IMPAC Mortgage Holdings, Inc. 2004 Annual Report

At Impac, our success is built on a deep understanding of our ultimate customer – the homebuyer. Our pioneering focus: providing residential mortgages with alternative documentation for borrowers with solid credit. Today we have emerged as an industry leader in the non-conforming Alt-A residential mortgage market. We empower credit-worthy borrowers to realize the American dream, while striving to deliver consistent, reliable dividends to our stockholders.

THE IMPAC STRATEGY

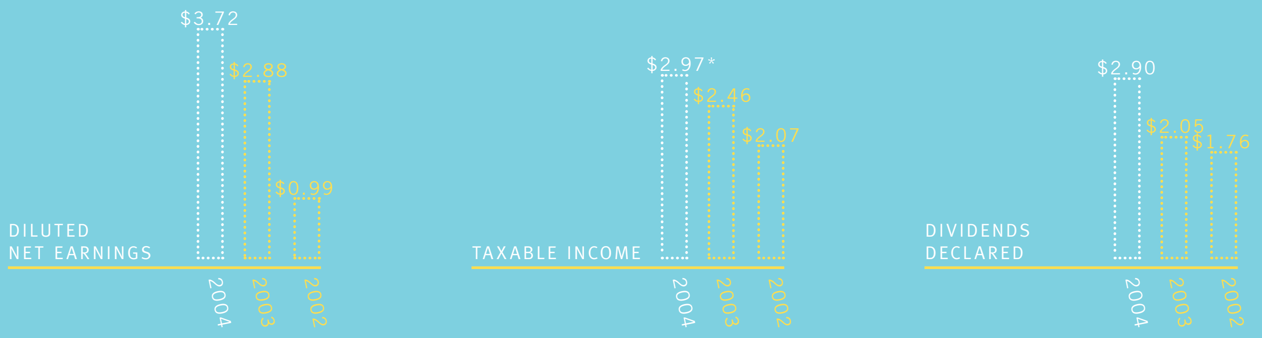
Impac Mortgage Holdings, Inc. (NYSE: IMH) "Impac" or "The Company" is a leading residential mortgage Real Estate Investment Trust ("REIT") specializing primarily in the non-conforming Alt-A mortgage ("Alt-A") lending market. A public company since 1995, Impac's diversified business model is designed to create synergies, manage risk and mitigate the effect of changing interest rate environments. We operate three core businesses: the Long-Term Investment Operations, which primarily invests in Alt-A residential mortgage loans and includes our small balance multi-family division; the Mortgage Operations, which acquires, originates, sells and securitizes primarily Alt-A residential mortgage loans; and the Warehouse Lending Operations, which provides short-term financing to mortgage loan originators.

IMPAC BY THE NUMBERS

- Ranked the nation's second largest mortgage-backed securitizer of residential Alt-A mortgage loans[1]
- 18th largest mortgage securitizer in the world[2]
- Acknowledged as the third largest Alt-A residential mortgage lender in the United States[3]
- Recognized as the nation's fifth largest non-syndicated warehouse lender[4]
- Listed among the Forbes 2000, a list of the world's leading companies[5]

[1] Inside MBS & ABS, Feb. 14, 2005 • [2] National Mortgage News, 4Q 2004 Survey • [3] Asset Backed Alert, January 14, 2005 • [4] Reynolds Warehouse Lender Survey, October 2004 • [5] Forbes Magazine, April 7, 2005

(IN DOLLARS PER COMMON SHARE)



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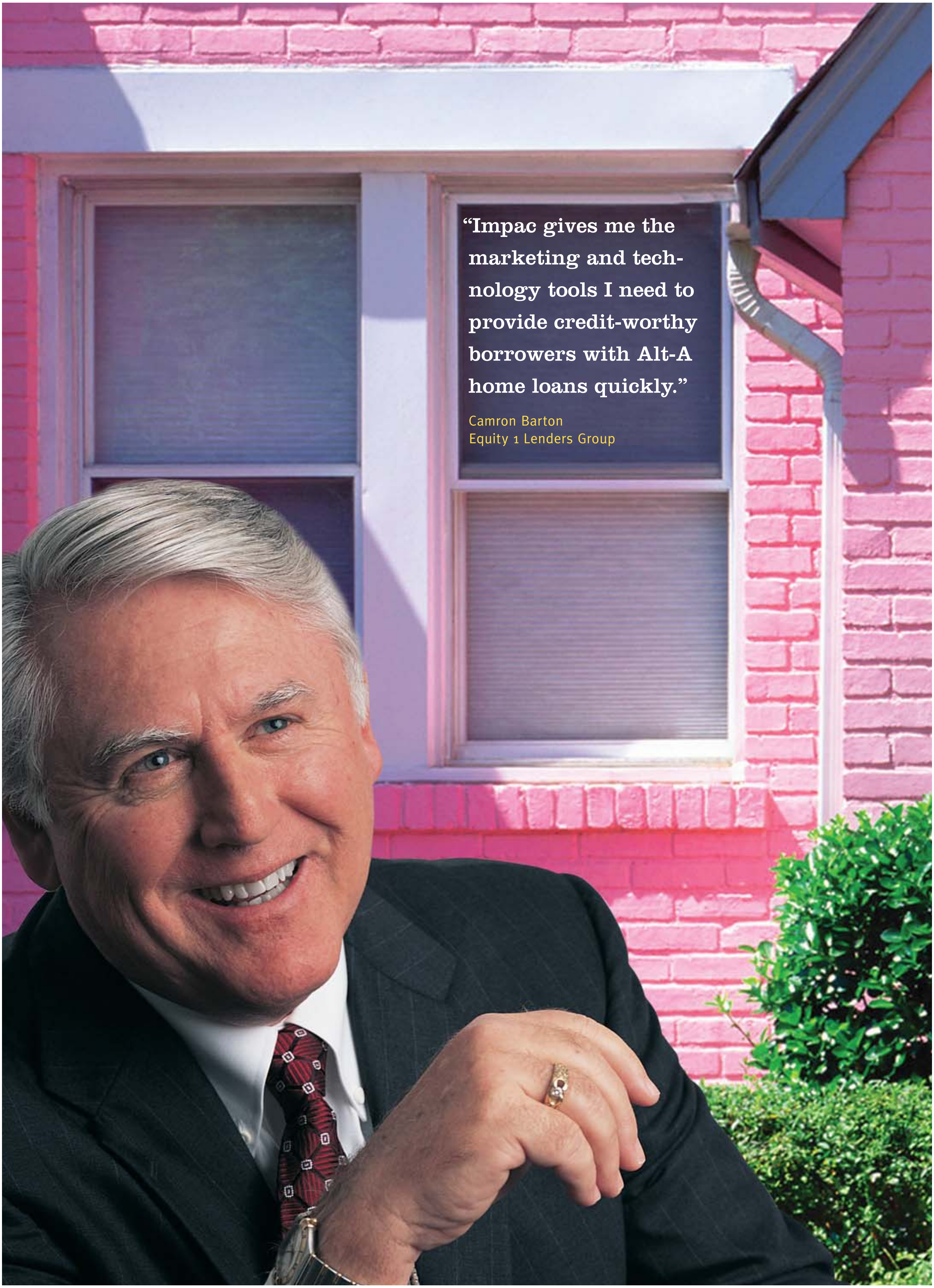

