee, or "ALCO," is responsible for monitoring our liquidity position and funding needs. ALCO is comprised of the senior executives of the Company. ALCO meets on a weekly basis to review current and projected sources and uses of funds. ALCO monitors the composition of the balance sheet for changes in the liquidity of our assets in adverse market conditions. Our liquidity consists of cash and cash equivalents, short-term and marketable investment securities rated AAA through BBB and mortgage loans temporarily funded in cash and maturing mortgage loans, or "liquid assets."

Sources of Liquidity

Our business operations are primarily funded as follows:

- monthly interest and principal payments from our mortgage loan and investment securities portfolios;
- CMO and reverse repurchase agreements secured by mortgage loans and mortgage-backed securities;
- proceeds from securitization and whole loan sale of mortgage loans; and
- cash from the issuance of securities.

We use CMO borrowings and reverse repurchase agreements to fund substantially all of our mortgage loan and mortgage-backed securities portfolios. As we accumulate mortgage loans for long-term investment, we issue CMOs secured by the mortgage loans as a means of providing long-term financing and repaying short-term repurchase advances. The use of CMOs provides the following benefits:

- allows us to lock in our financing cost over the life of the mortgage loans securing the CMO borrowings; and
- eliminates margin calls on the borrowings that are converted from reverse repurchase agreements to CMO financing.

Terms of CMO borrowings require that an independent third party custodian hold mortgage loans as collateral. The maturity of each CMO bond class is directly affected by the rate of early principal payments on the related collateral. As of September 30, 2002 interest rates on adjustable rate CMOs range from a low of 0.26% over one-month LIBOR to a high of 2.40% over one-month LIBOR, or from 2.07% to 4.75% depending on the class of CMOs issued. Interest rates on fixed rate CMOs range from 4.88% to 7.75% depending on the class of CMOs issued. Equity in the CMOs is established at the time CMOs are issued at levels sufficient to achieve desired credit ratings on the securities from rating agencies. We also determine the amount of equity invested in CMOs based upon the anticipated return on equity as compared to estimated proceeds from additional debt issuance. Total credit loss exposure is limited to the equity invested in the CMOs at any point in time.

During the first nine months of 2002 we issued $2.4 billion of CMOs to provide long-term financing for mortgage loans securing CMOs. Because of the credit profile, historical loss performance and prepayment characteristics of our non-conforming Alt-A mortgages, we have been able to borrow a higher percentage against mortgage loans securing CMOs, which means that we have to provide less capital at the time mortgage loans are securitized. By decreasing the amount of capital we have to invest in our CMOs, we have been able to efficiently utilize our available capital.

Before the issuance of CMOs, we finance the acquisition of mortgage loans primarily through borrowings on reverse repurchase agreements with third party lenders. When we have accumulated a sufficient amount of mortgage loans, we issue CMOs and convert short-term advances under reverse repurchase agreements to long-term CMO financing. Since 1995 we have had an uncommitted repurchase facility with a major investment bank to finance the acquisition of mortgage loans as needed. In order to give us more flexibility in our borrowing arrangements and to reduce our reliance on one lender, we entered into additional uncommitted repurchase facilities of $650.0 million with various investment banks during 2002. As of quarter-end the long-term investment operations and warehouse lending operations had $1.6 billion of uncommitted repurchase facilities of which $1.2 billion was outstanding.

Terms of the reverse repurchase agreements require that mortgage loans be held by an independent third party custodian, which gives us the ability to borrow against a percentage of the outstanding principal balance of the mortgage loans. The borrowing rates vary from 70 basis points to 150 basis points, depending on the type of collateral provided, over one-month LIBOR or the Euro dollar. The advance rates on the reverse repurchase agreements is based on the type of mortgage collateral provided and generally range from 70% to 98% of the fair market value of the collateral.

Our reverse repurchase agreements contain customary covenants including limitation on transactions with affiliates and prohibition of certain mergers, consolidations and sale of assets. One of our reverse repurchase agreements also contains covenants regarding minimum liquidity, net worth requirements and a minimum ratio of indebtedness to tangible net worth. If we fail to comply with any of these covenants or otherwise default under a reverse repurchase facility, the buyer has the right to terminate the facility and require immediate repurchase of the mortgage loans which may require us to sell assets at less than optimal terms. In addition, if we default under one facility, it would generally trigger a default under our other facilities.

The mortgage operations currently has warehouse line agreements with the warehouse lending operations to obtain financing of up to $870.0 million to provide interim mortgage loan financing during the period that the mortgage operations accumulates mortgage loans until the mortgage loans are securitized or sold. As of September 30, 2002 $454.1 million was outstanding under the warehouse lines. The interest rates on the borrowings are indexed to prime minus 0.50%. Prime was 4.75% at September 30, 2002.

We expect to continue to use short-term warehouse facilities to fund the acquisition of mortgage loans. If we cannot renew or replace maturing borrowings, we may have to sell, on a whole loan basis, the loans securing these facilities which, depending upon market conditions, may result in substantial losses. Additionally, if for any reason the market value of our mortgage loans securing warehouse facilities decline, our lenders may require us to provide them with additional equity or collateral to secure our borrowings, which may require us to sell mortgage loans at substantial losses.

When the mortgage operations accumulates a sufficient amount of mortgage loans, generally from 30 to 45 days, it sells or securitizes its mortgage loans. During the first nine months of 2002 the mortgage operations securitized $594.7 million of mortgage loans as REMICs and sold $2.7 billion, in unpaid principal balance, of mortgage loans to the long-term investment operations. In addition, the mortgage operations sold $680.4 million, in unpaid principal balance, of mortgage loans to other investors. The mortgage operations sold mortgage servicing rights on all sales and securitizations completed during 2002, which generated 100% cash gains. Cash from the sale of mortgage servicing rights was deployed in the mortgage operations and used to acquire and originate additional mortgage loans.

In order to mitigate interest rate and market risk, we attempt to securitize our mortgage loans more frequently. Although securitizing mortgage loans more frequently adds operating and securitization costs, we believe the added cost is offset as less capital is required and more liquidity is provided with less interest rate and price volatility, as the accumulation and holding period of mortgage loans is shortened. The mortgage operations currently has agreements in place for the sale of mortgage loans and mortgage servicing rights with an investment bank and large mortgage loan servicer, respectively. This allows the mortgage operations to forward price its REMIC and CMO transactions on a servicing released basis and achieve greater stability in the execution of its securitizations.

On December 1, 2001 we filed a registration statement with the SEC, which allows us to sell up to $300.0 million of securities, including common stock, preferred stock, debt securities and warrants. This type of registration statement is commonly referred to as a "shelf" registration process. In conjunction with the filing of the shelf, we have completed the sale of an aggregate of approximately 9.9 million shares of common stock during the first nine months of 2002, which provided net proceeds of $84.0 million.

On May 22, 2002 we entered into a Sales Agency Agreement with UBS Warburg LLC, or "the Agent," to sell up to 3,594,082 shares of common stock. In conjunction with the Sales Agency Agreement, we completed the sale of 854,600 shares of common stock during 2002, of which 365,300 shares were sold during the three months ended September 30, 2002. We received net proceeds of $9.3 million, of which $3.8 million was received during the three months ended September 30, 2002. The Agent receives a commission of 3% based on the gross sales price per share of the shares sold under the Sales Agency Agreement. During the third quarter the Agent received an aggregate of $118,000.

Uses of Liquidity

Our business operations primarily use funds as follows:

- acquisition and origination of mortgage loans;

- provide short-term warehouse financing; and

- pay common stock dividends.

During the first nine months of 2002 we acquired and originated $4.3 billion of mortgage loans of which we retained $2.7 billion for long-term investment. Our equity investment in mortgage loans is outstanding until we sell or securitize our mortgage loans, which is one of the reasons we attempt to securitize our mortgage loans frequently. When we complete CMOs our average equity investment generally ranges from approximately 2 1/2% to 3 1/2% of the outstanding principal balance of mortgage loans, depending on our premium costs, securitization costs, interest rate hedge acquisition costs and the capital investment required. Since we rely significantly upon securitizations to generate cash proceeds to repay borrowings and to create credit availability, any disruption in our ability to complete securitizations may require us to utilize other sources of financing, which, if available at all, may be on unfavorable terms. In addition, delays in closing securitizations of our mortgage loans increase our risk by exposing us to credit and interest rate risks for this extended period of time. Furthermore, gains on sales from our securitizations represent a significant portion of our earnings.

