UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998 or

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________to ________________.

Commission File Number: 0-19861

IMPAC MORTGAGE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

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

20371 Irvine Avenue, Santa Ana Heights, California 92707
(Address of principal executive offices)

(714) 556-0122
(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	American Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [_]

On March 10, 1999, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $115.7 million, based on the closing sales price of the Common Stock on the American Stock Exchange. For purposes of the calculation only, in addition to affiliated companies, all directors and executive officers of the registrant have been deemed affiliates. The number of shares of Common Stock outstanding as of March 10, 1999 was 24,766,465.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 1999 Annual Meeting of Stockholders of the Registrant are incorporated by reference into Part III.

IMPAC MORTGAGE HOLDINGS, INC.

1998 FORM 10-K ANNUAL REPORT

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PART I

Certain information contained in this Report constitutes forward-looking statements under the Securities Act and the Exchange Act. These forward-looking statements can be identified by the use of forward-looking terminology including, but not limited to, "may," "will," "expect," "intend," "should," "anticipate," "estimate," or "believe" or comparable terminology. The Company's actual results may differ materially from those contained in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in "Item 1. Business--Risk Factors" as well as those discussed elsewhere in this Report.

ITEM 1. BUSINESS

Impac Mortgage Holdings, Inc. was incorporated in Maryland in August 1995 under the name Imperial Credit Mortgage Holdings, Inc. Subsequently, by a vote of stockholders on January 28, 1998, Imperial Credit Mortgage Holdings, Inc. changed its name to Impac Mortgage Holdings, Inc. References to the "Company" refer to Impac Mortgage Holdings, Inc. ("IMH") and its subsidiaries, IMH Assets Corp. ("IMH Assets"), Impac Warehouse Lending Group, Inc. ("IWLG"), and Impac Funding Corporation, (together with its wholly-owned subsidiary Impac Secured Assets Corporation, ("IFC")). References to IMH refer to Impac Mortgage Holdings, Inc. as a separate entity from IMH Assets, IWLG and IFC.

GENERAL

Impac Mortgage Holdings, Inc. is a mortgage loan finance company, which, together with its subsidiaries and related companies, primarily operates three businesses: (1) the Long-Term Investment Operations, (2) the Conduit Operations, and (3) the Warehouse Lending Operations. The Long-Term Investment Operations invests primarily in non-conforming residential mortgage loans and securities backed by such loans. The Conduit Operations purchases and sells and securitizes primarily non-conforming mortgage loans and the Warehouse Lending Operations provides warehouse and repurchase financing to originators of mortgage loans. The Company elects to be taxed as a Real Estate Investment Trust ("REIT") for federal income tax purposes, which generally allows the Company to pass through income to stockholders without payment of federal income tax at the corporate level.

LONG-TERM INVESTMENT OPERATIONS

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

Income is earned principally from net interest income received by IMH on mortgage loans and mortgage-backed and other collateralized securities acquired and held in its portfolio. Such acquisitions are financed with a portion of the Company's capital and borrowings provided from Collateralized Mortgage Obligations ("CMOs") and reverse repurchase agreements. IFC supports the investment objectives of the Long-Term Investment Operations by supplying the Long-Term Investment Operations all of its mortgage loans and a portion of its mortgage-backed securities at prices that are comparable to those available through investment bankers and other third parties.

MORTGAGE LOANS HELD IN THE PORTFOLIO

The Company originates loans through its network of conduit sellers and invests a substantial portion of its portfolio in non-conforming mortgage loans and, to a lesser extent, second mortgage loans. The Company also purchases such loans from third parties for long-term investment and for resale. Management believes that non-conforming mortgage loans provide an attractive net earnings profile and produce higher yields without commensurately higher credit risks when compared with conforming mortgage loans. A portion of the long-term investment portfolio consists of "A-," "B," "C," and "D" grade mortgage loans, (collectively, "B/C Loans"). The Company believes that a structural change in the mortgage banking industry has occurred which has increased demand for higher yielding non-conforming mortgage loans. This change has been caused by a number of factors, including: (1) investors' demand for higher-yielding assets due to historically low interest rates over the past few years; (2) increased securitization of high-yielding non-conforming mortgage loans by the investment banking industry; (3) quantification and development of standardized credit criteria by credit rating agencies for securities backed by non-conforming mortgage loans; and (4) increased competition in the securitization industry, which has reduced borrower interest rates and fees, thereby making non-conforming mortgage loans more affordable.

INVESTMENTS IN MORTGAGE-BACKED AND OTHER COLLATERALIZED SECURITIES

The Company also acquires mortgage-backed securities and other collateralized securities generated through its own securitization efforts and those generated by third parties. In connection with the issuance of mortgage-backed securities by IFC in the form of real estate mortgage investment conduits ("REMICs"), IMH has and may retain senior or subordinated securities as regular interests on a short-term or long-term basis. Such securities or investments may subject the Company to credit, interest rate and/or prepayment risks. In general, subordinated classes of a particular series of securities bear all losses prior to the related senior classes. Losses in excess of expected losses at the time such securities are purchased would adversely affect the Company's yield on such securities and could result in the failure of the Company to recoup its initial investment. The Company may also acquire REMIC or CMO residual interests created through its own securitizations or those of third parties. See "--Conduit Operations--Securitization and Sale Process," and "--Risk Factors--Value of Our Portfolio of Mortgage-Backed Securities May be Adversely Affected."

FINANCING

The Long-Term Investment Operations are principally financed through the issuance of CMOs, short-term borrowings under reverse repurchase agreements and proceeds from the sale of capital stock. Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for more information regarding the Company's financing arrangements.

Collateralized Mortgage Obligations. As the Long-Term Investment Operations accumulates mortgage loans in its long-term investment portfolio, the Company may issue CMOs secured by such loans as a means of financing its Long-Term Investment Operations. The decision to issue CMOs is based on the Company's current and future investment needs, market conditions and other factors. For accounting and tax purposes, the mortgage loans financed through the issuance of CMOs are treated as assets of the Company, and the CMOs are treated as debt of the Company, when for accounting purposes the CMO qualifies as a financing arrangement under Statement of Financial Accounting Standards No. 125 ("SFAS 125"). Each issue of CMOs is fully payable from the principal and interest payments on the underlying mortgage loans collateralizing such debt, any cash or other collateral required to be pledged as a condition to receiving the desired rating on the debt, and any investment income on such collateral. The Long-Term Investment Operations earns the net interest spread between the interest income on the mortgage loans securing the CMOs and the interest and other expenses associated with the CMO financing. The net interest spread may be directly impacted by the levels of prepayment of the underlying mortgage loans and, to the extent each CMO class has variable rates of interest, may be affected by changes in short-term interest rates.

When the Company issues CMOs for financing purposes, it seeks an investment grade rating for such CMOs by a nationally recognized rating agency. To secure such a rating, it is often necessary to pledge collateral in excess of the principal amount of the CMOs to be issued, or to obtain other forms of credit enhancements such as additional mortgage loan insurance. The need for additional collateral or other credit enhancements depends upon factors such as the type of collateral provided, the interest rates paid, the geographic concentration of the mortgaged property securing the collateral, and other criteria established by the rating agencies. The pledge of additional collateral reduces the capacity of the Company to raise additional funds through short-term secured borrowings or additional CMOs, and diminishes the potential expansion of its investment portfolio. As a result, the Company's objective is to pledge additional collateral for CMOs only in the amount required to obtain an investment grade rating for the CMOs by a nationally recognized rating agency. Total loss exposure to the Company is limited to the equity invested in the CMOs at any point in time.

The Company believes that under prevailing market conditions an issuance of CMOs receiving other than an investment grade rating would require payment of an excessive yield to attract investors. The Company's CMOs typically are structured as one-month London interbank offered rate ("LIBOR") "floaters" and fixed-rate securities with interest payable monthly. Interest rates on adjustable rate CMOs generally range from 0.22% to 1.30% over one-month LIBOR and from 6.65% to 7.25% on fixed rate CMOs depending on the class of the CMOs issued. The CMOs are guaranteed for the holders by a mortgage loan insurer, giving the CMOs the highest rating established by a nationally recognized rating agency.

Reverse Repurchase Agreements. The Company has reverse repurchase facilities at interest rates that are consistent with the Company's financing objectives. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing vehicle under which the Company effectively pledges its mortgage loans and mortgage securities as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the reverse repurchase agreement, the Company is required to repay the loan and correspondingly receives back its collateral. Under reverse repurchase agreements, the Company retains the instruments of beneficial ownership, including the right to distributions on the collateral and the right to vote on matters as to which certificate holders vote. Upon a payment default under such agreements, the lending party may liquidate the collateral. The Company's borrowing agreements require the Company to pledge cash, additional mortgage loans or additional securities backed by mortgage loans in the event the market value of existing collateral declines. The Company may be required to sell assets to reduce its borrowings to the extent that cash reserves are insufficient to cover such deficiencies in collateral. To reduce its exposure to the credit risk of reverse repurchase agreement lenders, the Company enters into such agreements with several different parties and follows its own credit exposure procedures. The Company monitors the financial condition of its reverse repurchase agreement lenders on a regular basis, including the percentage of mortgage loans that are the subject of reverse repurchase agreements with a single lender. See "--Risk Factors--Current Conditions of Mortgage Industry Adversely Affect Our Liquidity and Our Ability to Pay Dividends."

Other Mortgage-Backed Securities. As an additional alternative for the financing of its Long-Term Investment Operations, the Company may issue other mortgage-backed securities. The Company may issue mortgage pass-through certificates representing an undivided interest in pools of mortgage loans. The holders of mortgage pass-through certificates receive their pro rata share of the principal payments made on a pool of mortgage loans and interest at a pass-through interest rate that are fixed at the time of offering. The Company may retain up to a 100% undivided interest in a significant number of the pools of mortgage loans underlying such pass-through certificates. The retained interest, if any, may also be subordinated so that, in the event of a loss, payments to certificate holders will be made before the Company receives its payments. Unlike the issuance of CMOs, the issuance of mortgage pass-through certificates will not create an obligation of the Company to security holders in the event of a borrower default. However, as in the case of CMOs, the Company may be required to obtain various forms of credit enhancements in order to obtain an investment grade rating for issues of mortgage pass-through certificates by a nationally recognized rating agency.

CONDUIT OPERATIONS

The Conduit Operations, conducted by IFC, purchases primarily non-conforming mortgage loans and, to a lesser extent, second mortgage loans from its network of third party correspondents and other sellers. IFC subsequently securitizes and sells loans to permanent investors, including the Long-Term Investment Operations. All mortgage loans originated or purchased by IFC will be made available for sale to IMH at prices that are comparable to those available through third parties at the date of sale and subsequent transfer to IMH. IMH owns all of the preferred stock of, and 99% of the economic interest in, IFC, while Joseph R. Tomkinson, Chairman and Chief Executive Officer, William S.

Ashmore, President and Chief Operating Officer, and Richard J. Johnson, Executive Vice President and Chief Financial Officer, are the holders of all of the outstanding voting stock of, and 1% of the economic interest in, IFC.

As of December 31, 1998, IFC maintained relationships with 173 correspondents. Correspondents originate and close mortgage loans under IFC's mortgage loan programs on a flow (loan-by-loan) basis or through bulk sale commitments. Correspondents include savings and loan associations, commercial banks, mortgage bankers and mortgage brokers. IFC can compete effectively with other non-conforming mortgage loan conduits through its efficient loan purchasing process, flexible purchase commitment options and competitive pricing and by designing non-conforming mortgage loans to suit the needs of its correspondent loan originators and their borrowers, which are intended to provide sufficient credit quality to its investors. In addition to earnings generated from ongoing securitizations and sales to third-party investors, IFC supports the Long-Term Investment Operations of the Company by supplying IMH with non-conforming mortgage loans and securities backed by such loans.

As a non-conforming mortgage loan conduit, IFC acts as an intermediary between the originators of mortgage loans that do not currently meet the guidelines for purchase by government-sponsored entities that guarantee mortgage-backed securities (i.e. FNMA and FHLMC) and permanent investors in mortgage-backed securities secured by or representing an ownership interest in such mortgage loans. IFC also acts as a bulk purchaser of primarily non-conforming mortgage loans. The Company believes that non-conforming mortgage loans provide an attractive net earnings profile, producing higher yields without commensurately higher credit risks when compared to mortgage loans that qualify for purchase by FNMA or FHLMC. In addition, based on the Company's experience in the mortgage banking industry and in the mortgage conduit business, the Company believes it provides mortgage loan sellers with an expanded and competitively priced array of non-conforming and, to a lesser extent, B/C Loan products, timely purchasing of loans, mandatory, best efforts and optional rate-lock commitments, and flexible master commitments. See "--Purchase Commitment Process and Pricing."

MARKETING AND PRODUCTION

Marketing Strategy. The Company's competitive strategy is to be a low-cost national acquirer of mortgage loans to be held for long-term investment, sold in the secondary market as whole loans or securitized as mortgage-backed securities. A key feature of this approach is the use of a large national network of correspondent originators. This allows the Company to shift the high fixed costs of interfacing with the homeowner to the correspondents. The marketing strategy for the Conduit Operations is designed to accomplish three objectives: (1) attract a geographically diverse group of both large and small correspondent loan originators, (2) establish relationships with such correspondents and facilitate their ability to offer a variety of loan products designed by IFC, and (3) purchase loans and securitize and sell them in the secondary market or to IMH. In order to accomplish these objectives, IFC designs and offers loan products that are attractive to potential non-conforming borrowers and to end-investors in non-conforming mortgage loans and mortgage-backed securities.

IFC has historically emphasized and continues to emphasize flexibility in its mortgage loan product mix as part of its strategy to attract correspondents and establish relationships. IFC also maintains relationships with numerous end-investors so that it may develop products that they may be interested in as market conditions change, which in turn may be offered through the correspondent network. As a consequence, IFC is less dependent on acquiring conforming mortgage loans and has acquired significant volumes of non-conforming loans.

In July 1996, IFC developed a mortgage loan program known as the Progressive Express Program (the "Progressive Express Program"). The concept of the Progressive Express Program is to underwrite mortgage loans focusing on the borrowers Fair Isaac Credit Score ("FICO"), ability and willingness to repay the mortgage loan obligation, and assess the adequacy of the mortgage property as collateral for the loan. The FICO score was developed by Fair Isaac Co., Inc. of San Rafael, California. It is an electronic evaluation of past and present credit accounts on the borrower's credit bureau report. This includes all reported accounts as well as public records and inquiries. The Progressive Express Program offers six levels of mortgage loan programs and has a minimum FICO score that must be met by each of the borrowers and does not allow for any exceptions to the FICO score requirement. The FICO score requirement is as follows: Progressive Express I--681 & above, Progressive Express II--680-621, Progressive Express III--620-601, Progressive Express IV--600-581, Progressive Express V--580-551, and Progressive Express VI--550-500. Each Progressive Express program has different FICO score requirements, credit criteria, reserve requirements and loan-to-value ratio restrictions. Progressive Express I is designed for credit history and income requirements typical of "A+" credit borrowers. In the event a borrower does not fit the Progressive Express I criteria, the borrower's mortgage loan is placed into either Progressive Express II, III, IV, V, or VI, depending on which series' mortgage loan parameters meets the borrower's unique credit profile.

In response to the needs of its non-conforming mortgage loan correspondents, and as part of its strategy to facilitate the sale of its loans through the Conduit Operations, IFC's marketing strategy offers efficient response time in the purchase process, direct and frequent contact with its correspondents through a trained sales force and flexible commitment programs. Finally, due to the price sensitivity of most home buyers, IFC is competitive in pricing its products in order to attract sufficient numbers of borrowers.

Mortgage Loans Acquired. A majority of mortgage loans purchased by the Conduit Operations are non-conforming mortgage loans. Currently, the maximum principal balance for a conforming loan is $240,000. Loans that exceed such maximum principal balance are referred to as "jumbo loans." Non-conforming mortgage loans generally consist of jumbo loans or other loans that are originated in accordance with underwriting or product guidelines that differ from those applied by FNMA and FHLMC. Non-conforming loans may involve greater risk as a result of different underwriting and product guidelines. A portion of the mortgage loans purchased through the Conduit Operations are B/C Loans, as described below, which may entail greater credit risks than other non-conforming loans. IFC generally does not acquire mortgage loans with principal balances above $750,000 for "A" quality loans, and $500,000 for B/C Loans. Non-conforming loans purchased by IFC pursuant to its underwriting programs typically differ from those purchased pursuant to the guidelines established by FNMA and FHLMC primarily with respect to required documentation, loan-to-value ratios, borrower income or credit history, interest rates, borrower occupancy of the mortgaged property, and/or property types. To the extent that these programs reflect underwriting standards different from those of FNMA and FHLMC, the performance of loans made may reflect higher delinquency rates and/or credit losses.

IFC's focus on the acquisition of non-conforming mortgage loans may affect the Company's financial performance. For example, the purchase market of non-conforming loans has typically provided for higher interest rates in order to compensate for the lower liquidity of such loans, thereby potentially enhancing the interest income earned by the Company during the accumulation phase for loans held-for-sale and during the holding period for loans held-for-investment. In addition, due to the lower level of liquidity in the non-conforming loan market, the Company may realize higher returns upon securitization of such loans than would be realized upon securitization of conforming loans. On the other hand, such lower levels of liquidity may from time to time cause the Company to hold such loans or other mortgage-related assets supported by such loans. In addition, by retaining for investment either the loans or other mortgage-related assets supported by such loans, the Company assumes the potential risk of any increased delinquency rates and/or credit losses as well as interest rate risk.

Mortgage loans acquired by IFC are generally secured by first liens and, to a lesser extent, second liens on single (one-to-four) family residential properties with either fixed or adjustable interest rates. Fixed-rate mortgage loans ("FRMs") have a constant interest rate over the life of the loan, which is generally 15 or 30 years. The interest rate on adjustable rate mortgage loans ("ARMs") are typically tied to an index, such as six-month LIBOR or the one-year constant maturity Treasury index ("CMT Index") and are adjustable periodically at various intervals. ARMs are typically subject to lifetime interest rate caps and periodic interest rate and/or payment caps. The interest rates on ARMs are typically lower than the average comparable fixed rate loan initially, but may be higher than average comparable fixed rate loans over the life of the loan. Currently, IFC purchases (1) FRMs that have original terms to maturity ranging from 10 to 30 years, (2) ARMs that adjust based on LIBOR or the CMT Index, and (3) 2-year and 3-year FRMs that adjust to six-month ARMs approximately two to three years following origination at an interest rate based upon a defined index plus a spread. Substantially all mortgage loans purchased by IFC fully amortize over their remaining terms. However, IFC may purchase mortgage loans with other interest rate and maturity characteristics.

The credit quality of the loans purchased by IFC varies depending upon the specific program under which such loans are purchased. For example, a principal credit risk inherent in adjustable-rate mortgage loans is the potential "payment shock" experienced by the borrower as rates rise, which could result in increased delinquencies and credit losses. In the case of negative amortization mortgage loans, a portion of the interest due accrues to the underlying principal balance of the loan, thereby increasing the loan-to-value ratio of the mortgage loans. As a general rule, mortgage loans with higher loan-to-value ratios are vulnerable to higher delinquency rates given the borrower's lower equity investment in the underlying property. Limited documentation mortgage loans, by contrast, must meet more rigorous criteria for borrower credit quality in order to compensate for the reduced level of lender review with respect to the borrower's earnings history and capacity.

The following table sets forth IFC's mortgage loan acquisitions by type of loan, including net premiums, for the periods shown:

	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1997
	(DOLLARS IN MILLIONS, EXCEPT FOR AVERAGE LOAN SIZE)	
Non-conforming Loans:		
Volume of loans	$ 2,234.7	$ 2,567.0
Percent of total volume	99.4%	99.8%
Conforming Loans:		
Volume of loans	13.9	4.2
Percent of total volume	0.6%	0.2%
	$ 2,248.6	$ 2,571.2
Fixed Rate Loans:		
Volume of loans	$ 1,893.2	$ 1,907.0
Percent of total volume	84.2%	74.2%
Adjustable Rate Loans:		
Volume of loans	355.4	664.2
Percent of total volume	15.8%	25.8%
Total Mortgage Loan Acquisitions	$ 2,248.6	$ 2,571.2
Average Loan Size	$ 128,000	$ 86,000

IFC's loan purchase activities are expected to continue to focus on those regions of the country where higher volumes of non-conforming mortgage loans are originated, including California, Florida, New Jersey, New York, Washington, Nevada, Texas, Georgia, Maryland and Illinois. The highest concentration of non-conforming mortgage loans purchased by IFC relates to properties located in California and Florida because of generally higher property values and mortgage loan balances. During the years ended December 31, 1998 and 1997, mortgage loans secured by California and Florida properties accounted for approximately 42% and 8%, respectively, and 32% and 11%, respectively, of mortgage loan acquisitions. Of the $2.2 billion in mortgage loans acquired during the year ended December 31, 1998, $1.4 billion (or 62%) were acquired from IFC's top ten sellers. During the year ended December 31, 1998, Weyerhauser Mortgage Corporation and EMB Mortgage Corporation accounted for 17%, or $375.2 million, and 11%, or $236.9 million, respectively, of mortgage loans acquired by IFC. No other sellers accounted for more than 10% of the total mortgage loans acquired by IFC during the year ended December 31, 1998. In addition, IFC acquired $4.2 million, or 0.2%, of mortgage loans from Walsh Securities, Inc. ("WSI"), an affiliate of the Company. James Walsh, Executive Vice President of WSI, is a Director of the Company. No sellers other than WSI are affiliates of the Company.