"Impac gives me the marketing and technology tools I need to provide credit-worthy borrowers with Alt-A home loans quickly."
Camron Barton
Equity 1 Lenders Group

IMPAC'S COMMITMENT TO CUSTOMER SERVICE ALLOWS MORTGAGE PROFESSIONALS TO CLOSE MORE HIGH CREDIT QUALITY LOANS FASTER

Through our Mortgage Operations, Impac has developed a reputation as a leading acquirer and originator of Alt-A residential mortgage loans. In 2004, we were ranked as the nation's third largest lender and the second largest securitizer of Alt-A residential mortgage loans – and the 18th largest securitizer in the world.

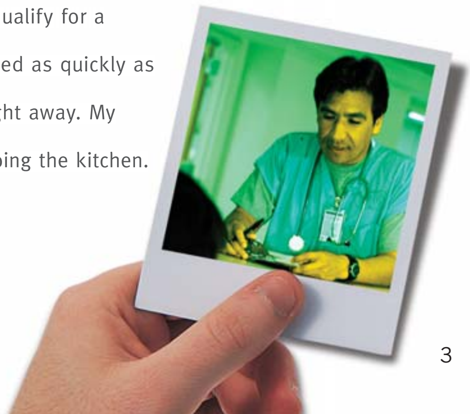
Meeting the tremendous Alt-A residential mortgage demand, our Mortgage Operations—which include Impac Funding Corporation (IFC), our correspondent division, Impac Lending Group (ILG), our wholesale lending division, and Novelle Financial Services, our wholesale subprime residential mortgage division—more than doubled loan acquisitions and originations to $22.2 billion in 2004, up from $9.5 billion in 2003. We have built our business on long-lasting relationships. A key example is IFC, our correspondent division, which produced the majority of loans for our Mortgage Operations in 2004. IFC primarily acquires Alt-A residential mortgage loans from our nationwide network of nearly 250 third-party correspondent lenders. These mortgage bankers, savings and loan institutions and commercial banks originate and close mortgages generally to our underwriting guidelines.

Because of our centralized operations and efficient REIT structure, we remain competitive on price. But we set ourselves apart by providing mortgage professionals with innovative Alt-A mortgage loan products, value-added services and leading-edge technology. We call our suite of Internet-based programs iDASLg2 ("Impac Direct Access System for Lending Generation 2").

This interactive, automated system enables mortgage professionals to pre-qualify buyers and receive automated approvals in seconds, significantly decreasing mortgage processing time. In fact, a growing number of our customers license and "private label" the technology with their own brandname. We also provide Web-based training and marketing tools, including a product matrix and an on-line marketing wizard. It's all part of being a strategic business partner.

Sharon Shields
Lead Corporate Receptionist
10 Year Impac Employee

Because I recently moved to the United States from India, I didn't have the long credit history to qualify for a traditional home loan. A surgeon, I just joined a local hospital, and I wanted to get my family settled as quickly as possible. But because of my high credit score, I was able to qualify for an Alt-A residential loan right away. My pre-approval came through in seconds. Then we found the perfect house. Now my wife is busy redoing the kitchen.