We utilize our uncommitted warehouse lines to provide short-term warehouse financing to affiliates and external customers of the warehouse lending operations. The mortgage operations has a $870.0 million warehouse facility with the warehouse lending operations to fund the acquisition and origination of mortgage loans until sale or securitization. The warehouse lending operations provides financing to affiliates at prime minus 0.50%. As of September 30, 2002 affiliates had $439.7 million outstanding on the warehouse line with the warehouse lending operations.

The warehouse lending operations also provides financing to non-affiliates at prime plus a spread. Non-affiliates can generally finance between 95% and 98% of the fair market value of the mortgage loans. As of September 30, 2002 the warehouse lending operations had $564.0 million of approved warehouse lines available to its non-affiliate customers of which $476.7 million was outstanding. Our ability to meet liquidity requirements and the financing need of our customers is subject to the renewal of our credit and repurchase facilities or obtaining other sources of financing, if required, including additional debt or equity from time to time. Any decision our lenders or investors make to provide available financing to us in the future will depend upon a number of factors, including:

- our compliance with the terms of our existing credit arrangements;

- our financial performance;

- industry and market trends in our various businesses;

- the general availability of and rates applicable to financing and investments;

- our lenders or investors resources and policies concerning loans and investments; and

- the relative attractiveness of alternative investment or lending opportunities.

During the first quarter of 2002 we declared a common stock dividend of $0.40 per common share, or $15.8 million, which was paid on April 16, 2002.

During the second quarter of 2002 we declared a common stock dividend of $0.43 per common share, or $17.2 million, which was paid on July 12, 2002.

During the third quarter of 2002 we declared a common stock dividend of $0.45 per common share, or $19.3 million, which was paid on October 9, 2002.

Cash Flows

Operating Activities - During the first nine months of 2002 net cash provided by operating activities was $70.0 million, which was primarily the result of net earnings of $52.8 million.

Investing Activities - During the first nine months of 2002 net cash used in investing activities was $2.5 billion. Net cash flows of $2.1 billion, including principal repayments, was used in investing activities to acquire and originate mortgage loans and $449.8 million was used to provide short-term advances warehouse advances to affiliates and external customers.

Financing Activities - During the first nine months of 2002 net cash provided by financing activities was $2.5 billion. Net cash flows of $1.8 billion was provided by proceeds from CMO borrowings, net of repayment of CMO borrowings, $693.6 million was provided by advances on warehouse lines and $93.3 million was provided by the issuance of common stock.

Inflation

The consolidated financial statements and corresponding notes to the consolidated financial statements 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 our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Inflation affects our 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 our yield and subsequently the value of our portfolio of mortgage assets.

Risk Factors

A prolonged economic downturn or recession would likely result in a reduction of our mortgage origination activity which would adversely affect our financial results.

The United States economy has recently undergone and may in the future, undergo, a period of slowdown, which some observers view as a recession. An economic downturn or a recession may have a significant adverse impact on our operations and our financial condition. For example, a reduction in new mortgages will adversely affect our ability to expand our mortgage portfolio, our principal means of increasing our earnings. In addition, a decline in new mortgage activity will likely result in reduced activity for our warehouse lending operations and our long-term investment operations. In the case of our mortgage operations, a decline in mortgage activity may result in fewer loans that meet its criteria for purchase and securitization, thus resulting in a reduction in interest income and fees and gain on sale of loans. We may also experience larger than previously reported losses on our investment portfolio due to a higher level of defaults or foreclosures on our mortgage loans.

If we are unable to generate sufficient liquidity we will be unable to conduct our operations as planned.

If we cannot generate sufficient liquidity, we will be unable to continue to grow our operations, grow our asset base, maintain our current hedging policy and pay dividends. We have traditionally derived our liquidity from four primary sources:

- financing facilities provided to us by others to acquire or originate mortgage assets;
- whole loan sales and securitizations of acquired or originated mortgage loans;
- our issuance of equity and debt securities; and
- earnings from operations.

We cannot assure you that any of these alternatives will be available to us, or if available, that we will be able to negotiate favorable terms. Our ability to meet our long-term liquidity requirements is subject to the renewal of our credit and repurchase facilities and/or obtaining other sources of financing, including additional debt or equity from time to time. Any decision by our lenders and/or investors to make additional funds available to us in the future will depend upon a number of factors, such as our compliance with the terms of our existing credit arrangements, our financial performance, industry and market trends in our various businesses, the lenders' and/or investors' own resources and policies concerning loans and investments, and the relative attractiveness of alternative investment or lending opportunities. If we cannot raise cash by selling debt or equity securities, we may be forced to sell our assets at unfavorable prices or discontinue various business activities. Our inability to access the capital markets could have a negative impact on our earnings and hence, our ability to pay dividends.

Any significant margin calls under our financing facilities would adversely affect our liquidity and may adversely affect our financial results.

Prior to the fourth quarter of 1998, we generally had no difficulty in obtaining favorable financing facilities or in selling acquired mortgage loans. However, during the fourth quarter of 1998, the mortgage industry experienced substantial turmoil as a result of a lack of liquidity in the secondary markets. At that time, investors expressed unwillingness to purchase interests in securitizations due, in part, to:

- the lack of financing to acquire these securitization interests;
- the widening of returns expected by institutional investors on securitization interests over the prevailing Treasury rate; and
- market uncertainty.

As a result, many mortgage loan originators, including our company, were unable to access the securitization market on favorable terms. This resulted in some companies declaring bankruptcy. Originators, like our company, were required to sell loans on a whole loan basis and liquidate holdings of mortgage-backed securities to repay short-term borrowings. However, the large amount of loans available for sale on a whole loan basis affected the pricing offered for these loans, which in turn reduced the value of the collateral underlying the financing facilities. Therefore, many providers of financing facilities initiated margin calls. Margin calls resulted when our lenders evaluated the market value of the collateral securing our financing facilities and required us to provide them with additional equity or collateral to secure our borrowings.

Our financing facilities were short-term borrowings and due to the turmoil in the mortgage industry during the latter part of 1998 many traditional providers of financing facilities were unwilling to provide facilities on favorable terms, or at all. Our current financing facilities continue to be short-term borrowings and we expect this to continue. If we cannot renew or replace maturing borrowings, we may have to sell, on a whole loan basis, the loans securing these facilities which, depending upon market conditions, may result in substantial losses.

We incurred losses for fiscal years 1997, 1998 and 2000 and may incur losses in the future.

During the year ended December 31, 2000, we experienced a net loss of $54.2 million. The net loss incurred during 2000 included non-cash accounting charges of $68.9 million. The non-cash accounting charges were the result of write-downs of non-performing investment securities secured by mortgages and additional increases in the provision for loan losses to provide for the deterioration of the performance of collateral supporting specific investment securities. During the year ended December 31, 1998, we experienced a net loss of $5.9 million. During the year ended December 31, 1997, we experienced a net loss of $16.0 million. The net loss incurred during 1997 included a non-cash accounting charge of $44.4 million that was the result of expenses related to the termination and buyout of our management agreement with Imperial Credit Advisors, Inc. We cannot be certain that revenues will remain at current levels or improve or that we will be profitable in the future, which could prevent us from effectuating our business strategy.

If we are unable to complete securitizations, we would face a liquidity shortage which would adversely affect our operating results.

We rely significantly upon securitizations to generate cash proceeds to repay borrowings and to create credit availability. Any reduction in our ability to complete securitizations may require us to utilize other sources of financing, which, if available at all, may be on unfavorable terms. In addition, delays in closing securitizations of our mortgage loans increase our risk by exposing our company to credit and interest rate risks for this extended period of time. Furthermore, gains on sales from our securitizations represent a significant portion of our earnings. Several factors could affect our ability to complete securitizations of our mortgages, including:

- conditions in the securities and secondary markets;
- credit quality of the mortgage loans acquired or originated through our mortgage operations;
- volume of our mortgage loan acquisitions and originations;
- our ability to obtain credit enhancements; and

o lack of investors purchasing higher risk components of the securities.