A portion of the mortgage loans acquired by IFC are comprised of B/C Loans, as defined by the Company. For the year ended December 31, 1998, such loans accounted for 23% of IFC's total loan acquisitions as compared to 28% of IFC's total loan acquisitions during 1997. In general, B/C Loans are residential mortgage loans made to borrowers with lower credit ratings than borrowers of higher quality, or so called "A" grade mortgage loans, and are normally subject to higher rates of loss and delinquency than other non-conforming loans purchased by IFC. As a result, B/C Loans normally bear a higher rate of interest and are typically subject to higher fees (including greater prepayment fees and late payment penalties) than non-conforming loans of "A" quality. In general, greater emphasis is placed upon the value of the mortgaged property and, consequently, the quality of appraisals, and less upon the credit history of the borrower in underwriting B/C Loans than in underwriting "A" grade loans. In addition, B/C Loans are generally subject to lower loan-to-value ratios than "A" grade loans. Under IFC's B/C Loan program, underwriting authority is delegated only to correspondents who meet strict underwriting guidelines established by IFC, see "--Underwriting and Quality Control."

High Loan-to-Value Loans. High loan-to-value loans ("125 Loans") consist of second mortgage loans to qualified borrowers who have limited access to traditional mortgage-related financing generally because of a lack of equity in their homes. The loans are typically closed-end (usually 15 years), fixed rate, fully-amortizing loans secured by a first or second lien on the borrower's primary residence, and are typically used by consumers to pay-off credit card and other unsecured indebtedness. Almost all of these loans are made in excess of the value of the underlying collateral available to secure such loans, up to a maximum of 125% of the property's loan-to-value ratio. During 1997, IFC purchased $576.1 million of 125 Loans from Preferred Credit Corporation, of which the majority of 125 Loans were subsequently sold and securitized. As of December 31, 1998, IFC had $97.2 million of 125 Loans outstanding.

PURCHASE COMMITMENT PROCESS AND PRICING

Master Commitments. As part of its marketing strategy, IFC has established mortgage loan purchase commitments ("Master Commitments") with sellers that, subject to certain conditions, entitle the seller to sell and obligate IFC to purchase a specified dollar amount of non-conforming mortgage loans over a period generally ranging from six months to one year. The terms of each Master Commitment specify whether a seller may sell loans to IFC on a mandatory, best efforts or optional rate-lock basis. Master Commitments do not generally obligate IFC to purchase loans at a specific price, but rather provide the seller with a future outlet for the sale of its originated loans based on IFC's quoted prices at the time of purchase. Master Commitments specify the types of mortgage loans the seller is entitled to sell to IFC and generally range from $2 million to $50 million in aggregate committed principal amount. The provisions of IFC's Seller/Servicer Guide are incorporated in each of the Conduit Operations' Master Commitments and may be modified by negotiations between the parties. In addition, there are individualized Master Commitment options available to sellers, which include alternative pricing structures or specialized loan products. In order to obtain a Master Commitment, a seller may be asked to pay a non-refundable up-front or non-delivery fee, or both, to the Company. As of December 31, 1998, IFC had outstanding Master Commitments with 54 sellers to purchase mortgage loans in the aggregate principal amount of $1.5 billion over periods ranging from six months to one year, of which $522.3 million had been purchased or committed to be purchased pursuant to rate-locks.

Sellers who have entered into Master Commitments may sell mortgage loans to the Conduit Operations by executing individual, bulk or other rate-locks (each, a "rate-lock"). Each rate-lock, in conjunction with the related Master Commitment, specifies the terms of the related sale, including the quantity and price of the mortgage loans or the formula by which the price will be determined, the rate-lock type and the delivery requirements. Historically, the up-front fee paid by a seller to IFC to obtain a Master Commitment on a mandatory delivery basis is often refunded pro rata as the seller delivers loans pursuant to rate-locks. Any remaining fee after the Master Commitment expires is retained by the Conduit Operations.

Following the issuance of a specific rate-lock, IFC is subject to the risk of interest rate fluctuations and enters into hedging transactions to diminish such risk. Hedging transactions may include mandatory or optional forward sales of mortgage loans or mortgage-backed securities, interest rate caps, floors and swaps, mandatory forward sales, mandatory or optional sales of futures, and other financial futures transactions. The nature and quantity of hedging transactions are determined by the management of IFC based on various factors, including market conditions and the expected volume of mortgage loan purchases. Deferred hedging gains and losses are presented on IFC's balance sheet in other mortgage loans held-for-sale. These deferred amounts are recognized upon the sale or securitization of the related mortgage loans. As of December 31, 1998 and 1997, IFC had $263,000 and $5.1 million, respectively, of deferred hedging losses included in mortgage loans held-for-sale.

Bulk and Other Rate-Locks. IFC also acquires mortgage loans from sellers that are not purchased pursuant to Master Commitments. These purchases may be made on a bulk or individual rate-lock basis. Bulk rate-locks obligate the seller to sell and IFC to purchase a specific group of loans, generally ranging from $1 million to $125 million in aggregate committed principal amount, at set prices on specific dates. Bulk rate-locks enable IFC to acquire substantial quantities of loans on a more immediate basis. The specific pricing, delivery and program requirements of these purchases are determined by negotiation between the parties but are generally in accordance with the provisions of IFC's Seller/Servicer Guide. Due to the active presence of investment banks and other substantial investors in this area, bulk pricing is extremely competitive. Loans are also purchased from individual sellers (typically smaller originators of mortgage loans) who do not wish to sell pursuant to either a Master Commitment or bulk rate-lock. The terms of these individual purchases are based primarily on IFC's Seller/Servicer Guide and standard pricing provisions, and are offered on a mandatory basis.

Mandatory, Best-Efforts and Optional Rate-Locks. Mandatory rate-locks require the seller to deliver a specified quantity of loans to IFC over a specified period of time regardless of whether the loans are actually originated by the seller or whether circumstances beyond the seller's control prevent delivery. IFC is required to purchase all loans covered by the rate-lock at prices established at the time of rate-lock. If the seller is unable to deliver the specified loans, it may instead deliver comparable loans approved by IFC within the specified delivery time. Failure to deliver the specified mortgage loans or acceptable substitute loans under a mandatory rate-lock obligates the seller to pay IFC a penalty, and, if IFC's mortgage loan yield requirements have declined, the present value of the difference in yield IFC would have obtained on the mortgage loans that the seller agreed to deliver and the yield available on similar mortgage loans subject to mandatory rate-lock issued at the time of such failure to deliver. In contrast, mortgage loans sold on a best-efforts basis must be delivered to IFC only if they are actually originated by the seller. The best-efforts rate-lock provides sellers with an effective way to sell loans during the origination process without any penalty for failure to deliver. Optional rate-locks give the seller the option to deliver mortgage loans to IFC at a fixed price on a future date and requires the payment of up-front fees to IFC. Any up-front fees paid in connection with best efforts and optional rate-locks are retained by IFC whether or not the loans are delivered.

Pricing. IFC sets purchase prices at least once every business day for mortgage loans it acquires for its Conduit Operations based on prevailing market conditions. Different prices are established for the various types of loans, rate-lock periods and types of rate-locks (mandatory, best-efforts or optional). IFC's standard pricing is based on the anticipated price it receives upon sale or securitization of the loans, the anticipated interest spread realized during the accumulation period, the targeted profit margin and the anticipated issuance, credit enhancement, and ongoing administrative costs associated with such sale or securitization. The credit enhancement cost component of IFC's pricing is established for individual mortgage loans or pools of mortgage loans based upon the characteristics of such loans or loan pools. As the characteristics of the loans or loan pools vary, this cost component is correspondingly adjusted upward or downward to reflect the variation. IFC's adjustments are reviewed periodically by management to reflect changes in the costs of credit enhancement. Adjustments to IFC's standard pricing may also be negotiated on an individual basis under Master Commitments or bulk or individual rate-locks with sellers. See "--Securitization and Sale Process."

UNDERWRITING AND QUALITY CONTROL

Purchase Guidelines. IFC has developed comprehensive purchase guidelines for the acquisition of mortgage loans by the Conduit Operations. Subject to certain exceptions, each loan purchased must conform to the loan eligibility requirements specified in IFC's Seller/Servicer Guide with respect to, among other things, loan amount, type of property, loan-to-value ratio, type and amount of insurance, credit history of the borrower, income ratio, source of funds, appraisal, and loan documentation. IFC also performs a legal documentation review prior to the purchase of any mortgage loan. IFC either delegates the underwriting function to its correspondents or performs the function itself. Additionally, for mortgage loans that are underwritten by contract underwriters (as explained below), IFC does not perform a full underwriting review prior to purchase, but instead relies on the credit review and analysis performed by the contract underwriter, as well as its own pre-purchase eligibility process to ensure that the loan meets the program acceptance guidelines and a post-purchase quality control review.

Seller Eligibility Requirements. The mortgage loans acquired by the Conduit Operations are originated by various sellers, including savings and loan associations, banks, mortgage bankers and other mortgage brokers. Sellers are required to meet certain regulatory, financial, insurance and performance requirements established by IFC before they are eligible to participate in its mortgage loan purchase program, and must submit to periodic reviews by IFC to ensure continued compliance with these requirements. IFC's current criteria for seller participation generally includes a minimum tangible net worth requirement of $300,000 in its non-delegated program, $500,000 when restricting loan amounts to $300,000 conforming limits, $1.5 million in its fully delegated program, as described below, approval as a FNMA or FHLMC Seller/Servicer in good standing, a Housing and Urban Development approved mortgagee in good standing or a financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC") or comparable federal or state agency, and that the seller is examined by a federal or state authority. In addition, sellers are required to have comprehensive loan origination quality control procedures. In connection with its qualification, each seller enters into an agreement that generally provides for recourse by IFC against the seller in the event of a breach of representations or warranties made by the seller with respect to mortgage loans sold to IFC, any fraud or misrepresentation during the mortgage loan origination process, and upon early payment default on such loans.

Underwriting Methods. IFC has established a delegated underwriting program, which is similar in concept to the delegated underwriting programs established by FNMA and FHLMC. Under this program, qualified sellers are required to underwrite loans in compliance with IFC's underwriting guidelines as set forth in IFC's Seller/Servicer Guide or an individual Master Commitment. In order to determine a seller's eligibility to perform under its delegated underwriting program, an internal loan committee review is undertaken by IFC. In connection with its approval, the seller must represent and warrant to IFC that all mortgage loans sold to IFC will comply with IFC's underwriting guidelines. The current financial, historical loan quality and other criteria for seller participation in this program generally include a minimum net worth requirement and verification of the seller's good standing, including the seller's experience and demonstrated performance, with FNMA and FHLMC. IFC periodically reviews the sellers participating in its delegated underwriting program and will retain those sellers that it believes are productive.

The underwriting program consists of three separate subprograms. IFC's principal delegated underwriting subprogram is a fully delegated program designed for loan sellers that meet higher financial and performance criteria than those applicable to sellers generally. Generally, qualifying sellers have tangible net worth of at least $1.5 million and are granted delegated underwriting authority to a maximum loan amount of $500,000 for all mortgage products under this subprogram. The second subprogram is a delegated program pursuant to which sellers have tangible net worth of $500,000 to $1.5 million and are granted delegated underwriting authority to a maximum loan amount of $300,000. The third program is for sellers with tangible net worth of $300,000 to $500,000 in which sellers are under IFC's non-delegated underwriting program.

Mortgage loans acquired under IFC's non-delegated underwriting program are either fully underwritten by IFC's underwriting staff or involve the use of contract underwriters. IFC has contracted with several national mortgage insurance firms that conduct contract underwriting for mortgage loan acquisitions by IFC. Under these contracts, IFC relies on the credit review and analysis of the contract underwriter, as well as its own pre-purchase eligibility review to ensure that the loan meets program acceptance, its own follow-up quality control procedures, and the representations and warranties of the contract underwriter. Loans that are not acquired under either delegated or contract underwriter methods are fully underwritten by IFC's underwriting staff. In such cases, IFC performs a full credit review and analysis to ensure compliance with its loan eligibility requirements. This review specifically includes, among other things, an analysis of the underlying property and associated appraisal, and an examination of the credit, employment and income history of the borrower. Under all of these methods, loans are purchased only after completion of a legal documentation and eligibility criteria review.

Under all of IFC's underwriting methods, loan documentation requirements for verifying the borrower's income and assets vary according to loan-to-value ratios and other factors. Generally, as the standards for required documentation are lowered, borrowers' down payment requirements are increased and the required loan-to-value ratios are decreased and the borrower is required to have a stronger credit history, larger cash reserves and the appraisal of the property is validated by an enhanced desk and field review. The underwriters use a risk analysis approach to determine the borrower's ability and willingness to repay the debt and to determine if the property has sufficient value to recover the debt if the loans default. Each loan is reviewed for compensating factors, such as credit reports, sufficient assets, appraisal, job stability and savings pattern. Full documentation is requested if the underwriter judges that the compensating factors are insufficient for loan approval.

Quality Control. Ongoing quality control reviews are conducted by IFC to ensure that the mortgage loans purchased meet its quality standards. The type and extent of the quality control review depend on the nature of the seller and the characteristics of the loans. Loans acquired under the delegated underwriting program are reviewed in accordance with the quality control procedures described above. IFC reviews on a post-purchase basis a portion of all loans submitted with delegated underwriting to determine that the loans were purchased in compliance with the guidelines set forth by IFC. IFC reviews a higher portion of certain categories of mortgage loans, such as loans with reduced documentation, loans with higher loan-to-value ratios (above 80%) and cash-out refinances. In performing a quality control review on a loan, IFC analyzes the underlying property appraisal and examines the credit and income history of the borrower. In addition, all documents submitted in connection with the purchase of the loans, including insurance policies, title policies, deeds of trust or mortgages, and promissory notes, are examined for compliance with IFC's guidelines and to ensure compliance to state and federal regulations.

SECURITIZATION AND SALE PROCESS

General. The Conduit Operations primarily utilizes warehouse lines of credit and equity to finance the acquisition of mortgage loans from correspondents. When a sufficient volume of mortgage loans with similar characteristics has been accumulated, generally $100 million to $350 million, IFC will securitize them through the issuance of mortgage-backed securities in the form of REMICs or resell them as bulk whole loan sales. The period between the time IFC commits to purchase mortgage loans and the time it sells or securitizes such mortgage loans generally ranges from 10 to 90 days, depending on certain factors including the length of the purchase commitment period, the loan volume by product type and the securitization process.

Any decision by IFC to issue REMICs or to sell the loans in bulk is influenced by a variety of factors. REMIC transactions are generally accounted for as sales of the mortgage loans and can eliminate or minimize any long-term residual investment in such loans. REMIC securities consist of one or more classes of "regular interests" and a single class of "residual interest." The regular interests are tailored to the needs of investors and may be issued in multiple classes with varying maturities, average lives and interest rates. These regular interests are predominantly senior securities but, in conjunction with providing credit enhancement, may be subordinated to the rights of other regular interests. The residual interest represents the remainder of the cash flows from the mortgage loans (including, in some instances, reinvestment income) over the amounts required to be distributed to the regular interests. In some cases, the regular interests may be structured so that there is no significant residual cash flow, thereby allowing IFC to sell its entire interest in the mortgage loans. As a result, in some cases, all of the capital originally invested in the mortgage loans by the Company is redeployed in the Conduit Operations.

Each series of mortgage-backed securities is typically fully payable from the mortgage assets underlying such series, and the recourse of investors is limited to such assets and any associated credit enhancement features, such as senior/subordinated structures. To the extent the Company holds subordinated securities, the Company generally bears all losses prior to the related senior security holders. Generally, any losses in excess of the credit enhancement obtained are borne by the security holders. Except in the case of a breach of the standard representations and warranties made by the Company when mortgage loans are securitized, such securities are non-recourse to the Company. Typically, the Company has recourse to the sellers of loans for any such breaches, but there are no assurances of the sellers' abilities to honor their respective obligations.

Credit Enhancement. REMICs created by the Conduit Operations are structured so that one or more of the classes of such securities are rated investment grade by at least one nationally recognized rating agency. In contrast to Agency Certificates (pass-through certificates guaranteed by FNMA or FHLMC) in which the principal and interest payments are guaranteed by the U.S. government or one of its agencies, securities created by the Conduit Operations do not benefit from any such guarantee. The ratings for the Conduit Operations' REMICs are based upon the perceived credit risk by the applicable rating agency of the underlying mortgage loans, the structure of the securities and the associated level of credit enhancement. Credit enhancement is designed to provide protection to the security holders in the event of borrower defaults and other losses including those associated with fraud or reductions in the principal balances or interest rates on mortgage loans as required by law or a bankruptcy court.

The Conduit Operations can utilize multiple forms of credit enhancement, including special hazard insurance, private mortgage pool insurance reserve funds, letters of credit, surety bonds, over-collateralization and subordination or any combination of the foregoing. In determining whether to provide credit enhancement through subordination or other credit enhancement methods, the Conduit Operations takes into consideration the costs associated with each method. Ratings of mortgage-backed securities are based primarily upon the characteristics of the pool of underlying mortgage loans and associated credit enhancement. A decline in the credit quality of such pools (including delinquencies and/or credit losses above initial expectations), or of any third-party credit enhancer, or adverse developments in general economic trends affecting real estate values or the mortgage industry, could result in downgrades of such ratings.

In connection with the securitization of B/C Loans, the levels of subordination required as credit enhancement for the more senior classes of securities issued are higher than those with respect to its "A" grade non-conforming loans. Similarly, in connection with the securitization of mortgage loans secured by second liens, the levels of subordination required as credit enhancement for the more senior classes of securities issued are higher than those with respect to its mortgage loans secured by first liens. Thus, to the extent that the Company retains any of the subordinated securities created in connection with such securitizations and losses with respect to such pools of B/C Loans or mortgage loans secured by second liens are higher than expected, the Company's future earnings could be adversely affected.

SERVICING AND MASTER SERVICING

IFC generally acquires substantially all of its loans on a "servicing released" basis, particularly in the case of the acquisition of B/C Loans due to its belief that control over the servicing and collection functions with respect to B/C Loans is important to the realization of a satisfactory return, and thereby acquires the servicing rights. To the extent IFC finances the acquisition of such loans with its warehouse line with IWLG, IFC pledges such loans and the related servicing rights to IWLG as collateral. As a result, IWLG has an absolute right to control the servicing of such loans (including the right to collect payments on the underlying mortgage loans) and to foreclose upon the underlying real property in the case of default. Typically, IWLG delegates its right to service the mortgage loans securing the warehouse line to IFC.

IFC subcontracts all of its servicing obligations under such loans to independent third parties pursuant to sub-servicing agreements. IFC believes that the selection of third-party sub-servicers is more effective than establishing a servicing department within the Company. However, part of IFC's responsibility is to continually monitor the performance of the sub-servicers through monthly performance reviews and regular site visits. Depending on these sub-servicer reviews, the Company may in the future rely on its internal collection group to take an ever more active role to assist the sub-servicer in the servicing of these loans. Servicing includes collecting and remitting loan payments, making required advances, accounting for principal and interest, holding escrow or impound funds for payment of taxes and insurance, if applicable, making required inspections of the mortgaged property, contacting delinquent borrowers, and supervising foreclosures and property dispositions in the event of unremedied defaults in accordance with the Company's guidelines. Servicing fees generally range from 0.25% per annum for FRMs to 0.50% per annum for B/C Loans and ARMs on the declining principal balances of loans serviced.

The following table sets forth certain information regarding IFC's servicing portfolio of mortgage loans for the periods shown:

	YEAR ENDED DECEMBER 31, 1998		YEAR ENDED DECEMBER 31, 1997
	(DOLLARS IN MILLIONS, EXCEPT AVERAGE LOAN SIZE)		
Beginning servicing portfolio	$ 3,028.6		$ 1,550.1
Loans added to the servicing portfolio	2,198.3		2,500.0
Loans sold servicing released and principal paydowns (1)	(1,512.9)		(1,021.5)
Ending servicing portfolio	$ 3,714.0	(2)	$ 3,028.6
Number of loans serviced	33,414		28,494
Average loan size	$ 111,000		$ 106,000
Weighted average interest rate	9.47%		9.71%

(1) Includes normal principal amortization and prepayments.
(2) During the fourth quarter of 1998, the Company sold $944.9 million of loans scheduled to be servicing released in February and March of 1999.

In the future, IFC expects to offer its sellers of mortgage loans the right to retain servicing. However, in connection with its warehouse line from IWLG, any such servicers of the mortgage loans would have to be approved by IWLG. In the case of servicing retained mortgage loans, the Company will enter into agreements (the "Servicing Agreements") with the sellers of mortgage loans to service the mortgage loans they sell to the Company. Each Servicing Agreement will require the servicer to service the Company's mortgage loans in a manner generally consistent with FNMA and

FHLMC guidelines and procedures and with any servicing guidelines promulgated by the Company. Each servicer will collect and remit principal and interest payments, administer mortgage escrow accounts, submit and pursue insurance claims, and initiate and supervise foreclosure proceedings on the mortgage loans serviced. Each servicer will also provide accounting and reporting services required by the Company for such loans. The servicer will be required to follow such collection procedures as are customary in the industry. The servicer may, at its discretion, arrange with a defaulting borrower a schedule for the liquidation of delinquencies, provided primary mortgage insurance coverage is not adversely affected. Each Servicing Agreement will provide that the servicer may not assign any of its obligations with respect to the mortgage loans serviced for the Company, except with the Company's consent.

