# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2004**

**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** | **33-0675505** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**1401 Dove Street, Newport Beach, California 92660**
**(Address of principal executive offices)**

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

**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 | New York Stock Exchange |
| Preferred Share Purchase Rights | New York Stock Exchange |

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes ☒ No ☐

As of April 29, 2004 the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $1.2 billion, based on the closing sales price of common stock on the New York Stock Exchange on that date. For purposes of the calculation, only directors and executive officers of the registrant have been deemed affiliates.

There were 62,670,695 shares of common stock outstanding as of April 29, 2004.

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**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)

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 193,638 | $ 127,381 |
| CMO collateral | 11,252,373 | 8,735,434 |
| Finance receivables | 526,396 | 630,030 |
| Mortgages held-for-investment | 136,707 | 652,814 |
| Allowance for loan losses | (46,299) | (38,596) |
| Mortgages held-for-sale | 611,068 | 395,090 |
| Accrued interest receivable | 47,839 | 39,347 |
| Derivative assets | 22,127 | 23,479 |
| Other assets | 280,960 | 109,678 |
| Total assets | $ 13,024,809 | $ 10,674,657 |
| **LIABILITIES** | | |
| CMO borrowings | $ 11,183,583 | $ 8,526,838 |
| Reverse repurchase agreements | 1,117,944 | 1,568,807 |
| Accumulated dividends payable | 40,723 | — |
| Other liabilities | 73,789 | 70,522 |
| Total liabilities | 12,416,039 | 10,166,167 |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock; $0.01 par value; 7,500,000 shares authorized; none issued and outstanding at outstanding as of March 31, 2004 and December 31, 2003, respectively | — | — |
| Series A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none outstanding as of March 31, 2004 and December 31, 2003 | — | — |
| Common stock, $0.01 par value; 200,000,000 shares authorized and 62,650,696 and 56,368,368 shares issued and outstanding as of March 31, 2004 and December 31, 2003, respectively | 627 | 564 |
| Additional paid-in capital | 749,878 | 629,662 |
| Accumulated other comprehensive loss | (33,670) | (8,348) |
| Net accumulated deficit: | | |
| Cumulative dividends declared | (347,754) | (307,031) |
| Retained earnings | 239,689 | 193,643 |
| Net accumulated deficit | (108,065) | (113,388) |
| Total stockholders' equity | 608,770 | 508,490 |
| Total liabilities and stockholders' equity | $ 13,024,809 | $ 10,674,657 |

See accompanying notes to consolidated financial statements.

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**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| INTEREST INCOME: | | |
| Mortgage Assets | $ 115,833 | $ 75,478 |
| Other interest income | 440 | 681 |
| Total interest income | 116,273 | 76,159 |
| INTEREST EXPENSE: | | |
| CMO borrowings | 54,060 | 41,684 |
| Reverse repurchase agreements | 9,554 | 6,790 |
| Other borrowings | 66 | 883 |
| Total interest expense | 63,680 | 49,357 |
| Net interest income | 52,593 | 26,802 |
| Provision for loan losses | 9,725 | 6,484 |
| Net interest income after provision for loan losses | 42,868 | 20,318 |
| NON-INTEREST INCOME: | | |
| Gain on sale of loans | 31,138 | 1,616 |
| Equity in net earnings of Impac Funding Corporation | — | 5,167 |
| Other income | 315 | 1,027 |
| Total non-interest income | 31,453 | 7,810 |
| NON-INTEREST EXPENSE: | | |
| Personnel expense | 13,668 | 692 |
| General and administrative expense | 3,173 | 435 |
| Professional services | 1,831 | 1,037 |
| Mark-to-market loss—derivative instruments | 1,280 | — |
| Amortization and impairment of mortgage servicing rights | 1,080 | — |
| Occupancy expense | 841 | 61 |
| Data processing expense | 805 | 189 |
| Equipment expense | 784 | 79 |
| Provision for repurchases | (1,183) | — |
| (Gain) loss on disposition of other real estate owned | (503) | 90 |
| Total non-interest expense | 21,776 | 2,583 |
| Net earnings before income taxes | 52,545 | 25,545 |
| Income taxes | 6,499 | — |
| Net earnings | $ 46,046 | $ 25,545 |
| OTHER COMPREHENSIVE EARNINGS: | | |
| Net unrealized gains on securities arising during period | 1,241 | — |
| Net unrealized holding (losses) gains on derivatives arising during period | (26,563) | 3,589 |
| Reclassification of net losses included in net earnings | — | 522 |
| Net unrealized (losses) gains arising during period | (25,322) | 4,111 |
| Other comprehensive earnings | $ 20,724 | $ 29,656 |
| NET EARNINGS PER SHARE: | | |
| Basic | $ 0.77 | $ 0.54 |
| Diluted | $ 0.76 | $ 0.53 |
| DIVIDENDS DECLARED PER COMMON SHARE | $ 0.65 | $ 0.50 |

See accompanying notes to consolidated financial statements.

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**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)
(unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | $ 46,046 | $ 25,545 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Equity in net earnings of Impac Funding Corporation | — | (5,167) |
| Provision for loan losses | 9,725 | 6,484 |
| Amortization of CMO premiums and deferred securitization costs | 24,055 | 14,299 |
| (Gain) loss on sale of other real estate owned | (503) | 90 |
| Gain on sale of loans | (31,138) | (1,616) |
| Purchase of mortgages held-for-sale | (3,469,082) | — |
| Sale and principal reductions on mortgages held-for-sale | 3,283,978 | — |
| Net change in deferred taxes | 1,030 | — |
| Gain on sale of investment securities available-for-sale | (291) | (122) |
| Depreciation and amortization | 755 | — |
| Amortization and impairment of mortgage servicing rights | 1,080 | — |
| Net change in accrued interest receivable | (8,492) | (1,168) |
| Net change in other assets and liabilities | (166,962) | (40,431) |
| Net cash used in operating activities | (309,799) | (2,086) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net change in CMO collateral | (2,574,835) | (1,117,985) |
| Net change in finance receivables | 103,634 | 308,622 |
| Purchase of premises and equipment | (839) | — |
| Net change in mortgages held-for-investment | 513,841 | (17,355) |
| Dividend from Impac Funding Corporation | — | 4,455 |
| Net principal reductions on investment securities available-for-sale | 627 | 1,673 |
| Proceeds from the sale of other real estate owned, net | 9,737 | 5,410 |
| Net cash used in investing activities | (1,947,835) | (815,180) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net change in reverse repurchase agreements and other borrowings | (450,863) | (312,393) |
| Proceeds from CMO borrowings | 3,356,924 | 1,483,605 |
| Repayments of CMO borrowings | (700,179) | (374,308) |
| Dividends paid | — | (21,754) |
| Net change in mortgage servicing rights | 355 | — |
| Proceeds from sale of common stock | 106,280 | 37,778 |
| Proceeds from sale of common stock via equity distribution agreement | 10,729 | 4,083 |
| Proceeds from exercise of stock options | 645 | 442 |
| Net cash provided by financing activities | 2,323,891 | 817,453 |
| Net change in cash and cash equivalents | 66,257 | 187 |
| Cash and cash equivalents at beginning of period | 127,381 | 113,345 |
| Cash and cash equivalents at end of period | $ 193,638 | $ 113,532 |
| SUPPLEMENTARY INFORMATION: | | |
| Interest paid | $ 57,890 | $ 48,485 |
| Taxes paid | 797 | — |
| NON-CASH TRANSACTIONS: | | |
| Transfer of mortgages to other real estate owned | $ 9,169 | $ 8,436 |
| Dividends declared and unpaid | 40,723 | 24,598 |
| Net change in other comprehensive earnings | (25,322) | 4,111 |

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1—Basis of Financial Statement Presentation

The accompanying consolidated financial statements of Impac Mortgage Holdings, Inc. (IMH) and our subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group (IWLG), Impac Multifamily Capital Corp. (IMCC) and Impac Funding Corporation (IFC), together with its wholly-owned subsidiary Novelle Financial Services, Inc. (NFS), collectively, (the Company, we, us or our), 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-month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the our annual report on Form 10-K for the year ended December 31, 2003.

The results of operations for the three months ended March 31, 2004 reflect the consolidation of IFC on July 1, 2003. On July 1, 2003, IMH entered into a stock purchase agreement with Joseph R. Tomkinson, our Chairman, Chief Executive Officer and a director, William S. Ashmore, our Chief Operating Officer, President and a director, and the Johnson Revocable Living Trust, of which Richard J. Johnson, our Executive Vice President and Chief Financial Officer is trustee, whereby IMH purchased all of the outstanding shares of voting common stock of IFC for aggregate consideration of $750,000. Each of Messer's. Tomkinson and Ashmore and the Johnson Revocable Living Trust owned one-third of the outstanding common stock of IFC. Mr. Tomkinson elected to receive $125,000 worth of his consideration for the sale of his IFC shares of common stock in the form of 7,687 shares of IMH common stock. The fairness opinion related to the purchase price of IFC, as rendered by an independent financial advisor, and the subsequent transaction was approved by our board of directors. As a result of acquiring 100% of IFC's common stock on July 1, 2003, IMH owns all of the common stock and preferred stock of IFC and began to consolidate IFC as of that date. As such, the consolidated financial statements for the three months ended March 31, 2004 (consolidation period) reflect the results of operations of IFC on a consolidated basis. The consolidated financial statements for the three months ended March 31, 2003 (non-consolidation period) include the results of operations of IFC as equity in net earnings of IFC.

We will not reclassify prior periods' financial statements to conform to the consolidation of IFC. 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.

### Note 2—Business Summary

We are a mortgage real estate investment trust (REIT). Together with our subsidiaries we are a nationwide acquirer and originator of primarily non-conforming Alt-A mortgage loans (Alt-A mortgages). Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines, but have loan characteristics that make them non-conforming under those guidelines.

We operate three core businesses:

- long-term investment operations;
- mortgage operations; and
- warehouse lending operations.

The long-term investment operations, conducted by IMH, IMH Assets and IMCC, invest primarily in adjustable and fixed rate Alt-A mortgages that are acquired and originated by the mortgage operations and small balance, multi-family mortgages (multi-family mortgages) originated by IMCC. This business primarily generates net interest income from mortgages held for long-term investment. Investments in Alt-A mortgages and multi-family mortgages are financed with

collateralized mortgage obligations (CMO) financing, warehouse facilities, proceeds from the sale of capital stock and cash.

The mortgage operations, conducted by IFC, acquire, originate, sell and securitize primarily adjustable and fixed rate Alt-A mortgages and, to a lesser extent, sub-prime mortgages (B/C mortgages). The mortgage operations generate income by securitizing and selling loans to permanent investors, including the long-term investment operations, and, to a lesser extent, interest income earned on mortgages held-for-sale and revenue from fees associated with mortgage acquisitions and originations, mortgage servicing rights and master servicing agreements. The mortgage operations use warehouse facilities provided by the warehouse lending operations, conducted by IWLG, to finance the acquisition and origination of mortgages.

The warehouse lending operations provide short-term financing to mortgage loan originators, including the mortgage operations, by funding mortgages from their closing date until they are sold to pre-approved investors. This business earns net interest income from the difference between its cost of borrowings and the interest earned on warehouse advances as well as fees from warehouse transactions.

**Note 3—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 (in thousands, except net earnings per share):

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2004** | **2003** |
| Numerator for earnings per share: | | |
| Net earnings | $46,046 | $25,545 |
| Denominator for earnings per share: | | |
| Basic weighted average number of common shares outstanding | 59,692 | 47,069 |
| Net effect of dilutive stock options | 1,120 | 827 |
| Diluted weighted average common and common equivalent shares | 60,812 | 47,896 |
| Net earnings per share: | | |
| Basic | $ 0.77 | $ 0.54 |
| Diluted | $ 0.76 | $ 0.53 |

The Company had none and 20,000 stock options during the three months ended March 31, 2004 and 2003, respectively, that were not considered in the calculation of diluted weighted average common and common equivalent shares as the exercise price of the stock options were greater than the average market price during the periods.

**Note 4—Stock Options**

Stock options and awards may be granted to directors, officers and key employees. The exercise price for any qualified incentive stock options (ISOs) or non-qualified stock options (NQSOs) granted under our stock option plans may not be less than 100% (or 110% in the case of ISOs granted to an employee who is deemed to own in excess of 10% of the outstanding common stock) of the fair market value of the shares of common stock at the time the NQSO or ISO is granted. Grants under stock option plans are made and administered by the board of directors. We currently have a 1995 Stock Option, Deferred Stock and Restricted Stock Plan (1995 plan) and during 2001 the board of directors and stockholders approved a new Stock Option, Deferred Stock and Restricted Stock Plan (2001 plan), collectively, (the stock plans). Each stock plan provides for the grant of ISOs, NQSOs, deferred stock, and restricted stock, and, in the case of the 2001 plan, dividend equivalent rights and, in the case of the 1995 plan, stock appreciation rights and limited stock appreciation rights awards (awards).