If we are unable to profitably securitize a significant number of our mortgage loans in a particular financial reporting period, then we could experience lower income or a loss for that period. As a result of turmoil in the securitization market during the latter part of 1998, many mortgage lenders, including our company, were required to sell mortgage loans on a whole loan basis under adverse market conditions in order to generate liquidity. Many of these sales were made at prices lower than our carrying value of the mortgage loans and we experienced substantial losses. We cannot assure you that we will be able to continue to profitably securitize or sell our loans on a whole loan basis, or at all.

The market for first loss risk securities, which are securities that take the first loss when mortgages are not paid by the borrowers, is generally limited. In connection with our REMIC securitizations, we endeavor to sell all securities subjecting us to a first loss risk. If we cannot sell these securities, we may be required to hold them for an extended period, subjecting us to a first loss risk.

Our borrowings and use of substantial leverage may cause losses.

Our use of collateralized mortgage obligations may expose our operations to credit losses.

To grow our investment portfolio, we borrow a substantial portion of the market value of substantially all of our investments in mortgage loans in the form of CMOs. Historically, we have borrowed approximately 98% of the market value of such investments. There are no limitations on the amount we may borrow, other than the aggregate value of the underlying mortgage loans. We currently use CMOs as financing vehicles to increase our leverage, since mortgage loans held for CMO collateral are retained for investment rather than sold in a secondary market transaction. Retaining mortgage loans as collateral for CMOs exposes our operations to greater credit losses than does the use of other securitization techniques that are treated as sales because as the equity holder in the security, we are allocated losses from the liquidation of defaulted loans first prior to any other security holder. Although our liability under a collateralized mortgage obligation is limited to the collateral used to create the collateralized mortgage obligation, we generally are required to make a cash equity investment to fund collateral in excess of the amount of the securities issued in order to obtain the appropriate credit ratings for the securities being sold, and therefore obtain the lowest interest rate available, on the CMOs. If we experience greater credit losses than expected on the pool of loans subject to the CMO, the value of our equity investment will decrease and we would have to increase the allowance for loan losses on our financial statements.

The cost of our borrowings may exceed the return on our assets.

The cost of borrowings under our financing facilities corresponds to a referenced interest rate plus or minus a margin. The margin varies depending on factors such as the nature and liquidity of the underlying collateral and the availability of financing in the market. We will experience net interest losses if the returns on our assets financed with borrowed funds fail to cover the cost of our borrowings, and we did not implement any applicable financial hedges.

If we default under our financing facilities, we may be forced to liquidate the collateral at prices less than the amount borrowed.

If we default under our financing facilities, our lenders could force us to liquidate the collateral. If the value of the collateral is less than the amount borrowed, we could be required to pay the difference in cash. Furthermore, if we default under one facility, it would generally cause a default under our other facilities. If we were to declare bankruptcy, some of our reverse repurchase agreements may obtain special treatment and our creditors would then be allowed to liquidate the collateral without any delay. On the other hand, if a lender with whom we have a reverse repurchase agreement declares bankruptcy, we might experience difficulty repurchasing our collateral, or enforcing our claim for damages, and it is possible that our claim could be repudiated and we could be treated as an unsecured creditor. If this occurs, our claims would be subject to significant delay and we may receive substantially less than our actual damages or nothing at all.

If we are forced to liquidate we may have few unpledged assets for distribution to unsecured creditors.

We have pledged a substantial portion of our assets to secure the repayment of CMOs issued in securitizations, our financing facilities and our other borrowings. We will also pledge substantially all of our current and future mortgage loans to secure borrowings pending their securitization or sale. The cash flows we receive from our investments that have not yet been distributed, pledged or used to acquire mortgage loans or other investments may be the only unpledged assets available to our unsecured creditors and you if our company was liquidated.

Interest rate fluctuations may adversely affect our operating results.

Our operations, as a mortgage loan acquirer and originator or a warehouse lender, may be adversely affected by rising and falling interest rates. Higher interest rates may discourage potential borrowers from refinancing mortgages, borrowing to purchase homes or seeking second mortgages. This may decrease the amount of mortgages available to be acquired or originated by our mortgage operations and decrease the demand for warehouse financing provided by our warehouse lending operations. If short-term interest rates exceed long-term interest rates, there is a higher risk of increased loan prepayments, as borrowers may seek to refinance their fixed and adjustable rate mortgage loans at lower long-term fixed interest rates. Increased loan prepayments could lead to a reduction in the number of loans in our investment portfolio and reduce our net interest income.

We are subject to the risk of rising mortgage interest rates between the time we commit to purchase mortgages at a fixed price through the issuance of individual, bulk or other rate-locks and the time we sell or securitize those mortgages. An increase in interest rates will generally result in a decrease in the market value of mortgages that we have committed to purchase at a fixed price, but have not been sold or securitized or have not been properly hedged. As a result, we may record a smaller gain, or even a loss, upon the sale or securitization of those mortgage loans.

We may experience losses if our liabilities re-price at different rates than our assets.

Our principal source of revenue is net interest income or net interest spread from our investment portfolio, which is the difference between the interest we earn on our interest earning assets and the interest we pay on our interest bearing liabilities. The rates we pay on our borrowings are independent of the rates we earn on our assets and may be subject to more frequent periodic rate adjustments. Therefore, we could experience a decrease in net interest income or a net interest loss because the interest rates on our borrowings could increase faster than the interest rates on our assets. If our net interest spread becomes negative, we will be paying more interest on our borrowings than we will be earning on our assets and we will be exposed to a risk of loss.

Additionally, the rates paid on our borrowings and the rates received on our assets may be based upon different indices. If the index used to determine the rate on our borrowings, typically one-month LIBOR, increases faster than the indices used to determine the rates on our assets, such as six-month LIBOR, one-year CMT, or the prime rate, we will experience a declining net interest spread, which will have a negative effect on our profitability, and may result in losses.

An increase in our adjustable interest rate borrowings may decrease the net interest margin on our adjustable rate mortgages.

Our long-term investment portfolio includes mortgage loans that are hybrids ARMs. These are mortgages with fixed interest rates for an initial period of time, after which they begin bearing interest based upon short-term interest rate indices. We generally fund mortgages with adjustable interest rate borrowings having interest rates that are indexed to short-term interest rates and adjust periodically at various intervals. To the extent that there is an increase in the interest rate index used to determine our adjustable interest rate borrowings and that increase is not offset by a corresponding increase in the rates at which interest accrues on our assets or by various interest rate hedges that we have in place at any given time, our net interest margin will decrease or become negative. We may suffer a net interest loss on our adjustable rate mortgages that have interest rate caps if the interest rates on our related borrowings increase.

Adjustable rate mortgages typically have interest rate caps, which limit interest rates charged to the borrower during any given period. Our borrowings are not subject to similar restrictions. As a result, in a period of rapidly increasing interest rates, the interest rates we pay on our borrowings could increase without limitation, while the interest rates we earn on our adjustable rate mortgage assets would be capped. If this occurs, our net interest spread could be significantly reduced or we could suffer a net interest loss.

Increased levels of prepayments of our adjustable rate mortgage loans may accelerate our expenses and decrease our net income.

Mortgage prepayments generally increase on our adjustable rate mortgages when fixed mortgage interest rates fall below the then-current interest rates on outstanding adjustable rate mortgage loans. Prepayments on mortgage loans are also affected by the terms and credit grades of the loans, conditions in the housing and financial markets and general economic conditions. Most of the adjustable rate mortgages that we acquire are originated within three months of the time we purchased the mortgages and generally bear initial interest rates that are lower than their fully-indexed amount (the applicable index plus the margin). If we acquire these mortgages at a premium and they are repaid prior to or soon after the time of adjustment to a fully-indexed rate without payment of any prepay penalty, we would not have received interest at the fully-indexed rate during such period and we must expense the unamortized premium that was paid for the loan at the time of the prepayment. This means we would lose the opportunity to earn interest at that rate over the expected life of the mortgage. Also, if prepayments on our adjustable rate mortgage loans increase when interest rates are declining, our net interest income may decrease if we cannot reinvest the prepayments in mortgage assets bearing comparable rates. Prepayments on fixed rate mortgages will also decrease our net interest income when interest rates are declining.

We generally acquire mortgages on a servicing released basis, meaning we acquire both the mortgages and the rights to service them. This strategy requires us to pay a higher purchase price or premium for the mortgages. If the mortgage loans that we acquire at a premium prepay faster than originally projected, generally accepted accounting principles require us to write down the remaining capitalized premium amounts at a faster speed than was originally projected, which would decrease our current net interest income.