IFC generally performs the function of master servicer with respect to mortgage loans it sells and securitizes. The master servicer's function includes collecting loan payments from servicers of loans and remitting loan payments, less master servicing fees receivable and other fees, to a trustee or other purchaser for each series of mortgage-backed securities or loans master serviced. In addition, as master servicer, IFC monitors compliance with its servicing guidelines and is required to perform, or to contract with a third party to perform, all obligations not adequately performed by any servicer. A master servicer typically employs servicers to carry out servicing functions. Servicers typically perform servicing functions for the master servicer as independent contractors. In addition, IFC acts as the master servicer for all loans acquired by the Long-Term Investment Operations. With respect to its function as a master servicer for loans owned by IMH, IFC and IMH have entered into a Servicing Agreement having terms substantially similar to those described above for servicing agreements.

The Company expects from time to time to retain master servicing fees receivable. Master servicing fees receivable have characteristics similar to "interest-only" securities; accordingly, they have many of the same risks inherent in "interest-only" securities, including the risk that they will lose a substantial portion of their value as a result of rapid prepayments occasioned by declining interest rates. Master servicing fees receivable represent the present value of the difference between the interest rate on mortgage loans purchased by the Conduit Operations and the interest rate received by investors who purchase the securities backed by such loans, in excess of the normal loan servicing fees charged by either (1) the Conduit Operations on loans acquired "servicing released" or (2) correspondents who sold loans to the Conduit Operations with "servicing retained" (the "Excess Servicing Fees"). At December 31, 1998 and 1997, the Company had no master servicing fees receivable.

To the extent that servicing fees on a mortgage loan exceed an adequate compensation (typically ranging from 0.25% to 0.50% per annum of the mortgage loan principal amount), the Conduit Operations will generate master servicing fees receivable as an asset that represents an estimated present value of those excess fees assuming a certain prepayment rate on the mortgage loan. In determining present value of future cash flows, the Conduit Operations will use a market discount rate. Prepayment assumptions will be based on recent evaluations of the actual prepayments of the Conduit Operations' servicing portfolio or on market prepayment rates on new portfolios on which the Conduit Operations has no experience and the interest rate environment at the time the master servicing fees receivable are created. Management of the Company believes that, depending upon the level of interest rates from time to time, investments in current coupon master servicing fees receivable may be prudent, and if interest rates rise, these investments will mitigate declines in income that may occur in the Conduit Operations. IFC intends to hold the master servicing fees receivable for investment. Currently, the secondary market for master servicing fees receivable is limited. Accordingly, if IFC had to sell these receivables, the value received may or may not be at or above the values at which IFC carried them on its balance sheet.

When the Conduit Operations purchases loans which include the associated servicing rights, the allocated price paid for the servicing rights is reflected on its financial statements as Mortgage Servicing Rights ("MSRs"). MSRs differ from master servicing fees receivable primarily by the required amount of servicing to be performed, the loss exposure to the owner of the instrument, and the financial liquidity of the instrument. In contrast to MSRs, where the owner of the instrument acts as the servicer, master servicing fees receivable do not require the owner of the instrument to service the underlying mortgage loan. In addition, master servicing fees receivable subject their owners to greater loss exposure from delinquencies or foreclosure on the underlying mortgage loans than MSRs because a master servicer stands behind the servicer (or sub-servicer) and potentially the owner of the mortgage loan in priority of payment. Both MSRs and master servicing fees receivable are purchased and sold in the secondary markets. However, MSRs are generally more liquid and can be sold at less of a discount as compared to master servicing fees receivable. During periods of declining interest rates, prepayments of mortgage loans increase as homeowners look to refinance at lower rates, resulting in a decrease in the value of the Company's MSRs. Mortgage loans with higher interest rates are more likely to result in prepayments. At December 31, 1998 and 1997, IFC had $14.1 million and $15.6 million, respectively, of MSRs.

WAREHOUSE LENDING OPERATIONS

The Warehouse Lending Operations, conducted by IWLG, provides warehouse and repurchase financing to affiliated companies and to approved mortgage banks, most of which are correspondents of IFC, to finance mortgage loans during the time from the closing of the loans to their sale or other settlement with pre-approved investors. Generally, the non-conforming mortgage loans funded with such warehouse lines of credit are acquired by IFC. IWLG's warehouse lines are non-recourse and IWLG can only look to the sale or liquidation of the mortgage loans as a source of repayment. Any claim of IWLG as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay. Borrowings under the warehouse facilities are presented on the Company's balance sheets as finance receivables. IFC's outstanding warehouse line balances on IWLG's balance sheet are structured to qualify under REIT asset tests and to generate income qualifying under the 75% gross income test. Terms of affiliated warehouse lines are based on Bank of America's prime rate with advance rates between 90% and 98% of the fair value of the mortgage loans outstanding. Outstanding warehouse line balances to non-affiliates on IWLG's balance sheet do not qualify under REIT asset tests and do not generate income qualifying under the 75% gross income test. Terms of non-affiliated warehouse lines, including the commitment amount, are determined based upon the financial strength, historical performance and other qualifications of the borrower. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Conduit Operations" for a more detailed discussion of IWLG's warehouse line to IFC.

REGULATION

The rules and regulations applicable to the Conduit Operations, among other things, prohibit discrimination and establish underwriting guidelines that include provisions for inspections and appraisals, require credit reports on prospective borrowers, and fix maximum loan amounts. Mortgage loan acquisition activities are subject to, among other laws, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated that prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. IFC is an approved FHLMC seller/servicer. The Conduit Operations is subject to the rules and regulations of FHLMC with respect to acquiring, processing, selling and servicing conforming mortgage loans. In addition, IFC is required annually to submit to FHLMC audited financial statements, and each regulatory entity has its own financial requirements for sellers/servicers. For any conforming mortgage loan activities, IFC's affairs are also subject to examination by FHLMC at any time to assure compliance with the applicable regulations, policies and procedures. Additionally, there are various state and local laws and regulations affecting the Conduit Operations. Mortgage operations also may be subject to applicable state usury statutes. The Company is presently in material compliance with all material rules and regulations to which it is subject.

COMPETITION

In purchasing non-conforming mortgage loans and issuing securities backed by such loans, the Company competes with established mortgage conduit programs, investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers, insurance companies, other lenders and other entities purchasing mortgage assets. The continued consolidation in the mortgage banking industry may also reduce the number of current sellers available to the Conduit Operations, thus reducing the Company's potential customer base, resulting in IFC's purchasing a larger percentage of mortgage loans from a smaller number of sellers. Such changes could negatively impact the Conduit Operations. Mortgage-backed securities issued by the Conduit Operations and the Long-Term Investment Operations face competition from other investment opportunities available to prospective investors. The Company faces competition in its Conduit Operations and Warehouse Lending Operations from other financial institutions, including but not limited to banks and investment banks. Many of the institutions with which the Company competes in its Conduit Operations and Warehouse Lending Operations have significantly greater financial resources than the Company. However, IFC can compete effectively with other non-conforming mortgage loan conduits through its efficient loan purchasing process, flexible purchase commitment options and competitive pricing and by designing non-conforming mortgage loans to suit the needs of its correspondent loan originators and their borrowers, while providing sufficient credit quality to its investors.

EMPLOYEES

As of December 31, 1998, the Company had 145 employees, 10 of which were employed by IWLG. Employees and operating management of the Long-Term Investment Operations and Conduit Operations are employed by IFC. As of December 31, 1998, IFC had 135 employees. The Company believes that relations with its employees are good. The Company is not a party to any collective bargaining agreement.

RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating the Company and its business.

CURRENT CONDITIONS OF MORTGAGE INDUSTRY ADVERSELY AFFECT OUR LIQUIDITY AND OUR ABILITY TO PAY DIVIDENDS

We must access liquidity to continue our operations, grow our asset base and pay dividends. We have traditionally derived our liquidity from three sources:

- financing facilities provided to us by others to acquire mortgage assets;
- whole loan sales and securitizations of acquired mortgage loans; and
- sales of equity securities.

Margin Calls on Financing Facilities Have Adversely Affected Our Operations and Resulted in Losses

Until recently, we have not had difficulty in obtaining favorable financing facilities or in selling acquired mortgage loans. However, recently the mortgage industry has experienced substantial turmoil as a result of a lack of liquidity in the secondary markets. Investors have expressed unwillingness to purchase interests in securitizations due in part to:

- higher than expected credit losses on many companies' securitization interests, and

- the widening of returns expected by institutional investors on securitization interests over the prevailing Treasury rate.

As a result, many mortgage loan originators, including our company, have been unable to access the securitization market on favorable terms and some companies have declared bankruptcy. Originators have been required to sell loans on a whole loan basis and liquidate holdings of mortgage-backed securities to repay financing facilities. However, the large influx of loans available for sale on a whole loan basis has affected the pricing offered for these loans which in turn has reduced the value of the collateral underlying the financing facilities. Therefore, many providers of financing facilities have initiated margin calls. Margin calls result when our lenders evaluate the market value of the collateral securing our financing facilities and require us to provide them with additional equity or collateral to secure our borrowings. Late in the third quarter and in the fourth quarter of 1998, we experienced substantial margin calls on borrowings secured by mortgage loans and mortgage backed securities which we were unable to sell through securitizations. We delayed the payment of our third quarter dividend and sold mortgage-backed securities and mortgage loans on a whole loan basis as a result of these margin calls. We did not pay a dividend for the fourth quarter of 1998. Future margin calls will adversely affect our ability to pay dividends in future periods.

Our financing facilities are short-term borrowings. Due to the turmoil in the mortgage industry, many traditional providers of financing facilities have been unwilling to provide facilities on favorable terms or at all. If we cannot renew or replace maturing borrowings, we will have to sell on a whole loan basis the loans securing these facilities and, depending upon market conditions, these sales may result in substantial losses.

Deterioration of Secondary Market Has Adversely Affected Our Operations

If we cannot profitably securitize or sell on a whole loan basis a sufficient number of our mortgage loans in a particular financial reporting period, then our revenues for such period will decline. As a result of turmoil in the securitization market, many mortgage lenders, including our company, have been required to sell mortgage loans on a whole loan basis under adverse market conditions in order to generate liquidity. Many of these sales were made at prices lower than our carrying value of the mortgage loans and we experienced losses. We cannot assure you that we will be able to continue to sell our loans on a whole loan basis profitably or at all.

Gains on sales from our securitizations have historically represented most of our earnings. Our ability to complete securitizations is dependent upon general conditions in the securities and secondary markets and the credit quality of the mortgage loans. We are currently unable to profitably access the securitization market to sell our loans. To improve liquidity and to meet our obligations to our financing sources, we were required to sell our mortgage assets. Our future cash flows will be negatively impacted if the turmoil in the mortgage-backed securities market continues and by the elimination of the cash flows that would have been realized from the securities that are sold.

In addition, delays in closing sales of our loans increase our risk by increasing the warehousing period for the loans, further exposing our company to credit risk. If we continue to be unable to profitably complete securitizations or whole loan sales, we will be required to utilize other sources of financing which may be on less favorable terms or not available to all. These trends may continue to adversely affect our operations and our ability to pay dividends in the future.

Inability to Access Capital Markets and Generate Liquidity will Continue to Adversely Affect Our Operations and May Result in Losses

We do not believe our current operating cash flows are sufficient to fund our lending activities and the growth of our mortgage assets, to repay our financing facilities and to pay cash dividends. We continue to explore alternatives for increasing our liquidity through additional asset sales and capital raising efforts. However, 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. If we cannot raise cash by selling debt and equity, we may be forced to sell our assets at unfavorable prices or discontinue various business activities. Our inability to access the capital markets will have a negative impact on our earnings and ability to pay dividends.

REIT provisions of the Internal Revenue Code require us to distribute to our stockholders substantially all of our taxable income. These provisions restrict our ability to retain earnings and renew capital for our business activities. We may decide in future periods not to be treated as a REIT which would cause us to be taxed at the corporate level and to cease paying regular dividends. Also, to date a large portion of our dividends to stockholders consisted of distributions by our Conduit Operations subsidiary to our Long-Term Investment Operations entity. However, our Conduit Operations was not and is not required under the REIT provisions to make these distributions. Since we are trying to retain earnings for future growth and due to liquidity concerns, we may not cause our Conduit Operations subsidiary to make these distributions in the future. This would materially affect the amount of dividends, if any, paid by us to our stockholders.

OUR PRIOR HISTORY IS NOT REFLECTIVE OF FUTURE PERFORMANCE

Our historical financial performance is of limited relevance in predicting our future performance. We began our operations in November 1995. We believe that our origination levels and profitability will continue to be adversely affected if the turmoil in the mortgage industry continues. Our future operating results will depend largely upon our ability to expand our long-term investment operations, our conduit operations and our warehouse lending operations. We cannot assure you that we will be able to successfully grow or that our operations will be profitable in the future. We cannot assure you that any prior rates of growth can be sustained or that they are indicative of future results. It is unlikely that any of our future dividends will be equal to or more than those dividends we have paid in the past.

The loans we purchased to date and included in our securitizations have been outstanding for a relatively short period of time and our delinquency and loss experience to date may not be indicative of future results. It is unlikely that we will be able to maintain our delinquency and loan loss ratios at their present levels as our portfolio becomes more seasoned.

OUR BORROWINGS AND SUBSTANTIAL LEVERAGE MAY CAUSE LOSSES

Risks of Use of Collateralized Mortgage Obligations

To grow our investment portfolio, we borrow a substantial portion of the market value of substantially all of our investments in mortgage loans and mortgage-backed securities. We currently prefer to use collateralized mortgage obligations as financing vehicles to increase our leverage, since mortgage loans held for collateralized mortgage obligation collateral are retained for investment rather than sold in a secondary market transaction. Retaining mortgage loans as collateralized mortgage obligation collateral exposes our operations to greater credit losses than the use of securitization techniques that are treated as sales. In creating a collateralized mortgage obligation, we make a cash equity investment to fund collateral in excess of the amount of the securities issued. If we experience credit losses on the pool of loans subject to the collateralized mortgage obligation greater than we expected, the value of our equity investment decreases and we would have to adjust the value of the investment in our financial statements.

Cost of Borrowings May Exceed Return on Assets

The cost of borrowings under our financing facilities corresponds to a referenced interest rate plus or minus a margin. The margin varies depending on factors such as the nature and liquidity of the underlying collateral and the availability of financing in the market. We will experience net interest losses if the returns on our assets financed with borrowed funds fail to cover the cost of our borrowings.

Default Risks Under Financing Facilities

If we default under our collateralized borrowings, our lenders could force us to liquidate the collateral. If the value of the collateral is less than the amount borrowed, we would be required to pay the difference in cash. 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.

Risk of Lack of Return of Investment on Liquidation

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

INTEREST RATE FLUCTUATIONS MAY ADVERSELY AFFECT OUR OPERATING RESULTS

Our operations, each as a mortgage loan originator and warehouse lender, may be adversely affected by rising and falling interest rates. Higher interest rates may discourage potential borrowers from refinancing mortgages, borrowing to purchase homes or seeking second mortgages. This may decrease the amount of mortgages available to be acquired by our conduit operations and decrease the demand for warehouse financing provided by our warehouse lending operations to originators of mortgage loans. 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 mortgage loans at lower long-term interest rates. Increased loan prepayments could lead to a reduction in the number of loans we service, the fees we receive for loan servicing and our loan servicing income.

We are subject to the risk of rising mortgage interest rates between the time we commit to purchase mortgages at a fixed price 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 yet sold or securitized.

Risks of Repricing of Assets and Liabilities

Our principal source of revenue is net interest income or net interest spread, 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 significant risk of loss.

Additionally, the rates paid on our borrowings and the rates received on our assets may be based upon different indices (i.e., LIBOR, U.S. Treasuries, etc.). If the index used to determine the rate on our borrowings increases faster than the index used to determine the rate on our assets, we will experience a declining net interest spread which will have a negative impact on our profitability and may result in losses.

Risks of Adjustable Rate Mortgages

A significant portion of the mortgage assets held by our long-term investment operations are adjustable rate mortgages or bear interest based upon short-term interest rate indices. We generally fund these mortgage assets with borrowings. To the extent that there is a difference between the interest rate index used to determine the interest rate on our adjustable rate mortgage assets and the interest rate index used to determine the borrowing rate for our related financing, our business may be negatively impacted.

Interest Rate Caps

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

Payment Caps

Some of our adjustable rate mortgages may be subject to payment caps meaning some portion of the interest accruing on the mortgage is deferred and added to the principal outstanding. Our borrowings do not have similar provisions. This could cause us to receive less cash on our adjustable rate assets than the interest due on our related borrowings. Also, the increased principal amount outstanding as a result of interest deferral may result in a higher rate of defaults on these loans.

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE

Our results of operations, and more specifically our earnings, may significantly fluctuate from quarter to quarter based on several factors, including:

- changes in the amount of loans we originate;
- differences between our cost of funds on borrowings and the average interest rates earned on our loans;
- inability or decisions not to complete significant bulk whole loan sales or securitizations in a particular quarter; and
- problems generally affecting the mortgage loan industry.

A delay in closing a particular mortgage loan sale or securitization would also increase our exposure to interest rate fluctuations by lengthening the period during which our variable rate borrowings under our warehouse facilities are outstanding. If we were unable to sell a sufficient number of mortgage loans as a premium during a particular reporting period, our revenues for that period would decline, which could have a material adverse affect on our operations. As a result, our stock price could also fluctuate.

OUR SHARE PRICES HAVE BEEN AND MAY CONTINUE TO BE HIGHLY VOLATILE

The market price of our common stock has been extremely volatile. During the fourth quarter of 1998 our stock reached a high of $13.50 and a low of $2.75. On December 31, 1998, the closing sale price was $4.56. The market price of our common stock is likely to continue to be highly volatile and could be significantly affected by factors including:

- availability of liquidity;
- volatility in the securitization market;
- whole loan sale pricing;
- margin calls by warehouse lenders;
- actual or anticipated fluctuations in our operating results;
- interest rates;
- 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 stocks of specialty finance 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.

PREPAYMENTS OF MORTGAGE LOANS MAY ADVERSELY AFFECT OUR OPERATIONS

Mortgage prepayments generally increase when fixed mortgage interest rates fall below the then-current interest rates on outstanding adjustable rate mortgage loans. Prepayments on mortgage loans are also affected by the terms and credit grades of the loans and general economic conditions. Most of our adjustable rate mortgages and those backing mortgage-backed securities are originated within six months of the time we purchased the mortgages and generally bear initial interest rates which are lower than their "fully-indexed" amount (the applicable index plus the margin). If we acquire these mortgages at a premium and they are prepaid prior to or soon after the time of adjustment to a fully-indexed rate, we would not have received interest at the fully-indexed rate during such period. This means we would lose the opportunity to earn interest at that rate over the expected life of the mortgage. Also, if prepayments on our adjustable rate mortgage loans increase when interest rates are declining, our net interest income may decrease if we cannot reinvest the prepayments in mortgage assets bearing comparable rates.

We currently 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 any mortgage loans that we acquired at a premium are prepaid, generally accepted accounting principles require us to immediately write-off any remaining capitalized premium amount, which would decrease our interest income.

VALUE OF OUR PORTFOLIO OF MORTGAGE-BACKED SECURITIES MAY BE ADVERSELY AFFECTED

We invest in mortgage-backed securities known as "interest-only," "principal-only," residual interest and subordinated securities. These securities are either created through our own securitizations or those of third parties. Investments in residual interest and subordinated securities are much riskier than investments in senior mortgage-backed securities because these subordinated securities bear all credit losses prior to the related senior securities. On a percentage basis, the risk associated with holding residual interest and subordinated securities is greater than holding the underlying mortgage loans directly due to the concentration of losses in the subordinated securities.

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

We also bear the risk of loss on any mortgage-backed securities we purchase in the secondary mortgage market. If third parties have been contracted to insure against these types of losses, we would be dependent in part upon the creditworthiness and claims paying ability of the insurer and the timeliness of reimbursement in the event of a default on the underlying obligations. The insurance coverage for various types of losses is limited, and we bear the risk of any losses in excess of the limitation or outside of the insurance coverage.

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

WE UNDERTAKE ADDITIONAL RISKS BY ACQUIRING AND INVESTING IN MORTGAGE LOANS

Risk of Failure to Obtain Credit Enhancements

We do not obtain credit enhancements such as mortgage pool or special hazard insurance for all of our mortgage loans and investments. Borrowers may obtain private mortgage insurance, but we only require this insurance in limited circumstances. During the time we hold mortgage loans for investment, we are subject to risks of borrower defaults and bankruptcies and special hazard losses that are not covered by standard hazard insurance (such as losses occurring from earthquakes or floods). If a borrower defaults on a mortgage loan that we hold, we bear the risk of loss of principal to the extent there is any deficiency between the value of the related mortgaged property and the amount owing on the mortgage loan. In addition, since defaulted mortgage loans are not considered eligible collateral under our borrowing arrangements, we bear the risk of being required to finance these loans with funds other than borrowed funds until they are ultimately liquidated.

Greater Credit Risks from Non-Conforming Mortgage Loans

Non-conforming residential mortgage loans are residential mortgages that do not qualify for purchase by government sponsored agencies such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Our operations may be negatively affected due to our investments in non-conforming loans or securities evidencing interests in such loans. Credit risks associated with non-conforming mortgage loans are greater than conforming mortgage loans. The interest rates we charge on non-conforming loans are often higher than those charged for conforming loans. 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.

Second Mortgages Entail Greater Risks

Our security interest in the property securing second mortgages is subordinated to the interest of the first mortgage holder. 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, all or a portion of our second mortgage loan will not be repaid.