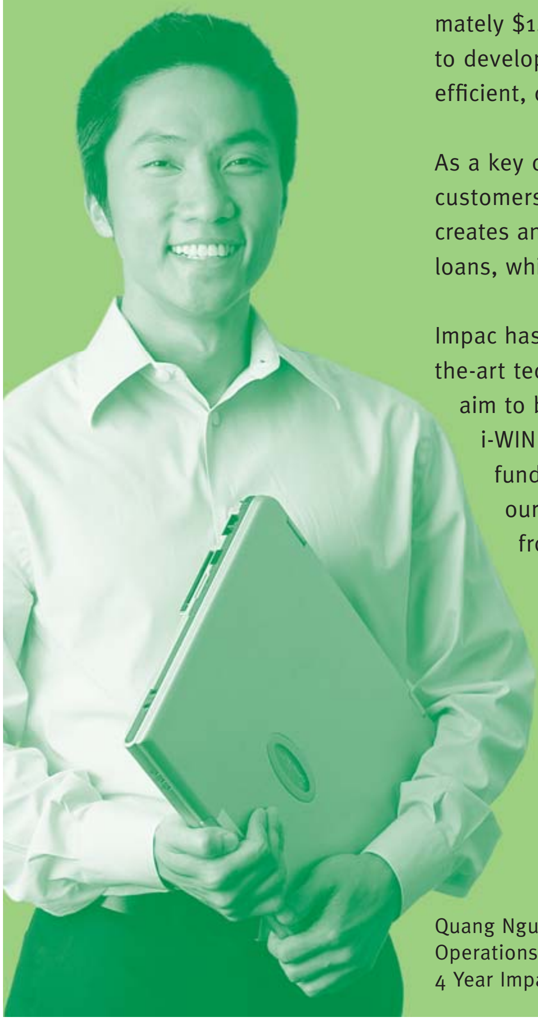
BY PROVIDING WAREHOUSE LINES OF CREDIT, IMPAC BUILDS RELATIONSHIPS THAT INCREASE ITS MARKET SHARE

Impac is one of the few mortgage REITS that not only acquires and originates Alt-A residential mortgage loans, but also provides short-term lines of credit to mortgage originators. Our warehouse lending division, Impac Warehouse Lending Group, allows us to generate healthy returns, while building powerful relationships that create synergies for our other operations.

Impac has grown to become the nation's 5th largest non-syndicate warehouse lender. The credit facility enables mortgage companies to originate and close loans with their borrowers, or brokers, and then turn around and sell these loans to end-investors. Our warehouse lending clients have an average net worth of approximately $1.5 million. Some are mortgage banking entities that need our assistance to develop their business. Others are well-established companies looking for an efficient, competitive source of funding.

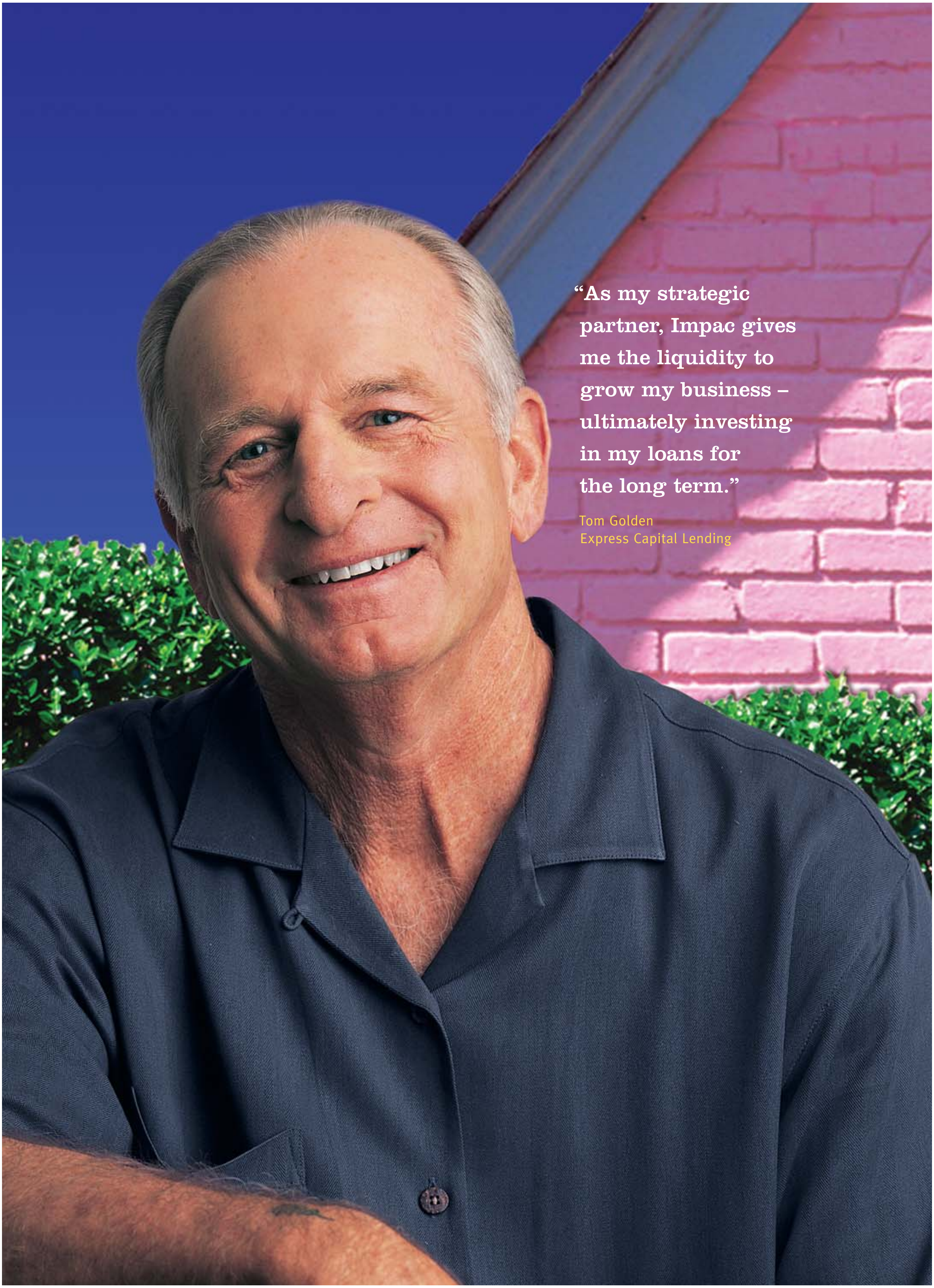
As a key competitive advantage, we extend preferential terms to our warehouse customers on loans that are ultimately sold to our Mortgage Operations. This creates another avenue for Impac to acquire high-caliber Alt-A residential mortgage loans, while giving our clients the liquidity they need to grow their business.