The value of our portfolio of mortgage-backed securities may be adversely affected by unforeseen events.

Our prior investments in residual interest and subordinated debt investments exposed us to greater risks as compared to those associated with senior mortgage-backed securities.

Prior to 1998, we invested in mortgage-backed securities known as interest-only, principal-only, residual interest or other subordinated securities. Investments in residual interest and subordinated securities are much riskier than investments in senior mortgage-backed securities because these subordinated securities bear all credit losses prior to the related senior securities. The risk associated with holding residual interest and subordinated securities is greater than that associated with holding the underlying mortgage loans directly due to the concentration of losses attributed to the subordinated securities.

If the projected value of our portfolio of residual interest and subordinated debt instruments is incorrect we would have to write down the value of these securities.

We estimate future cash flows from these securities and value them utilizing assumptions based in part on projected discount rates, mortgage loan prepayments and credit losses. If our actual experience differs from our assumptions, we would be required to reduce the value of these securities. The market for our asset-backed securities is extremely limited and we cannot assure you that we could sell these securities at their reported value, or at any value or that we could recoup our initial investment.

In addition, we may not obtain our anticipated yield or we may incur losses if the credit support available within certain mortgage-backed securities is inadequate due to unanticipated levels of losses, or due to difficulties experienced by the credit support provider. Delays or difficulties encountered in servicing the mortgages in mortgage-backed securities may cause greater losses and, therefore, greater resort to credit support than was originally anticipated, and may cause a rating agency to downgrade certain classes of our mortgage-backed securities, which might then equate to a reduction of the value of the security.

We undertake additional risks by acquiring and investing in mortgage loans.

We may be subject to losses on mortgage loans for which we do not obtain credit enhancements.

We do not obtain credit enhancements such as mortgage pool or special hazard insurance for all of our mortgage loans and investments. Generally, we require mortgage insurance on any loan with a loan-to-value ratio greater than 80%. During the time we hold mortgage loans for investment, we are subject to risks of borrower defaults and bankruptcies and special hazard losses that are not covered by standard hazard insurance. If a borrower defaults on a mortgage loan that we hold, we bear the risk of loss of principal to the extent there is any deficiency between the value of the related mortgaged property and the amount owing on the mortgage loan and any insurance proceeds available to us through the mortgage insurer. In addition, since defaulted mortgage loans, which under our financing arrangements are mortgage loans that are generally 60 to 90 days delinquent in payments, may be considered negligible collateral under our borrowing arrangements, we could bear the risk of being required to own these loans without the use of borrowed funds until they are ultimately liquidated or possibly sold at a loss.

Non-conforming Alt-A mortgage loans expose us to greater credit risks

We are an acquirer and originator of non-conforming Alt-A residential mortgage loans. These are residential mortgages that do not qualify for purchase by government sponsored agencies such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Our operations may be negatively affected due to our investments in non-conforming Alt-A mortgage loans. Credit risks associated with non-conforming Alt-A mortgage loans are greater than those associated with conforming mortgage loans. The interest rates we charge on non-conforming Alt-A loans are often higher than those charged for conforming loans in order to compensate for the higher risk and lower liquidity. Lower levels of liquidity may cause us to hold loans or other mortgage-related assets supported by these loans that we otherwise would not hold. By doing this, we assume the potential risk of increased delinquency rates and/or credit losses as well as interest rate risk. Additionally, the combination of different underwriting criteria and higher rates of interest leads to greater risk, including higher prepayment rates and higher delinquency rates and/or credit losses.

Lending to non-conforming Alt-A borrowers may expose us to a higher risk of delinquencies, foreclosures and losses.

As a lender of non-conforming Alt-A mortgage loans, our market includes borrowers who may be unable to obtain mortgage financing from conventional mortgage sources. Loans made to such non-conforming Alt-A borrowers generally entail a higher risk of delinquency and higher losses than loans made to borrowers who utilize conventional mortgage sources. Delinquency, foreclosures and losses generally increase during economic slowdowns or recessions. The actual risk of delinquencies, foreclosures and losses on loans made to non-conforming Alt-A borrowers could be higher under adverse economic conditions than those currently experienced in the mortgage lending industry in general. Further, any material decline in real estate values increases the loan-to-value ratios of loans previously made by us, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a borrower default. Any sustained period of increased delinquencies, foreclosures or losses after the loans are sold could adversely affect the pricing of our future loan sales and our ability to sell or securitize our loans in the future. In the past, certain of these factors have caused revenues and net income of many participants in the mortgage industry, including us, to fluctuate from quarter to quarter.

Our use of second mortgages exposes us to greater credit risks.

Our security interest in the property securing second mortgages is subordinated to the interest of the first mortgage holder and the second mortgages have a higher combined loan-to-value ratio than does the first mortgage. If the value of the property is equal to or less than the amount needed to repay the borrower's obligation to the first mortgage holder upon foreclosure, our second mortgage loan will not be repaid.

The geographic concentration of our mortgage loans increases our exposure to risks in those areas.

We do not set limitations on the percentage of our mortgage asset portfolio composed of properties located in any one area (whether by state, zip code or other geographic measure). Concentration in any one area increases our exposure to the economic and natural hazard risks associated with that area. Historically, a majority of our mortgage loan acquisitions and originations by the mortgage operations and mortgage loans held for investment by our long term investment operations were secured by properties in California and, to a lesser extent, Florida. For instance, certain parts of California have experienced an economic downturn in past years and California and Florida have suffered the effects of certain natural hazards. Declines in those residential real estate markets may reduce the values of the properties collateralizing the mortgage loans, increase foreclosures and losses and have material adverse effect on our results of operations or financial condition. Furthermore, if borrowers are not insured for natural disasters, which are typically not covered by standard hazard insurance policies, then they may not be able to repair the property or may stop paying their mortgage loans if the property is damaged. This would cause increased foreclosures and decrease our ability to recover losses on properties affected by such disasters. This would have a material adverse effect on our results of operations or financial condition.

Representations and warranties made by us in our loan sales and securitizations may subject us to liability.

In connection with our securitizations, we transfer loans acquired or originated by us into a trust in exchange for cash and, in the case of a CMO, residual certificates issued by the trust. The trustee will have recourse to us with respect to the breach of the standard representations and warranties made by us at the time such loans are transferred. While we generally have recourse to our customers for any such breaches, there can be no assurance of our customers' abilities to honor their respective obligations. Also, we engage in bulk whole loan sales pursuant to agreements that generally provide for recourse by the purchaser against us in the event of a breach of one of our representations or warranties, any fraud or misrepresentation during the mortgage loan origination process, or upon early default on such mortgage loan. We generally limit the potential remedies of such purchasers to the potential remedies we receive from the people from whom we acquired or originated the mortgage loans. However, in some cases, the remedies available to a purchaser of mortgage loans from us may be broader than those available to us against the sellers of the loans and should a purchaser enforce its remedies against us, we may not always be able to enforce whatever remedies we have against our customers. Furthermore, if we discover, prior to the sale or transfer of a loan, that there is any fraud or misrepresentation with respect to the loan and the originator fails to repurchase the loan, then we may not be able to sell the loan or we may have to sell the loan only at a discount.

In the ordinary course of our business, we are subject to claims made against us by borrowers and trustees in our securitizations arising from, among other things, losses that are claimed to have been incurred as a result of alleged breaches of fiduciary obligations, misrepresentations, errors and omissions of our employees, officers and agents (including our appraisers), incomplete documentation and our failure to comply with various laws and regulations applicable to our business. Any claims asserted against us may result in legal expenses or liabilities that could have a material adverse effect on our results of operations or financial condition.

We face conflicts of interests based on the ownership of the voting stock of Impac Funding Corporation by certain officers and directors of Impac Mortgage Holdings, Inc.

We are subject to conflicts of interest arising from our relationship with Impac Mortgage Holdings, Inc., our long-term investment operations, Impac Funding Corporation, our mortgage operations, and their officers and directors. Our long-term investment operations acquires non-confirming Alt-A mortgage loans from our mortgage operations. Impac Mortgage Holdings, Inc. owns all of the preferred stock, and 99% of the economic interest in, Impac Funding Corporation. Joseph R. Tomkinson, our Chairman and Chief Executive Officer, William S. Ashmore, our Chief Operating Officer, President and a director, and Richard J. Johnson, our Executive Vice President and Chief Financial Officer, are holders of all of the outstanding voting stock of, and 1% of the economic interest in, Impac Funding Corporation. They have the right to elect all directors of Impac Funding Corporation and the ability to control the outcome of all matters for which the consent of the holders of the common stock of Impac Funding Corporation is required. Messer's Tomkinson, Ashmore and Johnson are also the sole directors of Impac Funding Corporation. Decisions made by these officers at one company may be at conflict with and have an adverse affect on the operations of the other.