Geographic Concentration of Mortgage Loans Has Higher Risks

We do not set limitations on the percentage of our mortgage asset portfolio composed of properties located in any one area (whether by state, zip code or other geographic measure). Concentration in any one area increases our exposure to the economic and natural hazard risks associated with that area. We estimate that a high concentration of the loans included in securitizations in which we hold subordinated interests are secured by properties in California. Certain parts of California have experienced an economic downturn in past years and have suffered the effects of certain natural hazards.

POTENTIAL LOSSES RELATED TO RECOURSE OBLIGATIONS

Mortgage-backed securities issued in connection with our securitizations have been non-recourse to us, except in the case of a breach of standard representations and warranties made by us when the loans are securitized. While we have recourse against the sellers of mortgage loans, we cannot assure you that they will honor their obligations. We also engaged in bulk whole loan sales pursuant to agreements that provide for recourse by the purchaser against us. In some cases, the remedies available to a purchaser of mortgage loans from us are broader than those available to us against those who sell us these loans. If a purchaser exercises its rights against us, we may not always be able to enforce whatever remedies we may have against our sellers.

DEPENDENCE ON SECURITIZATIONS FOR LIQUIDITY

We rely significantly upon securitizations to generate cash proceeds to repay borrowings and to create credit availability. Gains on sales from our securitizations represent a significant portion of our earnings. Several factors are expected to affect our ability to complete securitizations of our commercial mortgages, including:

- conditions in the securities markets;
- the credit quality of the mortgage loans originated or purchased by our Conduit Operations;
- the volume of our mortgage loan originations and purchases; and
- our ability to obtain credit enhancement.

If we were unable to securitize profitably a significant number of our mortgage loans in a particular financial reporting period, then it could result in lower income or a loss for that period.

During the fourth quarter of 1998, we did not perform any securitizations. Any reduction in our ability to complete securitizations would require us to utilize other sources of financing which may be on less favorable terms.

First Loss Risk Securities

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

WE UNDERTAKE ADDITIONAL RISKS 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 banks, including the risks of fraud, borrower default and bankruptcy, any of which could result in credit losses for us. Our claims as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay.

THE VALUE OF OUR MORTGAGE SERVICING RIGHTS IS SUBJECT TO ADJUSTMENT

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

OUR OPERATING RESULTS WILL BE AFFECTED BY THE RESULTS OF OUR HEDGING ACTIVITIES

To offset the risks associated with our conduit operations, we enter into transactions designed to hedge our interest rate risks. To offset the risks associated with our long-term investment operations, we attempt to match the interest rate sensitivities of our adjustable rate mortgage assets held for investment with the associated financing liabilities. Our management determines the nature and quantity of the hedging transactions based on various factors, including market conditions and the expected volume of mortgage loan purchases. We do not limit management's use of certain instruments in such hedging transactions. Although our hedging program currently qualifies for hedge accounting under generally accepted accounting principles, we cannot assure you that our hedging transactions will offset our risks of loss, and we could incur significant losses.

REDUCTION IN DEMAND FOR RESIDENTIAL MORTGAGE LOANS AND OUR NON-CONFORMING LOAN PRODUCTS MAY ADVERSELY AFFECT OUR OPERATIONS

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

- interest rates;
- regional and national economic conditions;
- fluctuations in residential property values; and
- general regulatory and tax developments.

If our mortgage loan purchases decrease, we will have:

- decreased economies of scale;
- higher origination costs per loan;
- reduced fee income;
- smaller gains on the sale of non-conforming mortgage loans; and
- an insufficient volume of loans to effect securitizations which requires us to accumulate loans over a longer period.

OUR DELINQUENCY RATIOS AND OUR PERFORMANCE MAY BE ADVERSELY AFFECTED BY THE PERFORMANCE OF PARTIES WHO SUB-SERVICE OUR LOANS

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

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

INTENSE COMPETITION FOR MORTGAGE LOANS MAY ADVERSELY AFFECT OUR OPERATIONS

We compete in purchasing non-conforming mortgage loans and issuing mortgage-backed securities with:

- other mortgage conduit programs;
- investment banking firms;
- savings and loan associations;
- banks;
- thrift and loan associations;
- finance companies;
- mortgage bankers;
- insurance companies;
- other lenders; and
- other entities purchasing mortgage assets.

Continued consolidation in the mortgage banking industry may adversely affect us by reducing the number of current sellers to our conduit operations and our potential customer base. As a result, we may have to purchase a larger percentage of mortgage loans from a smaller number of sellers which could cause us to have to pay higher premiums for loans.

IF WE FAIL TO MAINTAIN OUR REIT STATUS WE MAY BE SUBJECT TO TAXATION AS A REGULAR CORPORATION

Consequences if We Fail to Qualify as a REIT

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.

You should be aware that opinions of counsel are not binding on the IRS or any court. 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. Both the validity of the opinion of counsel and 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 could be subject to the Federal alternative minimum tax. Unless we are entitled to relief under specific statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified. Therefore, if we lose our REIT status, the funds available for distribution to you would be reduced substantially for each of the years involved.

Effect of Distribution Requirements

As a REIT, we are subject to annual distribution requirements, which limit the amount of cash we have available for other business purposes, including amounts to fund our growth.

Other Tax Liabilities

Even if we qualify as a REIT, we may be subject to certain Federal, state, and local taxes on our income, property and operations that could reduce operating cash flow.

Recent Developments

On February 1, 1999, President Clinton announced his Fiscal Year 2000 Budget Proposal. The Budget Proposal includes a provision that would prohibit a REIT from holding securities representing more that 10% of the vote or value of all classes of stock of an issuer, other than a qualified REIT subsidiary or another REIT. The proposal, however, would provide an exception so that REITs could have certain types of "taxable REIT subsidiaries." Under the proposal, there would be two types of taxable REIT subsidiaries, a "qualified independent contractor subsidiary" and a "qualified business subsidiary." A number of constraints would be imposed on a taxable REIT subsidiary to ensure the a REIT could not, through a taxable REIT subsidiary, engage in substantial non-real estate activities, and also to ensure that the taxable REIT subsidiary pays a corporate level tax on its earnings. For example, the value of all taxable REIT subsidiaries owned by a REIT could not represent more than 15% of the value of the REIT's total assets and a taxable REIT subsidiary would not be entitled to deduct any interest incurred on debt funded directly or indirectly by the REIT. This proposal would be effective after the date of enactment. REITs would be allowed to combine and convert preferred stock subsidiaries into taxable REIT subsidiaries tax-free prior to a certain date. There would be a transition period to allow for conversion of preferred stock subsidiaries before the 10% vote or value test would become effective.

Because we own 100% of the nonvoting preferred stock of Impac Funding Corporation which represents approximately 99% of the economic value of all classes of stock of Impac Funding Corporation, we could not satisfy the proposed 10% vote or value test. Our continued ownership of greater than 10% of the value of Impac Funding Corporation could cause us to fail to qualify as a REIT. Thus, if enacted in its present form, the proposal may limit Impac Funding's future activities and growth. We do not know if this proposal will be introduced as a bill in Congress or, if it were introduced, whether it would be enacted.

POTENTIAL CHARACTERIZATION OF DISTRIBUTIONS OR GAIN ON SALE AS UNRELATED BUSINESS TAXABLE INCOME TO TAX-EXEMPT INVESTORS

If (1) we are subject to the rules relating to taxable mortgage pools or we are a "pension-held REIT," or (2) a tax-exempt stockholder has incurred debt to purchase or hold our common stock is not exempt from federal income taxation under certain special sections of the Internal Revenue Code, or (3) the residual REMIC interests we buy generate "excess inclusion income," then distributions to and, in the case of a stockholder described in (2), 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 TO INCREASED TAXATION

If we have borrowings with two or more maturities and its is secured by mortgage loans or mortgage-backed securities and the payments made on the borrowings are related to the payments received on the underlying assets, then the borrowings may be classified as a "taxable mortgage pool" under the Internal Revenue Code. If any part of our company was treated as a taxable mortgage pool, then our REIT status would not be impaired, but a portion of the taxable income we generated may, under regulations to be issued by the Treasury Department, be characterized as "excess inclusion" income and allocated to our stockholders. 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).

We take the position that our existing financing arrangements do not create a taxable mortgage pool. However, the IRS may successfully maintain that our financing arrangements do qualify as a taxable mortgage pool. In addition, we may enter into arrangements creating excess inclusion income in the future.

OUR OPERATIONS MAY BE ADVERSELY AFFECTED IF WE ARE SUBJECT TO THE INVESTMENT COMPANY ACT

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

FUTURE REVISIONS IN POLICIES AND STRATEGIES AT THE DISCRETION OF OUR BOARD OF DIRECTORS MAY BE AFFECTED WITHOUT STOCKHOLDER CONSENT

Our board of directors, including a majority of our unaffiliated directors, has established our investment and operating policies and strategies. We may:

- invest in the securities of other REITs for the purpose of exercising control;
- offer securities in exchange for property; and
- offer to repurchase or otherwise reacquire our shares or other securities in the future.

In October 1998, we adopted a repurchase plan to repurchase up to $5.0 million of our common stock in the open market. As of February 10, 1999, we had repurchased 184,000 shares for $999,000. We may also underwrite the securities of other issuers, although we have no present intention to do so. Any of the policies, strategies and activities may be modified or waived by our board of directors, subject in certain cases to approval by a majority of our unaffiliated directors, without stockholder consent.

EFFECT OF FUTURE OFFERINGS MAY ADVERSELY AFFECT MARKET PRICE OF OUR SECURITIES

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

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

Risk Relating to Common Stock

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.

Risk Relating to Preferred Stock

Our charter authorizes our board of directors to issue shares of preferred stock and to classify or reclassify any unissued shares of common stock or preferred stock into one or more classes or series of stock. The preferred stock may be issued from time to time with terms as determined by our board of directors. Our preferred stock is available for our possible future financing of acquisitions and for our general corporate purposes without further stockholder authorization. In October 1998, our board announced a dividend to all common stockholders of rights for certain shares of our Series A Junior Preferred Stock. Our Series A Junior Preferred Stock has terms and conditions which could have the effect of delaying, deferring or preventing a hostile change in control of our company. Our board could authorize the issuance of shares of another class or series of preferred stock with terms and conditions which could also have the effect of delaying, deferring or preventing a change in control of our company which could involve a premium price for holders of common stock or otherwise be in their best interest. The preferred stock, if issued, may have a preference on dividend payments which could reduce the assets we have available to make distributions to our common stockholders.

MARYLAND BUSINESS COMBINATION STATUTE

The Maryland General Corporation Law establishes special requirements for "business combinations" between a Maryland corporation and "interested stockholders" unless exemptions are applicable. An interested stockholder is any person who beneficially owns 10% or more of the voting power of our then-outstanding voting stock. Among other things, the law prohibits for a period of five years a merger and other similar transactions between our company and an interested stockholder unless the board of directors approved the transaction prior to the party becoming an interested stockholder. The five-year period runs from the most recent date on which the interested stockholder became an interested stockholder. The law also requires a supermajority stockholder vote for such transactions after the end of the five-year period. This means that the transaction must be approved by at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares,
- 66% of the votes entitled to be cast by holders of outstanding voting shares other than shares held by the interested stockholder with whom the business combination is to be effected.

The business combination statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

MARYLAND CONTROL SHARE ACQUISITION STATUTE

Maryland law provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a stockholder vote. Two-thirds of the shares eligible to vote must vote in favor of granting the "control shares" voting rights. "Control shares" are shares of stock that, taken together with all other shares of stock the acquirer previously acquired, would entitle the acquirer to exercise at least 20% of the voting power in electing directors. Control shares do not include shares of stock the acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

If a person who has made (or proposes to make) a control share acquisition satisfies certain conditions (including agreeing to pay expenses), he may compel our board of directors to call a special meeting of stockholders to be held within 50 days to consider the voting rights of the shares. If such a person makes no request for a meeting, we have the option to present the question at any stockholders' meeting.

If voting rights are not approved at a meeting of stockholders then we may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value. We will determine the fair value of the shares, without regard to voting rights, as of the date of either:

- the last control share acquisition, and
- or any meeting where stockholders considered and did not approve voting rights of the control shares.

If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. This means that you would be able to force us to redeem your stock for fair value. Under Maryland law, the fair value may not be less than the highest price per share paid in the control share acquisition. Furthermore, certain limitations otherwise applicable to the exercise of dissenters' rights would not apply in the context of a control share acquisition. The control share acquisition statute would not apply to shares acquired in a merger, consolidation or share exchange if we were a party to the transaction. The control share acquisition statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

POSSIBLE ADVERSE CONSEQUENCES OF LIMITS ON OWNERSHIP OF SHARES

Our Charter limits ownership of our capital stock by any single stockholder to 9.5% of our outstanding shares. 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 50% or more 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;
- will consider the shares held in trust for the benefit of our Company; and
- will either direct the affected person to sell the shares and turn over any profit to us, or we will redeem the shares. If we redeem the shares, it will be at a price equal to the lesser of:

  (a) the price paid by the transferee of the shares, or
  (b) the average of the last reported sales prices on the American Stock Exchange on the ten trading days immediately preceding the date fixed for redemption by our board of directors.

An individual who acquires shares that violate the above rules bears the risk that (1) he may lose control over the power to dispose of his shares, (2) he may not recognize profit from the sale of his shares if the market price of the shares increases and (3) he may be required to recognize a loss from the sale of his shares if the market price decreases.

FAILURE TO COMPLY WITH YEAR 2000 COMPUTER STANDARDS

We are not aware of any material operational issues or costs associated with preparing our internal systems for the year 2000. However, we may have operational problems or increased costs because of our implementation of systems and changes necessary to address year 2000 issues. Our inability to implement such systems and changes in a timely manner could have a material adverse effect on our business, financial condition and results of operations.   We also rely, directly and indirectly, on external systems of business enterprises such as financial institutions, third party mortgage banks, correspondent loan originators and government agencies for accurate exchange of data. Even if the year 2000 issue does not materially affect our internal systems, disruptions in the operation of the enterprises with which we interact could adversely affect us.

LIMITATIONS ON ACQUISITION AND CHANGE IN CONTROL OWNERSHIP LIMIT

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

ITEM 2. PROPERTIES

The primary executive and administrative offices of the Company are located in Santa Ana Heights, California. The Company currently occupies, and is utilizing, approximately 33,000 square feet of space pursuant to a premises operating sublease, which expired in February of 1999, with Imperial Credit Industries, Inc. ("ICII"), an affiliate of the Company. Management believes that the terms of the sublease were at least as favorable as could have been obtained from an unaffiliated third party.

The sublease with ICII will not be renewed but will be maintained on a month-to-month basis as the Company began relocating employees during 1998 to a commercial office building that is owned by ICH and located in Newport Beach, California. The Company has entered into a lease with ICH to use approximately 74,000 square feet of office space at a rate of $145,000 per month. The Company expects that all remaining operating management and employees of the Company will be relocated to the Newport Beach location during 1999. The Company believes that these facilities will adequately provide for the Company's future growth needs.

ITEM 3. LEGAL PROCEEDINGS

Other Matters. A financial institution has contended that it has a claim against the Company in connection with certain communications between the Company and the financial institution regarding a certain mortgage broker and transactions involving that mortgage broker. No lawsuit has been filed and no damages have been alleged. The Company believes that these contentions are without merit, and if a lawsuit is ever filed it will be vigorously defended.

Other than the foregoing, the Company is not a party to any material legal proceedings.

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

No matters were submitted to the security holders to be voted on during the fourth quarter of 1998.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is listed on the American Stock Exchange ("AMEX") under the symbol IMH. The following table sets forth the high, low and closing sales prices for IMH's Common Stock as reported by the AMEX for the periods indicated:

	1998			1997		
	HIGH	LOW	CLOSE	HIGH	LOW	CLOSE
First Quarter (1)................................	$ 18.25	$ 15.88	$ 17.06	$ 17.67	$ 14.58	$ 15.25
Second Quarter (1)................................	17.75	14.00	15.56	18.67	13.25	18.08
Third Quarter.....................................	16.88	10.00	13.50	19.17	16.25	18.42
Fourth Quarter....................................	13.50	2.75	4.56	18.58	14.69	17.88

(1) Adjusted to reflect a 3-for-2 common stock split effective November 24, 1997.

On March 10, 1999, the last reported sale price of the Common Stock on the AMEX was $5.13 per share. As of March 10, 1999, there were 877 holders of record (including holders who are nominees for an undetermined number of beneficial owners) of the Company's Common Stock.

Dividend Reinvestment and Stock Purchase Plan. Pursuant to IMH's Dividend Reinvestment and Stock Purchase Plan ("DRSPP" or the "Plan"), stockholders can acquire additional shares of IMH Common Stock by reinvesting their cash dividends at a 0% to 5% discount of the average high and low market prices as reported on the AMEX on the Investment Date (as described in the Plan) to the extent shares are issued by IMH. Stockholders may also purchase additional shares of IMH Common Stock through the cash investment option at a 0% to 5% discount of the average high and low market prices as reported on the AMEX during the three trading days preceding the Investment Date. Information on the Company's Dividend Reinvestment and Stock Purchase Plan can be obtained from the Company's investor relations group at 714 -438-2100.

Share Repurchase Program. On September 25, 1998, the Company's Board of Directors authorized the Company to repurchase up to $5.0 million of the Company's Common Stock, $.01 par value, in open market purchases from time to time at the discretion of the Company's management; the timing and extent of the repurchases will depend on market conditions. The Company intends to effect such repurchases, if any, in compliance with the Rule 10b-18 under the Securities Exchange Act of 1934. The acquired shares will be canceled. Through February 10, 1999, the Company had repurchased 184,000 shares of its Common Stock for $999,000.

Stockholder Rights Plan. On October 7, 1998, the Company's Board of Directors adopted a Stockholder Rights Plan in which Preferred Stock Purchase Rights were distributed as a dividend at the rate of one Right for each outstanding share of Common Stock. The dividend distribution was made on October 19, 1998 payable to stockholders of record on that date. The Rights are attached to the Company's Common Stock. The Rights will be exercisable and trade separately only in the event that a person or group acquires or announces the intent to acquire 10 percent or more of the Company's Common Stock. Each Right will entitle stockholders to buy one-hundredth of a share of a new series of junior participating Preferred Stock at an exercise price of $30.00. If the Company is acquired in a merger or other transaction after a person has acquired 10 percent or more of Company outstanding Common Stock, each Right will entitle the stockholder to purchase, at the Right's then-current exercise price, a number of the acquiring Company's common shares having a market value of twice such price. In addition, if a person or group acquires 10 percent or more of the Company's Common Stock, each Right will entitle the stockholder (other than the acquiring person) to purchase, at the Right's then-current exercise price, a number of shares of the Company's Common Stock having a market value of twice such price. Following the acquisition by a person of 10 percent or more of the Company's Common Stock and before an acquisition of 50 percent or more of the Common Stock, the Board of Directors may exchange the Rights (other than the Rights owned by such person) at an exchange ratio of one share of Common Stock per Right. Before a person or group acquires beneficial ownership of 10 percent or more of the Company's Common Stock, the Rights are redeemable for $.0001 per right at the option of the Board of Directors. The Rights will expire on October 19, 2008. The Rights distribution is not taxable to stockholders. The Rights are intended to enable all the Company stockholders to realize the long-term value of their investment in the Company.

DIVIDENDS

To maintain its qualification as a REIT, IMH intends to make annual distributions to stockholders of at least 95% of its taxable income, which may not necessarily equal net income as calculated in accordance with generally accepted accounting principles ("GAAP"), determined without regard to the deduction for dividends paid and excluding any net capital gains. Any taxable income remaining after the distribution of the regular quarterly or other dividends will be distributed annually on or prior to the date of the first regular quarterly dividend payment date of the following taxable year. The dividend policy is subject to revision at the discretion of the Board of Directors. All distributions in excess of those required for IMH to maintain REIT status will be made by IMH at the discretion of the Board of Directors and will depend on the taxable earnings of IMH, the financial condition of IMH, and such other factors as the Board of Directors deems relevant. The Board of Directors has not established a minimum distribution level.

Distributions to stockholders will generally be taxable as ordinary income, although a portion of such distributions may be designated by IMH as capital gain or may constitute a tax-free return of capital. IMH annually furnishes to each of its stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, capital gains or return of capital. Of the total dividends paid during 1998 and 1997, approximately $8.9 million and $5.5 million, respectively, represented a tax-free return of capital. There was no return of capital paid to stockholders in 1996.

The following table sets forth the dividends paid or declared by IMH:

PERIOD COVERED	STOCKHOLDER RECORD DATE	PER SHARE DIVIDEND AMOUNT (1)
Quarter ended March 31, 1997......................................	April 1, 1997	$0.39
Quarter ended June 30, 1997.......................................	July 7, 1997	$0.40
Quarter ended September 30, 1997..................................	September 15, 1997	$0.43
Quarter ended December 31, 1997...................................	December 31, 1997	$0.46
Quarter ended March 31, 1998......................................	April 9, 1998	$0.48
Quarter ended June 30, 1998.......................................	July 1, 1998	$0.49
Quarter ended September 30, 1998 (2)..............................	October 9, 1998	$0.49

(1) Adjusted to reflect 3-for-2 common stock split effective November 24, 1997.

(2) On September 28, 1998, the Company declared a third quarter dividend of $0.49 per share payable on October 26, 1998 to stockholders of record on October 9, 1998. However, on October 8, 1998 the Company announced that the third quarter dividend would be delayed and paid on January 6, 1999. The Company paid interest in the form of an additional cash dividend at a rate of 4% per annum for the period from the previously announced payment date through January 6, 1999. The total amount of interest paid was $96,300, or $0.004 per share.

The Company did not declare a dividend for the quarter ended December 31, 1998. See "Item 1. Business--Risk Factors--Current Conditions of Mortgage Industry Adversely Affect Our Liquidity and Our Ability to Pay Dividends."