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure” (SFAS 148), an amendment of FASB Statement No. 123, “Accounting for Stock-Based Compensation,” (SFAS 123). SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In

addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. On January 1, 2003, IMH adopted the disclosure requirements of SFAS 148. In November 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). This statement establishes financial accounting standards for stock-based employee compensation plans. SFAS 123 permits management to choose either a new fair value based method or the current Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) intrinsic value based method of accounting for its stock-based compensation arrangements. SFAS 123 requires pro forma disclosures of net earnings (loss) computed as if the fair value based method had been applied in financial statements of companies that continue to follow current practice in accounting for such arrangements under APB 25. SFAS 123 applies to all stock-based employee compensation plans in which an employer grants shares of its stock or other equity instruments to employees except for employee stock ownership plans. SFAS 123 also applies to plans in which the employer incurs liabilities to employees in amounts based on the price of the employer's stock, i.e., stock option plans, stock purchase plans, restricted stock plans and stock appreciation rights. The statement also specifies the accounting for transactions in which a company issues stock options or other equity instruments for services provided by non-employees or to acquire goods or services from outside suppliers or vendors.

As of March 31, 2004, we had stock-based compensation plans and we applied APB 25 in accounting for our plans. No compensation cost has been recognized for fixed stock option plans. If compensation cost for our stock-based compensation plans were recorded consistent with SFAS 123, our net earnings and earnings per share would have been the pro forma amounts indicated below (dollars in thousands, except per share amounts):

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Net earnings as reported | $46,046 | $25,545 |
| Less: Total stock-based employee compensation expense using the fair value method | (241) | (136) |
| Pro forma net earnings | $45,805 | $25,409 |
| Net earnings per share as reported: | | |
| Basic | $ 0.77 | $ 0.54 |
| Diluted | $ 0.76 | $ 0.53 |
| Pro forma net earnings: | | |
| Basic | $ 0.77 | $ 0.54 |
| Diluted | $ 0.75 | $ 0.53 |

There were no stock options granted during the first quarter of 2004 and 2003, therefore, pro forma net earnings and net earnings per share reflect the amortization of previously granted stock options which are amortized as expense over the stock option life in determining the pro forma impact.

**Note 5—Segment Reporting**

We internally review and analyze our operating segments as follows:

- long-term investment operations invest primarily in adjustable and fixed rate Alt-A mortgages acquired and originated by the mortgage operations and multi-family mortgages originated by IMCC;
- warehouse lending operations provide warehouse and repurchase financing to the mortgage operations and to approved mortgage bankers, some of which are clients of the mortgage operations, to finance mortgages; and
- mortgage operations acquire and originate adjustable and fixed rate Alt-A mortgages and, to a lesser extent, B/C mortgages from its network of third party correspondents, mortgage brokers and retail customers.

The following table presents business segments as of and for the three months ended March 31, 2004 (in thousands):

| | Long-Term Investment Operations | Warehouse Lending Operations | Mortgage Operations | Inter-Company (1) | Consolidated |
|---|---|---|---|---|---|
| **Balance Sheet Items:** | | | | | |
| CMO collateral and mortgages held-for-investment | $ 11,395,437 | $ — | $ — | $ (6,357) | $ 11,389,080 |
| Mortgages held-for-sale | — | — | 611,068 | — | 611,068 |
| Finance receivables | — | 1,228,823 | — | (702,427) | 526,396 |
| Total assets | 12,310,254 | 1,240,748 | 728,167 | (1,254,360) | 13,024,809 |
| Total stockholders' equity | 955,068 | 122,144 | 29,006 | (497,448) | 608,770 |
| **Income Statement Items:** | | | | | |
| Net interest income | $ 39,033 | $ 8,417 | $ 5,143 | $ — | $ 52,593 |
| Provision for loan losses | 4,285 | 5,440 | — | — | 9,725 |
| Non-interest income | (77) | 1,958 | 29,572 | — | 31,453 |
| Non-interest expense and income taxes | 1,744 | 1,521 | 25,010 | — | 28,275 |
| Net earnings | $ 32,927 | $ 3,414 | $ 9,705 | $ — | $ 46,046 |

The following table presents business segments as of and for the three months ended March 31, 2003 (in thousands):

| | Long-Term Investment Operations | Warehouse Lending Operations | Inter-Company (1) | Consolidated |
|---|---|---|---|---|
| **Balance Sheet Items:** | | | | |
| CMO collateral and mortgages held-for-investment | $ 6,321,728 | $ — | $ — | $ 6,321,728 |
| Finance receivables | — | 893,907 | (62,372) | 831,535 |
| Total assets | 6,800,997 | 957,636 | (363,139) | 7,395,494 |
| Total stockholders' equity | 554,507 | 96,999 | (300,657) | 350,849 |
| **Income Statement Items:** | | | | |
| Net interest income | $ 20,732 | $ 6,070 | $ — | $ 26,802 |
| Provision for loan losses | 5,889 | 595 | — | 6,484 |
| Non-interest income (2) | 1,283 | 1,360 | 5,167 | 7,810 |
| Non-interest expense | 1,485 | 1,098 | — | 2,583 |
| Net earnings | $ 14,641 | $ 5,737 | $ 5,167 | $ 25,545 |

(1) Elimination of inter-company balance sheet and income statement items.
(2) Non-interest income in the inter-company eliminations column represents equity in net earnings of IFC, which was an unconsolidated qualified REIT subsidiary of IMH during the period and was accounted for using the equity method.

**Note 6—Allowance for Loan Losses**

An allowance is maintained for losses on mortgages held-for-investment, mortgages held as CMO collateral and finance receivables (loans provided for) at an amount that management believes provides for losses inherent in those loan portfolios. We have implemented a methodology designed to analyze the performance of various loan portfolios based upon the relatively homogeneous nature within these loan portfolios. The allowance for losses is also analyzed using the following factors:

- management's judgment of the net loss potential of mortgages in our mortgage loan investment portfolio based on prior loan loss experience;
- changes in the nature and volume of the mortgage loan investment portfolio;

- value of the collateral;
- delinquency trends; and
- current economic conditions that may affect the borrowers' ability to pay.

In evaluating the adequacy of the allowance for loan losses, management takes several items into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. As allowed under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" and as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures," (SFAS 114) we determine impairment collectively on loan pools as they are made up of smaller balance homogenous loans. These homogeneous loans are assessed for impairment by loan type. The largest mortgage loan pools by type consist of residential mortgages, however, multifamily and B/C mortgages are loan pools that are also assessed for impairment. The results of that analysis are then applied to our current loan portfolios and an estimate is created.

In addition, management provides an allowance for loan losses on Alt-A mortgages that are retained for long-term investment and which are not underwritten to our specific underwriting guidelines. These mortgages are acquired on a bulk basis by the mortgage operations from other mortgage originators that underwrite mortgages substantially similar, but not specific, to our mortgage underwriting guidelines (non-Impac mortgages). Management also recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring inherent loss in our loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower's ability to pay, changes in value of collateral, political factors and industry statistics.

At the end of March of 2004, we discovered that one client of the warehouse lending operations and certain of its officers had perpetrated a fraud pursuant to which they defrauded the warehouse lending operations into making advances pursuant to a warehouse line of credit. As of the date the fraud was discovered, an aggregate of $12.6 million of fraudulent loan advances were outstanding. We immediately terminated the warehouse line of credit and have been cooperating with federal investigators in their ongoing investigation of the defrauding parties.

We retained an independent consultant to investigate the matter; the investigator reported that no principals of the warehouse lending operations had knowingly participated in the fraud. As a result of the fraud, during the first quarter of 2004 we established a specific allowance for loan losses in the amount of $6.0 million to provide for anticipated losses on the fraudulent warehouse advances as we have deemed this amount to be non-collectible. Based on available information, we believe we will be able to recover the remaining $6.6 million of related warehouse advances over time. To the extent that we believe that the actual losses will exceed the $6.0 million allowance, we will make an additional allowance for loan losses when, or if, we determine it is appropriate to do so as events and circumstances dictate. However, we believe that this specific allowance is adequate to provide for anticipated loan losses based on currently available information.

Activity for allowance for loan losses for the periods shown was as follows (in thousands):

| | For the Three Months Ended, | |
|---|---|---|
| | March 31, 2004 | December 31, 2003 |
| Beginning balance | $ 38,596 | $ 39,122 |
| Provision for loan losses (1) | 9,725 | 3,490 |
| Charge-offs, net of recoveries | (2,022) | (4,016) |
| Ending balance | $ 46,299 | $ 38,596 |

(1) Includes estimated partial impairment on specific warehouse advances of $6.0 million that we anticipate will be non-collectible.

In the opinion of management and in accordance with the loan loss allowance methodology, the present allowance for loan losses is considered adequate to provide for losses inherent in the loan portfolios. Subsequent recoveries on loans previously charged to the allowance for loan losses are credited back to the allowance for loan losses.

**Note 7—Derivative Instruments and Hedging Activities**

Our primary objective is to hedge exposure to the variability in future cash flows attributable to the variability of one-month LIBOR, which is 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 interest rate hedging program is formulated with the intent to offset the potential adverse effects of changing interest rates on cash flows on CMO borrowings resulting from the following:

- interest rate adjustment limitations on mortgages securing CMO collateral that have periodic and lifetime interest rate cap features which do not exist on CMO borrowings; and
- mismatched interest rate adjustment periods between mortgages securing CMO borrowings and CMO borrowings.

To mitigate exposure to the effect of changing interest rates on cash flows on CMO borrowings, we purchase derivative instruments in the form of interest rate swap agreements (swaps), interest rate cap agreements (caps) and interest rate floor agreements (floors). A 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 receive or make cash payments based on a fixed rate. Swaps have the effect of fixing borrowing costs on a similar amount of swaps and, as a result, can reduce the interest rate variability of borrowings. A cap or floor is a contractual agreement for which we pay or receive a fee. If prevailing interest rates reach levels specified in the cap or floor agreement, we may either receive or pay cash. 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 may 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 interest-rate hedging transactions, counter-parties must be highly rated as determined by various credit rating agencies.

Caps and floors qualify as derivative instruments under provisions of SFAS 133. The derivative instrument is the specific LIBOR cap or floor 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, management assessed the hedging effectiveness of its caps and floors utilizing only the intrinsic value of the caps. DIG G20 allows management to utilize the terminal value of the caps and floors to assess effectiveness. DIG G20 also allows for amortization of the initial fair value of the caps and floors 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 and floors are considered effective hedges and are marked to market each reporting period with the entire change in market value being recognized in accumulated other comprehensive earnings.

Under SFAS 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the derivative instrument and the measurement and approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing interest rate risk. This statement was effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Effectiveness of derivative instruments is measured by the fact that the hedged item, CMO borrowings, and the derivative instrument are 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 hedges 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 substantially offset by the derivative instrument, subject to subsequent assessments that the critical terms have not changed.

The mortgage operations enters into forward commitments and derivative transactions to mitigate changes in the value of its mortgage pipeline. The mortgage pipeline are mortgages that have not yet been acquired, however, the mortgage operations have committed to acquire the mortgages in the future at pre-determined rates through rate-lock commitments. Prior to the issuance of SAB 105, "Application of Accounting Principles to Loan Commitments," (SAB 105), which clarifies the SEC's position on the accounting for loan commitments, the mortgage operations recorded the fair value of its

mortgage pipeline, excluding servicing value, as it qualifies as a derivative instrument under the provisions of SFAS 133, however, it does not qualify for hedging treatment. SAB 105 also addresses the issues of not recognizing cash flows associated with servicing prior to the sale or securitization of funded loans and certain other disclosure issues pertaining to loan commitments. SAB 105 also significantly limits a company's ability to record an asset on its mortgage pipeline. We have adopted the new requirements within SAB 105, and as a result, we have not recorded an asset related to our outstanding mortgage pipeline as of March 31, 2004.