Impac has differentiated itself by offering superior customer service and state-of-the-art technology to an underserved market of smaller mortgage originators. We aim to be the most technologically driven warehouse lender in the industry with i-WIN ("Impac Warehouse Intelligence Network"), our proprietary web-based funding, delivery, tracking and reporting system. In 2005, to further improve our technology, we plan to enable our originators to request funding directly from their own loan origination systems.



Quang Nguyen
Operations Supervisor
4 Year Impac Employee

Since I became a general contractor five years ago, business has been good. My customers keep recommending me to their friends, so I am busy juggling kitchen remodels and building additions. But when our family needed a bigger house, I couldn't get a traditional home loan because I don't have a regular salary. Then my mortgage broker found me an Alt-A residential mortgage loan at a reasonable rate. Now my girls don't have to share a room anymore. And instead of working from the kitchen counter, I finally have my own home office.


"As my strategic partner, Impac gives me the liquidity to grow my business – ultimately investing in my loans for the long term."
Tom Golden
Express Capital Lending

FORWARD THINKING AND TECHNOLOGICALLY DRIVEN, IMPAC CONSTANTLY DEVELOPS NEW PRODUCTS AND SERVICES FOR AN EVOLVING MARKETPLACE

Impac combines the conservative management of a financial institution with the agility of an entrepreneurial organization. Our corporate philosophy is to partner with our clients, quickly developing innovative, technologically driven loan programs that suit their needs.

In addition to Alt-A residential mortgages, Impac offers a breadth of products to meet consumer demand. Working directly with wholesale brokers across the country, our subprime operation, Novelle Financial Services, originates first and second mortgages designed for borrowers with less-than-perfect credit. While most of our adjustable-rate Alt-A residential mortgage loans are held in our long-term investment portfolio, we typically sell all of our subprime mortgages to non-affiliated investors.

Impac also originates small-balance multi-family loans. Our strategy is to develop relationships with experienced brokers who can originate, source, analyze and package complete multi-family loans, while providing continuous, reliable volume. Through our wholly owned qualified REIT subsidiary, Impac Multifamily Capital Corporation, we originate multi-family mortgage loans to borrowers with excellent credit. Our multi-family loans are backed by properties with at least five units, ranging in value from $500,000 to $5 million. Impac generally retains all of its multi-family mortgage loans for its long-term investment portfolio, which provides further portfolio diversification.

We expect our primary focus to remain on the Alt-A residential mortgage marketplace – particularly first-lien residential mortgages for home purchase, rather than refinancing. But expanding our portfolio of products is an important opportunity for Impac. While both our subprime and multi-family businesses are relatively small today, they have tremendous growth potential. We look forward to working with our customers to continue to advance our presence in these markets.

Joseph Pesch
Vice President of Software Development
10 Year Impac Employee

I'm an engineer, weekend soccer coach and now, apartment complex investor. I just bought my first multi-family property – a six-unit building that's fully leased. I plan to give it a face lift, with a fresh coat of paint, new grass for my tenants' kids to play on and some landscaping to spruce it up. Luckily, I found a multi-family loan with a competitive rate that allows me to use the property's cash flow to fund the improvements. My strategy is to be a first-class landlord so my property stays fully leased. It's a long-term investment that someday will be my retirement nest egg.


SOLD
FOR

IMPAC AIMS TO MANAGE RISKS AND MAXIMIZE RETURNS BY INVESTING IN A HIGH CREDIT QUALITY LONG-TERM INVESTMENT PORTFOLIO

Since going public in 1995, Impac's seasoned management team has established a track record honed over years of investing in billions of dollars of loans. We have focused on building a business designed to deliver consistent, reliable dividends to our stockholders. Our stockholders provide us with the capital to invest in a high credit quality portfolio, consisting primarily of adjustable-rate Alt-A residential mortgages and to lesser extent, multi-family mortgage loans.

Our Long-Term Investment Operations, the business unit that historically has generated the majority of our income, experienced tremendous growth in 2004. During the year, we more than doubled our assets to nearly $24 billion, up from $10.6 billion at the end of 2003. In 2004, we paid dividends of $2.90 per common share. In the year ending December 31, 2004, including common stock appreciation and dividends paid, Impac delivered to stockholders a 40.4 percent total return on investment and 695 percent since the Company's inception in 1995.

The long-term investment portfolio generates net interest income derived from the difference between the income earned on our assets and our cost of borrowings. We further increase our net interest income and return on equity through the prudent use of leverage. By utilizing collateralized mortgage obligations ("CMOs") – mortgage-backed, investment-grade bonds – we are able to provide financing that is permanent and match funded, while eliminating the risk of margin calls.

We pursue a strategy to carefully manage risk and maximize returns through our long-term investment portfolio. We invest only in loans that meet or substantially conform to our rigorous guidelines. Our loan requirements rely primarily on the borrower's high credit score and the adequacy of the underlying collateral, rather than on documentation. We focus on smaller loans with low effective loan-to-value ratios, and rely on prepayment penalties to discourage refinancing and extend the life of the loan.