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated statements of operations data for each of the years in the five-year period ended December 31, 1998, and the consolidated balance sheet data for the five-year period ended December 31, 1998 were derived from the Company's and IFC's financial statements audited by KPMG LLP ("KPMG"), independent auditors, whose reports appear on pages F-2 and F-32, respectively. Such selected financial data should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements starting on page F-1 and with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

IMPAC MORTGAGE HOLDINGS, INC.
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
STATEMENT OF OPERATIONS DATA:					
Net interest income:					
Total interest income	$ 163,658	$ 109,533	$ 63,673	$ 2,851	$ 292
Total interest expense	121,695	76,577	44,144	1,715	127
Net interest income	41,963	32,956	19,529	1,136	165
Provision for loan losses	4,361	6,843	4,350	488	95
Net interest income after loan loss provision	37,602	26,113	15,179	648	70
Non-interest income:					
Equity in net earnings (loss) of IFC	(13,876)	8,316	903	1,489	532
Equity in net loss of ICH	(998)	(239)	--	--	--
Loss on sale of mortgage loans	(3,111)	--	--	--	--
Gain on sale of securities	427	648	--	--	--
Other income	4,019	1,601	593	244	83
Total non-interest income	(13,539)	10,326	1,496	1,733	615
Non-interest expense:					
Write-down on securities available-for-sale	14,132	--	--	--	--
Loss on equity investment of ICH	9,076	--	--	--	--
General and administrative and other operating expense	6,788	1,851	1,449	209	225
Advisory fees	--	6,242	3,347	38	--
Termination agreement expense	--	44,375	--	--	--
Total non-interest expense	29,996	52,468	4,796	247	225
Earnings (loss) before income taxes	(5,933)	(16,029)	11,879	2,134	460
Income taxes (benefit)	--	--	--	76	(30)
Net earnings (loss)	$ (5,933)	$ (16,029)	$ 11,879	$ 2,058	$ 490
Net earnings (loss) per share-- basic	$ (0.25)	$ (0.99)	$ 1.34	$ 0.05	$ --
Net earnings (loss) per share-- diluted	$ (0.25)	$ (0.99)	$ 1.32	$ 0.05	$ --
Dividends declared per share	$ 1.46	$ 1.68	$ 1.61	$ --	$ --
Net earnings (loss) per share before management termination expense (1)	$ (0.25)	$ 1.74	$ 1.32	$ 0.05	$ --

(1) Per share amounts exclude the effect of expenses related to the termination (the "Termination Agreement Expense") of the Company's Management Agreement with Imperial Credit Advisors, Inc. ("ICAI"), an affiliate of ICII.

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
BALANCE SHEET DATA:					
Investment securities available-for-sale	$ 93,486	$ 67,011	$ 63,506	$ 2,284	$ --
Mortgage loans held-for-investment and CMO collateral	1,181,847	1,052,610	502,658	--	--
Finance receivables	311,571	533,101	362,312	583,021	3,120
Investment in Impac Funding Corporation	13,246	27,122	9,896	866	6,335
Investment in Impac Commercial Holdings, Inc.	--	17,985	--	--	--
Total assets	1,665,504	1,752,812	972,355	613,688	9,365
CMO borrowings	1,072,316	741,907	474,513	--	--
Reverse repurchase agreements	323,625	755,559	357,716	567,727	--
Total liabilities	1,413,898	1,523,782	843,165	568,452	2,512
Total stockholders' equity	251,606	229,030	129,190	45,236	6,853

IMPAC FUNDING CORPORATION
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT OPERATING DATA)

	YEAR ENDED DECEMBER 31,			
	1998	1997	1996	1995
STATEMENT OF OPERATIONS DATA:				
Net interest income:				
Total interest income	$ 48,510	$ 48,020	$ 32,799	$ 1,249
Total interest expense	40,743	41,628	31,751	1,785
Net interest income (expense)	7,767	6,392	1,048	(536)
Non-interest income:				
Gain (loss) on sale of loans	(11,663)	19,414	7,747	4,135
Mark-to-market loss on investment securities	(805)	--	--	--
Gain (loss) on sale of investment securities	(706)	550	--	--
Loan servicing income	7,071	4,109	1,250	5,159
Gain on sale of servicing rights	--	--	--	370
Other income	420	93	--	--
Total non-interest income	(5,683)	24,166	8,997	9,664
Non-interest expense:				
General and administrative and other operating expense	14,385	10,047	7,154	3,663
Amortization of mortgage servicing rights	6,361	2,827	613	2,892
Impairment of mortgage servicing rights	3,722	--	--	--
Provision for repurchases	367	3,148	687	--
Total non-interest expense	24,835	16,022	8,454	6,555
Earnings (loss) before income taxes	(22,751)	14,536	1,591	2,573
Income taxes (benefit)	(8,738)	6,136	679	1,069
Net earnings (loss)	$ (14,013)	$ 8,400	$ 912	$ 1,504

	December 31,
	1994
STATEMENT OF OPERATIONS DATA:	
Net interest income:	
Total interest income	$ --
Total interest expense	538
Net interest income (expense)	(538)
ABLE>	
Non-interest income:	
Gain (loss) on sale of loans	2,291
Mark-to-market loss on investment securities	--
Gain (loss) on sale of investment securities	--
Loan servicing income	4,043
Gain on sale of servicing rights	4,188
Other income	--
Total non-interest income	10,522
Non-interest expense:	
General and administrative and other operati expense	6,333
Amortization of mortgage servicing rights	2,070
Impairment of mortgage servicing rights	--
Provision for repurchases and loan losses	655
Total non-interest expense	9,058
Earnings (loss) before income taxes	926
Income taxes (benefit)	389
Net earnings (loss)	$ 537

	AT DECEMBER 31,			
	1998	1997	1996	1995
BALANCE SHEET DATA:				
Residual interests in securitizations	$ --	$ --	$ 46,949	$ --
Mortgage loans held-for-sale	252,305	620,549	334,104	544,275
Mortgage servicing rights	14,062	15,568	8,785	--
Total assets	313,872	656,944	399,171	552,631
Borrowings from IWLG	192,900	454,840	327,422	550,291
Other borrowings	67,058	148,307	--	--
Borrowings from affiliates	24,382	6,198	54,803	--
Total liabilities	301,009	629,548	389,175	551,757
Total shareholders' equity	12,863	27,396	9,996	874
OPERATING DATA (IN MILLIONS):				
Mortgage loan acquisitions (volume)	$ 2,249	$ 2,571	$ 1,542	$ 1,133
Servicing portfolio at period-end	3,714	3,029	1,550	512

	1994
BALANCE SHEET DATA:	
Residual interests in securitizations	$ --
Mortgage loans held-for-sale	--
Mortgage servicing rights	11,453
Total assets	12,097
Borrowings from IWLG	--
Other borrowings	--
Borrowings from affiliates	5,698
Total liabilities	5,698
Total shareholders' equity	6,399
OPERATING DATA (IN MILLIONS):	
Mortgage loan acquisitions (volume)	$ 1,726
Servicing portfolio at period-end	1,868

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain information contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements within the meaning of the Securities Act of 1933 and the Exchange Act of 1934 which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "should," "anticipate," "estimate," or "believe" or comparable terminology. The Company's actual results may differ materially from those contained in the forward-looking statements. Factors which may cause such differences to occur are discussed in "Item 1. Business--Risk Factors" as well as those factors discussed below.

GENERAL

Impac Mortgage Holdings, Inc. was incorporated in Maryland in August 1995. The Company, together with its subsidiaries and related companies, primarily operates three businesses: (1) the Long-Term Investment Operations, (2) the Conduit Operations, and (3) the Warehouse Lending Operations. The Long-Term Investment Operations invests primarily in non-conforming residential mortgage loans and securities backed by such loans, the Conduit Operations purchases and sells and securitizes primarily non-conforming mortgage loans and the Warehouse Lending Operations provides warehouse and repurchase financing to originators of mortgage loans.

The Company is entitled to 99% of the earnings or losses of IFC through its ownership of all of the non-voting preferred stock of IFC. As such, the Company records its investment in IFC using the equity method. Under this method, original investments are recorded at cost and adjusted by the Company's share of earnings or losses. The Company is a mortgage loan finance company that elects to be taxed at the corporate level as a REIT for federal income tax purposes, which generally allows the Company to pass through income to stockholders without payment of federal income tax at the corporate level.

RELATIONSHIPS WITH IMPAC ENTITIES

Many of the officers and directors of the Company are officers, directors and owners of ICH, ICCC, RAI Advisors, Inc. ("RAI") and IFC. The Company and ICH have also entered into various financing arrangements. Certain of the officers and directors of the Company own RAI, which provides management services ICH. RAI has also entered into a submanagement agreement (the "Submanagement Agreement") with IFC whereby the Company pays IFC, through RAI, for all costs and services under contract. The Company owns all of the preferred stock of, and 99% of the economic interest in, IFC.

SIGNIFICANT TRANSACTIONS

On December 22, 1998, the Company completed the sale of 1,200,000 shares of Series B 10.5% Cumulative Convertible Preferred Stock ("Series B Preferred Stock") at $25.00 per share. The Series B Preferred Stock is convertible into shares of the Company's Common Stock at a conversion price of $4.95 per share. Accordingly, each share of Series B Preferred Stock is convertible into 5.050505 shares of the Company's Common Stock but subject to adjustment. Dividends on the Series B Preferred Stock will accumulate from the date of issuance and will be payable quarterly, in cash or the Company's Common Stock, starting April 27, 1999. The dividend rate per share will be the greater of $0.65625 per quarter or the quarterly cash dividend declared on the number of shares of Common Stock into which a share of Series B Preferred Stock is convertible. The Series B Preferred Stock is redeemable under certain circumstances, at a price of $25.00 per share, plus accumulated and unpaid dividends beginning December 2000.

In addition, in December 1998, the Company signed a letter of intent to acquire a Federally insured California chartered thrift and loan. The Company intends to contribute certain assets of IFC into the thrift and loan charter and operate the entire mortgage banking and selected investment activities from the thrift and loan. The acquisition of the thrift and loan will reduce the Company's reliance on lines of credit and reverse repurchase agreements through other commercial and investment banks and will give the merged company access to lower cost funds and the Federal Home Loan Bank.

During the first quarter of 1999, IFC finalized a master agreement to sell up to $1.0 billion of IFC's future loan production to FHLMC. IFC anticipates that the first delivery of mortgage loans under the new agreement will occur in March of 1999, with the first settlement to take place no later than April of 1999. The transaction is a servicing retained agreement, which gives IFC a guaranteed pricing spread and cash gains plus the value of the servicing rights created. See "--Liquidity and Capital Resources."

On October 27, 1998, the Company sold to ICH its remaining 50% ownership interest in a commercial office building located in Newport Beach, California for $6.0 million. After the sale of the 50% ownership interest to ICH, the Company has no ownership interest in the commercial office building.

On October 21, 1998, ICH repurchased from IMH 937,084 shares of ICH Common Stock and 456,916 shares of ICH Class A Common Stock at a per share price of $4.375, based upon the closing sales price of the Common Stock on the AMEX on October 19, 1998, for a total repurchase of $6.1 million. The Company recorded a loss of $9.1 million on the sale.

BUSINESS OPERATIONS

Business Strategy. Due to the deterioration of the mortgage-backed securitization market during the third and fourth quarters of 1998, the Company's lenders made margin calls on their reverse repurchase agreements. To provide the necessary liquidity to meet these margin calls, the Company sold mortgage loans and mortgage-backed securities at losses in order to reduce outstanding borrowings on its reverse repurchase agreements. To further enhance the Company's liquidity, the Company completed the issuance of 1,200,000 shares of Series B Preferred Stock in December of 1998, which generated net proceeds of $28.8 million. These transactions increased the Company's cash and cash equivalents at December 31, 1998 to $33.9 million as compared to $2.2 million at September 30, 1998. In addition to asset sales and the issuance of Series B Preferred Stock to improve the Company's liquidity, IFC completed the execution of a master agreement to sell up to $1.0 billion of its future mortgage loan production to FHLMC over the next year. IFC will complete its first delivery of mortgage loans under the new agreement in March of 1999, and anticipates that the first settlement will occur no later than April of 1999. The transaction is a servicing retained agreement, which gives IFC a guaranteed pricing spread and cash gains plus the value of the servicing rights created.

Although the Company's primary objective in response to the deterioration of the mortgage-backed securitization market was to improve liquidity, the Company made other strategic decisions in response to the mortgage market downturn to compete more effectively in the current market and to restore profitability, as follows: (1) adjusted interest rates on its loan programs, (2) adjusted purchase pricing on the acquisition of its loans and (3) reduced staff levels at IFC by approximately 25%. While this decision resulted in lower origination balances during the fourth quarter of 1998, the Company anticipates better results on the subsequent sale or securitization of its loans. As the liquidity crisis improved, the Company made a further strategic decision that it believes will help minimize the Company's exposure to market conditions that occurred during 1998. As such, the Company has signed a letter of intent to acquire a California, federally insured thrift and loan. The acquisition is contingent upon the execution of a definitive agreement and obtaining satisfactory approvals from all regulatory agencies. The Company does not anticipate any significant regulatory impediments. Upon the consummation of the transaction, the Company intends to contribute certain assets of IFC into the thrift and loan charter and operate the entire mortgage banking and selected investment activities from the thrift and loan. This acquisition will reduce the Company's reliance on outside warehouse and reverse repurchase facilities with commercial and investment banks. The thrift and loan charter will give IFC access to lower cost funds and borrowings from the Federal Home Loan Bank.

Long-Term Investment Operations: During the year ended December 31, 1998, the Long-Term Investment Operations, conducted by IMH and IMH Assets, acquired $866.7 million of mortgages from IFC as compared to $877.1 million acquired during the same period in 1997. Mortgages purchased by the Long-Term Investment Operations during 1998 consisted of $616.4 million of FRMs and $244.1 million of ARMs secured by first liens on residential property and $6.2 million of fixed-rate second trust deeds secured by residential property. During 1998, IMH Assets issued CMOs totaling $768.0 million as compared to CMOs totaling $521.7 million during the same period in 1997. As of December 31, 1998, the Long-Term Investment

Operations portfolio of mortgage loans consisted of $1.2 billion of mortgage loans held in trust as collateral for CMOs and $20.6 million of mortgage loans held-for-investment of which approximately 47% were FRMs and 53% were ARMs. The weighted average coupon of the Long-Term Investment Operations portfolio of mortgage loans was 9.42% at December 31, 1998 with a weighted average margin of 4.71%. The portfolio of mortgage loans included 72% of "A" credit quality non-conforming mortgage loans and 28% of B/C Loans, as defined by the Company. The Long-Term Investment Operations sold $170.4 million of mortgage loans to IFC and $73.2 million of mortgage loans to third parties during 1998 as compared to $9.4 million of loans sold to third parties during the same period in 1997. During 1998, the Long-Term Investment Operations acquired $60.6 million of securities created by IFC through the issuance of REMICs as compared to $12.6 million during the same period in 1997. In addition, the Long-Term Investment Operations had outstanding finance receivables of $311.6 million and investment securities available-for-sale of $93.5 million at December 31, 1998. The $93.5 million of investment securities available-for-sale included $45.5 million of subordinated securities collateralized by mortgages, $42.6 million of "interest only" securities, and $5.4 million of subordinated securities collateralized by other loans.

Conduit Operations: The Conduit Operations, conducted by IFC, supports the Long-Term Investment Operations of the Company by supplying IMH and IMH Assets with mortgages for IMH's long-term investment portfolio. IFC's mortgage acquisitions decreased 15% to $2.2 billion during 1998 as compared to $2.6 billion of mortgages acquired during the same period in 1997. During 1998, IFC securitized $907.5 million of mortgages and sold whole loans to third party investors totaling $856.2 million, resulting in a loss on sale of loans of $11.7 million. This compares to securitizations of $878.0 million and whole loan sales to third parties of $501.7 million, resulting in a gain on sale of loans of $19.4 million, during 1997. IFC had deferred revenue of $10.6 million at December 31, 1998 as compared to $7.0 million at December 31, 1997. The increase in deferred revenue relates to the sale of $842.9 million in principal balance of mortgages to IMH during 1998, which are deferred or accreted over the estimated life of the loans. IFC's servicing portfolio increased 23% to $3.7 billion at December 31, 1998 as compared to $3.0 billion at December 31, 1997. Of the $3.7 billion of mortgage loans serviced by IFC at December 31, 1998, IFC is the master servicer for $1.5 billion of FRMs collateralizing REMIC securities and $1.1 billion of mortgage loans collateralizing CMOs. Of the mortgage loans in IFC's servicing portfolio at December 31, 1998 and 1997, 40% and 40%, respectively, were collateralized by properties located in California. The loan delinquency rate of mortgages in IFC's servicing portfolio which were 60 or more days past due, inclusive of foreclosures and delinquent bankruptcies, was 4.82% and 3.20%, at December 31, 1998 and 1997, respectively. During 1998, 1,404 loans were removed from 90 days or more delinquent status of which 569 loans, or 41%, were reinstated, repurchased or paid-in-full.

Warehouse Lending Operations: At December 31, 1998, the Warehouse Lending Operations, conducted by IWLG, had $813.1 million of warehouse lines of credit available to 32 borrowers (including IFC), of which $311.6 million was outstanding, including $192.9 million outstanding to IFC, $21.0 million outstanding to the Long-Term Investment Operations, and $1.5 million outstanding to WSI. James Walsh, Executive Vice President of WSI, is also a Director of IMH and ICH.

RESULTS OF OPERATIONS--
IMPAC MORTGAGE HOLDINGS, INC.

Year Ended December 31, 1998 as compared to Year Ended December 31, 1997

NET EARNINGS (LOSS)

The Company recorded a net loss of $(5.9) million, or $(0.25) per basic and diluted common share, during the year ended December 31, 1998 as compared to a net loss of $(16.0) million, or $(0.99) per basic and diluted common share, for the year ended December 31, 1997. The Company's net loss for 1998 was primarily the result of a tax adjusted loss of $7.3 million on the sale of mortgage loans held-for-sale at IFC and a tax adjusted non-cash charge of $2.9 million on the write-down of IFC's MSRs and investment securities available-for-sale. In addition, the Company's 1998 earnings were negatively affected by a $9.1 million loss on the sale of its equity investment in ICH, which reflects the price the Company received on the sale of its ICH common stock on October 19, 1998, an impairment charge of $14.1 million on investment securities available-for-sale, a loss on sale of mortgage loans of $3.1 million, and a loss on disposition of real estate owned of $1.7 million. Excluding the consolidated tax adjusted losses on mortgage loan sales of $10.4 million, consolidated tax adjusted non-cash charges of $17.0 million, and the loss on sale of equity investment in ICH of $9.1 million, the Company's earnings for the year ended December 31, 1998 would have been $30.6 million, or $1.28 per basic and diluted common share, as compared to earnings of $28.3 million, or $1.74 per basic and diluted common share, for the same period of 1997, after excluding a non-cash charge of $44.4 million for the Company's buyout of its management agreement. Earnings per share for 1998, including the adjustments described above, were lower as compared to earnings per share for 1997 due to an increase in the number of common shares outstanding during 1998.

The loss on the sale of mortgage loans and the write-down of mortgage assets by the Company and IFC was precipitated by the deterioration of the mortgage-backed securitization market during the third and fourth quarters of 1998. The deterioration of the mortgage-backed securitization market in 1998 created liquidity problems for the Company as the Company's lenders made margin calls on their reverse repurchase facilities. These margin calls resulted in the Company delaying its third quarter dividend, which was paid on January 6, 1999, and selling mortgage loans and mortgage-backed securities at losses in order to reduce outstanding borrowings on these facilities. Although a loss was recorded for 1998, the Company was successful in improving liquidity and protecting stockholder value by selling out of its mortgage loan positions rather than continuing to expose the Company to further market risk while accumulating these loans for securitization.

NET INTEREST INCOME

Net interest income increased 27% to $42.0 million during 1998 as compared to $33.0 million during 1997. Interest income is primarily interest on Mortgage Assets and excludes interest income on cash and cash equivalents and due from affiliates. Interest expense is primarily borrowings on Mortgage Assets and excludes interest expense on due to affiliates. Mortgage Assets include CMO collateral, mortgage loans held-for-investment, finance receivables and investment securities available-for-sale. The increase in net interest income during 1998 as compared to 1997 was primarily the result of higher average Mortgage Assets, which increased 54% to $2.0 billion during 1998 as compared to $1.3 billion during 1997. The net interest spread on Mortgage Assets decreased to 1.49% during 1998 as compared to 1.89% during 1997. The decrease in net interest spread on Mortgage Assets was primarily the result of a decrease in the net interest spread on CMO collateral, which represents the largest portion of Mortgage Assets on a weighted-average basis. The net interest spread on CMO collateral was 0.78% during 1998 as compared to 1.40% during 1997. The decrease in net interest spread on CMO collateral during 1998 was primarily due to higher rates of mortgage loan prepayments and correspondingly higher rates of premium amortization expense as compared to 1997.