The following table presents certain information related to derivatives and the related component in the financial statements as of March 31, 2004 (dollars in thousands):

| | Fair Value of Derivatives | Index | Deferred Taxes | Related Amount in OCI | Unamortized Derivative Instruments | Related Amount in Derivative Asset Account | Related Amount in CMO Collateral | Related Amount in Other Assets/ Liabilities |
|---|---|---|---|---|---|---|---|---|
| Derivatives not associated with CMOs | $ (1,520) | 1 mo. LIBOR | $ — | $ (2,104) | 584 | $ (1,520) | $ — | $ — |
| Cash in margin account | 23,371 | N/A | — | — | — | 23,371 | — | — |
| Derivatives associated with CMOs | (33,872) | 1 mo. LIBOR | — | (35,780) | 1,923 | — | (33,872) | — |
| Derivative instruments hedging mortgages held-for-sale | (4) | LIBOR | 3 | (3) | — | — | — | (4) |
| Derivative instruments hedging the mortgage pipeline | (25) | LIBOR | — | — | — | — | — | (25) |
| Value of mortgage pipeline | 276 | N/A | — | — | — | 276 | — | — |
| Totals | $ (11,774) | | $ 3 | $ (37,887) | 2,507 | $ 22,127 | $ (33,872) | $ (29) |

The following table presents certain information related to derivatives and the related component in the financial statements as of December 31, 2003 (dollars in thousands):

| | Fair Value of Derivatives | Index | Deferred Taxes | Related Amount in OCI | Unamortized Derivative Instruments | Related Amount in Derivative Asset Account | Related Amount in CMO Collateral | Related Amount in Other Assets/ Liabilities |
|---|---|---|---|---|---|---|---|---|
| Derivatives not associated with CMOs | $ (6,460) | 1 mo. LIBOR | $ — | $ (6,081) | $ (367) | $ (6,460) | $ — | $ — |
| Cash in margin account | 27,740 | N/A | — | — | — | 27,740 | — | — |
| Derivatives associated with CMOs | (3,314) | 1 mo. LIBOR | — | (5,156) | 1,842 | — | (3,314) | — |
| Derivative instruments hedging mortgages held-for-sale | — | LIBOR | (732) | (1,466) | — | 2,199 | — | — |
| Derivative instruments hedging the mortgage pipeline | (1,953) | LIBOR | — | — | — | — | (1,953) | (1,953) |
| Value of mortgage pipeline | 3,207 | N/A | — | — | — | — | — | 3,207 |
| Totals | $ 19,220 | | $ (732) | $ (12,703) | $ 1,475 | $ 23,479 | $ (5,267) | $ 1,254 |

**Note 8—Income Taxes**

We operate so as to qualify as a REIT under the requirements of the Internal Revenue Code (the Code). Requirements for qualification as a REIT include various restrictions on ownership of IMH's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least

90% of its taxable income to its stockholders of which 85% must be distributed within the taxable year in order to avoid the imposition of an excise tax. The remaining balance may extend until timely filing of our tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income. If in any tax year IMH should not qualify as a REIT, we would be taxed as a corporation and distributions to stockholders would not be deductible in computing taxable income. If IMH were to fail to qualify as a REIT in any tax year, we would not be permitted to qualify for that year and the succeeding four years. As of December 31, 2003, we had estimated federal and state net operating loss tax carry-forwards of $18.7 million that are available to offset future taxable income.

IFC is a taxable REIT subsidiary and is therefore subject to corporate income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Note 9—Recent Accounting Pronouncements**

FASB Interpretation 46 (revised December 2003), “Consolidation of Variable Interest Entities” (FIN 46R), requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity’s activities or is entitled to receive a majority of the entity’s residual returns or both. Prior to FIN 46R, a company included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46R also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidated requirements of FIN 46R apply to all variable interest entities (VIEs) by the end of the first reporting period that ends after December 15, 2003. The provisions of FIN 46R for interests held by public entities in VIEs that are not qualified special purpose entities are required to be applied by the first reporting period that ends after March 15, 2004. In connection with our CMO transactions, mortgages are transferred into trusts that are classified as VIEs and are consolidated with the financial results of IMH and its subsidiaries. After the purchase of IFC’s common stock by IMH on July 1, 2003, we began to consolidate IFC’s financial results as of that date.

SAB 105 clarifies the SEC’s position on the accounting for loan commitments. Consistent with SFAS 149, SAB 105 states that loan commitments are treated as derivative instruments. SAB 105 also addresses the issues of not recognizing cashflows associated with servicing prior to the sale or securitization of funded loans and certain other disclosure issues pertaining to loan commitments. SAB 105 also significantly limits a company’s ability to record an asset on its mortgage pipeline. We have adopted the new requirements within SAB 105 and as a result, we have not recorded an asset related to our outstanding mortgage pipeline as of March 31, 2004.

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

Unless the context otherwise requires, the terms “Company,” “we,” “us,” and “our” refer to Impac Mortgage Holdings, Inc., or “IMH,” a Maryland corporation incorporated in August 1995, and our subsidiaries, IMH Assets Corp., or “IMH Assets,” Impac Warehouse Lending Group, Inc., or “IWLG,” Impac Multifamily Capital Corporation, or “IMCC,” and Impac Funding Corporation, or “IFC,” together with its wholly-owned subsidiary Novelle Financial Services, Inc., or “NFS.” References to IMH are made to differentiate IMH, the publicly traded company, as a separate entity from IMH Assets, IWLG, IMCC and IFC.

### Forward-Looking Statements

This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as “may,” “will,” “believe,” “expect,” “plan,” “anticipate,” “continue,” or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a number of factors, including, but not limited to, failure to achieve projected earnings levels, the ability to generate sufficient liquidity, the ability to access the capital markets, the size and frequency of our securitizations, the ability to generate taxable income and pay dividends, interest rate fluctuations on our assets that differ from those on our liabilities, increase in prepayment rates on our mortgage assets, changes in assumptions regarding estimated loan losses or fair value amounts, changes in expectations of future interest rates, the availability of financing and, if available, the terms of any financing, changes in origination and resale pricing of mortgages, changes in markets which we serve and changes in general market and economic conditions. For a discussion of the risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this quarterly report. We do not undertake, and specifically disclaim any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

### General and Business Operations

We are a mortgage real estate investment trust, or “REIT,” that is a nationwide acquirer, originator, seller and investor of primarily non-conforming Alt-A mortgages, or “Alt-A mortgages,” and to a lesser extent, small-balance, multi-family mortgages, or “multi-family mortgages” and sub-prime mortgages, or “B/C mortgages.” We also provide warehouse and repurchase financing to originators of mortgages.

We operate three core businesses:

- long-term investment operations that is conducted by IMH, IMH Assets and IMCC;
- mortgage operations that is conducted by IFC and NFS; and
- warehouse lending operations that is conducted by IWLG.

The long-term investment operations primarily invest in adjustable and fixed rate Alt-A mortgages that are acquired and originated by our mortgage operations. Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines, but have loan characteristics that make them non-conforming under those guidelines. Some of the principal differences between mortgages purchased by Fannie Mae and Freddie Mac and Alt-A mortgages are as follows:

- credit and income histories of the mortgagor; and
- documentation required for approval of the mortgagor.

For instance, Alt-A mortgages may not have certain documentation or verifications that are required by Fannie Mae and Freddie Mac and, therefore, in making our credit decisions, we may be more reliant upon the borrower’s credit score

and the adequacy of the underlying collateral. We believe that Alt-A mortgages provide an attractive net earnings profile by producing higher yields without commensurately higher credit losses than other types of mortgages.

The long-term investment operations also originate and invest in multi-family mortgages with initial fixed interest rate periods of three, five and seven years that subsequently adjust to adjustable rate mortgages with loan balances that generally range from $250,000 to $3.0 million. Multi-family mortgages have interest rate floors, which is the initial start rate, and prepayment penalty periods of three, five and seven years. Multi-family mortgages provide greater asset diversification on our balance sheet as borrowers of multi-family mortgages typically have higher credit scores and longer lives than Alt-A mortgages.

The long-term investment operations generate earnings primarily from net interest income earned on mortgages held for long-term investment, which consists of mortgages held as CMO collateral and mortgages held for investment on our balance sheet. Investment in Alt-A mortgages and multi-family mortgages are initially financed with short-term borrowings under reverse repurchase agreements which are subsequently converted to long-term financing in the form of collateralized mortgage obligations, or “CMO,” financing. Cash flow from the mortgage loan investment portfolio and proceeds from the sale of capital stock also finance new Alt-A and multi-family mortgage acquisitions and originations.

The mortgage operations acquire and originate primarily adjustable and fixed rate Alt-A mortgages and, to a lesser extent, B/C mortgages as follows:

- correspondent acquisitions;
- bulk acquisitions;
- wholesale and retail originations; and
- B/C originations.

The mortgage operations generate income by securitizing and selling mortgages to permanent investors, including the long-term investment operations. This business also earns revenue from interest income on mortgages held-for-sale and fees associated with mortgage acquisitions and originations, mortgage servicing rights and master servicing agreements. The mortgage operations use warehouse facilities provided by the warehouse lending operations to finance the acquisition and origination of mortgages.

The warehouse lending operations provide short-term financing to mortgage loan originators, including the mortgage operations, by funding mortgages from their closing date until sale to pre-approved investors. This business earns net interest income from the difference between its cost of borrowings and the interest earned on warehouse advances as well as fees from warehouse transactions.

Our goal is to generate consistent reliable income for distribution to our stockholders primarily from earnings generated by our core operating businesses.

**Critical Accounting Policies**

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations and require estimates and assumptions based on our judgment of changing market conditions and the performance of our assets and liabilities at any given time. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include the following:

- allowance for loan losses; and
- valuation of derivative instruments.

*Allowance for loan losses*. We provide an allowance for loan losses for mortgages held as CMO collateral, finance receivables and mortgages held-for-investment, or “loans provided for.” In evaluating the adequacy of the allowance for

loan losses, management takes several items into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the allowance for loan losses. In addition, management provides an allowance for loan losses for Alt-A mortgages that are retained for long-term investment and which are not underwritten to our specific underwriting guidelines. These mortgages are acquired on a bulk basis by the mortgage operations from other mortgage originators that underwrite mortgages substantially similar, but not specific, to our mortgage underwriting guidelines, or “non-Impac mortgages.” Management also recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring inherent loss in our loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower’s ability to pay, changes in value of collateral, political factors and industry statistics. For additional information regarding allowance for loan losses refer to “Results of Operations and Financial Condition—Impac Mortgage Holdings, Inc.”

*Valuation of derivative instruments*. The mortgage operations acquire derivative instruments to mitigate changes in the value of its mortgage pipeline. The mortgage pipeline consist of mortgages that have not yet been acquired, however, the mortgage operations has committed to acquire the mortgages in the future at pre-determined interest rates through rate-lock commitments. On March 9, 2004, the SEC issued Staff Accounting Bulletin 105, “Application of Accounting Principles to Loan Commitments,” or “SAB 105,” which clarifies the SEC’s position on the accounting for loan commitments. Consistent with SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities,” or “SFAS 149,” SAB 105 states that loan commitments are treated as derivative instruments. Prior to the issuance of SAB 105, the mortgage operations recorded the fair market value of its mortgage pipeline, excluding mortgage servicing value, as it qualifies as a derivative instrument under the provisions of Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities, or “SFAS 133,” however, it does not qualify for hedging treatment. Therefore, the mortgage pipeline and the related fair market value of derivative instruments were marked to market each reporting period along with a corresponding entry to non-interest expense. SAB 105 also addresses the issues of not recognizing cash flows associated with servicing prior to the sale or securitization of funded loans and certain other disclosure issues pertaining to loan commitments. SAB 105 also significantly limits a company’s ability to record an asset on its mortgage pipeline. We have adopted the new requirements within SAB 105, and as a result, we have not recorded an asset related to our outstanding mortgage pipeline as of March 31, 2004.

**Financial Highlights for the First Quarter of 2004**

- Earnings per diluted share increased to $0.76 compared to $0.70 for the fourth quarter of 2003 and $0.53 for the first quarter of 2003;
- Estimated taxable income per diluted share was $0.75 compared to $0.73 for the fourth quarter of 2003 and $0.58 for the first quarter of 2003;
- Cash dividends declared per share increased to $0.65 compared to $0.55 for the fourth quarter of 2003 and $0.50 for the first quarter of 2003;
- Total assets increased to $13.0 billion as of March 31, 2004 from $10.7 billion as of December 31, 2003 and $7.4 billion as of March 31, 2003;
- Book value per share increased to $9.72 as of March 31, 2004 compared to $9.02 as of December 31, 2003 and $7.13 as of March 31, 2003;
- Total market capitalization increased to $1.7 billion as of March 31, 2004 compared to $1.0 billion as of December 31, 2003 and $639.1 million as of March 31, 2003;
- Dividend yield as of March 31, 2004 was 9.56%, based on annualized first quarter cash dividend of $0.65 per share and closing stock price of $27.20 per share;
- Return on average assets and equity was 1.57% and 33.22% as compared to 1.58% and 36.79% for the fourth quarter of 2003 and 1.48% and 31.69% for the first quarter of 2003;
- The mortgage operations acquired and originated $3.5 billion of primarily Alt-A mortgages compared to $3.1 billion for the fourth quarter of 2003 and $1.8 billion for the first quarter of 2003;

- The long-term investment operations retained $2.9 billion of primarily Alt-A mortgages compared to $2.3 billion for the fourth quarter of 2003 and $1.4 billion for the first quarter of 2003; and
- IMCC originated $94.5 million of multi-family mortgages compared to $84.3 million for the fourth quarter of 2003 and $42.1 million for the first quarter of 2003.

**Results of Operations and Financial Condition—Impac Mortgage Holdings, Inc.**

*Consolidation of IFC*

The results of operations for the three months ended March 31, 2004 reflect the consolidation of IFC on July 1, 2003. On July 1, 2003, IMH entered into a stock purchase agreement with Joseph R. Tomkinson, our Chairman, Chief Executive Officer and a director, William S. Ashmore, our Chief Operating Officer, President and a director, and the Johnson Revocable Living Trust, of which Richard J. Johnson, our Executive Vice President and Chief Financial Officer is trustee, whereby IMH purchased all of the outstanding shares of voting common stock of IFC for aggregate consideration of $750,000. Each of Messer's. Tomkinson and Ashmore and the Johnson Revocable Living Trust owned one-third of the outstanding common stock of IFC. Mr. Tomkinson elected to receive $125,000 worth of his consideration for the sale of his IFC shares of common stock in the form of 7,687 shares of IMH common stock. The fairness opinion related to the purchase price of IFC, as rendered by an independent financial advisor, and the subsequent transaction was approved by our board of directors. As a result of acquiring 100% of IFC's common stock on July 1, 2003, IMH owns all of the common stock and preferred stock of IFC and began to consolidate IFC as of that date. As such, the consolidated financial statements for the three months ended March 31, 2004, or "consolidation period," reflect the results of operations of IFC on a consolidated basis. The consolidated financial statements for the three months ended March 31, 2003, or "non-consolidation period," include the results of operations of IFC as equity in net earnings of IFC.