A substantial interruption in our use of iDASLg2 may adversely affect our level of mortgage loan acquisitions and originations.

We utilize the Internet in our business principally for the implementation of our automated loan origination program, iDASLg2, which stands for the second generation of Impac Direct Access System for Lending. iDASLg2 is not a lead generator for mortgage brokers. iDASLg2 allows our customers to pre-qualify borrowers for various loan programs based on criteria requested from the borrower and renders an automated underwriting decision by issuing an approval of the mortgage loan or a referral for further review or additional information. All of our correspondents submit loans through iIDASLg2 and all wholesale loans delivered by mortgage brokers are directly underwritten through the use of iDASLg2. iDASLg2 may be interrupted if the Internet experiences periods of poor performance, if our computer systems or the systems of our third-party service providers contain defects, or if customers are reluctant to use or have inadequate connectivity to the Internet. Increased government regulation of the Internet could also adversely affect our use of the Internet in unanticipated ways and discourage our customers from using our services. If our ability to use the Internet in providing our services is impaired, our ability to originate or acquire loans on an automated basis could be delayed or reduced. Furthermore, we rely on a third party hosting company in connection with the use of iDASLg2. If the third party hosting company fails for any reason, and adequate back-up is not implemented in a timely manner, it may delay and reduce those mortgage loan acquisitions and originations done through iDASLg2. Any substantial delay and reduction in our mortgage loan acquisitions and originations will reduce our net earnings for the applicable period.

We are subject to risks of operational failure that are beyond our control.

Substantially all of our operations are located in Newport Beach, California. Our systems and operations are vulnerable to damage and interruption from fire, flood, telecommunications failure, break-ins, earthquake and similar events. Our operations may also be interrupted by power disruptions, including rolling black-outs implemented in California due to the state's continuing acute power shortage. We do not maintain alternative power sources. Furthermore, our security mechanisms may be inadequate to prevent security breaches to our computer systems, including from computer viruses, electronic break-ins and similar disruptions. Such security breaches or operational failures could expose us to liability, impair our operations, result in losses, and harm our reputation.

Competition for mortgage loans is intense and may adversely affect our operations.

We compete in acquiring and originating non-conforming Alt-A mortgage loans and issuing mortgage-backed securities with other mortgage conduit programs, investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers, insurance companies, other lenders, and other entities purchasing mortgage assets.

We also face intense competition from Internet-based lending companies where entry barriers are relatively low. Some of our competitors are much larger than we are, have better name recognition than we do, and have far greater financial and other resources. Government-sponsored entities, in particular Fannie Mae and Freddie Mac, are also expanding their participation in the Alt-A mortgage industry. These government-sponsored entities have a size and cost-of-funds advantage over us that allows them to price loans at lower rates than we are able to offer. This phenomenon may seriously destabilize the Alt-A mortgage industry. In addition, if as a result of their less-conservative, risk-adjusted pricing these government-sponsored entities experience significantly higher-than-expected losses, it would likely adversely affect overall investor perception of the Alt-A mortgage industry because the losses would be made public due to the reporting obligations of these entities.

The intense competition in the Alt-A mortgage industry has also led to rapid technological developments, evolving industry standards and frequent releases of new products and enhancements. As mortgage products are offered more widely through alternative distribution channels, such as the Internet, we may be required to make significant changes to our current retail and wholesale structure and information systems to compete effectively. Our inability to continue enhancing our current Internet capabilities, or to adapt to other technological changes in the industry, could have a material adverse effect on our business, financial condition, liquidity and results of operations.

The need to maintain mortgage loan volume in this competitive environment creates a risk of price competition in the Alt-A mortgage industry. Competition in the industry can take many forms, including interest rates and costs of a loan, less stringent underwriting standards, convenience in obtaining a loan, customer service, amount and term of a loan and marketing and distribution channels. Price competition would lower the interest rates that we are able to charge borrowers, which would lower our interest income. Price-cutting or discounting reduces profits and will depress earnings if sustained for any length of time. If our competition uses less stringent underwriting standards we will be pressured to do so as well, resulting in greater loan risk without being able to price for that greater risk. Our competitors may lower their underwriting standards to increase their market share. If we do not relax underwriting standards in the face of competition, we may lose market share. Increased competition may also reduce the volume of our loan originations and acquisitions. Any increase in these pricing and credit pressures could have a material adverse effect on our business, financial condition, liquidity and results of operations.

We are exposed to potential credit losses in providing warehouse financing.

As a warehouse lender, we lend money to mortgage bankers on a secured basis and we are subject to the risks associated with lending to mortgage bankers, including the risks of fraud, borrower default and bankruptcy, any of which could result in credit losses for us. Our claims as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay.

We may not pay dividends to stockholders.

REIT provisions of the Internal Revenue Code generally require that we annually distribute to our stockholders at least 90% of all of our taxable income. These provisions restrict our ability to retain earnings and thereby renew capital for our business activities. We may decide at a future date to terminate our REIT status, which would cause us to be taxed at the corporate level, and cease paying regular dividends.

In addition, for any year that we do not generate taxable income, we are not required to declare and pay dividends to maintain our REIT status. For instance, due to losses incurred in 2000, we did not declare any dividends from September 2000 until September 2001.

To date, a portion of our taxable income and cash flow has been attributable to our receipt of dividend distributions from Impac Funding Corporation, our mortgage operations affiliate. Impac Funding Corporation is not a REIT and is not, therefore, subject to the above-described REIT distribution requirements. Because Impac Funding Corporation is seeking to retain earnings to fund the future growth of our mortgage operations business, its board may decide that Impac Funding Corporation should cease making dividend distributions in the future. This would materially reduce the amount of our taxable income and in turn, would reduce the amount we would be required to distribute as dividends.

If we fail to maintain our REIT status, we may be subject to taxation as a regular corporation.

We believe that we have operated and intend to continue to operate in a manner that enables us to meet the requirements for qualification as a REIT for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the Internal Revenue Service that we qualify as a REIT.

Moreover, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational and stockholder ownership requirements on a continuing basis.

If we fail to qualify as a REIT, we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates. We also may be subject to the federal alternative minimum tax. Unless we are entitled to relief under specific statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified. Therefore, if we lose our REIT status, the funds available for distribution to you would be reduced substantially for each of the years involved. Failure to qualify as a REIT could adversely affect the value of our common stock.

Delayed mortgage loan sales or securitization closings could have a material adverse affect on our operations.

A delay in closing a particular mortgage loan sale or securitization would increase our exposure to interest rate fluctuations by lengthening the period during which our variable rate borrowings under our warehouse facilities are outstanding. Any disruption in our ability to complete securitizations may require us to utilize other sources of financing, which, if available at all, may be on unfavorable terms. If we were unable to sell a sufficient number of mortgage loans at a premium during a particular reporting period, our revenues for that period would decline, which could have a material adverse affect on our operations.

Our share prices have been and may continue to be volatile.

Historically, the market price of our common stock has been volatile. The market price of our common stock is likely to continue to be highly volatile and could be significantly affected by factors including:

- the amount of dividends paid;
- availability of liquidity in the securitization market;
- loan sale pricing;
- calls by warehouse lenders or changes in warehouse lending rates;
- unanticipated fluctuations in our operating results;
- prepayments on mortgages;
- valuations of securitization related assets;

- cost of funds; and

- general market conditions.

In addition, significant price and volume fluctuations in the stock market have particularly affected the market prices for the common stock of mortgage REIT companies such as ours. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. If our results of operations fail to meet the expectations of securities analysts or investors in a future quarter, the market price of our common stock could also be materially adversely affected and we may experience difficulty in raising capital.

If actual prepayments or defaults with respect to mortgage loans serviced occurs more quickly than originally assumed, the value of our mortgage servicing rights would be subject to downward adjustment.