The following table summarizes average balance, interest and weighted-average yield on Mortgage Assets and borrowings for the years ended December 31, 1998 and 1997 and includes interest income on Mortgage Assets and interest expense related to borrowings on Mortgage Assets only (dollars in thousands):

	FOR THE YEAR ENDED DECEMBER 31, 1998				FOR THE YEAR ENDED DECEMBER 31, 1997			
	AVERAGE BALANCE	INTEREST	WEIGHTED AVG YIELD	% OF PORTFOLIO	AVERAGE BALANCE	INTEREST	WEIGHTED AVG YIELD	% OF PORTFOLIO
MORTGAGE ASSETS								
Investment securities available-for-sale:								
Subordinated securities	$ 88,544	$ 11,219	12.67%	4.47%	$ 58,956	$ 7,519	12.75%	4.51%
collateralized by mortgages								
Subordinated securities	5,364	709	13.22	0.27	5,980	1,028	17.19	0.46
collateralized by other loans								
Total investment securities available-for-sale	93,908	11,928	12.70	4.74	64,936	8,547	13.16	4.97
LOAN RECEIVABLES:								
CMO collateral	1,244,458	92,011	7.39	62.87	626,831	47,967	7.65	47.93
Mortgage loans held-for-investment	149,131	14,373	9.64	7.54	182,215	14,535	7.98	13.93
Finance receivables:								
Affiliated	403,935	34,166	8.46	20.41	403,931	34,299	8.49	30.88
Non-affiliated	87,855	8,242	9.38	4.44	29,963	2,991	9.98	2.29
Total finance receivables	491,790	42,408	8.62	24.85	433,894	37,290	8.59	33.17
Total Loan Receivables	1,885,379	148,792	7.89	95.26	1,242,940	99,792	8.03	95.03
TOTAL MORTGAGE ASSETS	$ 1,979,287	$ 160,720	8.12%	100.0%	$ 1,307,876	$ 108,339	8.28%	100.00%
BORROWINGS								
CMO borrowings	$ 1,153,985	$ 76,309	6.61%	64.63%	$ 586,463	$ 36,665	6.25%	49.06%
Reverse repurchase agreements-mortgages	605,486	40,439	6.68	33.91	580,908	37,881	6.52	48.59
Reverse repurchase agreements-securities	26,051	1,700	6.53	1.46	28,109	1,836	6.53	2.35
TOTAL BORROWINGS	$ 1,785,522	$ 118,448	6.63%	100.00%	$ 1,195,480	$ 76,382	6.39%	100.00%
NET INTEREST SPREAD			1.49%				1.89%	
NET INTEREST MARGIN			2.14%				2.44%	

Interest income on Mortgage Assets: Interest income on CMO collateral increased 92% to $92.0 million during 1998 as compared to $48.0 million during 1997 as average CMO collateral increased 91% to $1.2 billion as compared to $626.8 million, respectively. Average CMO collateral increased as the Long-Term Investment Operations issued CMOs totaling $768.0 million during 1998, which were collateralized by $788.2 million of mortgages held by the Long-Term Investment Operations. The weighted-average yield on CMO collateral decreased to 7.39% during 1998 as compared to 7.65% during 1997. The decrease in the yield on CMO collateral during 1998 was primarily due to higher rates of mortgage loan prepayments and correspondingly higher rates of premium amortization expense as compared to 1997. Interest income on CMO collateral includes the effect of amortization of net premiums paid in acquiring the mortgage loans. As of December 31, 1998, net premiums on CMO collateral was $39.4 million.

Interest income on mortgage loans held-for-investment decreased 1% to $14.4 million during 1998 as compared to $14.5 million during 1997 as average mortgage loans held-for-investment decreased 18% to $149.1 million as compared to $182.2 million, respectively. The weighted-average yield on mortgage loans held-for-investment increased to 9.64% during 1998 as compared to 7.98% during 1997. The increase in the yield on mortgage loans held-for-investment during 1998 was primarily due to higher average balance of 125 Loans outstanding and held in portfolio during 1998 as compared to 1997. Most of the 125 Loans that were held by the Long-Term Investment Operations were sold to IFC in December 1998. Interest income on mortgage loans held-for-investment includes the effect of amortization of net premiums paid in acquiring the mortgage loans. As of December 31, 1998, net premiums on mortgage loans held-for-investment was $482,000.

Interest income on finance receivables increased 14% to $42.4 million during 1998 as compared to $37.3 million during 1997 as average finance receivables increased 13% to $491.8 million as compared to $433.9 million, respectively. The increase in interest income on finance receivables was primarily the result of an increase of 193% in average finance receivables to non-affiliated mortgage banking companies to $87.9 million during 1998 as compared to $30.0 million during 1997. Interest income on finance receivables to non-affiliates increased 173% to $8.2 million during 1998 as compared to $3.0 million during 1997. The weighted-average yield on non-affiliated finance receivables decreased to 9.38% during 1998 as compared to 9.98% during 1997. Average finance receivables outstanding to affiliates was constant at $403.9 million during 1998 and 1997. Interest income on finance receivables to affiliates decreased to $34.2 million during 1998 as compared to $34.3 million during 1997. The weighted-average yield on affiliated finance receivables decreased to 8.46% during 1998 as compared to 8.49% during 1997. The overall weighted-average yield on finance receivables increased to 8.62% during 1998 as compared to 8.59% during 1997.

Interest income on investment securities available-for-sale increased 40% to $11.9 million during 1998 as compared to $8.5 million during 1997 as average investment securities available-for-sale increased 45% to $93.9 million as compared to $64.9 million, respectively. The increase in average securities available-for-sale during 1998 was the result of the Long-Term Investment Operations purchasing and retaining mortgage-backed securities of $60.6 million that were issued by IFC as REMICs. The weighted-average yield on investment securities available-for-sale decreased to 12.70% during 1998 as compared to 13.16% during 1997 due to the purchase of lower-yielding securities during 1998.

Interest expense on borrowings: Interest expense on CMO borrowings increased 108% to $76.3 million during 1998 as compared to $36.7 million during 1997 as average borrowings on CMO collateral increased 105% to $1.2 billion as compared to $586.5 million, respectively. Average CMO borrowings increased as the Long-Term Investment Operations issued CMOs totaling $768.0 million during 1998. The weighted-average yield of CMO borrowings increased to 6.61% during 1998 as compared to 6.25% during 1997. This increase was the result of the Company issuing fixed-rate CMOs totaling $583.0 million during 1998 at higher interest rates than the initial interest rates on variable-rate CMOs the Company issued prior to 1998. Although borrowing rates on the fixed-rate CMOs are generally higher than the initial interest rates on variable-rate CMOs, the Company receives a comparable interest rate spread on fixed-rate CMOs as it does on its variable-rate CMOs.

Interest expense on reverse repurchase borrowings used to fund the acquisition of mortgage loans and finance receivables increased 7% to $40.4 million during 1998 as compared to $37.9 million during 1997 as the average balance of reverse repurchase agreements increased 4% to $605.5 million during 1998 as compared to $580.9 million during 1997. The increase in average finance receivables was primarily related to an increase in finance receivables made to non-affiliates of the Company and to the longer time period IFC's mortgage loans were outstanding on IWLG's warehouse facilities during 1998. As the market for mortgage-backed securitizations and whole loan sales deteriorated during the latter half of 1998 and made it more difficult for IFC to securitize or sell mortgage loans, the average number of days that IFC warehoused its mortgage loans with IWLG increased during 1998 as compared to 1997. The weighted-average yield of reverse repurchase agreements collateralized by mortgage loans increased to 6.68% during 1998 as compared 6.52% during 1997.

The Company also uses mortgage-backed securities as collateral to borrow under reverse repurchase agreements to fund the purchase of mortgage-backed securities and to act as an additional source of liquidity for the Company's operations. Interest expense on these reverse repurchase agreements decreased 6% to $1.7 million during 1998 as compared to $1.8 million during 1997 as the average balance on these reverse repurchase agreements decreased 7% to $26.1 million as compared to $28.1 million, respectively. The weighted-average yield of reverse repurchase agreements collateralized by mortgage-backed securities remained constant at 6.53% during 1998 and 1997.

EQUITY IN NET EARNINGS (LOSS) FROM IFC

The Company's equity in net loss of IFC decreased to a loss of $(13.9) million for 1998 as compared to earnings of $8.3 million for 1997. The decrease in equity in net earnings (loss) of IFC during 1998 was primarily the result of net losses on sale of mortgage loans and non-cash charges for the write-down of MSRs and investment securities available-for-sale. The net loss on sale of mortgage loans and the non-cash charges were due to the deterioration of the mortgage-backed securitization market, as previously discussed. The Company records 99% of the earnings or losses from IFC as the Company owns 100% of IFC's preferred stock, which represents 99% of the economic interest in IFC. For more information on the results of operations of IFC, refer to "--Results of Operations--Impac Funding Corporation."

EQUITY IN NET LOSS FROM ICH

The Company's equity in net loss of ICH increased to a loss of $(998,000) for 1998 as compared to a loss of $(239,000) for 1997. The increase in equity in net loss of ICH during 1998 was primarily the result of a deficit in equity in net earnings (loss) of ICCC of $(19.2), which ICH records on its consolidated financial statements, and an impairment charge of $1.7 million that ICH recorded on its residual interest in securitization held-for-trading. ICH records 95% of the earnings or losses from ICCC as ICH owns 100% of ICCC's preferred stock, which represents 95% of the economic interest in ICCC. Prior to October 19, 1998, the Company recorded equity in net loss in ICH by virtue of the Company's ownership of 9.8% of ICH's voting Common Stock and 100% of Class A non-voting Common Stock. On October 19, 1998, ICH repurchased from IMH 937,084 shares of ICH Common Stock and 456,916 shares of ICH Class A Common Stock, which represented all ICH Common Stock that IMH owned, and eliminating any recognition of earnings or losses from ICH. For more information on the results of operations of ICH, refer to Impac Commercial Holdings, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 1999.

EXPENSE

GENERAL AND ADMINISTRATIVE AND OTHER EXPENSE

General and administrative and other expense increased to $2.3 million during 1998 as compared to $836,000 during 1997. The increase in general and administrative and other expense was primarily related to property expense on a commercial office building in which the Company had a 50% ownership interest, which was sold to ICH in October 1998. Property expense increased to $623,000 during 1998 as compared to $109,000 during 1997.

PROFESSIONAL SERVICES

Professional services increased to $2.2 million during 1998 as compared to $1.1 million during 1997. Professional services primarily includes intercompany allocations of MIS, accounting and executive management services from IFC which increased to $968,000 during 1998 as compared to $385,000 during 1997. Professional services also includes outside legal, accounting and tax work performed for the Company.

ADVISORY FEES

Earnings were positively affected by a reduction in advisory fees resulting from the Company's buyout of its management agreement with ICAI in December 1997. As a result of the buyout, there were no advisory fees paid by IMH during 1998 as compared to $6.2 million in advisory fees paid by IMH during 1997.

PROVISION FOR LOAN LOSSES

The Company recorded loan loss provisions of $4.4 million during 1998 as compared to $6.8 million during 1997. The amount provided for loan losses during 1998 decreased primarily due to a reduction in exposure to future losses through the sale of delinquent loans and the transfer of certain loans from the held-for-investment to the held-for-sale portfolio (as explained below).

CREDIT EXPOSURES

The Company's total allowance for loan losses expressed as a percentage of Gross Loan Receivables which includes loans held-for-investment, CMO collateral and finance receivables, increased to 0.47% at December 31, 1998 as compared to 0.32% at December 31, 1997. The Company recorded net loan loss provisions of $4.4 million during 1998 as compared to $6.8 million during 1997. The amount provided for loan losses during 1998 decreased primarily due to a reduction in exposure to future losses through the sale of delinquent loans and the transfer of certain loans from the held-for-investment to the held-for-sale portfolio, which resulted in a mark-to-market adjustment. The allowance for loan losses is determined primarily on the basis of management's judgment of net loss potential including specific allowances for known impaired loans, changes in the nature and volume of the portfolio, value of the collateral and current economic conditions that may affect the borrowers' ability to pay.

Other Real Estate Owned. The Company recorded losses on the disposition of other real estate owned of $1.7 million during 1998 as compared to gains on disposition of real estate owned of $433,000 during 1997. As of December 31, 1998, the Company had $8.5 million of other real estate owned.

Delinquencies. The following table sets forth delinquency statistics for IFC's servicing portfolio based on principal balance for the periods shown (in millions):

	AT DECEMBER 31, 1998		AT DECEMBER 31, 1997	
	PRINCIPAL BALANCE OF LOANS	% OF SERVICING PORTFOLIO	PRINCIPAL BALANCE OF LOANS	% OF SERVICING PORTFOLIO
Loans delinquent for:				
30-59 days..	$ 172.7	4.65%	$ 136.4	4.50%
60-89 days..	46.7	1.26	33.2	1.10
90 days...	51.5	1.39	6.5	0.21
	270.9	7.30	176.1	5.81
Foreclosures pending..	54.7	1.47	41.8	1.38
Bankruptcies pending..	25.9	0.70	15.5	0.51
Total delinquencies, foreclosures and bankruptcies......	$ 351.5	9.47%	$ 233.4	7.70%

Year Ended December 31, 1997 as compared to Year Ended December 31, 1996

NET EARNINGS (LOSS)

The Company recorded a net loss of $(16.0) million, or $(0.99) per basic and diluted common share, during the year ended December 31, 1997 as compared to net earnings of $11.9 million, or $1.32 per diluted common share, during the year ended December 31, 1996. The decrease in net earnings during 1997 is primarily the result of Termination Agreement Expense of $44.4 million related to the buyout of the Company's Management Agreement with ICAI. Excluding the Termination Agreement Expense, net earnings for 1997 would have increased 139% to $28.3 million, or $1.74 per diluted common share, as compared to $11.9 million, or $1.32 per diluted common share, for 1996. The increase in net earnings during 1997, after excluding the effect of the Termination Agreement Expense, was primarily the result of an increase of $13.4 million in net interest income and an increase of $7.4 million in equity in net earnings of IFC as compared to 1996. The increase in net earnings during 1997 as compared to 1996 was partially offset by an increase of $2.5 million in provision for loan losses and an increase of $2.9 million in advisory fees.

NET INTEREST INCOME

Net interest income increased 69% to $33.0 million during 1997 as compared to $19.5 million during 1996. The increase in net interest income during 1997 as compared to 1996 was primarily the result of higher average Mortgage Assets, which increased 71% to $1.3 billion during 1997 as compared to $758.3 million during 1996. The net interest spread on Mortgage Assets decreased to 1.89% during 1997 as compared to 2.04% during 1996. The following table summarizes average balance, interest and weighted-average yield on Mortgage Assets and borrowings for the years ended December 31, 1997 and 1996 and includes interest income on Mortgage Assets and interest expense related to borrowings on Mortgage Assets only (dollars in thousands):

	FOR THE YEAR ENDED DECEMBER 31, 1997				FOR THE YEAR ENDED DECEMBER 31, 1996			
	AVERAGE BALANCE	INTEREST	WEIGHTED AVG YIELD	% OF PORTFOLIO	AVERAGE BALANCE	INTEREST	WEIGHTED AVG YIELD	% OF PORTFOLIO
MORTGAGE ASSETS								
Investment securities available-for-sale:								
Subordinated securities collateralized by mortgages	$ 58,956	$ 7,519	12.75%	4.51%	$ 30,582	$ 3,953	12.93%	4.03%
Subordinated securities collateralized by other loans	5,980	1,028	17.19	0.46	9,143	1,163	12.72	1.21
Total investment securities available-for-sale	64,936	8,547	13.16	4.97	39,725	5,116	12.88	5.24
LOAN RECEIVABLES:								
CMO collateral	626,831	47,967	7.65	47.93	282,711	20,458	7.24	37.28
Mortgage loans held-for-investment	182,215	14,535	7.98	13.93	25,183	1,793	7.12	3.32
Finance receivables:								
Affiliated	403,931	34,299	8.49	30.88	383,237	32,462	8.47	50.54
Non-affiliated	29,963	2,991	9.98	2.29	27,420	3,124	11.39	3.62
Total finance receivables	433,894	37,290	8.59	33.17	410,657	35,586	8.67	54.16
Total Loan Receivables	1,242,940	99,792	8.03	95.03	718,551	57,837	8.05	94.76
TOTAL MORTGAGE ASSETS	$ 1,307,876	$ 108,339	8.28	100.00%	$ 758,276	$ 62,953	8.30	100.00%
BORROWINGS								
CMO borrowings	$ 586,463	$ 36,665	6.25%	49.06%	$ 270,827	$ 16,603	6.13%	38.42%
Reverse repurchase agreements-mortgages	580,908	37,881	6.52	48.59	422,997	26,805	6.34	60.01
Reverse repurchase agreements-securities	28,109	1,836	6.53	2.35	11,090	736	6.64	1.57
TOTAL BORROWINGS	$ 1,195,480	$ 76,382	6.39	100.00%	$ 704,914	$ 44,144	6.26%	100.00%
NET INTEREST SPREAD			1.89%				2.04%	
NET INTEREST MARGIN			2.44%				2.48%	

Interest income on Mortgage Assets: Interest income on CMO collateral increased 134% to $48.0 million during 1997 as compared to $20.5 million during 1996 as average CMO collateral increased 122% to $626.8 million as compared to $282.7 million, respectively. Average CMO collateral increased as the Long-Term Investment Operations issued CMOs totaling $521.7 million during 1997, which were collateralized by $533.9 million of mortgages held by the Long-Term Investment Operations. The weighted-average yield on CMO collateral increased to 7.65% during 1997 as compared to 7.24% during 1996. Interest income on CMO collateral includes the effect of amortization of net premiums paid in acquiring the mortgage loans. As of December 31, 1997, net premiums on CMO collateral was $28.6 million.

Interest income on mortgage loans held-for-investment increased 706% to $14.5 million during 1997 as compared to $1.8 million during 1996 as average mortgage loans held-for-investment increased 623% to $182.2 million as compared to $25.2 million, respectively. The weighted-average yield on mortgage loans held-for-investment increased to 7.98% during 1997 as compared to 7.12% during 1996. Interest income on mortgage loans held-for-investment includes the effect of amortization of net premiums paid in acquiring the mortgage loans. As of December 31, 1997, net premiums on mortgage loans held-for-investment was $10.7 million.

Interest income on finance receivables increased 5% to $37.3 million during 1997 as compared to $35.6 million during 1996 as average finance receivables increased 6% to $433.9 million as compared to $410.7 million, respectively. The increase in interest income on finance receivables was primarily the result of a 5% increase in average finance receivables to affiliated mortgage banking companies to $403.9 million during 1997 as compared to $383.2 million during 1996. The weighted-average yield on affiliated finance receivables increased to 8.49% during 1997 as compared to 8.47% during 1996. Interest income on finance receivables to non-affiliates decreased 3% to $3.0 million during 1997 as compared to $3.1 million during 1996. The weighted-average yield on non-affiliated finance receivables decreased to 9.98% during 1997 as compared to 11.39% during 1996. The overall weighted-average yield on finance receivables decreased to 8.59% during 1997 as compared to 8.67% during 1996.

Interest income on investment securities available-for-sale increased 67% to $8.5 million during 1997 as compared to $5.1 million during 1996 as average investment securities available-for-sale increased 63% to $64.9 million as compared to $39.7 million, respectively. The increase in average securities available-for-sale during 1997 was the result of the Long-Term Investment Operations purchasing and retaining mortgage-backed securities of $12.6 million that were issued by IFC as REMICs. The weighted-average yield on investment securities available-for-sale increased to 13.16% during 1997 as compared to 12.88% during 1996.

Interest expense on borrowings: Interest expense on CMO borrowings increased 121% to $36.7 million during 1997 as compared to $16.6 million during 1996 as average borrowings on CMO collateral increased 117% to $586.5 million as compared to $270.8 million, respectively. Average CMO borrowings increased as the Long-Term Investment Operations issued CMOs totaling $521.7 million during 1997. The weighted-average yield of CMO borrowings increased to 6.25% during 1997 as compared to 6.13% during 1996.

Interest expense on reverse repurchase borrowings used to fund the acquisition of mortgage loans and finance receivables increased 41% to $37.9 million during 1997 as compared to $26.8 million during 1996 as the average balance of reverse repurchase agreements increased 37% to $580.9 million during 1997 as compared to $423.0 million during 1996. The increase in average finance receivables was primarily related to an increase in average mortgage loans held-for-investment. The weighted-average yield of reverse repurchase agreements collateralized by mortgage loans increased to 6.52% during 1997 as compared 6.34% during 1996.

The Company also uses mortgage-backed securities as collateral to borrow under reverse repurchase agreements to fund the purchase of mortgage-backed securities and to act as an additional source of liquidity for the Company's operations. Interest expense on these reverse repurchase agreements increased 145% to $1.8 million during 1997 as compared to $736,000 during 1996 as the average balance on these reverse repurchase agreements increased 153% to $28.1 million as compared to $11.1 million, respectively. The weighted-average yield of reverse repurchase agreements collateralized by mortgage-backed securities decreased to 6.53% during 1997 as compared to 6.64% during 1996.

EQUITY IN NET EARNINGS FROM IFC

Equity in net earnings of Impac Funding Corporation increased to $8.3 million for 1997 as compared to $903,000 for 1996. IMH has a 99% economic interest in IFC through its ownership of 100% of the preferred stock of IFC. For additional information on the financial results of IFC, see "--Results of Operations--Impac Funding Corporation."

EXPENSE

GENERAL AND ADMINISTRATIVE AND OTHER EXPENSE

General and administrative and other expense increased to $836,000 during 1997 as compared to $398,000 during 1996. The increase in general and administrative and other expense was primarily related to an increase of $149,000 in property and equipment expense and an increase of $141,000 in investor relations expense.

ADVISORY FEES

Advisory fees increased 88% to $6.2 million during 1997 as compared to $3.3 million during the same period in 1996. The increase in advisory fees during 1997 was the result of an increase in incentive compensation paid to ICAI.

The increase was directly attributable to the increase in the Company's earnings and assets during 1997 as compared to the same period in 1996.