*Results of Operations—*
*For the Three Months Ended March 31, 2004 compared to the Three Months Ended March 31, 2003*

*Net Earnings*

Net earnings increased 80% to $46.0 million, or $0.76 per diluted share, for the first quarter of 2004 compared to $25.5 million, or $0.53 per diluted share, for the first quarter of 2003. The quarter-over-quarter increase in net earnings of $20.5 million was primarily due to the following:

- $25.8 million increase in net interest income;
- $23.6 million increase in non-interest income;
- offset by a $25.7 million increase in non-interest expense and income tax expense; and
- $3.2 million increase in provision for loan losses.

*Taxable Income*

After adjusting for our estimates of the differences between net earnings and taxable income, estimated taxable income was $45.5 million, or $0.75 per diluted share, for the first quarter of 2004 as compared to $28.0 million, or $0.58 per diluted share, for the first quarter of 2003. When we file our annual tax returns there are certain adjustments that we make to net earnings and taxable income due to differences in the nature and extent that revenues and expenses are recognized under the two methods. For instance, to calculate taxable income we deduct actual loan losses as compared to the determination of net earnings that require a deduction of loan loss provisions which are determined based on estimated losses inherent in our loan portfolios. To maintain our REIT status, we are required to distribute a minimum of 90% of our annual taxable income to our stockholders. Because we pay dividends based on taxable income, dividends may be more or less than net earnings. As such, we believe that the disclosure of estimated taxable income, which is a non-generally accepted accounting principle, or "GAAP," financial measurement, is useful information for our investors. Of estimated taxable income of $45.5 million, or $0.73 per outstanding share, we declared total regular cash dividends of $40.7 million or $0.65 per outstanding share during the first quarter of 2004. Upon the filing of our 2002 tax return, we had federal and state net operating tax loss carry-forwards of $18.7 million that may or may not be used to offset taxable income in

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subsequent years. The following table presents a reconciliation of net earnings to estimated taxable income for the periods indicated (dollars in thousands, except per share amounts):

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Net earnings | $46,046 | $25,545 |
| Adjustments to net earnings: | | |
| Provision for loan losses | 9,725 | 6,484 |
| Dividend from IFC | 7,500 | 4,455 |
| Tax deduction for actual loan losses | (2,022) | (3,325) |
| Anticipated partial worthlessness deduction on warehouse advances (1) | (6,000) | — |
| Equity in net earnings of IFC | (9,703) | (5,167) |
| Estimated taxable income (2) | $45,546 | $27,992 |
| Estimated taxable income per diluted share | $ 0.75 | $ 0.58 |
| Estimated taxable income per outstanding share | $ 0.73 | $ 0.57 |

(1) Represents estimated partial impairment on specific warehouse advances that we anticipate will be non-collectible. For additional information, refer to "Provision for Loan Losses and Allowance for Loan Losses" below.
(2) Excludes the deduction for dividends paid and the availability of a deduction attributable to net operating tax loss carry-forwards.

*Net Interest Income*

*Consolidating effect of IFC*. Net interest income generated by the mortgage operations was reported on a consolidated basis for the consolidation period, however, prior to July 1, 2003, net interest income generated by the mortgage operations was a component of equity in net earnings of IFC on the consolidated financial statements for the non-consolidation period. For additional detail regarding the breakdown of net interest income by business segment, refer to Note 5—Segment Reporting in the notes to consolidated financial statements.

*Description*. We earn interest income primarily on Mortgage Assets which include CMO collateral, mortgages held-for-investment, mortgages held-for-sale, finance receivables and investment securities available-for-sale, or collectively, "Mortgage Assets," and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings on Mortgage Assets, which include CMO borrowings, reverse repurchase agreements and borrowings on investment securities available-for-sale. We also receive or make cash payments on derivative instruments as an adjustment to the yield on Mortgage Assets or borrowings on Mortgage Assets depending on whether certain specified contractual interest rate levels are reached. For addition information on derivative instruments and their effect on net interest income during changing interest rate environments, refer to Item 3. "Quantitative and Qualitative Disclosures About Market Risk."

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*Comparative Yield Table*. The following table summarizes average balance, interest and weighted average yield on Mortgage Assets and borrowings on Mortgage Assets for the periods indicated (dollars in thousands):

| | For the Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | 2003 | | |
| | Average Balance | Interest | Yield | Average Balance | Interest | Yield |
| **MORTGAGE ASSETS** | | | | | | |
| Investment securities available-for-sale | $ 12,981 | $ 907 | 27.95% | $ 25,536 | $ 753 | 11.80% |
| CMO collateral (1) | 9,581,443 | 88,549 | 3.70 | 5,533,475 | 60,051 | 4.34 |
| Mortgages held-for-investment and mortgages held-for-sale (2) | 1,434,117 | 21,280 | 5.94 | 180,912 | 3,251 | 7.19 |
| Finance receivables: | | | | | | |
| Affiliated (3) | — | — | — | 464,636 | 4,685 | 4.03 |
| Non-affiliated | 457,039 | 5,097 | 4.46 | 523,182 | 6,738 | 5.15 |
| Total finance receivables | 457,039 | 5,097 | 4.46 | 987,818 | 11,423 | 4.63 |
| Total Mortgage Assets | $ 11,485,580 | $ 115,833 | 4.03% | $ 6,727,741 | $ 75,478 | 4.49% |
| **BORROWINGS** | | | | | | |
| CMO borrowings | $ 9,341,138 | $ 54,060 | 2.31% | $ 5,417,690 | $ 41,684 | 3.08% |
| Reverse repurchase agreements | 1,742,935 | 9,554 | 2.19 | 1,129,251 | 6,790 | 2.41 |
| Borrowings secured by investment securities (4) | — | — | — | 6,233 | 632 | 40.56 |
| Total borrowings on Mortgage Assets | $ 11,084,073 | $ 63,614 | 2.30% | $ 6,553,174 | $ 49,106 | 3.00% |
| Net interest spread (5) | | | 1.73% | | | 1.49% |
| Net interest margin (6) | | | 1.82% | | | 1.57% |

(1) Includes amortization of acquisition costs and net cash payments on derivative instruments.
(2) Includes mortgages held-for-sale which were acquired via the consolidation of the mortgage operations on July 1, 2003.
(3) Advances to subsidiaries and affiliates were eliminated during the first three months of 2004 due to the consolidation of the mortgage operations.
(4) Payments and excess cash flows received from investment securities collateralizing these borrowings were used to pay down the outstanding borrowings. The payments were received from a collateral base that was in excess of the borrowings. Therefore, while the payment amounts remained relatively stable, the average balance of the borrowings continued to decline. These borrowings were repaid during the third quarter of 2003.
(5) 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.
(6) 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 total average Mortgage Assets.

Net interest income was $52.6 million for the first quarter of 2004 compared to $26.8 million for the first quarter of 2003. The quarter-over-quarter increase in net interest income was primarily due to an increase in average Mortgage Assets, which increased to $11.5 billion for the first quarter of 2004 compared to $6.7 billion for the first quarter of 2003 as the long-term investment operations retained $7.2 billion of primarily Alt-A mortgages from the mortgage operations and $342.9 million of multi-family mortgages originated by IMCC since the end of the first quarter of 2003. We primarily retain Alt-A mortgages that are acquired and originated by the mortgage operations and multi-family mortgages originated by IMCC that fit within our investment criteria. Alt-A and multi-family mortgages are ARMs and FRMs with good credit profiles with mortgage insurance enhancements, when required, that generally have prepayment penalty features and are primarily purchase money transactions. The following table summarizes the principal balance of Alt-A mortgages acquired by the long-term investment operations from the mortgage operations and multi-family mortgages originated by IMCC by loan characteristic for the periods indicated (in thousands):

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Principal Balance | % | Principal Balance | % |
| Volume by Type: | | | | |
| Adjustable rate | $ 2,696,543 | 92 | $ 866,253 | 60 |
| Fixed rate | 249,883 | 8 | 567,986 | 40 |
| Total Mortgage Acquisitions | $ 2,946,426 | 100 | $ 1,434,239 | 100 |
| Volume by Product: | | | | |
| Primarily six-month LIBOR indexed ARMs (1) | $ 676,743 | 23 | $ 491,241 | 34 |
| Primarily six-month LIBOR indexed hybrids (1) (2) | 2,019,800 | 69 | 375,011 | 26 |
| Fixed rate first trust deeds | 249,883 | 8 | 564,639 | 39 |
| Fixed rate second trust deeds | — | 0 | 3,348 | 1 |
| Total Mortgage Acquisitions | $ 2,946,426 | 100 | $ 1,434,239 | 100 |

| | | | | |
|---|---|---|---|---|
| Volume by Credit Quality: | | | | |
| Alt-A loans | $ 2,934,124 | 100 | $ 1,427,484 | 100 |
| B/C loans (3) | 12,302 | 0 | 6,755 | 0 |
| Total Mortgage Acquisitions | $ 2,946,426 | 100 | $ 1,434,239 | 100 |
| Volume by Purpose: | | | | |
| Purchase | $ 1,839,942 | 62 | $ 611,529 | 43 |
| Refinance | 1,106,484 | 38 | 822,710 | 57 |
| Total Mortgage Acquisitions | $ 2,946,426 | 100 | $ 1,434,239 | 100 |
| Volume by Prepayment Penalty: | | | | |
| With prepayment penalty | $ 2,247,046 | 76 | $ 1,163,745 | 81 |
| Without prepayment penalty | 699,380 | 24 | 270,494 | 19 |
| Total Mortgage Acquisitions | $ 2,946,426 | 100 | $ 1,434,239 | 100 |

(1) Also includes minimal principal balances of one-year LIBOR and constant maturity Treasury ARMs.

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

(3) B/C loans, as defined by us, which were acquired and originated through correspondent or wholesale channels.

The increase in net interest income was also due to an increase in net interest margins on Mortgage Assets, which increased to 1.82% for the first quarter of 2004 as compared to 1.57% for the first quarter of 2003. The increase in net interest margins was primarily due to the following:

- expiration of more expensive interest rate hedging instruments, or derivative instruments; and
- consolidation of mortgages held by the mortgage operations.

*Expiration of more expensive derivative instruments*. We currently acquire derivative instruments, primarily interest rate swaps, to offset possible increased CMO borrowing costs which may result from rising interest rates. Net interest margins on Mortgage Assets improved as more expensive derivative instruments, primarily interest rate caps and floors that were acquired in 2001, expired during 2003 and during the first quarter of 2004. As a result, net cash payments and amortization of derivative instruments declined 20 basis points of total average Mortgage Assets to 43 basis points of total average Mortgage Assets during the first quarter of 2004 as compared to 63 basis points of total average Mortgage Assets during the first quarter of 2003. The goal of our interest rate hedging policy is to provide stable net interest margins and cash flows to our investors in various interest rate environments. Our interest rate hedging strategy is designed to protect net interest margins and net earnings from changing interest rates, which, absent interest rate hedging instruments, would, in all likelihood, have an adverse effect on both. We believe that our interest rate hedging policy is sound and net interest margins will remain relatively stable even if interest rates change from current levels.

*Consolidation of mortgages held by the mortgage operations.* The consolidation of mortgages held by the mortgage operations during the first quarter of 2004 contributed to an increase in net interest margins on Mortgage Assets. During the first quarter of 2004, net interest margins on mortgages held by the mortgage operations was 3.19% on average outstanding balances of $685.8 million, which added an additional 9 basis points to net interest margins on Mortgage Assets. As a comparison, net interest margins on mortgages held by the mortgage operations was 2.77% during the first quarter of 2003. Net interest margins on mortgages held by the mortgage operations increased due to a steeper yield curve during the first quarter of 2004 as compared to the first quarter of 2003. The yield curve represents the mathematical difference between short-term interest rates and long-term interest rates. Because the mortgage operations establishes interest rates on its mortgages by indexing those interest rates to long-term market interest rates and finances mortgages with borrowings that are indexed to short-term interest rates, a steep yield curve benefits net interest margins.

*Non-Interest Income*

*Consolidating effect of IFC.* Non-interest income generated by the mortgage operations was reported on a consolidated basis for the consolidation period, however, prior to July 1, 2003, non-interest income generated by the mortgage operations was a component of equity in net earnings of IFC on the consolidated financial statements for the non-consolidation period. For additional detail regarding the breakdown of non-interest income by business segment refer to Note 5—Segment Reporting in the notes to consolidated financial statements.

Due to the consolidation of IFC, non-interest income increased to $31.5 million for the first quarter of 2004 as compared to $7.8 million for the first quarter of 2003. The quarter-over-quarter increase in non-interest income of $23.7 million was primarily due to the following:

- $29.5 million increase in gain on sale of loans; and
- partially offset by a $5.2 million decrease in equity in net earning of IFC.