When we purchase loans that include the associated servicing rights, the allocated cost of the servicing rights is reflected on our financial statements as mortgage servicing rights. To determine the fair value of these servicing rights, we use assumptions to estimate future net servicing income including projected discount rates, mortgage loan prepayments and credit losses. If actual prepayments or defaults with respect to loans serviced occur more quickly than we originally assumed, we would have to reduce the carrying value of our mortgage servicing rights. We do not know if our assumptions will prove correct.

Our operating results may be adversely affected by the results of our hedging activities.

To offset the risks associated with our mortgage operations, we enter into transactions designed to hedge our interest rate risks. To offset the risks associated with our long-term investment operations, we attempt to match the interest rate sensitivities of our adjustable rate mortgage assets held for investment with the associated financing liabilities. Our management determines the nature and quantity of the hedging transactions based on various factors, including market conditions and the expected volume of mortgage loan purchases. We do not limit management's use of certain instruments in such hedging transactions. While we believe that we properly hedge our interest rate risk, we may not, and in some cases will not, be permitted to use hedge accounting as established by FASB under the provisions of SFAS 133 to account for our hedging activities. The effect of our hedging strategy may result in some volatility in our quarterly earnings as interest rates go up or down. It is possible that there will be periods during which we will incur losses after the accounting for our hedging activities. In addition, if the counter parties to our hedging transactions are unable to perform according to the terms of the contracts, we may incur losses. While we believe we properly hedge our interest rate risk, we cannot assure you that our hedging transactions will offset the risk of adverse changes in net interest margins.

A reduction in the demand for residential mortgage loans and our non-conforming Alt-A loan products may adversely affect our operations.

The availability of sufficient mortgage loans meeting our criteria is dependent in part upon the size and level of activity in the residential real estate lending market and, in particular, the demand for non-conforming Alt-A mortgage loans, which is affected by:

- interest rates;

- national economic conditions;

- residential property values; and

- regulatory and tax developments.

- If our mortgage loan purchases decrease, we will have:

- decreased economies of scale;

- higher origination costs per loan;

- reduced fee income;

- smaller gains on the sale of non-conforming mortgage loans; and

- an insufficient volume of loans to generate securitizations which thereby causes us to accumulate loans over a longer period.

Our delinquency ratios and our performance may be adversely affected by the performance of parties who sub-service our loans.

We contract with third-party sub-servicers for the sub-servicing of all the loans in which we retain servicing rights, including those in our securitizations. Our operations are subject to risks associated with inadequate or untimely servicing. Poor performance by a sub-servicer may result in greater than expected delinquencies and losses on our loans. A substantial increase in our delinquency or foreclosure rate could adversely affect our ability to access the capital and secondary markets for our financing needs. Also, with respect to loans subject to a securitization, greater delinquencies would adversely impact the value of any interest-only, equity interest, principal-only and subordinated securities we hold in connection with that securitization.

In a securitization, relevant agreements permit us to be terminated as servicer or master servicer under specific conditions described in these agreements, such as the failure of a sub-servicer to perform certain functions within specific time periods. If, as a result of a sub-servicer's failure to perform adequately, we were terminated as servicer of a securitization, the value of any servicing rights held by us would be adversely affected.

Potential characterization of distributions or gain on sale as unrelated business taxable income to tax-exempt investors.

If (1) all or a portion of our assets are subject to the rules relating to taxable mortgage pools, (2) we are a "pension-held REIT," (3) a tax-exempt stockholder has incurred debt to purchase or hold our common stock, or (4) the residual REMIC interests we buy generate "excess inclusion income," then a portion of the distributions to and, in the case of a stockholder described in (3), gains realized on the sale of common stock by such tax-exempt stockholder may be subject to Federal income tax as unrelated business taxable income under the Internal Revenue Code.

Classification as a taxable mortgage pool could subject us or certain of our shareholders to increased taxation.

If we have borrowings with two or more maturities and, (1) those borrowings are secured by mortgage loans or mortgage-backed securities and, (2) the payments made on the borrowings are related to the payments received on the underlying assets, then the borrowings and the pool of mortgage loans or mortgage backed securities to which such borrowings relate may be classified as a taxable mortgage pool under the Internal Revenue Code. If any part of our company were to be treated as a taxable mortgage pool, then our REIT status would not be impaired, but a portion of the taxable income we recognize may, under regulations to be issued by the Treasury Department, be characterized as "excess inclusion" income and allocated among our stockholders to the extent of and generally in proportion to the distributions we make to each stockholder. Any excess inclusion income would:

- not be allowed to be offset by a stockholder's net operating losses;

- be subject to a tax as unrelated business income if a stockholder were a tax-exempt stockholder;

- be subject to the application of federal income tax withholding at the maximum rate (without reduction for any otherwise applicable income tax treaty) with respect to amounts allocable to foreign stockholders; and

- be taxable (at the highest corporate tax rate) to us, rather than to our stockholders, to the extent the excess inclusion income relates to stock held by disqualified organizations (generally, tax-exempt companies not subject to tax on unrelated business income, including governmental organizations).

Based on advice of our tax counsel, we take the position that our existing financing arrangements do not create a taxable mortgage pool.

We may be subject to fines or other penalties based upon the conduct of our independent brokers or correspondents.

The mortgage brokers and correspondents from which we obtain loans have parallel and separate legal obligations to which they are subject. While these laws may not explicitly hold the originating lenders responsible for the legal violations of mortgage brokers, increasingly federal and state agencies have sought to impose such liability. Recently, for example, the United States Federal Trade Commission, or "FTC," entered into a settlement agreement with a mortgage lender where the FTC characterized a broker that had placed all of its loan production with a single lender as the "agent" of the lender; the FTC imposed a fine on the lender in part because, as "principal," the lender was legally responsible for the mortgage broker's unfair and deceptive acts and practices. The United States Justice Department in the past has sought to hold a subprime mortgage lender responsible for the pricing practices of its mortgage brokers, alleging that the mortgage lender was directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. Accordingly, we may be subject to fines or other penalties based upon the conduct of our independent mortgage brokers or correspondents.

We are no longer able to rely on the Alternative Mortgage Transactions Parity Act to preempt certain state law restrictions on prepayment penalties, which may cause us to be unable to compete effectively with financial institutions that are exempt from such restrictions on ARMs.

The value of a mortgage loan depends, in part, upon the expected period of time that the mortgage loan will be outstanding. If a borrower pays off a mortgage loan in advance of this expected period, the holder of the mortgage loan does not realize the full value expected to be received from the loan. A prepayment penalty payable by a borrower who repays a loan earlier than expected helps discourage such a prepayment or helps offset the reduction in value resulting from the early payoff. Prepayment penalties are an important feature on the loans we originate.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans. We have historically relied on the federal Alternative Mortgage Transactions Parity Act, or the "Parity Act", and related regulations issued by the Office of Thrift Supervision, or "OTS," to preempt state limitations on prepayment penalties on ARM loans. The Parity Act was enacted to extend to financial institutions other than federally chartered depository institutions the federal preemption which federally chartered depository institutions enjoy. However, on September 25, 2002, the OTS issued final regulations that reduce the scope of the Parity Act preemption such that we will no longer be able to rely on the Parity Act to preempt state restrictions on prepayment penalties. The elimination of this federal preemption could have a material adverse affect on our ability to compete effectively with financial institutions that will continue to enjoy federal preemption of state restrictions on prepayment penalties on ARM loans.

Our operations may be adversely affected if we are subject to the Investment Company Act.

We intend to conduct our business at all times so as not to become regulated as an investment company under the Investment Company Act. The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.

In order to qualify for this exemption we must maintain at least 55% of our assets directly in mortgage loans, qualifying pass-through certificates and certain other qualifying interests in real estate. Our ownership of certain mortgage assets may be limited by the provisions of the Investment Company Act. If the Securities and Exchange Commission adopts a contrary interpretation with respect to these securities or otherwise believes we do not satisfy the above exception, we could be required to restructure our activities or sell certain of our assets. To insure that we continue to qualify for the exemption we may be required at times to adopt less efficient methods of financing certain of our mortgage assets and we may be precluded from acquiring certain types of higher-yielding mortgage assets. The net effect of these factors will be to lower at times our net interest income. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. Our business will be materially and adversely affected if we fail to qualify for this exemption.

If we conduct future offerings the market price of our securities may be adversely affected.