Overall, the synergies of our three primary businesses – the Long-Term Investment Operations, Mortgage Operations and Warehouse Lending Operations – contribute to the stability of our income. They tend to thrive counter-cyclically, giving us operating flexibility in various interest rate environments.

STOCKHOLDERS LETTER

Dear fellow stockholders,

In 2004, we exceeded our strategic business goals while building a high credit quality long-term investment portfolio designed to provide consistent, reliable dividends to our stockholders. We significantly grew the scale of our business and strengthened our competitive position in the nonconforming Alt-A residential mortgage marketplace. During a year of record growth for Impac, we believe we have built a solid foundation for consistent, reliable dividends in the future.

ACCOMPLISHMENTS IN 2004

By almost any measure, our financial and operating performance in 2004 was phenomenal. The Company reported net earning in accordance with generally accepted accounting principles, or "GAAP," of $3.72 per diluted common share, as compared to $2.88 for 2003. Our estimated taxable income, which we believe is the best indicator of the Company's performance, increased 21 percent to $2.97 per diluted common share, up from $2.46 per diluted common share in 2003[1]. To maintain our REIT status, the Company is required to pay out at least 90 percent of its taxable income in the form of dividends. During 2004, our common stock dividend increased 41 percent to $2.90 per share, up from $2.05 per share in 2003. In fact, including dividends and common stock appreciation, our stockholders enjoyed a total return of 40.4 percent in 2004. And since our initial public offering in November 1995, including the reinvestment of dividends and common stock appreciation, we delivered to stockholders a total return on their initial investment of 695 percent.

In 2004, we grew our businesses significantly despite a 26 percent decrease in nationwide residential mortgage originations, according to the Mortgage Bankers Association[2]. The decrease was due to a sharp 50 percent decline in refinancing activity, while purchase transactions increased by 23 percent during the year. Largely as a result of our focus on purchase money transactions, we succeeded in increasing our acquisitions, originations and long-term investment portfolio.

Through our Mortgage Operations, total acquisitions and originations increased 134 percent to a record high of $22.2 billion for the year, up from $9.5 billion in 2003. The Long-Term Investment Operations acquired $16.9 billion of the loans for investment, compared to $5.8 billion retained for investment in 2003. While primarily consisting of Alt-A residential mortgages, loans retained for investment also included $458.5 million in small-balance multi-family mortgages, up 58 percent from the $290.5 million during 2003. In total, the REIT's assets increased 125 percent to $23.8 billion at December 31, 2004, up from $10.6 billion at the previous year-end.

Last year, Impac tapped the capital markets to further strengthen our financial position and support our growth initiatives. We raised net proceeds of nearly $519 million through common and preferred stock offerings during the year. As a result of our accretive capital-raising efforts, our book value per common share increased 41 percent to $11.80 at December 31, 2004, up from $8.39 from the previous year-end.

[1] See page 15 for a reconciliation of net earnings to estimated taxable income.
[2] Source: Mortgage Bankers Finance Forecast, December 2004.

In 2004, Impac exceeded its business goals while addressing challenges including a financial restatement and first year compliance with Section 404 of the Sarbanes-Oxley Act, commonly referred to as "SOX 404." In substance, SOX 404 requires an audit management's assessment of the effectiveness of the Company's internal control over financial reporting. In July 2004, we discovered an error in our financial statements that lead to a restatement of our financial results for the three months ended March 31, 2003, the three and six months ended June 30, 2003, the three and nine months ended September 30, 2003, and for the years ended December 31, 2001, 2002 and 2003. We also restated net income per share for the six months ended June 30, 2004. While the restatement affected our GAAP net earnings, and delayed our first year compliance with SOX 404, it had no impact on our cash flows, taxable income or dividends.

COMPETITIVE STRATEGIES

To date, we have demonstrated our ability to compete very effectively in the adjustable rate mortgage market, focusing on purchase money transactions in particular. We believe that Impac compares favorably to other Alt-A residential mortgage lenders because of our efficient loan purchasing process, flexible purchase commitment options and competitive pricing. In addition, we have succeeded in designing customized Alt-A residential mortgages that suit the unique needs of our customers, which include correspondents and mortgage bankers and brokers – and ultimately their borrowers.

During our dramatic expansion in 2004, we continued to provide superior customer service, innovative Alt-A residential mortgage programs and industry-leading technology and marketing tools to the mortgage professionals we serve. Technology is central to our strategy of providing the highest level of service, while keeping our costs low. During 2004, we invested considerable time training our correspondent customers on our proprietary, Web-based underwriting system. We think these accomplishments speak to the depth of our organization. In 2004, we grew our team to nearly 700 employees and expanded our headquarters in Newport Beach, California. Our principal strategy is to maintain efficient, centralized operations while expanding our market position as a low-cost nationwide acquirer and originator of Alt-A residential mortgages. Centralization gives us scalability and greater control over our operating costs. It also allows us to shift the high fixed costs of interfacing with borrowers to our nationwide network of correspondent originators, mortgage bankers and brokers.

RISK MANAGEMENT

Impac maintains a disciplined approach to managing interest rate and credit risk. To shelter ourselves from credit risk, we have invested in primarily high credit quality Alt-A residential mortgages to borrowers with "A" or "A-" credit scores. We have further mitigated risk by focusing on smaller loans with low effective loan-to-value ratios, and relying on prepayment penalties to discourage refinancing.