These quarter-over-quarter variances are discussed in further detail below.

*Gain on Sale of Loans*. Gain on sale of loans includes the difference between the price we acquire and originate mortgages and the price we receive upon the sale or securitization of mortgages plus or minus direct mortgage origination revenue and costs, i.e. loan and underwriting fees, commissions, appraisal review fees, document expense, etc. Gain on sale

of loans acquired and originated by the mortgage operations also includes a premium for the sale of mortgage servicing rights upon the sale or securitization of mortgages, including real estate mortgage investment conduits, or "REMICs," and CMOs. Substantially all mortgages sold or securitized during the first quarters of 2004 and 2003 were done so on a servicing released basis, which resulted in substantially all cash gains.

The $29.5 million increase in gain on sale of loans was primarily due to the consolidation of the mortgage operations. Gain on sale of loans increased to $31.1 million for the first quarter of 2004 as the mortgage operations sold $632.2 million of mortgages as whole loan sales and REMICs, on a servicing released basis, and the long-term investment operations completed $3.4 billion of CMOs, at which time mortgage servicing rights on the mortgages securing the CMOs were sold, as compared to gain on sale of loans of $1.6 million during the first quarter of 2003. As a further comparison, the mortgage operations sold $502.4 million of mortgages as whole loan sales and REMICs, on a servicing released basis, and the long-term investment operations completed $1.5 billion of CMOs, at which time mortgage servicing rights on the mortgages securing the CMOs were sold, during the first quarter of 2003, which resulted in gain on sale of loans of $22.0 million during the first quarter of 2003. In order to minimize risks associated with the accumulation of our mortgages, we seek to securitize or sell our mortgages between 15 to 45 days from acquisition or origination, thereby reducing our exposure to interest rate risk and price volatility during the accumulation period of mortgages.

*Equity in net earnings of IFC*. The $5.2 million decrease in equity in net earnings of IFC was due to the consolidation of the mortgage operations. Net earnings of IFC was reported on a consolidated basis for the consolidation period, however, prior to July 1, 2003, 99% of the net earnings of IFC was reflected as equity in net earnings of IFC on the consolidated financial statements for the non-consolidation period. As a comparison, net earnings of IFC was $9.7 million for the first quarter of 2004 as compared to net earnings of $5.2 million for the first quarter of 2003. The increase in net earnings of IFC during the first quarter of 2004 as compared to the first quarter of 2003 was primarily due to an increase in gain on sale of loans as the mortgage operations sold a higher volume of mortgages and mortgage servicing rights.

*Non-Interest Expense*

*Consolidating effect of IFC*. Non-interest income generated by the mortgage operations was reported on a consolidated basis for the consolidation period, however, prior to July 1, 2003, non-interest income generated by the mortgage operations was a component of equity in net earnings of IFC on the consolidated financial statements for the non-consolidation period. For additional detail regarding the breakdown of non-interest expense by business segment refer to Note 5—Segment Reporting in the notes to consolidated financial statements.

Due to the consolidation of IFC, non-interest expense, including income taxes, increased to $28.3 million for the first quarter of 2004 as compared to $2.6 million for the first quarter of 2003. The quarter-over-quarter increase in non-interest expense of $25.7 million was primarily due to the following:

- $18.6 million increase in operating costs; and
- $6.5 million increase in income taxes.

These quarter-over-quarter variances are discussed in further detail below.

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*Operating costs*. The $18.6 million increase in operating costs was primarily due to the consolidation of the mortgage operations. Operating costs increased to $21.1 million for the first quarter of 2004 as compared to $2.5 million for the first quarter of 2003. Operating costs include personnel expense, professional services, equipment expense, occupancy expense, data processing expense and general and administrative and other expense. As a comparison, operating costs increased 33% to $21.1 million for the first quarter of 2004 as compared to combined operating costs, including operating costs of the mortgage operations, of $15.9 million for the first quarter of 2003. The increase in operating costs was primarily due to a 94% increase in mortgage acquisitions and originations to $3.5 billion during the first quarter of 2004 as compared to $1.8 billion during the first quarter of 2003. The following table summarizes the principal balance of mortgage acquisitions and originations by loan characteristic for the periods indicated (in thousands):

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Principal Balance | % | Principal Balance | % |
| By Loan Type: | | | | |
| Fixed rate first trust deed | $ 654,398 | 19 | $ 894,427 | 50 |
| Fixed rate second trust deed | 111,358 | 3 | 28,896 | 2 |
| Adjustable rate: | | | | |
| Primarily six-month LIBOR indexed ARMs (1) | 669,444 | 19 | 500,067 | 28 |
| Primarily six-month LIBOR indexed hybrids (2) | 2,033,882 | 59 | 347,965 | 20 |
| Total adjustable rate | 2,703,326 | 78 | 848,032 | 48 |
| Total Mortgage Acquisitions and Originations | $3,469,082 | 100 | $1,771,355 | 100 |
| By Production Channel: | | | | |
| Correspondent acquisitions: | | | | |
| Flow | $2,171,424 | 63 | $1,042,306 | 59 |
| Bulk | 782,746 | 22 | 317,409 | 18 |
| Total correspondent acquisitions | 2,954,170 | 85 | 1,359,715 | 77 |
| Wholesale and retail originations | 371,578 | 11 | 305,090 | 17 |
| Novelle Financial Services, Inc. | 143,334 | 4 | 106,550 | 6 |
| Total Mortgage Acquisitions and Originations | $3,469,082 | 100 | $1,771,355 | 100 |
| By Credit Quality: | | | | |
| Alt-A | $3,312,135 | 95 | $1,656,908 | 94 |
| B/C (3) | 156,947 | 5 | 114,447 | 6 |
| Total Mortgage Acquisitions and Originations | $3,469,082 | 100 | $1,771,355 | 100 |
| By Purpose: | | | | |
| Purchase | $2,055,085 | 59 | $ 764,032 | 43 |
| Refinance | 1,413,997 | 41 | 1,007,323 | 57 |
| Total Mortgage Acquisitions and Originations | $3,469,082 | 100 | $1,771,355 | 100 |
| By Prepayment Penalty: | | | | |
| With prepayment penalty | $2,435,576 | 70 | $1,471,904 | 83 |
| Without prepayment penalty | 1,033,506 | 30 | 299,451 | 17 |
| Total Mortgage Acquisitions and Originations | $3,469,082 | 100 | $1,771,355 | 100 |

(1) Also includes minimal principal balances of one-year LIBOR and constant maturity Treasury ARMs.
(2) Mortgages are fixed rate for initial two to five year periods and subsequently adjust to the indicated index plus a margin.
(3) The first quarter of 2004 and 2003 includes $143.3 million and $106.6 million, respectively, of B/C mortgages originated by NFS, a subsidiary of IFC, that are subsequently sold to third party investors for cash gains.

We believe that our efficient centralized operating structure and our web-based automated underwriting system, Impac Direct Access System for Lending, allows us to maintain our position as a low cost nationwide acquirer and originator of Alt-A mortgages. In addition, a higher percentage of non-Impac mortgage acquisitions during the first quarter of 2004 contributed to lower per loan acquisition costs as compared to the first quarter of 2003 as non-Impac Alt-A mortgage acquisitions generally require less personnel and operating costs than Impac Alt-A mortgages, which are acquired on a flow, or loan-by-loan basis.

*Provision for Loan Losses and Allowance for Loan Losses*

Provision for loan losses were $9.7 million for the first quarter of 2004 as compared to $6.5 million for the first quarter of 2003. An allowance is maintained for losses on mortgages held-for-investment, mortgages held as CMO collateral and finance receivables, or “loans provided for,” at an amount that management believes provides for losses inherent in those loan portfolios. We have implemented a methodology designed to analyze the performance of various loan portfolios based upon the relatively homogeneous nature within these loan portfolios. The allowance for losses is also analyzed using the following factors:

- management’s judgment of the net loss potential of mortgages in our mortgage loan investment portfolio based on prior loan loss experience;
- changes in the nature and volume of the mortgage loan investment portfolio;
- value of the collateral;
- delinquency trends; and
- current economic conditions that may affect the borrowers’ ability to pay.

In evaluating the adequacy of the allowance for loan losses, management takes several items into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. As allowed under SFAS No. 114, “Accounting by Creditors for Impairment of a Loan” and as amended by SFAS No. 118, “Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures,” (SFAS 114) we determine impairment collectively on loan pools as they are made up of smaller balance homogenous loans. These homogeneous loans are assessed for impairment by loan type. The largest mortgage loan pools by type consist of residential mortgages, however, multifamily and B/C mortgages are loan pools that are also assessed for impairment. The results of that analysis are then applied to our current loan portfolios and an estimate is created.

In addition, management provides an allowance for loan losses on Alt-A mortgages that are retained for long-term investment and which are not underwritten to our specific underwriting guidelines. These mortgages are acquired on a bulk basis by the mortgage operations from other mortgage originators that underwrite mortgages substantially similar, but not specific, to our mortgage underwriting guidelines, or “non-Impac mortgages.” Management also recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring inherent loss in our loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower’s ability to pay, changes in value of collateral, political factors and industry statistics.

At the end of March of 2004, we discovered that one client of the warehouse lending operations and certain of its officers had perpetrated a fraud pursuant to which they defrauded the warehouse lending operations into making advances pursuant to a warehouse line of credit. As of the date the fraud was discovered, an aggregate of $12.6 million of fraudulent loan advances were outstanding. We immediately terminated the warehouse line of credit and have been cooperating with federal investigators in their ongoing investigation of the defrauding parties. It appears that the defrauding parties had perpetrated a similar fraud on another warehouse lender.

We retained an independent consultant to investigate the matter; the investigator reported that no principals of the warehouse lending operations had knowingly participated in the fraud and stated that it is not likely that any other client of the warehouse lending operations could duplicate the same fraud. With the aid of the independent counsel, the audit committee of our board of directors reviewed the report and the scope of the investigation and concurs with the assessment set forth in the report. In response, we have taken steps to enhance procedures at our warehouse lending operations, including improvements of the application approval and funding processes of mortgage bankers and follow-up quality control checks. As a result of the fraud, during the first quarter of 2004 we established a specific allowance for loan losses in the amount of $6.0 million to provide for anticipated losses on the fraudulent warehouse advances as we have deemed this amount to be non-collectible. Based on available information, we believe we will be able to recover the remaining $6.6 million of related warehouse advances over time. Because we deem $6.0 million of the total warehouse advances to be non-collectible and anticipate that it will result in a tax deduction upon the filing of our 2004 corporate income tax return, we reflected the $6.0 million as a reduction to estimated taxable income for the first quarter of 2004 as shown in the reconciliation of net earnings to estimated taxable income above. To the extent that we believe that the actual losses will exceed the $6.0 million allowance, we will make an additional allowance for loan losses when, or if, we determine it is appropriate to do so as events and circumstances dictate. However, we believe that this specific allowance is adequate to provide for anticipated loan losses based on currently available information.

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As of March 31, 2004, allowance for loan losses increased to $46.3 million as compared to $38.6 million as of December 31, 2003. In our opinion and in accordance with our loan loss allowance methodology, we believe that the present allowance for loan losses is adequate to provide for losses inherent in our loan portfolios. For additional information regarding delinquencies of mortgages in our mortgage loan investment portfolio refer to “Financial Condition” below.

*Financial Condition*

Total assets grew 21% to $13.0 billion as of March 31, 2004 as compared to $10.7 billion as of December 31, 2003 as the long-term investment operations retained $2.9 billion of primarily adjustable and fixed Alt-A mortgages and multi-family mortgages during the first quarter of 2004. The following table presents selected financial data as of the dates indicated (dollars in thousands, except per share data and master servicing portfolio):

| | As of and For the Quarter Ended, | | |
|---|---|---|---|
| | March 31, 2004 | December 31, 2003 | March 31, 2003 |
| Book value per share | $ 9.72 | $ 9.02 | $ 7.13 |
| Return on average assets | 1.57% | 1.58% | 1.48% |
| Return on average equity | 33.22% | 36.79% | 31.69% |
| Assets to equity ratio | 21.40:1 | 20.99:1 | 21.07:1 |
| Debt to equity ratio | 20.21:1 | 19.85:1 | 19.98:1 |
| Mortgages owned 60+ days delinquent | $ 192,464 | $ 175,313 | $ 190,003 |
| 60+ day delinquency of mortgages owned | 1.62% | 1.79% | 3.17% |
| Mortgages owned 90+ days delinquent and other real estate owned | $ 142,379 | $ 140,369 | $ 155,597 |
| 90+ days delinquency of mortgages owned and other real estate owned to total assets | 1.09% | 1.31% | 2.10% |
| Master servicing portfolio (in billions) | $ 16,240 | $ 13,920 | $ 9,529 |

The retention of mortgages during the first quarter of 2004 resulted in a 30% increase in mortgages held as CMO collateral to $11.3 billion as of March 31, 2004 as compared to $8.7 billion as of December 31, 2003. The following table presents selected information about mortgages held as CMO collateral as of the dates indicated:

| | As of the Quarter Ended, | | |
|---|---|---|---|
| | March 31, 2004 | December 31, 2003 | March 31, 2003 |
| Percent of Alt-A mortgages | 99 | 99 | 99 |
| Percent of ARMs | 88 | 86 | 79 |
| Percent of FRMs | 12 | 14 | 21 |
| Percent of hybrid ARMs | 55 | 48 | 31 |
| Weighted average coupon | 5.53 | 5.56 | 6.29 |
| Weighted average margin | 3.19 | 3.10 | 2.99 |
| Weighted average original LTV | 78 | 79 | 80 |
| Weighted average original credit score | 695 | 694 | 687 |
| Prior 3-month constant prepayment rate, or “CPR” | 25 | 31 | 24 |
| Prior 12-month CPR | 31 | 28 | 24 |
| Percent with active prepayment penalty | 80 | 81 | 78 |
| Percent of mortgages in California | 64 | 64 | 62 |
| Percent of purchase transactions | 59 | 57 | 57 |
| Percent of owner occupied | 86 | 87 | 91 |
| Percent of first lien | 99 | 99 | 99 |

We believe that in order for us to generate positive cash flows and earnings we must successfully manage the following primary operational and market risks:

- credit risk;
- prepayment risk;

- liquidity risk; and
- interest rate risk.