PROVISION FOR LOAN LOSSES

Provision for loan losses increased 55% to $6.8 million for 1997 as compared to $4.4 million for 1996 as a result of an increase in Gross Loan Receivables outstanding at December 31, 1997 of $1.6 billion as compared to Gross Loan Receivables outstanding at December 31, 1996 of $865.0 million. While the Company believes that it has adequately provided for any future credit losses, the Company may have to add to its loan loss allowance based upon actual loan loss experience or an increase in the Company's investments. The Company's total allowance for loan losses expressed as a percentage of Gross Loan Receivables was 0.32% at December 31, 1997 as compared to 0.51% at December 31, 1996. The allowance decreased as a percentage of Gross Loan Receivables as the Company accelerated losses totaling $1.4 million against the allowance for loan losses through the sale of delinquent loans during the year in order to reduce its overall exposure to delinquent loans and future losses.

RESULTS OF OPERATIONS--
IMPAC FUNDING CORPORATION

Year Ended December 31, 1998 as compared to Year Ended December 31, 1997

NET EARNINGS (LOSS)

IFC recorded a net loss of $(14.0) million for the year ended December 31, 1998 as compared to net earnings of $8.4 million for the same period in 1997. Earnings decreased for the year ended December 31, 1998 as compared to the same period in 1997 primarily as a result of net losses on sale of mortgage loans and non-cash charges for the write-down of MSRs and investment securities available-for-sale. The net loss on sale of mortgage loans and non-cash charges was due to the deterioration of the mortgage-backed securitization market, as previously discussed. In addition, earnings for the year ended December 31, 1998 were negatively affected by increases in personnel expense, amortization of MSRs, and general and administrative and other expense.

NET INTEREST INCOME

Net interest income increased 22% to $7.8 million during 1998 as compared to $6.4 million during 1997. Although mortgage loan acquisitions decreased 15% to $2.2 billion during 1998 as compared to $2.6 billion during 1997, IFC had higher average mortgage loan balances outstanding as the mortgage-backed securitization and whole loan sales market deteriorated during the latter half of 1998 and made it more difficult for IFC to securitize or sell mortgage loans. Average mortgage loans held-for-sale increased 5% to $476.1 million during 1998 as compared to $455.3 million during 1997. The weighted average yield on mortgage loans held-for-sale increased to 9.47% during 1998 as compared to 9.31% during 1997.

In addition, IFC's total net interest spread increased to 1.29% during 1998 as compared to 1.10% during 1997. The increase in total net interest spread was primarily due to a reduction of borrowings on residual interests in securities, which occurred in December of 1997. These borrowings were paid off as part of the Company's termination of its management agreement with ICAI. Total interest expense on these borrowings was $3.7 million during 1997 with a yield of 11.81%.

NON-INTEREST INCOME

Non-interest income decreased to $(5.7) million during 1998 as compared to $24.2 million during 1997. Non-interest income decreased primarily due to a reduction of $31.1 million in gain on sale of loans, a mark-to-market loss of $805,000 on investment securities available-for-sale, and a decrease of $1.3 million on gain on sale of investment securities.

During 1998, IFC securitized $907.5 million of mortgages and sold whole loans to third party investors totaling $856.2 million, resulting in net loss on sale of loans of $11.7 million, during 1998. This compares to securitizations of

$878.0 million and whole loan sales to third parties of $501.7 million, resulting in net gain on sale of loans of $19.4 million, during 1997. The increase in loan sales to third parties during 1998 as compared to 1997 was the result of IFC selling mortgage loans to reduce its outstanding borrowings on its reverse repurchase facilities in order to meet margin calls from its lenders. The loss on loans sold during 1998 as compared to gain on loans sold during 1997 was the result of lower prices IFC received on its loans. The Company felt it was important to protect shareholder value and increase liquidity by selling out of its mortgage loan positions at losses rather than take additional interest rate and market risk by retaining the loans for securitization.

Loan servicing income increased 73% to $7.1 million for 1998 as compared to $4.1 million for 1997 due to the continued increase in IFC's servicing portfolio. IFC continues to build its loan servicing portfolio as IFC generally retains loan servicing rights on mortgage loans acquired. Total loans serviced at December 31, 1998 were 33,414, or $3.7 billion in principal balance of mortgages, as compared to 28,494, or $3.0 billion in principal balance of mortgages, at December 31, 1997.

NON-INTEREST EXPENSE

Non-interest expense increased to $24.8 million during 1998 as compared to $16.0 million during 1997. The increase in expense was primarily the result of increases in personnel expense of $2.1 million, amortization of MSRs of $3.5 million and a non-cash impairment charge on MSRs of $3.7 million.

Personnel expense increased 31% to $8.9 million during 1998 as compared to $6.8 million during 1997 primarily due to an increase in staff and incentive compensation during the first nine months of 1998 as IFC's production volumes increased. However, in October of 1998 IFC reduced staff by approximately 25% as production volumes decreased during the fourth quarter of 1998 due to interest rate and purchase price adjustments IFC made on its loan programs.

Amortization of MSRs increased to $6.4 million during 1998 as compared to $2.8 million during 1997 due to continued growth of IFC's servicing portfolio. Since December 31, 1997, the Company has securitized $907.5 million in principal balance of mortgage loans and, accordingly, has capitalized MSRs related to those securitizations which are amortized in proportion to, and over the period of expected net servicing income. In addition, during 1998 IFC recorded an impairment charge of $3.7 million on its MSRs as a result of a decrease in their value.

Year Ended December 31, 1997 as compared to Year Ended December 31, 1996

NET EARNINGS (LOSS)

Net earnings for 1997 increased to $8.4 million as compared to $912,000 for the same period in 1996. The increase in net earnings for 1997 as compared to 1996 was primarily the result of an increase in net interest income of $5.3 million, gain on sale of loans of $11.7 million, and loan servicing income of $2.9 million which was partially offset by increases in other non-interest expense of $7.6 million and income taxes of $5.5 million.

NET INTEREST INCOME

Net interest income increased to $6.4 million for 1997 as compared to $1.0 million for 1996 primarily as the result of increased interest income earned from the acquisition of loans during 1997 as compared to 1996. IFC acquired $2.6 billion of mortgages during 1997 as compared to $1.5 billion of mortgages acquired during 1996. Additionally, included in the $2.6 billion of loans acquired during 1997, IFC acquired $576.1 million of second trust deed loans purchased in bulk during 1997 as compared to none during 1996. Average mortgage loans held-for-sale increased 19% to $455.3 million for 1997 as compared to $383.8 million for 1996. The weighted average yield on mortgage loans held-for-sale increased to 9.31% during 1997 as compared to 8.55% during 1996.

NON-INTEREST INCOME

Gain on sale of loans increased 152% to $19.4 million for 1997 as compared to $7.7 million for 1996. The increase in gain on sale of loans was primarily due to the securitization of loans funded under the Progressive Express program and whole loan sales to third-party investors. IFC acquired $773.7 million of Progressive Express loans during 1997 as compared to $22.0 million of Progressive Express loans acquired during 1996. In addition, IFC sold whole loans to third-party investors totaling $501.7 million during 1997 as compared to $195.4 million during 1996. The sale of mortgage loans during 1997 generated greater profits per loan than IFC earned on the sale of its loans during 1996.

Loan servicing income increased 215% to $4.1 million for 1997 as compared to $1.3 million for 1996 due to the continued increase in IFC's servicing portfolio. IFC continues to build its loan servicing portfolio as IFC generally retains loan servicing rights on mortgage loans acquired. Total loans serviced at December 31, 1997 were 28,494, or $3.0 billion in principal balance of mortgages, as compared to 11,996, or $1.6 billion in principal balance of mortgages, at December 31, 1996.

NON-INTEREST EXPENSE

Non-interest expense during 1997 was $16.0 million as compared to $8.5 million for 1996. The increase in non-interest expense was primarily the result of increases in provision for loan repurchases of $2.5 million, amortization of MSRs of $2.2 million and personnel expense of $1.7 million.

Provision for loan repurchases increased 351% to $3.1 million during 1997 as compared to $687,000 during 1996 primarily as IFC securitized and sold more loans during 1997 as compared to 1996. During 1997, IFC securitized $878.0 million of fixed rate loans as REMIC securitizations and sold $501.7 million of whole loans to third-party investors as compared to $850.3 million and $195.4 million, respectively, during 1996.

Amortization of MSRs increased 357% to $2.8 million during 1997 as compared to $613,000 during 1996 primarily as IFC accumulated MSRs of $19.0 million during 1997 and 1996 combined as compared to accumulated MSRs of $9.4 million during 1996. As IFC's servicing portfolio and, correspondingly, MSRs continue to grow, amortization of servicing rights will continue to increase.

Personnel expense increased 33% to $6.8 million for 1997 as compared to $5.1 million for 1996 primarily due to an increase in staffing during 1997. IFC employed 155 at December 31, 1997 as compared to 104 at December 31, 1996, which represents a 49% increase. Staff was added in 1997 primarily due to the increase in loan acquisitions to $2.6 billion during 1997 as compared to $1.5 billion during 1996.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

The deterioration of the mortgage-backed securities market during the latter half of 1998 created a lack of liquidity for the Company as the Company's lenders made margin calls on their reverse repurchase agreements. Margin calls result from the Company's lenders evaluating the market value of underlying collateral securing the reverse repurchase agreements and requiring additional equity or collateral on the reverse repurchase agreements. These margin calls resulted in the Company delaying its third quarter dividend and selling mortgage loans and mortgage-backed securities. During the fourth quarter of 1998, the Company completed the sale of $250.4 million of mortgage loans and $8.9 million of mortgage-backed securities, which increased the Company's liquidity by $13.6 million, at the time of sale, after paying down the related and reverse repurchase agreements. By selling mortgage loans, the Company reduced its exposure to margin calls on existing borrowings under its reverse repurchase facilities by paying down outstanding borrowings on these facilities. Future margin calls will adversely affect the Company's ability to pay dividends in future periods. In addition, due to loan pricing and purchase price adjustments on mortgage loan acquisitions the Company made during the fourth quarter of 1998, loan originations decreased during the fourth quarter of 1998 and reduced borrowing needs. Also, the Company's reduction in staffing during the fourth quarter of 1998 provided additional liquidity from operating activities. However, depending upon the state of the mortgage industry, any future margin calls and the terms of any sale of Mortgage Assets, the Company may incur future losses. Even with the Company's sale of mortgage loans and mortgage-backed securities, management does not believe that the Company's current operating cash flows are sufficient both to fund any further growth of the Company's operations and to pay cash dividends.

To further enhance IFC's liquidity, IFC finalized a master agreement in February 1999 to sell up to $1.0 billion of the Company's future loan production to FHLMC. The Company's first delivery of mortgage loans under the agreement will be in March of 1999, with the first settlement to take place no later than April of 1999. The transaction is a servicing retained agreement, which gives the Company a guaranteed pricing spread and cash gains plus the value of the servicing rights created. The transaction gives the Company the option of selling its mortgage loans to a recognized governmental agency in addition to the Company's ability to sell its mortgage loans as REMICs, which are not government guaranteed and which are more subject to market volatility.

Letter of Intent to Acquire Thrift and Loan Charter. Due to the turmoil in the mortgage industry, the Company felt it was prudent to take steps to alleviate potential future liquidity risks. As a result, in December 1998, the Company signed a letter of intent to acquire a California chartered, federally insured, thrift and loan. The acquisition is contingent upon the execution of a definitive agreement and obtaining satisfactory regulatory approvals. It is expected that the acquisition and regulatory approval process will take between three to six months. Upon the consummation of the transaction, the Company intends to contribute certain assets of IFC into the thrift and loan charter and operate its entire mortgage banking and selected investment activities from the thrift and loan. The Company intends to initially capitalize the thrift and loan with an estimated $25.0 million. The acquisition of the thrift and loan is expected to reduce IFC's reliance on warehouse lines of credit and reverse repurchase agreements. In addition, it will give IFC access to low cost funds and make available borrowings from the Federal Home Loan Bank.

Sources of Liquidity

Long-Term Investment Operations: The Long-Term Investment Operations uses CMO borrowings to finance substantially all of its mortgage loan portfolio. Terms of the CMO borrowings require that an independent third party custodian hold the mortgages. The maturity of each class is directly affected by the rate of principal prepayments on the related collateral. Equity in the CMOs is established at the time the CMOs are issued at levels sufficient to achieve desired credit ratings on the securities from rating agencies. The amount of equity invested in CMOs by the Long-Term Investment Operations is also determined by the Company based upon the anticipated return on equity as compared to the estimated proceeds from additional debt issuance. Total credit loss exposure is limited to the equity invested in the CMOs at any point in time. At December 31, 1998, the Long-Term Investment Operations had $1.1 billion of CMO borrowings used to finance $1.2 billion of CMO collateral.

During 1998, IMH had a credit arrangement with ICH whereby ICH agreed to advance to IMH up to maximum amount of $15.0 million for general working capital needs. Advances under the credit arrangement were at an interest rate and maturity determined at the time of each advance with interest and principal paid monthly. As of December 31, 1998, there was $2.4 million outstanding under the credit arrangement. Subsequent to 1998, the credit arrangement was terminated and the outstanding balance was paid-in-full by IMH.

During 1998, IMH entered into a revolving credit arrangement with a commercial bank, which is an affiliate of ICII, whereby IMH can borrow up to maximum amount of $10.0 million for general working capital needs. The revolving credit agreement was converted to a reverse repurchase agreement, which required the Company to provide loan collateral, in October 1998. Advances under the reverse repurchase agreement are at an interest rate of LIBOR plus 2.0% with interest due monthly. As of December 31, 1998, IMH's outstanding borrowings under the reverse repurchase agreement was $10.0 million.

The Long-Term Investment Operations may pledge mortgage-backed securities as collateral to borrow funds under reverse repurchase agreements. The terms under these reverse repurchase agreements are generally for 30 days with interest rates ranging from one-month LIBOR plus 0.45% to 2.00% depending on the type of collateral provided. As of December 31, 1998, the Long-Term Investment Operations had $24.1 million outstanding under these reverse repurchase agreements, which were secured by $70.1 million in fair market value of mortgage-backed securities.

During 1998, the Company raised capital of $27.8 million from the sale of 1.8 million shares of Common Stock issued through its DRSPP and $3.2 million from the sale of 245,700 shares of Common Stock issued through its SES program.

On December 22, 1998, the Company completed the sale of 1,200,000 shares of Series B Preferred Stock at $25.00 per share. The Series B Preferred Stock has a liquidation value of $30.0 million. The Company's net cash proceeds from the sale of the Series B Preferred Stock was $28.8 million, which in part was used to pay the Company's previously declared third quarter dividend.

Conduit Operations: The Conduit Operations has entered into warehouse line agreements to obtain financing of up to $600.0 million from the Warehouse Lending Operations to provide IFC mortgage loan financing during the period that IFC accumulates mortgage loans until the mortgage loans are securitized or sold. The margins on IFC's reverse repurchase agreements are based on the type of collateral provided and generally range from 95% to 98% of the fair market value of the collateral. The interest rates on the borrowings are indexed to prime, which was 7.75% at December 31, 1998. As of December 31, 1998, the Conduit Operations had $192.9 million outstanding under the warehouse line agreements.

During 1998, the Conduit Operations securitized $907.5 million of mortgage loans as REMICs and sold $856.2 million in principal balance of mortgage loans to third-party investors. In addition, IFC sold $842.9 million in principal balance of mortgage loans to the Long-Term Investment Operations during 1998.

Warehouse Lending Operations: The Warehouse Lending Operations finances the acquisition of mortgage loans by the Long-Term Investment Operations and Conduit Operations primarily through borrowings on reverse repurchase agreements with third party lenders. IWLG has an uncommitted repurchase facility with a major investment bank to finance the Warehouse Lending Operations as needed. Terms of the reverse repurchase agreement requires that the mortgages be held by an independent third party custodian giving the Warehouse Lending Operations the ability to borrow against the collateral as a percentage of the outstanding principal balance. The borrowing rates vary from 85 basis points to 200 basis points over one-month LIBOR, depending on the type of collateral provided. The margins on the reverse repurchase agreement is based on the type of mortgage collateral provided and generally range from 70% to 98% of the fair market value of the collateral. At December 31, 1998, the Warehouse Lending Operations had $299.6 million outstanding on the reverse repurchase facility.

Cash Flows

Operating Activities - During 1998, net cash provided by operating activities was $42.8 million. Cash provided by operating activities was primarily due to write-down of investment securities available-for-sale and equity interest in net loss of Impac Funding Corporation of $14.1 million and $13.9 million, respectively.

Investing Activities - During 1998, net cash provided by investing activities was $49.5 million. Cash used in investing activities was primarily due to an increase in CMO collateral of $371.2 million from the acquisition of mortgage loans which was partially offset by decreases in mortgage loans held-for-investment of $225.3 million.

Financing Activities - During 1998, net cash used in financing activities was $74.6 million. Cash used in financing activities was primarily due to repayment of CMO borrowings and a decrease in reverse repurchase agreements of $437.6 million and $431.9 million, respectively. This was partially offset by proceeds from CMO borrowings of $768.0 million.

INFLATION

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

YEAR 2000 COMPLIANCE

PROJECT STATUS

The Company's Year 2000 project was approximately 75% complete as of the end of 1998. The Company contracted with an outside vendor to provide coordination, support, testing and implementation in regards to Year 2000 compliance of hardware and software systems, both on an information technology ("IT") and non-IT level. The Company also has its own in-house IT department that is currently assisting the outside vendor. The Company's primary IT systems include loan servicing, which is contracted to an outside vendor, loan tracking, master servicing and accounting and reporting. The Company has received a Year 2000 compliance plan from its loan servicing vendor and receives monthly status reports. As of December 31, 1998 and according to its last status report, the loan servicing vendor is on track with its Year 2000 compliance plan and expects to be in Year 2000 compliance by the first half of 1999. The loan tracking system and accounting and reporting system are currently in compliance with Year 2000. The master servicing system is currently being tested and the Company expects that this system will be Year 2000 compliant in the first quarter of 1999. The Company's non-IT systems include its file servers, network systems, workstations and communication systems. As of September 30, 1998, the upgrade of the Company's communication systems has been completed, which regardless of the Year 2000 issue, required an upgrade to comply with terms of the service agreement. Testing on all other in-house hardware is currently underway and is expected to be complete by the end of the second quarter of 1999.

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

Phase I - Define Scope of Project

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

Phase II - Testing of Systems

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

Compliance Questionnaires and Hardware Certification Information. As of the end of 1998, these portions of Phase II were complete.

Software/Data Testing. As of the end of 1998, this portion of Phase II was approximately 80% complete. The remaining tasks within this process include analyzing list of software being used, testing all software programs, testing all data from incoming sources, testing all outgoing data processes and reporting. The Company expects that this process will be complete by March 31, 1999.

Hardware Testing. As of the end of 1998, this portion of Phase II has not been started. This phase is contingent on the completion of software/data testing. Tasks yet to be started include testing all workstation, servers and network systems. The Company expects to be compliant with all internal Year 2000 issues by the end of the second quarter of 1999.

COSTS

The total cost associated with required modifications or installations to become Year 2000 compliant is not expected to be material to the Company's financial condition or results of operations. The estimated cost of the project is expected to be approximately $500,000, of which approximately $108,000 of the cost will be paid by ICH. The total estimate of the project includes the cost to upgrade the Company's communications system, which was $140,000. As of the end of 1998, the Company had paid $78,000 to the outside vendor for completed work on the project. The majority of the Company's estimated cost for the Year 2000 compliance has been or will be spent on software upgrades and writing new program code on existing proprietary software. Since most of the Company's hardware has been purchased within the last two years, the cost of replacing hardware will be minimal.

RISKS

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

CONTINGENCY PLANS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

GENERAL

A significant portion of the Company's revenues and earnings are derived from net interest income and, accordingly, the Company strives to manage its interest-earning assets and interest-bearing liabilities to generate what management believes to be an appropriate contribution from net interest income. Asset and liability management seeks to control the volatility of the Company's performance due to changes in interest rates. The Company attempts to achieve an appropriate relationship between rate sensitive assets and rate sensitive liabilities. Although the Company manages other risks, such as credit, operational and liquidity risk in the normal course of business, management considers interest rate risk to be a significant market risk which could potentially have the largest material effect on the Company's financial condition and results of operations.

RATE SENSITIVE ASSETS AND LIABILITIES

Interest rate risk is the responsibility of the Asset and Liability Committee ("ALCO"), which reports to the Board of Director's of the Company. ALCO establishes policies that monitor and coordinate the Company's sources, uses and pricing of its funds. The Company attempts to reduce the volatility in net interest income by managing the relationship of interest rate sensitive assets to interest rate sensitive liabilities.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds that amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of falling interest rates, the net earnings of an institution with a positive gap theoretically may be adversely affected due to its interest-earning assets repricing to a greater extent than its interest-bearing liabilities. Conversely, during a period of rising interest rates, theoretically, the net earnings of an institution with a positive gap position may increase as it is able to invest in higher yielding interest-earning assets at a more rapid rate than its interest-bearing liabilities reprice.

The Company manages its interest rate risk by (1) retaining adjustable-rate mortgages to be held for long-term investment, (2) selling fixed-rate mortgage on a whole-loan basis, and (3) securitizing both adjustable- and fixed-rate mortgages through the issuance of CMOs. The Company retains adjustable-rate mortgages, which are generally indexed to six-month LIBOR and reprice every six months, to be held for investment or as CMO collateral. The index on adjustable-rate mortgages provide a comparable match to the one-month LIBOR index that is used for the funding of mortgages on the Company's reverse repurchase agreements. In addition, the Company securitizes both variable- and fixed-rate mortgages as CMOs to reduce its interest rate risk as CMOs provide a net interest spread between the interest income on the mortgages and the interest and other expenses associated with the CMO financing. As a result of this strategy, the Company's total interest-earning assets maturing or repricing within one year exceed interest-bearing liabilities maturing or repricing in one year by $303.6 million, representing a positive gap.