During the year, we continued to implement comprehensive risk management policies by monitoring the performance of our sub-servicers, thoroughly reviewing our loss exposure, adequately providing for loan losses and actively managing delinquencies and defaults. As of December 31, 2004, our long-term mortgage portfolio included 1.74 percent of mortgages that were 60 days or more delinquent, compared to 1.79 percent as of December 31, 2003. At December 31, 2004, the Company's allowance for loan losses was $64 million, compared to $38.6 million at December 31, 2003.

We also strive to manage interest rate risk through our diversified business model and sophisticated interest rate risk management strategies. During 2004, the Federal Reserve increased short-term interest rates by 125 basis points and subsequently increased our borrowing costs which are tied to the one-month LIBOR ("London Interbank Offered Rate"). We were able to partially offset the compression of our adjusted net interest margins[1] through our interest rate risk management program, which by design provides 70 – 85 percent coverage of the outstanding principal balance of our hybrid adjustable rate mortgages and a portion of our six-month LIBOR adjustable rate mortgage assets. Despite this support, our adjusted net interest margins on mortgage assets were 1.17 percent in 2004, down 19 basis points from 1.36 percent during 2003.

The decline in adjusted net interest margins was largely the result of accelerated loan prepayments during the latter part of 2004. Historically, prepayment penalties and rising interest rates have effectively discouraged borrowers from refinancing. However, despite these historically effective deterrents, recent market evidence suggests that significant home appreciation has led some borrowers to refinance in order to take equity out of their homes or obtain a lower monthly mortgage payment. In 2005, we believe prepayments on mortgages held for long-term investment will slow, as interest rates rise at a measured pace and property appreciation slows to a more normalized rate. Working together, these trends should stabilize or improve our adjusted net interest margins as six-month adjustable rate mortgages held for long-term investment begin to re-price upwards over the course of 2005.

OUTLOOK FOR 2005

Today, as we approach our tenth year as a publicly traded company, we believe we are well positioned to take advantage of opportunities in a more competitive market. In a more challenging

Gretchen D. Verdugo, Executive Vice President, Chief Accounting Officer
Ronald M. Morrison, Executive Vice President, General Counsel

[1] Excludes amortization of loan discounts and includes net cash payments on derivative instruments.

environment, we are prepared to compete with innovative loan programs, marketing initiatives and technology services that focus on building relationships. Given the mortgage industry's outlook, the projected high volume of purchase originations in 2005 and our current loan pipeline, we expect continued solid loan acquisitions and originations. Armed with a strong capital base, and by pursuing our current strategy of selling a greater percentage of our acquisitions and originations than in 2004, we continue to anticipate moderate balance sheet growth for 2005.

Our strategy for 2005 includes leveraging off Impac's reputation as a leader in the Alt-A residential mortgage industry and capitalizing on the synergies of our three business operations. In January 2005, the Company expanded its wholesale residential mortgage platform. We expect this strategic move to expand both our Alt-A wholesale residential mortgage originations and the geographic reach of our wholesale operations. In addition, we also expect to further grow our sales force by increasing active correspondent customers and delivering wholesale mortgage brokers. We also plan to further penetrate the builder business, continue marketing new loan programs and services and maintain our exceptional customer service levels.

In closing, we would like to thank Impac's employees for their dedication and commitment to quality, service and innovation. We are grateful for our outstanding nationwide network of correspondents and mortgage bankers and brokers, who were instrumental in delivering a year of record results. And on behalf of the Company and Board of Directors, we thank you, our stockholders, for your continued support. We continue to believe that the fundamentals of our business are strong, and we remain very optimistic about our long-term prospects.

Respectfully yours,

Joseph R. Tomkinson
Chairman of the Board and Chief Executive Officer
[Center]

William S. Ashmore
Director, President and Chief Operating Officer
[Left]

Richard J. Johnson
Executive Vice President and Chief Financial Officer
[Right]

STATEMENT OF OPERATIONS

(in thousands, except per share data)

For the year ended December 31,	2004	2003[1]	2002	2001	2000
Net interest income:					
Interest income	$ 755,616	$ 385,716	$ 230,267	$ 141,563	$ 119,277
Interest expense	412,533	209,009	127,801	108,183	124,071
Net interest income (expense)	343,083	176,707	102,466	33,380	(4,794)
Provision for loan losses	30,927	24,853	19,848	16,813	18,839
Net interest income (expense) after provision for loan losses	312,156	151,854	82,618	16,567	(23,633)
Non-interest income:					
Gain on sale of loans	25,134	39,022	—	—	—
Other income	10,948	9,995	2,864	5,295	3,857
Gain (loss) on derivative instruments	4,694	(16,021)	(50,502)	(33,391)	238
Equity in net earnings of IFC	—	11,537	11,299	19,499	24,461
Total non-interest income (expense)	40,776	44,533	(36,339)	(8,597)	28,556
Non-interest expense:					
Personnel expense	60,420	25,250	1,856	1,192	652
Other expense	17,797	12,571	1,898	1,669	2,435
General and administrative and other expense	17,097	7,660	985	1,686	904
Amortization of deferred charge	16,212	5,658	—	—	—
Write-down on securities available-for-sale	1,120	298	1,039	2,217	53,576
(Gain) loss on disposition of real estate owned	(3,901)	(2,632)	154	(1,931)	1,814
Total non-interest expense	108,745	48,805	5,932	4,833	59,381
Earnings (loss) before extraordinary item and cumulative effect of change in accounting principle	244,187	147,582	40,347	3,137	(54,458)
Extraordinary item	—	—	—	(1,006)	—
Income taxes	(13,450)	(1,397)	—	—	—
Cumulative effect of change in accounting principle	—	—	—	(4,313)	—
Net earnings (loss)	$ 257,637	$ 148,979	$ 40,347	$ (2,182)	$ (54,458)
Net earnings (loss) per share before extraordinary item and cumulative effect of change in accounting principle:					
Basic	$ 3.79	$ 2.94	$ 1.01	$ 0.07	$ (2.71)
Diluted	$ 3.72	$ 2.88	$ 0.99	$ 0.11	$ (2.71)
Net earnings (loss) per share:					
Basic	$ 3.79	$ 2.94	$ 1.01	$ (0.16)	$ (2.71)
Diluted	$ 3.72	$ 2.88	$ 0.99	$ (0.16)	$ (2.71)
Dividends declared per share	$ 2.90	$ 2.05	$ 1.76	$ 0.69	$ 0.36