*Credit Risk.* We manage credit risk by retaining for long-term investment high credit quality Alt-A and multi-family mortgages, adequately providing for loan losses and actively managing delinquencies and defaults. Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines, but that have loan characteristics that make them non-conforming under those guidelines.

We believe that by improving the overall credit quality of our long-term mortgage portfolio we can consistently generate stable future cash flow and net earnings. As of March 31, 2004, the original weighted average credit score of mortgages held as CMO collateral was 695 and the original weighted average LTV ratio was 78%. During the first quarter of 2004, we retained $2.9 billion of primarily adjustable and fixed rate Alt-A mortgages that were acquired or originated by the mortgage operations with an original weighted average credit score of 697 and an original weighted average LTV ratio of 78%. In addition, during the first quarter of 2004, we retained $639.0 million of non-Impac mortgages that were acquired by the mortgage operations with an original weighted average credit score of 702 and an original weighted average LTV ratio of 78%. IMCC also originated $94.5 million of multi-family mortgages with a weighted average credit score of 722 and an original weighted average LTV of 66%.

We monitor our sub-servicers to make sure that they perform loss mitigation, foreclosure and collection functions according to our servicing guide. This includes an effective and aggressive collection effort in order to minimize mortgages from becoming seriously delinquent. However, when resolving delinquent mortgages, sub-servicers are required to take timely and aggressive action. The sub-servicer is required to determine payment collection under various circumstances, which will result in maximum financial benefit. This is accomplished by either working with the borrower to bring the mortgage current or by foreclosing and liquidating the property. We perform ongoing review of mortgages that display weaknesses and believe that we maintain adequate loss allowance on the mortgages. When a borrower fails to make required payments on a mortgage and does not cure the delinquency within 60 days, we generally record a notice of default and commence foreclosure proceedings. If the mortgage is not reinstated within the time permitted by law for reinstatement, the property may then be sold at a foreclosure sale. In foreclosure sales, we generally acquire title to the property. As of March 31, 2004, our long-term mortgage portfolio included 1.62% of mortgages that were 60 days or more delinquent compared to 1.79% as of December 31, 2003. The following table summarizes mortgages in our long-term mortgage portfolio that were 60 or more days delinquent for the periods indicated (in thousands):

| | At March 31, 2004 | At December 31, 2003 |
|---|---|---|
| 60-89 days delinquent | $ 66,246 | $ 51,173 |
| 90 or more days delinquent | 37,936 | 52,080 |
| Foreclosures | 78,521 | 66,767 |
| Delinquent bankruptcies | 9,761 | 5,293 |
| Total 60 or more days delinquent | $ 192,464 | $ 175,313 |

Seriously delinquent assets consist of mortgages that are 90 days or more delinquent, including loans in foreclosure and delinquent bankruptcies. When real estate is acquired in settlement of loans, or “other real estate owned,” the mortgage is written-down to a percentage of the property’s appraised value or broker’s price opinion. As of March 31, 2004, seriously delinquent assets and other real estate owned as a percentage of total assets was 1.09% as compared to 1.31% as of December 31, 2003. The following table summarizes mortgages in our long-term mortgage portfolio that were seriously delinquent and other real estate owned for the periods indicated (in thousands):

| | At March 31, 2004 | At December 31, 2003 |
|---|---|---|
| 90 or more days delinquent | $ 126,218 | $ 124,140 |
| Other real estate owned | 16,161 | 16,229 |
| Total | $ 142,379 | $ 140,369 |

*Prepayment Risk.* As of March 31, 2004, 80% of mortgages held as CMO collateral had prepayment penalty features as compared to 81% as of December 31, 2003. 76% of Alt-A mortgages retained during the first quarter of 2004 had prepayment penalty features ranging from two to seven years as compared to 81% during the first quarter of 2003.

Mortgages held as CMO collateral had a 25% CPR during the first quarter of 2004 as compared to 24% CPR during the first quarter of 2003.

*Liquidity Risk.* We employ a leveraging strategy to increase assets by financing our long-term mortgage porfolio primarily with CMO borrowings, reverse repurchase agreements and capital and then using cash proceeds to acquire additional mortgage assets. We retain ARMs and FRMs that are acquired and originated by the mortgage operations and finance the acquisition of those mortgages, during this accumulation period, with reverse repurchase agreements. After accumulating a pool of mortgages, generally between $200 million and $1.0 billion, we securitize the mortgages in the form of CMOs. Our strategy is to securitize our mortgages every 15 to 45 days in order to reduce the accumulation period that mortgages are outstanding on short-term warehouse or reverse repurchase facilities, which reduces our exposure to margin calls on these facilities. CMOs are classes of bonds that are sold to investors in mortgage-backed securities and as such are not subject to margin calls. In addition, CMOs generally require a smaller initial cash investment as a percentage of mortgages financed than does interim warehouse and reverse repurchase financing.

Because of the prepayment and loss rates of our Alt-A mortgages, we have received favorable credit ratings on our CMOs from credit rating agencies, which has reduced our required initial capital investment as a percentage of mortgages securing CMO financing. The ratio of total assets to total equity, or "leverage ratio," was 21.40 to 1 as of March 31, 2004 compared to 20.99 to 1 as of December 31, 2003. We continually monitor our leverage ratio and liquidity levels to insure that we are adequately protected against adverse changes in market conditions. For additional information regarding liquidity refer to "Liquidity and Capital Resources" below.

*Interest Rate Risk.* Refer to Item 3. "Quantitative and Qualitative Disclosures About Market Risk."

**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 mortgages 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 mortgage 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/liability committee, or "ALCO," is responsible for monitoring our liquidity position and funding needs. ALCO is comprised of senior executives of the mortgage operations and warehouse lending operations. 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. Our primary liquidity consists of cash and cash equivalents and maturing mortgages, or "liquid assets." We believe that current cash balances, currently available financing facilities, capital raising capabilities and excess cash flows generated from our long-term mortgage portfolio will adequately provide for projected funding needs and asset growth. However, if we are unable to raise capital in the future, we may not be able to grow as planned. Refer to "Risk Factors" for additional information regarding risks that could adversely affect our liquidity.

Our operating businesses primarily use available funds as follows:

- acquisition and origination of mortgages,
- investment in mortgages;
- provide short-term warehouse advances to affiliates and non-affiliated clients; and
- pay common stock dividends.

*Acquisition and origination of mortgages*. During the first quarter of 2004, the mortgage operations acquired $3.5 billion of primarily Alt-A mortgages, of which $2.9 billion was retained for long-term investment. Capital invested in mortgages is outstanding until we sell or securitize mortgages, which is one of the reasons we attempt to sell or securitize mortgages between 15 to 45 days of acquisition or origination. Initial capital invested in mortgages includes premiums paid when mortgages are acquired and originated and initial capital investment, or "haircut," required upon financing, which is generally determined by the type of collateral provided. The mortgage operations paid weighted average premiums of 2.29% on the principal balance of mortgages acquired and originated during the first quarter of 2004, which were financed with warehouse borrowings at a haircut generally between 2% to 5% of the outstanding principal balance of the mortgages.

When we finance mortgages with long-term CMO borrowings, we repay short-term warehouse financing and recoup our 2% to 5% haircut. Then, depending on credit ratings from national credit rating agencies on our CMOs, we are generally required to provide an over-collateralization, or "OC," of 0.50% to 1% of the principal balance of mortgages securing CMO financing as compared to a haircut of 2% to 5% of the principal balance of mortgages securing short-term warehouse financing. Our total capital investment in CMOs generally range from approximately 3% to 5% of the principal balance of mortgages securing CMO borrowings which includes premiums paid upon acquisition of mortgages, costs paid for completion of CMOs, costs to acquire derivative instruments and OC required to achieve desired credit ratings. In addition, IMCC originated $94.5 million of multi-family mortgages which were initially financed with short-term warehouse financing that generally require a 10% to 15% haircut. Multi-family mortgages are either sold as whole loan sales or are financed with CMO borrowings at lower OC requirements than haircut requirements for warehouse financing.

*Provide short-term warehouse advances to affiliates and non-affiliates.* We utilize committed and uncommitted warehouse facilities with various lenders to provide short-term warehouse financing to affiliates and non-affiliated clients of the warehouse lending operations.

The warehouse lending operations provides short-term financing to the mortgage operations and non-affiliated clients from the closing of mortgages to their sale or other settlement with investors. The warehouse lending operations generally finances between 95% and 98% of the fair market value of the principal balance of mortgages, which equates to a haircut requirement of between 2% and 5%, at prime rate plus a spread. The mortgage operations has uncommitted warehouse line agreements to obtain financing of up to $800.0 million from the warehouse lending operations at prime minus 0.50% during the period that the mortgage operations accumulates mortgages until the mortgages are securitized or sold. In addition, as of March 31, 2004, the warehouse lending operations had $917.0 million of approved warehouse lines available to non-affiliated clients, of which $526.4 million was outstanding.

Our ability to meet liquidity requirements and the financing needs 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.

*Pay common stock dividends*. We did not pay common stock dividends that normally would have been paid during the first quarter of 2004 as the fourth quarter of 2003 dividend was paid in December 2003. We are required to distribute a minimum of 90% of our taxable income to our stockholders in order to maintain our REIT status, exclusive of the application of any tax loss carry forwards that may be used to offset current period taxable income. Because we pay dividends based on taxable income, dividends may be more or less than net earnings. We declared cash dividends of $0.65 per outstanding share during the first quarter of 2004. A portion of dividends paid to IMH's stockholders come from dividend distributions from the mortgage operations to IMH. During the first quarter of 2004, the mortgage operations provided a dividend distribution of $7.5 million to IMH. However, because the mortgage operations may seek to retain earnings to fund the acquisition and origination of mortgages or to expand the mortgage operations, the board of directors of the mortgage operations may decide that the mortgage operations should cease making dividend distributions in the future. This could reduce the amount of taxable income that would be distributed to IMH stockholders in the form of dividends.

Our operating businesses are primarily funded as follows:

- CMO borrowings and reverse repurchase agreements;
- excess cash flows from our long-term mortgage portfolio;

- sale and securitization of mortgages; and
- cash proceeds from the issuance of securities.

*CMO borrowings and reverse repurchase agreements.* We use CMO borrowings and reverse repurchase agreements to fund substantially all warehouse financing to affiliates and non-affiliated clients and the acquisition and origination of mortgages. As we accumulate mortgages, we finance the acquisition of mortgages primarily through borrowings on reverse repurchase agreements with third party lenders. We primarily use committed and uncommitted repurchase facilities with major investment banks to finance substantially all warehouse financing, as needed. During 2003, we added an additional $750.0 million of new uncommitted warehouse facilities to finance asset growth. The new warehouse facilities provide us with a higher aggregate credit limit to fund the acquisition and origination of mortgages at terms comparable to those we have received in the past. These reverse repurchase agreements may have certain covenant tests which we continue to satisfy. As of March 31, 2004, the warehouse lending operations had $1.950 billion of committed and uncommitted repurchase facilities with various lenders of which $1.1 billion was outstanding. Of total repurchase facilities, one of our lenders provides financing up to $125.0 million to finance the origination of multi-family mortgages of which $75.0 million are committed.

From time to time, we may utilize term reverse repurchase financing provided to us by an underwriter who underwrites some of our securitizations. The term reverse repurchase financing funds mortgages that are specifically allocated to securitization transactions, which allows us to reduce overall borrowings outstanding on reverse repurchase agreements with other lenders during the period immediately prior to the settlement of the securitization. Terms and interest rates on the term reverse repurchase facilities are similar to other reverse repurchase agreements. Term reverse repurchase financing are generally repaid with 30 days from the date funds are advanced. During the first quarter of 2004, average balances outstanding on term reverse repurchases were $258.9 million.

We expect to continue to use short-term warehouse facilities to fund the acquisition of mortgages. If we cannot renew or replace maturing borrowings, we may have to sell, on a whole loan basis, the mortgages securing these facilities, which, depending upon market conditions may result in substantial losses. Additionally, if for any reason the market value of our mortgages 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 mortgages at substantial losses.