We may elect to increase our capital resources by making additional private or public offerings of securities in the future. We do not know:

- the actual or perceived effect of these offerings;
- the timing of these offerings;
- the dilution of the book value or earnings per share of our securities then outstanding; and
- the effect on the market price of our securities then outstanding.

Sales of additional common stock may adversely affect its market price.

To sustain our growth strategy we intend to raise capital through the sale of equity. The sale or the proposed sale of substantial amounts of our common stock in the public market could materially adversely affect the market price of our common stock or other outstanding securities. In December 2001, we filed a shelf registration statement with the SEC, which allows us to sell up to $300.0 million of securities, including common stock, preferred stock, debt securities and warrants. In connection with the shelf registration statement, we have entered into a sales agency agreement to sell up to 3,594,082 shares of common stock. We have also registered an aggregate of 2,120,069 shares of common stock in connection with our 2001 Stock Option, Deferred Stock and Restricted Stock Plan. The sale of a large amount of shares or the perception that such sales may occur, could adversely affect the market price for our common stock or other outstanding securities.

We are a defendant in purported class actions and may not prevail in these matters.

Class action lawsuits and regulatory actions alleging improper marketing practices, abusive loan terms and fees, disclosure violations, improper yield spread premiums and other matters are risks faced by all mortgage originators, particularly those in the Alt-A market. We are a defendant in four purported class actions pending in four different states. All, allege generally that the loan originator improperly charged fees in violation of various state lending or consumer protection laws in connection with mortgage loans that we acquired. Although the suits are not identical, they generally seek unspecified compensatory damages, punitive damages, pre- and post-judgment interest, costs and expenses and rescission of the loans, as well as a return of any improperly collected fees. These actions are in the early stages of litigation and, accordingly, it is difficult to predict the outcome of these matters. We believe we have meritorious defenses to the actions and intend to defend against them vigorously; however, an adverse judgment in any of these matters could have a material adverse effect on us.

We may be subject to possible adverse consequences as a result of limits on ownership of our shares.

Our charter limits ownership of our capital stock by any single stockholder to 9.5% of our outstanding shares unless waived by the board of directors. Our board of directors may increase the 9.5% ownership limit. In addition, to the extent consistent with the REIT provisions of the Internal Revenue Code, our board of directors may, pursuant to our articles of incorporation, waive the 9.5% ownership limit for a stockholder or purchaser of our stock. In order to waive the 9.5% ownership limit our board of directors must require the stockholder requesting the waiver to provide certain representations to the Company to ensure compliance with the REIT provisions of the Internal Revenue Code. Our charter also prohibits anyone from buying shares if the purchase would result in us losing our REIT status. This could happen if a share transaction results in fewer than 100 persons owning all of our shares or in five or fewer persons, applying certain broad attribution rules of the Internal Revenue Code, owning more than 50% (by value) of our shares. If you or anyone else acquires shares in excess of the ownership limit or in violation of the ownership requirements of the Internal Revenue Code for REITs, we:

- will consider the transfer to be null and void;
- will not reflect the transaction on our books;
- may institute legal action to enjoin the transaction;
- will not pay dividends or other distributions with respect to those shares;
- will not recognize any voting rights for those shares;
- may redeem the shares; and
- will consider the shares held in trust for the benefit of a charitable beneficiary as designated by us.

The trustee shall sell the shares held in trust and the owner of the excess shares will be entitled to the lesser of:

(a) the price paid by the owner;

(b) if the owner did not purchase for the excess shares, the closing price for the shares on the national securities exchange on which the company is listed on the day of the event causing the shares to be held in trust; or

(c) the price received by the trustee from the sale of the shares.

Limitations on acquisition and change in control ownership limit.

The 9.5% ownership limit discussed above may have the effect of precluding acquisition of control of our company by a third party without consent of our board of directors.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

A significant portion of our revenues and earnings are derived from net interest income. We strive to manage our interest-earning assets and interest-bearing liabilities to generate what we believe to be an appropriate contribution from net interest income. When interest rates fluctuate, profitability can be adversely affected by changes in the fair market value of our assets and liabilities and by the interest spread earned on interest-earning assets and interest-bearing liabilities. We derive income from the differential spread between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Any change in interest rates affects income received and income paid from assets and liabilities in varying and typically unequal amounts. Changing interest rates may compress our interest rate margins and adversely affect overall earnings.

Therefore, we seek to control the volatility of profitability due to changes in interest rates through asset/liability management. We attempt to achieve an appropriate relationship between interest rate sensitive assets and interest rate sensitive liabilities. Although we manage other risks, such as credit, operational, prepayment and liquidity risk in the normal course of business, we consider interest rate risk to be a significant market risk which could potentially have the largest material effect on our financial condition and results of operations. As we only invest or borrow in U.S. dollar denominated financial instruments, we are not subject to foreign currency exchange risk.

We follow a hedging program intended to limit our exposure to changes in interest rates primarily associated with our CMO borrowings. Our primary objective is to hedge our exposure to the variability in future cash flows attributable to the variability of one-month LIBOR, which is generally the underlying index of our adjustable rate CMO borrowings. We also monitor on an ongoing basis the prepayment risks that arise in fluctuating interest rate environments. Our hedging program is formulated with the intent to offset the potential adverse effects of changing interest rates on CMO borrowings resulting from the following: interest rate adjustment limitations on mortgage loans due to periodic and lifetime interest rate cap features and mismatched interest rate adjustment periods of mortgage loans and CMO borrowings.

We primarily acquire for long-term investment six-month ARMs and six month hybrids. Six-month ARMs are generally subject to periodic and lifetime interest rate caps. This means that the interest rate of each ARM is limited to upwards or downwards movements on its periodic interest rate adjustment date, generally six months, or over the life of the mortgage loan. Periodic caps limit the maximum interest rate change, which can occur on any interest rate change date to generally a maximum of 1% per semiannual adjustment. Also, each ARM has a maximum lifetime interest rate cap. Generally, borrowings are not subject to the same periodic or lifetime interest rate limitations. During a period of rapidly increasing or decreasing interest rates, financing costs would increase or decrease at a faster rate than the periodic interest rate adjustments on mortgage loans would allow, which could effect net interest income. In addition, if the change in market rates were to exceed the maximum interest rates permitted change in the ARM rate, borrowing costs would increase while interest rates on ARMs would remain constant.

Our mortgage loan portfolio is also subject to risk from the mismatched nature of interest rate adjustment periods on mortgage loans and interest rates on the related borrowings. Six-month ARMs can adjust upwards or downwards every six months, subject to periodic cap limitations, while adjustable rate CMO borrowings adjust every month. Additionally, hybrid ARMs have an initial fixed interest rate period generally ranging from two to three years, and to a lesser extent five years, which subsequently convert to six-month ARMs. Again, during a rapidly increasing or decreasing interest rate environment, financing costs would increase or decrease more rapidly than would interest rates on mortgage loans, which would remain fixed until their next interest rate adjustment date.

To mitigate exposure from the effect of changing interest rates on CMO borrowings, we purchase and sell derivative instruments in the form of interest rate cap agreements, or caps, interest rate floor agreements, or floors, and interest rate swap agreements, or swaps. We also simultaneously purchase or sell caps and floors, which are referred to as collars. These derivative instruments are referred to collectively as derivatives. An interest rate cap or floor is a contractual agreement. If prevailing interest rates reach levels specified in the cap or floor agreement, we may either receive or pay cash. An interest rate swap is generally a contractual agreement that obligates one party to receive or make cash payments based on an adjustable rate index and the other party to make or receive cash payments based on a fixed rate. Swap agreements have the effect of fixing borrowing costs on a similar amount of swaps and, as a result, we can reduce the interest rate variability of borrowings. Our objective is to lock in a reliable stream of cash flows when interest rates fall below or rise above certain levels. For instance, when interest rates rise, borrowing costs increase at greater speeds than the underlying collateral supporting the borrowings. These derivative instruments hedge the variability of forecasted cash flows attributable to CMO borrowings and protect net interest income by providing cash flows at certain triggers during changing interest rate environments. In all hedging transactions, counterparties must have at least a single "A" credit rating as determined by various credit rating agencies.