SELECTED BALANCE SHEET DATA

(in thousands)

As of December 31,	2004	2003	2002	2001	2000
Cash and cash equivalents	$ 324,351	$ 125,153	$ 113,264	$ 51,887	$ 17,944
CMO collateral and mortgages held-for-investment	21,895,592	9,296,893	5,215,731	2,242,036	1,367,573
Finance receivables	471,820	630,030	664,021	300,571	138,406
Allowance for loan losses	(63,955)	(38,596)	(26,602)	(11,692)	(5,090)
Mortgages held-for-sale	587,745	397,618	—	—	—
Total assets	23,815,767	10,577,957	6,540,339	2,842,677	1,884,489
CMO borrowings	21,206,373	8,489,853	5,019,934	2,139,818	1,277,161
Reverse repurchase agreements	1,527,558	1,568,807	1,168,029	469,491	398,653
Total liabilities	22,771,692	10,105,170	6,256,814	2,646,847	1,706,274
Total stockholders' equity	1,044,075	472,787	283,525	195,830	178,214

RECONCILIATION OF NET EARNINGS TO ESTIMATED TAXABLE EARNINGS[2]

(in thousands, except per share data)

For the year ended December 31,	2004	2003	2002
Net earnings	$ 257,637	$ 148,979	$ 40,347
Adjustments to net earnings:			
Loan loss provision	30,927	24,853	19,848
Dividends from IFC	37,000	31,385	12,870
Cash received from previously charged-off assets	—	(5,533)	—
Tax loss on sale of investment securities	—	(4,725)	—
Tax deduction for actual loan charge-offs, net of recoveries	(16,252)	(12,859)	(4,938)
Unrealized fair value of derivatives[3]	(103,724)	(38,762)	22,141
Dividends on preferred stock	(3,750)	—	—
Net earnings of IFC[4]	(42,944)	(16,889)	—
Equity in net earnings of IFC[4]	—	(11,537)	(11,299)
Net adjustments on inter-company loan sales transactions and inter-company income and expense eliminations	44,048	12,339	6,655
Net miscellaneous adjustments	—	215	(1,267)
Estimated and actual taxable income available to common stockholders[5]	$ 202,942	$ 127,466	$ 84,357
Estimated and actual taxable income per diluted common share[5]	$ 2.97	$ 2.46	$ 2.07
Diluted weighted average common shares outstanding	68,244	51,779	40,773

(1) On July 1, 2003, Impac purchased 100% of the outstanding shares of common stock of IFC. The purchase of IFC's common stock combined with Impac's ownership of 100% of IFC's preferred stock resulted in the consolidation of IFC from July 1, 2003 through December 31, 2003. Prior to July 1, 2003, IFC was a non-consolidated subsidiary of Impac and 99% of the net earnings of IFC were reflected in Impac's financial statements as "Equity in net earnings (loss) of IFC.

(2) Estimated taxable income include estimates of book to tax adjustments and can differ from actual taxable income as calculated when we file our annual corporate tax return for 2004. Since estimated taxable income is a non-GAAP financial measurement, the reconciliation of estimated taxable income available to common stockholders to net earnings meets the requirement of Regulation G as promulgated by the SEC for the presentation of non-GAAP financial measurements. The years ended December 31, 2003 and 2002 are actual taxable income per the filing of our corporate tax returns for those years.

(3) The mark-to-market change for the valuation of derivatives is income or expense for GAAP financial reporting but is not included as an addition or deduction for taxable income calculations. Unrealized fair value of derivatives is a component of gain (loss) on derivatives in the financial statements.

(4) Represents net earnings of IFC, a taxable REIT subsidiary, which may not necessarily equal taxable income. Dividend distributions from IFC to IMH may exceed IFC's net earnings, however, IMH can only recognize dividends received from IFC as taxable income to the extent that IFC's dividends are from current period taxable income. Any dividends paid to IMH by IFC in excess of IFC's taxable income would be recognized as return of capital by IMH.

(5) Excludes the deduction for dividends paid and the availability of a deduction attributable to net operating loss carry-forwards.

Q&A

WHAT IS AN IMPAC ALT-A RESIDENTIAL MORTGAGE LOAN?
Alt-A residential mortgage loans consist primarily of first-lien residential mortgage loans that are made to borrowers whose credit is generally within typical Fannie Mae or Freddie Mac guidelines, but that have loan characteristics that make them non-conforming under those guidelines. For instance, our loans typically require less or no documentation or verification of the borrower's income or assets. Therefore, in making our credit decisions, we are more reliant upon the borrower's credit score and the adequacy of the underlying collateral.