In order to mitigate the liquidity risk associated with reverse repurchase agreements, we attempt to sell or securitize our mortgages between 15 to 45 days from acquisition or origination. Although securitizing mortgages more frequently adds operating and securitization costs, we believe the added cost is offset as liquidity is provided more frequently with less interest rate and price volatility, as the accumulation and holding period of mortgages is shortened. When we have accumulated a sufficient amount of mortgages, generally between $200 million and $1.0 billion, we issue CMOs and convert short-term advances under reverse repurchase agreements to long-term CMO borrowings. The use of CMO borrowings provides the following benefits:

- allows us to lock in our financing cost over the life of the mortgages securing the CMO borrowings;
- provides a perfect duration match between mortgages held as CMO collateral and CMO borrowings; and
- eliminates margin calls on reverse repurchase borrowings that are converted to CMO financing as well as associated derivative instruments that hedge CMO financing.

During the first quarter of 2004, we completed $3.4 billion of CMOs, of which $3.1 billion were adjustable rate CMOs and $253.5 million were fixed rate CMOs, to provide long-term financing for the retention of primarily Alt-A mortgages and the origination of multi-family mortgages. Because of the credit profile, historical loss performance and prepayment characteristics of our Alt-A mortgages, we have been able to borrow a higher percentage against the principal balance of mortgages held as CMO collateral, which means that we have to provide less initial capital upon completion of CMOs. Capital investment in the CMOs is established at the time CMOs are issued at levels sufficient to achieve desired credit ratings on the securities from credit rating agencies. As of March 31, 2004, total capital invested in mortgages held as CMO collateral was $246.6 million, which includes capitalized premiums paid, capitalized costs incurred to complete CMO borrowings, fair value of derivative instruments and OC.

*Excess cash flows from our long-term mortgage portfolio.* During the first quarter of 2004, mortgages held as CMO collateral, which primarily comprises the long-term mortgage portfolio, generated excess cash flows of $60.4 million as compared to $34.2 million during the fourth quarter of 2003. We receive excess cash flows on mortgages held as CMO collateral after distributions are made to investors in CMOs to the extent cash or other collateral required to maintain desired credit ratings on the CMOs is fulfilled. Excess cash flows represent the difference between principal and interest payments on the mortgages less the following (in order of priority paid):

- servicing fees paid to mortgage servicers and sub-servicers;
- insurance premiums paid to mortgage insurers;
- cash received or paid to counterparties on derivative instruments hedging CMO financing;
- actual losses incurred upon disposition of real estate acquired in settlement of mortgages;
- interest paid to bondholders; and
- pro-rata early principal prepayments paid to bondholders;

*Sale and securitization of mortgages.* When the mortgage operations accumulates a sufficient amount of mortgages, generally between $100 million and $300 million, it sells mortgages to the long-term investment operations or to third party investors as whole loan sales or securitizes the mortgages as REMICs.

The mortgage operations sold $2.9 billion of mortgages to the long-term investment operations during the first quarter of 2004 and sold $632.2 million of mortgages as whole loan sales and REMICs. The mortgage operations sold mortgage servicing rights on substantially all mortgages sold during the first quarter of 2004. The sale of mortgage servicing rights generated substantially all cash gains, which was used to acquire and originate additional mortgage assets.

In order to mitigate interest rate and market risk, the mortgage operations attempts to sell and securitize mortgages between 15 and 45 days from acquisition and origination. Since we rely significantly upon sales and securitizations to generate cash proceeds to repay borrowings and to create credit availability, any disruption in our ability to complete sales and 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 sales and securitizations of our mortgages increase our risk by exposing us to credit and interest rate risk for this extended period of time.

*Cash proceeds from the issuance of securities*. In January 2004, we filed with the SEC a shelf registration statement that allows us to sell up to $500.0 million of securities, including common stock, preferred stock, debt securities and warrants. In February of 2004, we raised $106.5 million in net proceeds from the issuance of 5,750,000 new shares of common stock. In addition, pursuant to an equity distribution agreement with UBS Securities, LLC, we sold 452,165 shares of common stock and received net proceeds of $10.7 million during the first quarter of 2004. UBS Securities, LLC received a commission of 3% of the gross sales price per share of the shares of common stock sold pursuant to the equity distribution agreement, which amounted to an aggregate commission of $332,000. With the sale of the 452,165 shares, there are no shares of common stock remaining to be sold pursuant to the equity distribution agreement. By issuing new shares periodically throughout the year, we believe that we were able to utilize new capital more efficiently and profitably.

*Cash Flows*

*Operating Activities*—Net cash used in operating activities was $309.8 million for the first quarter of 2004 as compared to $2.1 million for the first quarter of 2003. Net cash flows of $185.1 million was used in operating activities to primarily acquire and originate mortgages, net of loan sales.

*Investing Activities*—Net cash used in investing activities was $1.9 billion for the first quarter of 2004 as compared to $815.2 million for the first quarter of 2003. Net cash flows of $2.6 billion was used in investing activities to primarily invest in mortgages, net of principal repayments.

*Financing Activities*—Net cash provided by financing activities was $2.3 billion for the first quarter of 2004 as compared to $817.5 million for the first quarter of 2003. Net cash flows of $2.7 billion was provided by financing activities primarily from CMO financing, net of principal repayments.

*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 mortgages 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**

Some of the following risk factors relate to a discussion of our assets. For additional information on our asset categories refer to Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Risks Related To Our Businesses**

**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 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 long-term 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 or sale, 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 long-term mortgage portfolio due to a higher level of defaults or foreclosures on our mortgages.

**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 the following primary sources:

- financing facilities provided to us by others to acquire or originate mortgage assets;
- whole loan sales and securitizations of acquired or originated mortgages;
- our issuance of equity and debt securities;
- excess cash flow from our long-term mortgage portfolio; 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 growth and also 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 mortgages. 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, during this period many mortgage originators, including us, were unable to access the securitization market on favorable terms. This resulted in some companies declaring bankruptcy. Originators, like us, 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 mortgages available for sale on a whole loan basis affected the pricing offered for these mortgages, 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 accounting charges of $68.9 million. The 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 primarily as the mortgage industry experienced substantial turmoil as a result of a lack of liquidity in the secondary markets, which caused us to sell mortgages at losses to meet margin calls on our financing facilities. During the year ended December 31, 1997, we experienced a net loss of $16.0 million. The net loss incurred during 1997 included an 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 or if we experience delayed mortgage loan sales or securitization closings, we could face a liquidity shortage which would adversely affect our operating results.**

We rely significantly upon securitizations to generate cash proceeds to repay borrowings and replenish our borrowing capacity. If there is a delay in a securitization closing or any reduction in our ability to complete securitizations we may be required to utilize other sources of financing, which, if available at all, may be on unfavorable terms. In addition, delays in closing mortgage sales or securitizations of our mortgages increase our risk by exposing us to credit and interest rate risks for this extended period of time. Furthermore, gains on sales from certain of 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 mortgages acquired or originated through our mortgage operations;

- volume of our mortgage loan acquisitions and originations;
- our ability to obtain credit enhancements; and
- lack of investors purchasing higher risk components of the securities.

If we are unable to sell a sufficient number of mortgages at a premium or profitably securitize a significant number of our mortgages in a particular financial reporting period, then we could experience lower income or a loss for that period, which could have a material adverse affect on our operations. 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 CMOs may expose our operations to credit losses.*

To grow our long-term mortgage portfolio, we borrow a substantial portion of the market value of substantially all of our investments in mortgages in the form of CMOs. There are no limitations on the amount we may borrow, other than the aggregate value of the underlying mortgages. We currently use CMOs as financing vehicles to increase our leverage, since mortgages held for CMO collateral are retained for investment rather than sold in a secondary market transaction.

Retaining mortgages 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 may have to increase the allowance for loan losses on our financial statements.

*If we default under our financing facilities, we may be forced to liquidate collateral.*

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 and our financing facilities. We will also pledge substantially all of our current and future mortgages to secure borrowings pending their securitization or sale. The cash flows we receive from our investments that have not yet been distributed or pledged or used to acquire mortgages or other investments may be the only unpledged assets available to our unsecured creditors if we were 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. Interest rates have been low over the past few years; however any increase in 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, which could adversely affect our operating results. 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 mortgages at lower long-term fixed interest rates. Increased loan prepayments could lead to a reduction in the number of loans in our long-term mortgage portfolio and reduce our net interest income. Rising interest rates may also increase delinquencies, foreclosures and losses on our adjustable rate mortgages.

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 mortgages.

**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 long-term mortgage 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 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 mortgage portfolio includes mortgages that are six-month LIBOR hybrid 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 and adjust periodically. 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 ARMs that have interest rate caps if the interest rates on our related borrowings increase.

ARMs 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 ARMs 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 early prepayments of mortgages may accelerate our expenses and decrease our net income.**

Mortgage prepayments generally increase on our ARMs when fixed mortgage interest rates fall below the then-current interest rates on outstanding ARMs. Prepayments on mortgages are also affected by the terms and credit grades of the mortgages, conditions in the housing and financial markets and general economic conditions. If we acquire mortgages at a premium and they are subsequently repaid, we must expense the unamortized premium at the time of the prepayment. We could possibly lose the opportunity to earn interest at a higher rate over the expected life of the mortgage. Also, if

prepayments on mortgages increase when interest rates are declining, our net interest income may decrease if we cannot reinvest the prepayments in mortgage assets bearing comparable rates.

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 mortgages that we acquire at a premium prepay faster than originally projected, generally accepted accounting principles, or "GAAP," 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.

**We may be subject to losses on mortgages 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 mortgages and investments. Generally, we require mortgage insurance on any mortgage with an LTV ratio greater than 80%. During the time we hold mortgages 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 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 mortgages, which under our financing arrangements are mortgages 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.

**Our mortgage products expose us to greater credit risks.**

We are an acquirer and originator of Alt-A mortgages, and to a lesser extent, multi-family and B/C mortgages. These are mortgages that generally may not qualify for purchase by government-sponsored agencies such as Fannie Mae and Freddie Mac. Our operations may be negatively affected due to our investments in these mortgages. Credit risks associated with these mortgages may be greater than those associated with conforming mortgages. The interest rates we charge on these mortgages 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 our type of borrowers may expose us to a higher risk of delinquencies, foreclosures and losses.**

Our market includes borrowers who may be unable to obtain mortgage financing from conventional mortgage sources. Mortgages made to such borrowers generally entail a higher risk of delinquency and higher losses than mortgages 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 mortgages made to our 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 LTV ratios of mortgages 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 mortgages are sold could adversely affect the pricing of our future loan sales and our ability to sell or securitize our mortgages 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 multi-family mortgages expose us to increased lending risks.**

Generally, we consider multi-family mortgages to involve a higher degree of risk compared to first mortgages on one- to four-family, owner occupied residential properties. These mortgages have higher risks than mortgages secured by residential real estate because repayment of the mortgages often depends on the successful operations and the income stream of the borrowers. Furthermore, multi-family mortgages typically involve larger mortgage balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgages.

**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 LTV 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 mortgages increases our exposure to risks in those areas.**

We do not set limitations on the percentage of our long-term mortgage 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 acquisitions and originations, long-term mortgage portfolio and finance receivables 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 mortgages, 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 mortgages 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 mortgages acquired and 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 mortgages 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 origination process, or upon early default on such mortgage. We generally limit the potential remedies of such purchasers to the potential remedies we receive from the customers from whom we acquired or originated the mortgages. However, in some cases, the remedies available to a purchaser of mortgages from us may be broader than those available to us against the sellers of the mortgages 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 mortgage and the originator fails to repurchase the mortgage, then we may not be able to sell the mortgage or we may have to sell the mortgage 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.

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

We utilize the Internet in our business principally for the implementation of our automated mortgage origination program, iDASLg2. iDASLg2 allows our customers to pre-qualify borrowers for various mortgage 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. Substantially, all of our correspondents submit mortgages through iDASLg2 and all wholesale mortgages delivered by mortgage bankers and 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 mortgages 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 acquisitions and originations done through iDASLg2. Any substantial delay and reduction in our mortgage 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 and San Diego, 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 power shortages. 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 mortgages is intense and may adversely affect our operations.**

We compete in acquiring and originating Alt-A, B/C and multi-family mortgages 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 and brokers, 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 mortgages 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 what may be 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 and B/C mortgage industry because the losses would be made public due to the reporting obligations of these entities.

The intense competition in the Alt-A, B/C and multi-family 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, B/C and multi-family 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. Fraud risk may include the financing of nonexistent loans or fictitious mortgage loan transactions that could result in the loss of all sums we have advanced to the borrower. Also, our claims as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay.

**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 adjustable rate borrowings, we attempt to match the interest rate sensitivities of our ARMs 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 acquisitions. 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 the Financial Accounting Standards Board, or FASB," under the provisions of Statement of Financial Accounting Standards No. 133, or "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 on 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 prudently hedge our interest rate risk, our hedging transactions may not offset the risk of adverse changes in net interest margins.

**A reduction in the demand for our loan products may adversely affect our operations.**

The availability of sufficient mortgages 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 residential mortgages, which is affected by:

- interest rates;
- national economic conditions;
- residential property values; and
- regulatory and tax developments.

