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]