Caps qualify as derivative instruments under provisions of SFAS 133. The hedging instrument is the specific LIBOR cap that is hedging the LIBOR based CMO borrowings. The nature of the risk being hedged is the variability of the cash flows associated with the LIBOR borrowings. Prior to the adoption of DIG G20, we assessed the hedging effectiveness of our caps utilizing only the intrinsic value of the caps. DIG G20 allows us to utilize the terminal value of the caps to assess effectiveness. DIG G20 also allows us to amortize the initial fair value of the caps over the life of the caps based on the maturity date of the individual caplets. Upon adoption of DIG G20, net income and accumulated other comprehensive income were adjusted by the amount needed to reflect the cumulative impact of adopting the provisions of DIG G20. Subsequent to the adoption of DIG G20, caps are considered effective hedges and are marked to market each reporting period with the entire change in market value being recognized in other comprehensive income on the balance sheet.

Floors, swaps and collars qualify as cash flow hedges under the provisions of SFAS 133. The hedging instrument is the specific LIBOR floor, swap or collar that is hedging the LIBOR based CMO borrowings. The nature of the risk being hedged is the variability of the cash flows associated with the LIBOR borrowings. Prior to DIG G20, these derivatives were marked to market with the entire change in the market value of the intrinsic component recognized in other comprehensive income on the balance sheet each reporting period. The time value component of these agreements were marked to market and recognized in non-interest expense on the statement of operations. Subsequent to the adoption of DIG G20, these derivatives are marked to market with the entire change in the market value recognized in other comprehensive income on the balance sheet.

Measuring the effectiveness of derivatives is straightforward since the hedged item, CMO borrowings, and the hedging instrument is based on one-month LIBOR. As both instruments are tied to the same index, the hedge is expected to be highly effective both at inception and on an ongoing basis. We assess the effectiveness and ineffectiveness of the hedging instruments at the inception of the hedge and at each reporting period. Based on the fact that, at inception, the critical terms of the hedges and forecasted CMO borrowings are the same, we have concluded that the changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivatives, subject to subsequent assessments that the critical terms have not changed.

At September 30, 2002 caps had a remaining notional balance of $1.5 billion. Pursuant to the terms of the caps, we will receive cash payments if one-month LIBOR reaches certain strike prices, ranging from 1.75% to 10.25%, with a weighted average strike price of 4.32% over the life of the caps. Collars had a remaining notional balance of $1.2 billion. Pursuant to the terms of the collars, we will receive cash payments if one-month LIBOR reaches strike prices ranging from 2.07% to 6.53% with a weighted average strike price of 4.39% over the life of the collars. We will make cash payments if one-month LIBOR reaches strike prices ranging from 1.75% to 5.88% with a weighted average strike price of 3.55%. Swaps had a remaining notional balance of $438.2 million. Pursuant to the terms of the swaps, we will receive cash payments based on one-month LIBOR and make cash payments at fixed rates ranging from 2.28% to 5.18%, with a weighted average fixed rate of 2.74% over the life of the swaps.

The notional amounts of caps, collars and swaps are amortized according to projected prepayment rates on CMO borrowings. However, regarding the floor component of the collar, the notional amount equals the actual principal balance of the CMO borrowings. As of September 30, 2002 the fair market value of the allocated caps, collars and swaps was an unrecognized loss of $49.3 million. These derivatives are marked to market each reporting period with the entire change in market value being recognized in other comprehensive income on the balance sheet.

During 2001 we purchased a collar at strike prices tied to the one-month LIBOR forward yield curve to protect cash flows on CMO borrowings, which are secured by hybrid ARMs with remaining fixed terms. As of September 30, 2002 the collar had a notional amount of $531.8 million with a one-month LIBOR cap strike price ranging from 4.87% to 5.42% and a weighted average strike price of 5.15% over the life of the cap. The collar has a one-month LIBOR floor strike price ranging from 4.41% to 4.94% and a weighted average strike price of 4.63% over the life of the floor. The collar matures on March 25, 2004. The notional amount of the collar is amortized according to projected prepayment rates reflected in CMO borrowings. As of September 30, 2002 the fair market value of the collar was an unrecognized loss of $15.4 million. The collar is marked to market each reporting period with the entire change in market value being recognized in accumulated other comprehensive income on the balance sheet.

During the second quarter of 2002, we purchased a portfolio of interest floors at strike prices tied to the prevailing one-month LIBOR forward curve to protect hedged cash flows from the effects of continued interest rate declines consistent with a weakening economy. As of September 30, 2002 the floors had a notional amount of $531.8 million with one-month LIBOR floor strike prices ranging from 2.31% to 4.75% and a weighted average strike price of 3.41% over the life of the floor. The floor matures on March 25, 2004. The notional amount of the floor is amortized according to projected prepayment rates reflected in CMO borrowings. As of September 30, 2002, the fair market value of the floor was an unrecognized gain of $9.0 million. The floor is marked to market each reporting period with the entire change in market value being recognized in accumulated other comprehensive income on the balance sheet.

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, we are exposed to interest rate risk. Most of the loans are securitized or sold within 30 to 45 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 our related gain or an increase in our loss on sale.

We had interest- and principal-only strips of $2.5 million and $4.9 million outstanding at September 30, 2002 and December 31, 2001, respectively. These instruments are carried at market value at September 30, 2002 and December 31, 2001. We value 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.

We believe our quantitative risk has not materially changed since our disclosures under "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2001.

Item 4: Controls and Procedures

As of September 30, 2002 the Chief Executive Officer, or "CEO," and Chief Financial Officer, or "CFO," performed an evaluation of the effectiveness and the and operation of the Company's disclosure controls and procedures as defined in Rule 13a - 14c under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 30, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to September 30, 2002.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

The following lawsuits, as each relates to the Company, were dismissed: James and Jill Baker et. al. vs. Century Financial Group, Inc. et. al. on March 21, 2002; Frazier, et. al. vs. Preferred Credit et. al. on July 31, 2002; Mattie L. Street vs. PSB Lending Corp. et. al. on July 31, 2002; and Sumner N. Doxie vs. Impac Funding Corp. on October 11, 2002. With respect to each of the Frazier and Street actions, the plaintiffs filed a motion for reconsideration on August 15, 2002. All of the above lawsuits were previously described in our annul report on Form 10-K for the year ended December 31, 2001.

Item 2: Changes in Securities and Use of Proceeds

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Submission of Matters to a Vote of Security Holders

None.

Item 5: Other Information

None.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Underwriting Agreement, dated August 22, 2002, among JMP Securities LLC, Sandler O'Neill & Partners, L.P. and Impac Mortgage Holdings, Inc. (incorporated by reference to exhibit 1.1 of the Registrant's Form 8-K dated August 22, 2002)

21.1 Subsidiaries of the Registrant

(b) Reports on Form 8-K:

1. On August 23, 2002, the Company filed a current report on Form 8-K dated August 22, 2002 reporting Items 5 and 7 and relating to the execution of an underwriting agreement and the sale of 2,200,000 shares of common stock.

2. On August 30, 2002, the Company filed a current report on Form 8-K dated August 30, 2002 reporting Item 9 and relating to the Company's monthly fact sheet.

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.

/s/ Richard J. Johnson
by: Richard J. Johnson
Executive Vice President
and Chief Financial Officer
(authorized officer of registrant and principal financial officer)

Date: November 14, 2002

CERTIFICATION

I, Joseph R. Tomkinson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Impac Mortgage Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Joseph R. Tomkinson
Joseph R. Tomkinson
Chief Executive Officer
November 14, 2002

CERTIFICATION

I, Richard J. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Impac Mortgage Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Richard J. Johnson
Richard J. Johnson
Chief Financial Officer
November 14, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Impac Mortgage Holdings, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph R. Tomkinson
Joseph R. Tomkinson
Chief Executive Officer
November 14, 2002

/s/ Richard J. Johnson
Richard J. Johnson
Chief Financial Officer
November 14, 2002

Exhibit 21.1

Subsidiaries of the Registrant

Name of Subsidiary	State of Incorporation
Impac Warehouse Lending Group, Inc.	California
Impac Funding Corporation 100% of the non-voting preferred stock is owned by Impac Mortgage Holdings, Inc. Impac Funding Corporation owns 100% of the Common Stock of Impac Secured Assets Corporation, a California corporation, and Novelle Financial Services, Inc., a Delaware corporation. Impac Funding Corporation does business in various states under the following names: Impac Lending Group, Impac Home Loans, and Novelle Financial Services.	California
IMH Assets Corp.	California
Impac Multifamily Capital Corporation	California