If our mortgage acquisitions and originations decline, we may have:

- decreased economies of scale;
- higher origination costs per loan;
- reduced fee income;
- smaller gains on the sale of mortgages; and
- an insufficient volume of mortgages to generate securitizations which thereby causes us to accumulate mortgages over a longer period.

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

We sell or contract with third-parties for the servicing of all mortgages, including those in our securitizations. Our operations are subject to risks associated with inadequate or untimely servicing. Poor performance by a servicer may result in greater than expected delinquencies and losses on our mortgages. 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 mortgages subject to a securitization, greater delinquencies would adversely impact the value of our equity interest, if any, 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. If, as a result of a servicer or sub-servicer's failure to perform adequately, we

were terminated as master servicer of a securitization, the value of any master servicing rights held by us would be adversely affected.

**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 and B/C market. We are a defendant in purported class actions pending in different states. The class actions allege generally that the loan originator improperly charged fees in violation of various state lending or consumer protection laws in connection with mortgages 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 mortgages, as well as a return of any improperly collected fees. The other purported class action claims damages for sending out unsolicited faxes and seeks statutory and treble damages. 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.

## Regulatory Risks

**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 mortgages 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 bankers and brokers, increasingly federal and state agencies have sought to impose such liability. Previously, 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 sub-prime mortgage lender responsible for the pricing practices of its mortgage bankers and 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 banker 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 bankers and brokers or correspondents.

**Violation of various federal, state and local laws may result in losses on our loans.**

Applicable state and local laws generally regulate interest rates and other charges, require certain disclosure, and require licensing of the lender. In addition, other state and local laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of our loans. Mortgage loans are also subject to federal laws, including:

- the Federal Truth-in-Lending Act and Regulation Z promulgated thereunder, which require certain disclosures to the borrowers regarding the terms of the loans;
- the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower’s credit experience;
- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and
- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

Violations of certain provisions of these federal and state laws may limit our ability to collect all or part of the principal of or interest on the loans and in addition could subject us trust to damages and administrative enforcement and could result in the mortgagors rescinding the loans whether held by us or subsequent holders of the 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 mortgages, 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 SEC 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 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.

**New regulatory laws affecting the mortgage industry may increase our costs and decrease our mortgage origination and acquisition.**

The regulatory environments in which we operate have an impact on the activities in which we may engage, how the activities may be carried out, and the profitability of those activities. Therefore, changes to laws, regulations or regulatory policies can affect whether and to what extent we are able to operate profitably. For example, recently enacted and proposed local, state and federal legislation targeted at predatory lending could have the unintended consequence of raising the cost or otherwise reducing the availability of mortgage credit for those potential borrowers with less than prime-quality credit histories, thereby resulting in a reduction of otherwise legitimate Alt-A or B/C lending opportunities. Similarly, recently enacted and proposed local, state and federal privacy laws and laws prohibiting or limiting marketing by telephone, facsimile, email and the Internet may limit our ability to market and our ability to access potential loan applicants. For example, the recently enacted Can Spam Act of 2003 establishes the first national standards for the sending of commercial email allowing, among other things, unsolicited commercial email provided it contains certain information and an opt-out mechanism. We cannot provide any assurance that the proposed laws, rules and regulations, or other similar laws, rules or regulations, will not be adopted in the future. Adoption of these laws and regulations could have a material adverse impact on our business by substantially increasing the costs of compliance with a variety of inconsistent federal, state and local rules, or by restricting our ability to charge rates and fees adequate to compensate us for the risk associated with certain loans.

Some states and local governments have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such mortgage loans. Our failure to comply with these laws could subject us to monetary penalties and could result in the borrowers rescinding the mortgage loans, whether held by us or subsequent holders. Lawsuits have been brought in various states making claims against assignees of these loans for violations of state law.

## Risks Related To Our Status As A REIT

**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, exclusive of the application of any tax loss carry forwards that may be used to offset current period taxable income. These provisions restrict our ability to retain earnings and thereby generate capital from our operating activities. We may decide at a future date to terminate our REIT status, which would cause us to be taxed at the corporate levels 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 the mortgage operations. The mortgage operations is not a REIT and is not, therefore, subject to the above-described REIT distribution requirements. Because the mortgage operations is seeking to retain earnings to fund the future growth of our mortgage operations business, its board of directors may decide that the mortgage operations 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 stockholders 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.

**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 stockholders to increased taxation.**

If we have borrowings with two or more maturities and, (1) those borrowings are secured by mortgages 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 mortgages 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 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 the excess shares, the closing price for the shares on the national securities exchange on which IMH 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.

## Risks Related To Ownership of Our Common Stock

**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;

- termination of financing agreements;
- margin 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.

**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. We do not know the actual or perceived effect of these offerings, the timing of these offerings, the potential 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. 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. We may currently sell additional securities worth approximately $10.9 million (gross proceeds) from this shelf registration statement in the future. In December 2003, we filed a shelf registration statement for a total of $500.0 million, which may be used in connection with offerings of debt securities, common stock, preferred stock, warrants, and/or units for general corporate purposes. We may currently sell additional securities worth approximately $387.9 million (gross proceeds) from this shelf registration statement in the future. In February 2004, we issued 5,750,000 shares of common stock from this shelf. We also have shares reserved for future issuance under our stock plans. 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.

## ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### General Overview

Although we manage credit, 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 impact on our financial condition and results of operations. Since 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 in unequal amounts. Changing interest rates may compress our interest rate margins and adversely affect overall earnings.

Interest rate risk management is the responsibility of ALCO, which reports results of interest rate risk analysis to the board of directors on at least a quarterly basis. ALCO establishes policies that monitor and coordinate sources, uses and pricing of funds. ALCO also attempts to reduce the volatility in net interest income by managing the relationship of interest rate sensitive assets to interest rate sensitive liabilities. In addition, various modeling techniques are used to value interest sensitive mortgage-backed securities, including interest-only securities. The value of mortgage-backed securities is determined using a discounted cash flow model using prepayment rate, discount rate and credit loss assumptions. Our

investment securities portfolio is available-for-sale, which requires us to perform market valuations of the securities in order to properly record the portfolio. We continually monitor interest rates of our investment securities portfolio as compared to prevalent interest rates in the market. We do not currently maintain a securities trading portfolio and are not exposed to market risk as it relates to trading activities.

**Changes in Interest Rates**

ALCO follows an interest rate hedging program intended to limit our exposure to changes in interest rates primarily associated with cash flows on our adjustable rate 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 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 interest rate hedging program is formulated with the intent to offset the potential adverse effects of changing interest rates on cash flows on our adjustable rate CMO borrowings resulting from the following:

- interest rate adjustment limitations on mortgages securing CMO collateral that have periodic and lifetime interest rate cap features which do not exist on CMO borrowings; and
- mismatched interest rate adjustment periods between mortgages securing CMO borrowings and CMO borrowings.

We primarily acquire for long-term investment ARMs and hybrid ARMs and, to a lesser extent, FRMs. 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. 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 could increase or decrease at a faster rate than the periodic interest rate adjustments on mortgages would allow, which could affect net interest income. In addition, if market rates were to exceed the maximum interest rates of our ARMs, borrowing costs could increase while interest rates on ARMs would remain constant.

We also acquire hybrid ARMs that have initial fixed interest rate periods generally ranging from two to seven years which subsequently convert to ARMs. During a rapidly increasing or decreasing interest rate environment financing costs would increase or decrease more rapidly than would interest rates on mortgages, which would remain fixed until their next interest rate adjustment date. In order to provide some protection against any resulting basis risk shortfall on the related liabilities, we purchase derivative instruments. Derivative instruments are based upon the principal balance that would result under assumed prepayment speeds.

We measure the sensitivity of our net interest income to changes in interest rates affecting interest sensitive assets and liabilities using various simulations. These simulations take into consideration changes that may occur in investment and financing strategies, changes in the forward yield curve, changes in interest rate hedging strategy, changes in mortgage prepayment speeds and changes in the volume of mortgage acquisitions and originations.

As part of various interest rate simulations, we calculate the effect of potential changes in interest rates on our interest-earning assets and interest-bearing liabilities and their affect on overall earnings. The simulations assume instantaneous and parallel shifts in interest rates and to what degree those shifts affect net interest income. First, we estimate our net interest income for the next twelve months using current period end data along with 12-month projections of the following:

- future interest rates using forward yield curves, which are market consensus estimates of future interest rates;
- mortgage acquisition and originations;
- mortgage prepayment rate assumptions; and
- forward swap rates.

We refer to the 12-month projection of net interest income as the “base case.” Once the base case has been established, we “shock” the base case with instantaneous and parallel shifts in interest rates in 100 basis point increments upward and downward. Calculations are made for each of the defined instantaneous and parallel shifts in interest rates over

or under the forward yield curve used to determine the base case and including any associated changes in projected mortgage prepayment rates caused by changes in interest rates. The results of each 100 basis point change in interest rates are then compared against the base case to determine the estimated dollar and percentage change to net interest income. The simulations consider the affect of interest rate changes on interest sensitive assets and liabilities as well as derivative instruments. The simulations also consider the impact that instantaneous and parallel shift in interest rates have on prepayment rates and the resulting affect of accelerating or decelerating amortization rates of premium and securitization costs on net interest income. The following table estimates the financial impact to net interest income from various instantaneous and parallel shifts in interest rates based on both our on- and off-balance sheet structure as of January 31, 2004:

| | % change in base case net interest income |
|---|---|
| **Instantaneous and Parallel Change in Interest Rates (1)** | |
| Up 300 basis points, or 3% | 12 |
| Up 200 basis points, or 2% | 13 |
| Up 100 basis points, or 1% | 10 |
| Down 100 basis points, or 1% | (1) |
| Down 200 basis points, or 2% (2) | n/a |

(1) Instantaneous and parallel interest rate changes over and under the projected forward yield curve.
(2) The current interest rate environment makes this simulation irrelevant as a 200 basis point downward shock to short-term interest rates would result in negative interest rates.

Our off-balance sheet structure refers to the notional amount of derivative instruments that are not recorded on our balance sheet. Since these estimates are based upon numerous assumptions, actual sensitivity to interest rate changes could vary if actual experience differs from the assumptions used. The use of derivative instruments to hedge changes in interest rates is an integral part of our strategy to limit interest rate risk. Therefore, net interest income may be significantly impacted by cash payments we are required to make or cash payments we receive on derivative instruments. The amount of cash payments or cash receipts on derivative instruments is determined by (1) the notional amount of the derivative instrument and (2) current interest rate levels in relation to the various strike prices of derivative instruments during a particular time period. By using derivative instruments, we attempt to minimize the effect of both upward and downward interest rate changes on our long-term mortgage portfolio. Our goal is to minimize significant changes to base case net interest income as interest rates change. In the above analysis, base case net interest income without the use of derivative instruments would cause base case net interest income to fluctuate substantially while the use of derivative instruments creates less volatility in net interest income and earnings.

## ITEM 4: CONTROLS AND PROCEDURES

*Evaluation of Disclosure Controls and Procedures*

As of March 31, 2004, our management, with the participation of our Chief Executive Officer, or “CEO,” and Chief Financial Officer, or “CFO,” performed an evaluation of the effectiveness and the operation of our disclosure controls and procedures as defined in Rules 13a – 15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the “Exchange Act.” Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2004.

*Changes in Internal Controls*

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended March 31, 2004 that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

**ITEM 1: LEGAL PROCEEDINGS**

Please refer to IMH's annual report on Form 10-K for the year ended December 31, 2003 regarding litigation and claims.

**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:

31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Current Report on Form 8-K, dated January 30, 2004, furnished to the SEC reporting Items 5, 9 and 12, relating to a press release issued by the Company on January 29, 2004 reporting financial results for the quarter and fiscal year ended December 31, 2003.

Current Report on Form 8-K, dated February 6, 2004, furnished to the SEC reporting Items 5 and 7, relating to the execution of an underwriting agreement with UBS Securities LLC, Friedman, Billings, Ramsey & Co., Inc., Sandler O'Neill & Partners, L.P. and JMP Securities LLC.

Current Report on Form 8-K, dated February 26, 2004, furnished to the SEC reporting Item 9, relating to the posting of the Company's unaudited monthly fact sheet.

Current Report on Form 8-K, dated March 31, 2004, furnished to the SEC reporting Item 9, relating to the posting of the Company's unaudited 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: May 3, 2004

**Exhibit 31.1**

**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, or caused such disclosure controls and procedures to be designed under our supervision, 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 annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joseph R. Tomkinson
Joseph R. Tomkinson
Chief Executive Officer

May 3, 2004

**Exhibit 31.2**

**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, or caused such disclosure controls and procedures to be designed under our supervision, 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 annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard J. Johnson
Richard J. Johnson
Chief Financial Officer

May 3, 2004

**Exhibit 32.1**

**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 March 31, 2004 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

May 3, 2004

/s/ Richard J. Johnson
Richard J. Johnson
Chief Financial Officer

May 3, 2004

A signed original of this written statement required by Section 906 has been provided to Impac Mortgage Holdings, Inc. and will be retained by Impac Mortgage Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.