HOW DO YOU MANAGE CREDIT RISK?
First, our investment strategy requires us to invest primarily in high credit quality Alt-A residential mortgage loans and to hold our customers to stringent underwriting standards. At December 31, 2004, the average credit score in our collateralized mortgage obligation ("CMO") portfolio was 696 and our average loan balance was approximately $250,000. Second, we have vigilant quality control procedures that include continuous monitoring of product performance; pre- and post-funding quality assurance measures; and the use of iDASLg2, which ensures a high level of underwriting consistency. Third, we have established aggressive loss mitigation and default management procedures. Finally, while our loan losses have historically ranged from 10 to 15 basis points, at December 31, 2004, we maintained an allowance for loan losses of approximately 29 basis points.

HOW DO YOU MANAGE INTEREST RATE RISK IN THE LONG-TERM MORTGAGE PORTFOLIO?
The company matches assets to liabilities with CMO borrowings. A CMO borrowing is permanent financing and eliminates the risk of margin calls. To mitigate the risk of compression of our net interest margins during unfavorable interest rate environments we enter into derivatives. Our interest rate risk management program is formulated with the intent to offset potential adverse affects resulting from interest rate adjustment limitations due to periodic and lifetime interest rate caps; and mismatched interest rate adjustment periods between our long term investments and our CMO borrowings.

To mitigate the risk of early prepayments as interest rates fall, we generally acquire mortgages with prepayment penalties. At year end December 31, 2004, 76 percent of the CMO portfolio had active prepayment penalties.

WHY DOES IMPAC HAVE SO MUCH DEBT?
The majority of the debt recorded on our balance sheet is CMO borrowings. CMO borrowings are a direct obligation of each CMO trust, not Impac; therefore this debt is non-recourse to the Company. The remaining debt consists of reverse repurchase agreements which are the short-term financing we use to fund our warehouse customers.

WHY ARE TAXABLE EARNINGS DIFFERENT THAN NET EARNINGS?
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 are recognized under the two methods. Net earnings are calculated using Generally Accepted Accounting Principles ("GAAP") methods where, for instance, in the calculation of net income, loan loss provisions are based on an estimate of losses inherent in our portfolio, as compared to calculated taxable income where only the actual loan losses are deducted. To maintain our REIT status the Company must distribute at least 90 percent of its taxable earnings. 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-GAAP financial measurement, is useful information for our investors.

WHY DO YOU RAISE CAPITAL? IS IT DILUTIVE TO EARNINGS?
The Company must distribute at least 90 percent of our taxable income to stockholders in the form of dividends. Therefore, we can only increase the size of our balance sheet, or long-term mortgage portfolio, by raising new capital. Earnings will be accretive when we raise capital at a premium to book value and the capital invested generates an expected return on equity greater than the current dividend rate.

CORPORATE OFFICERS & DIRECTORS

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

William S. Ashmore
Director, President and
Chief Operating Officer

Richard J. Johnson
Executive Vice President and
Chief Financial Officer

Ronald M. Morrison
Executive Vice President,
General Counsel and Corporate Secretary

Gretchen D. Verdugo
Executive Vice President
Chief Accounting Officer

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

Frank P. Filipps
Director
Chairman and Chief Executive Officer,
Clayton Holdings Inc.

Stephen R. Peers
Director

William E. Rose
Director
Managing Director,
HBK Investments LP

James Walsh
Director
Managing Director,
Sherwood Trading & Consulting Corporation

CORPORATE INFORMATION

The Impac Companies
1401 Dove Street
Newport Beach, CA 92660
Telephone: 949.475.3600

Common Stock Listing
New York Stock Exchange
Symbol: IMH

Transfer Agent
American Stock Transfer Agent
49 Maiden Lane
New York, NY 10038
(800) 937.5449

Investor Relations
Tania Jernigan
Vice President, Investor Relations
tjernigan@impaccompanies.com
949.475.3722

Web Site
www.impaccompanies.com

Annual Stockholders Meeting
Sutton Place Hotel
4500 MacArthur Boulevard
Newport Beach, CA 92660
June 28, 2005
9:00 a.m. (Pacific Time)

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

Certifications
The Company has filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002. These certifications are included as Exhibits 31.1 and 31.2 in our Form 10-K/A Amendment 2 for the fiscal year ended December 31, 2004. After the fiscal 2004 Annual Meeting of Stockholders, the Company intends to file with the New York Stock Exchange ("NYSE") the CEO certification regarding its compliance with the NYSE's corporate governance listing standards as required by NYSE Rule (303)A.12. Last year, the Company filed this CEO certification with the NYSE on June 24, 2004.

FORWARD LOOKING STATEMENTS
This summary annual report 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," "likely," "should," "anticipate," or similar terms or variations on those terms or the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to, failure to achieve projected earnings levels; the ability to generate sufficient liquidity and conduct our operations as planned; the ability to access the equity markets; delays in raising, or the inability to raise, additional capital, either through equity offerings, lines of credit or otherwise as a result of, among other things, market conditions, or delay in providing, audited financial statements and the auditor's report on our internal control over financial reporting; the ability to generate taxable income and to pay dividends; interest rate fluctuations and changes in expectations of future interest rates; changes in prepayment rates and effectiveness of prepayment penalties on our mortgages; the availability of financing and, if available, the terms of any financing; continued ability to access the securitization markets or other funding sources; risks related to our ability to maintain an effective system of internal control over financial reporting and disclosure controls and procedures due to reported or potential material weaknesses and the ability to remediate any material weaknesses; changes in markets which the Company serves; the effectiveness of risk management strategies; and changes in other general market and economic conditions. For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10K/A Amendment 2. 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.

Testimonials by home and property owners are fictitious; however, we believe that they represent a typical Impac Alt-A borrower.

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THE IMPAC TEAM

We are committed to achieving profitability and growth by effectively and consistently exceeding our customers' expectations.

IMPAC®