In addition to measuring interest rate risk via a GAP analysis, the Company measures the sensitivity of its net interest income to changes in interest rates. Changes in interest rates are defined as instantaneous and sustained movements in interest rates in 100 basis point increments. The Company estimates its net interest income for the next twelve months assuming no changes in interest rates from those at period end. Once the base case has been estimated, calculations are made for each of the defined changes in interest rates, to include any associated differences in the anticipated prepayment speed of loans. Those results are then compared against the base case to determine the estimated change to net interest income. Assuming immediate interest rate decreases of 100 and 200 basis points in interest rates, the Company estimates that the increase in net interest income would be $2.1 million, or 7%, and $4.9 million, or 16%, respectively. Conversely, assuming immediate interest rate increases of 100 and 200 basis points in interest rates, the Company estimates that the decrease in net interest income would be $1.9 million, or 6%, and $4.4 million, or 14%, respectively.

Although the Company's interest rate sensitivity gap is positive, net interest income is positively affected by a decrease in interest rates. This is primarily due to the lag in the repricing of the indices to which the Company's adjustable-rate loans and mortgage-backed securities are tied as compared to the borrowings that fund these assets. Because the Company's adjustable-rate CMO collateral is tied to six-month LIBOR and the corresponding CMO financing is tied to one-month LIBOR, the Company's interest rate sensitive liabilities reprice faster than its interest-rate sensitive assets which create positive results in net interest income over the near term (12 month horizon) during periods of declining interest rates. Since these estimates are based upon numerous assumptions, such as the expected maturities of the Company's interest-earnings assets and interest-bearing liabilities, the Company's actual sensitivity to interest rate changes could vary significantly if actual experience differs from those assumptions used in making the calculations. Also, the estimated impacts of parallel shifts in interest rates and the resulting effect on net interest income does not consider increases or decreases in premium amortization expense due to possible increases or decreases in loan prepayments.

The Company currently does not maintain a trading portfolio. As a result, the Company is not exposed to market risk as it relates to trading activities. The Company's investment securities portfolio are held for sale which requires the Company to perform market valuations of the portfolio in order to properly record the portfolio at the lower of cost or market. Therefore, the Company continually monitors the interest rates of its investment securities portfolio as compared to prevalent interest rates in the market.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 1998, which are anticipated by the Company to reprice or mature in each of the future time periods shown. The amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual terms of the asset or liability (dollar amounts in thousands).

	1999	2000	2001	2002	2003
INTEREST-SENSITIVE ASSETS:					
Cash equivalents	$ 33,715	$ --	$ --	$ --	$ --
Average interest rate	5.01 %	-- %	-- %	-- %	-- %
Investment securities (1)	54,754	2,175	6,106	14,102	7,841
Average interest rate	17.24 %	17.24 %	17.24 %	17.24 %	17.24 %
Finance receivables	311,571	--	--	--	--
Average interest rate	8.41 %	-- %	-- %	-- %	-- %
CMO collateral (2):					
Adjustable	517,751	51,185	35	47	23
Average interest rate	8.58 %	8.53 %	7.77 %	7.83 %	7.50 %
Fixed	114,136	87,877	66,634	50,670	38,622
Average interest rate	9.32 %	9.25 %	9.21 %	9.17 %	9.13 %
Loans held-for-investment (3):					
Adjustable	11,451	1,361	--	--	--
Average interest rate	8.32 %	9.94 %	-- %	-- %	-- %
Due from affiliates	17,904	--	--	--	--
Average interest rate	8.00 %	-- %	-- %	-- %	-- %
Total interest-sensitive assets	$ 1,061,282	$142,598	$ 72,775	$ 64,819	$ 46,486
Average interest rate	8.93 %	9.12 %	9.88 %	10.92 %	10.50 %
INTEREST-SENSITIVE LIABILITIES:					
Reverse repurchase agreements - - mortgages	$ 299,567	$ --	$ --	$ --	$ --
Average interest rate	7.50 %	-- %	-- %	-- %	-- %
Reverse repurchase agreements - - securities	24,058	--	--	--	-- %
Average interest rate	6.95 %	-- %	-- %	-- %	-- %
CMO borrowings	431,420	181,193	126,421	128,211	105,069
Average interest rate	6.38 %	6.38 %	6.38 %	6.38 %	6.38 %
Due to affiliates	2,670	--	--	--	--
Average interest rate	8.00 %	-- %	-- %	-- %	-- %
Total interest-sensitive liabilities	$ 757,715	$ 181,193	$ 126,421	$ 128,211	$105,069
Average interest rate	6.84 %	6.38 %	6.38 %	6.38 %	6.38 %
Interest rate sensitivity gap	$ 303,567	$ (38,595)	$ (53,646)	$ (63,392)	$(58,583)
Cumulative interest rate sensitivity gap	$ 303,567	$ 264,972	$ 211,326	$147,934	$ 89,351
Cumulative gap ratio %	19.11 %	16.68 %	13.31 %	9.31 %	5.63 %

	OVER 5 YEARS (4)	TOTAL	FAIR VALUE
INTEREST-SENSITIVE ASSETS:			
Cash equivalents	$ --	$ 33,715	$33,715
Average interest rate	-- %	5.01 %	
Investment securities (1)	10,244	95,222	93,486
Average interest rate	17.24 %	17.24 %	
Finance receivables	--	311,571	311,571
Average interest rate	-- %	8.41 %	
CMO collateral (2):			
Adjustable	50,389	619,430	636,118
Average interest rate	-- %	7.87 %	
Fixed	132,208	490,147	497,427
Average interest rate	8.64 %	9.08 %	
Loans held-for-investment (3):			
Adjustable	7,333	20,145	20,145
Average interest rate	-- %	5.40 %	
Due from affiliates	--	17,904	17,904
Average interest rate	-- %	8.00 %	
Total interest-sensitive assets	$ 200,174	$ 1,588,134	$1,610,366
Average interest rate	6.59 %	8.82 %	
INTEREST-SENSITIVE LIABILITIES:			
Reverse repurchase agreements - - mortgages	$ --	$ 299,567	$ 299,567
Average interest rate	-- %	7.50 %	

Reverse repurchase agreements - - securities	--	24,058	24,058
Average interest rate	-- %	6.95 %	
CMO borrowings	100,002	1,072,316	1,071,375
Average interest rate	6.38 %	6.38 %	
Due to affiliates	--	2,670	2,670
Average interest rate	-- %	8.00 %	
Total interest-sensitive liabilities	$100,002	$ 1,398,611	$ 1,397,670
Average interest rate	6.38 %	6.63 %	
Interest rate sensitivity gap (5)	$100,172	$ 189,523	
Cumulative interest rate sensitivity gap	$189,523		
Cumulative gap ratio %	11.93 %		

(1) The 1999 repricing period includes "interest-only" securities of $42.6 million.

(2) Excludes unamortized net premiums and securitization costs of $51.6 million.

(3) Excludes unamortized net premiums of $482,000.

(4) Includes non-accrual loans in CMO collateral and loans held for-investment.

(5) Interest rate sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

The following table presents the extent to which changes in interest rates and changes in the volume of interest-sensitive assets and interest-sensitive liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided on Mortgage Assets and borrowings on Mortgage Assets, only, with respect to (1) changes attributable to changes in volume (changes in volume multiplied by prior rate), (2) changes attributable to changes in rate (changes in rate multiplied by prior volume), (3) changes in interest due to both rate and volume and (4) the net change.

	YEAR ENDED DECEMBER 31, 1998 OVER 1997			
	VOLUME	RATE	RATE/ VOLUME	TOTAL
	(IN THOUSANDS)			
Increase/(decrease) in:				
Investment securities available-for-sale:				
Subordinated securities collateralized by mortgages...........	$ 3,772	$ (47)	$ (25)	$ 3,700
Subordinated securities collateralized by other loans.........	(106)	(237)	24	(319)
Total investment securities available-for-sale................	3,666	(284)	(1)	3,381
CMO collateral..	47,248	(1,630)	(1,574)	44,044
Mortgage loans held-for-investment............................	(2,640)	3,025	(547)	(162)
Finance receivables:				
Affiliated..	--	(121)	(12)	(133)
Non-affiliated..	5,778	(180)	(347)	5,251
Total finance receivables...............................	5,778	(301)	(359)	5,118
Total Loan Receivables....................................	50,386	1,094	(2,480)	49,000
TOTAL INTEREST INCOME ON MORTGAGE ASSETS.................	$ 54,052	$ 810	$ (2,481)	$ 52,381
CMO borrowings..	$ 35,470	$ 2,111	$ 2,063	$ 39,644
Reverse repurchase agreements-mortgages........................	1,602	929	27	2,558
Reverse repurchase agreements-securities.......................	(134)	--	(2)	(136)
TOTAL INTEREST EXPENSE ON BORROWINGS........................	$ 36,938	$ 3,040	$ 2,088	$ 42,066

	YEAR ENDED DECEMBER 31, 1997 OVER 1996			
	VOLUME	RATE	RATE/ VOLUME	TOTAL
	(IN THOUSANDS)			
Increase/(decrease) in:				
Investment securities available-for-sale:				
Subordinated securities collateralized by mortgages...........	$ 3,669	$ (55)	$ (48)	$ 3,566
Subordinated securities collateralized by other loans.........	(402)	409	(142)	(135)
Total investment securities available-for-sale................	3,267	354	(190)	3,431
CMO collateral..	24,914	1,159	1,436	27,509
Mortgage loans held-for-investment............................	11,181	217	1,344	12,742
Finance receivables:				
Affiliated..	1,753	77	7	1,837
Non-affiliated..	290	(387)	(36)	(133)
Total finance receivables...............................	2,043	(310)	(29)	1,704
Total Loan Receivables....................................	38,138	1,066	2,751	41,955
TOTAL INTEREST INCOME ON MORTGAGE ASSETS.................	$ 41,405	$ 1,420	$ 2,561	$ 45,386
CMO borrowings..	$ 19,348	$ 325	$ 389	$ 20,062
Reverse repurchase agreements-mortgages........................	10,012	761	303	11,076
Reverse repurchase agreements-securities.......................	1,130	(12)	(18)	1,100
TOTAL INTEREST EXPENSE ON BORROWINGS........................	$ 30,490	$ 1,074	$ 674	$ 32,238

HEDGING

The Company conducts certain hedging activities in connection with both its Long-Term Investment Operations and its Conduit Operations.

Long-Term Investment Operations. To the extent consistent with IMH's election to qualify as a REIT, the Company follows a hedging program intended to protect against interest rate changes and to enable the Company to earn net interest income in periods of generally rising, as well as declining or static, interest rates. Specifically, the Company's hedging program is formulated with the intent to offset the potential adverse effects resulting from (1) interest rate adjustment limitations on its mortgage loans and securities backed by mortgage loans, and (2) the differences between the interest rate adjustment indices and interest rate adjustment periods of its adjustable rate mortgage loans and mortgage-backed securities secured by such loans and related borrowings. As part of its hedging program, the Company also monitors on an ongoing basis the prepayment risks that arise in fluctuating interest rate environments.

The Company's hedging program encompasses a number of procedures. First, the Company structures its commitments so that the mortgage loans purchased will have interest rate adjustment indices and adjustment periods that, on an aggregate basis, correspond as closely as practicable to the interest rate adjustment indices and interest rate adjustment periods of the anticipated financing source. In addition, the Company structures its borrowing agreements to have a range of different maturities (although substantially all have maturities of less than one year). As a result, the Company adjusts the average maturity of its borrowings on an ongoing basis by changing the mix of maturities as borrowings come due and are renewed. In this way, the Company minimizes any differences between interest rate adjustment periods of mortgage loans and related borrowings that may occur due to prepayments of mortgage loans or other factors.

The Company, based on market conditions, may purchase interest rate caps to limit or partially offset adverse changes in interest rates associated with its borrowings. In a typical interest rate cap agreement, the cap purchaser makes an initial lump sum cash payment to the cap seller in exchange for the seller's promise to make cash payments to the purchaser on fixed dates during the contract term if prevailing interest rates exceed the rate specified in the contract. In this way, the Company generally hedges as much of the interest rate risk arising from lifetime rate caps on its mortgage loans and from periodic rate and/or payment caps as the Company determines is in the best interest of the Company, given the cost of such hedging transactions and the need to maintain IMH's status as a REIT. Such periodic caps on the Company's mortgage loans may also be hedged by the purchase of mortgage derivative securities. Mortgage derivative securities can be effective hedging instruments in certain situations as the value and yields of some of these instruments tend to increase as interest rates rise and tend to decrease in value and yields as interest rates decline, while the experience for others is the converse. The Company intends to limit its purchases of mortgage derivative securities to investments that qualify as Qualified REIT Assets or Qualified Hedges so that income from such investments will constitute qualifying income for purposes of the 95% and 75% gross income tests. To a lesser extent, the Company, through its Conduit Operations, may enter into interest rate swap agreements, buy and sell financial futures contracts and options on financial futures contracts and trade forward contracts as a hedge against future interest rate changes; however, the Company will not invest in these instruments unless the Company is exempt from the registration requirements of the Commodity Exchange Act or otherwise comply with the provisions of that Act. The REIT provisions of the Internal Revenue Code of 1986, as amended (the "Code"), may restrict the Company's ability to purchase certain instruments and may severely restrict the Company's ability to employ other strategies. In all it's hedging transactions, the Company intends to deal only with counterparties that the Company believes are sound credit risks. At December 31, 1998 and 1997, the Company had no interest rate caps or interest rate swaps.

Conduit Operations. In conducting its Conduit Operations, IFC is subject to the risk of rising mortgage interest rates between the time it commits to purchase mortgage loans at a fixed price and the time it sells or securitizes those mortgage loans. To mitigate this risk, IFC enters into transactions designed to hedge interest rate risks, which may include mandatory and optional forward selling of mortgage loans or mortgage-backed securities, interest rate caps, floors and swaps, and buying and selling of futures and options on futures. The nature and quantity of these hedging transactions are determined by the management of IFC based on various factors, including market conditions and the expected volume of mortgage loan purchases.

FORWARD CONTRACTS

IFC sells mortgage-backed securities through forward delivery contracts with major dealers in such securities. At December 31, 1998 and 1997, IFC had $46.0 million and $242.0 million, respectively, in outstanding commitments to sell mortgage loans through mortgage-backed securities. These commitments allow IFC to enter into mandatory commitments when IFC notifies the investor of its intent to exercise a portion of the forward delivery contracts. IFC was not obligated under mandatory commitments to deliver loans to such investors at December 31, 1998 and 1997. The credit risk of forward contracts relates to the counterparties' ability to perform under the contract. IFC evaluates counterparties based on their ability to perform prior to entering into any agreements.

FUTURES CONTRACTS

IFC sells future contracts against five and ten-year Treasury notes with major dealers in such securities. At December 31, 1998 and 1997, IFC had none and $118.7 million, respectively, in outstanding commitments to sell Treasury notes which expire within 90 days.

OPTIONS

In order to protect against changes in the value of mortgage loans held for sale, IFC may sell call or buy put options on U.S. Treasury bonds and mortgage-backed securities. IFC generally sells call or buys put options to hedge against adverse movements of interest rates affecting the value of its mortgage loans held for sale. The risk in writing a call option is that IFC gives up the opportunity for profit if the market price of the mortgage loans increases and the option is exercised. IFC also has the additional risk of not being able to enter into a closing transaction if a liquid secondary market does not exist. The risk of buying a put option is limited to the premium IFC paid for the put option. IFC had written option contracts with an outstanding principal balance of $25.0 million and $20.0 million at December 31, 1998 and 1997, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is incorporated by reference to Impac Mortgage Holdings, Inc.'s Consolidated Financial Statements and Independent Auditors' Report beginning at page F-1 of this Form 10-K.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s 1998 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s 1998 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s 1998 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s 1998 fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) All schedules have been omitted because they are either not applicable, not required or the information required has been disclosed in the Consolidated Financial Statements and related Notes to Consolidated Financial Statements at page F-1, or otherwise included in this Form 10-K.

(b) Reports on Form 8-K--

- (i) Current Report on Form 8-K, dated December 22, 1998, filed December 23, 1998, reporting on Items 5 and 7, relating to the sale by the Registrant of its Series B 10.5% Cumulative Convertible Preferred Stock.
- (ii) Current Report on Form 8-K/A, dated October 7, 1998, filed December 23, 1998, reporting on Items 5 and 7, relating to the amendment of the Registrant's Rights Agreement.
- (iii) Current Report on Form 8-K, dated December 22, 1998, filed December 23, 1998, reporting on Items 5 and 7, announcing the signing of a letter of intent to acquire a California federally insured thrift and loan charter, announcing the execution of a term sheet to sell loans on a whole loan basis to a major institutional investor, announcing that the Registrant expects to have no earnings or a slight loss for the quarter ended December 31, 1998, and other announcements.
- (iv) Current Report on Form 8-K, dated December 18, 1998, filed December 18, 1998, reporting on Items 5 and 7, updating the Registrant's Risk Factors.
- (v) Current Report on Form 8-K, dated October 8, 1998, filed December 8, 1998, reporting on Items 5 and 7, relating to the issuance of recent press releases.
- (vi) Current Report on Form 8-K, dated October 7, 1998, filed October 14, 1998, reporting on Items 5 and 7, relating to the adoption of a Rights Agreement with BankBoston, N.A.

(c) Exhibits

EXHIBIT NUMBER	DESCRIPTION
3.1	Charter of the Registrant (incorporated by reference to the corresponding exhibit number to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7, 1995).
3.1(a)	Certificate of correction of the Registrant.
3.1(b)	Articles of Amendment of the Registrant.
3.1(c)	Articles of Amendment for change of name to Charter of the Registrant (incorporated by reference to exhibit number 3.1(a) of the Registrant's Current Report on Form 8-K, filed February 11, 1998).
3.1(d)	Articles Supplementary and Certificate of Correction for Series A Junior Participating Preferred Stock of the Registrant.
3.1(e)	Articles Supplementary for Series B 10.5% Cumulative Convertible Preferred Stock of the Registrant (incorporated by reference to exhibit 3.1b of the Registrant's Current Report on Form 8-K, filed December 23, 1998). by reference to exhibit 3.1b of the Registrant's Current Report on Form 8-K, filed December 23, 1998).
3.2	Bylaws of the Registrant, as amended and restated (incorporated by reference to the corresponding exhibit number of the Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 1998).

4.1 Form of Stock Certificate of the Company (incorporated by reference to the corresponding exhibit number to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7, 1995).

4.2 Rights Agreement between the Registrant and BankBoston, N.A. (incorporated by reference to exhibit 4.2 of the Registrant's Registration Statement on Form 8-A as filed with the Securities and Exchange Commission on October 14, 1998).

4.2(a) Amendment No. 1 to Rights Agreement between the Registrant and BankBoston, N.A. (incorporated by reference to exhibit 4.2(a) of the Registrant's Registration Statement on Form 8-A/A as filed with the Securities and Exchange Commission on December 23, 1998).

4.3 Form of Series B 10.5% Cumulative Convertible Preferred Stock Certificate (incorporated by reference to exhibit 4.9 of the Registrant's Current Report on Form 8-K, filed December 23, 1998).

10.1 1995 Stock Option, Deferred Stock and Restricted Stock Plan, as amended and restated (incorporated by reference to exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 1998).

10.2 Form of Indemnity Agreement between the Registrant and its Directors and Officers (incorporated by reference to exhibit 10.4 to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7, 1995).

10.3 Form of Tax Agreement between the Registrant and Imperial Credit Industries, Inc. (incorporated by reference to exhibit 10.5 to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7, 1995).

10.4(a) Sublease, dated February 12, 1997, between the Registrant and Imperial Credit Industries, Inc. regarding Santa Ana Heights facility (incorporated by reference to exhibit 10.5(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997).

10.4(b) Sublease Amendment, dated July 24, 1997, between the Registrant and Imperial Credit Industries, Inc. (incorporated by reference to exhibit 10.5(b) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997).

10.4(c) Sublease Amendment, dated February 6, 1998, between the Registrant and Imperial Credit Industries, Inc. (incorporated by reference to exhibit 10.5(c) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997).

10.5 Form of Amended and Restated Employment Agreement with ICI Funding Corporation (incorporated by reference to exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q, as amended, for the quarter ended June 30, 1998).

10.5(a) List of Officers and terms relating to Form of Amended and Restated Employment Agreement (incorporated by reference to exhibit 10.8(a) to the Registrant's Quarterly Report on Form 10-Q, as amended, for the quarter ended June 30, 1998).

10.5(b) Form of Amendment No. 1 to Amended and Restated Employment Agreement with Impac Funding Corporation (incorporated by reference to exhibit 10.1(a) of the Registrant's Current Report on Form 8-K, filed June 2, 1998).

10.5(c) List of Officers and terms relating to Form of Amendment No. 1 to the Amended and Restated Employment Agreement with Impac Funding Corporation (incorporated by reference to exhibit 10.1(b) of the Registrant's Current Report of Form 8-K, filed June 2, 1998).

10.6 Form of Loan Purchase and Administrative Services Agreement between the Registrant and Impac Funding Corporation (incorporated by reference to exhibit 10.9 to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7,1995).

10.7 Form of Contribution Agreement between the Registrant, Imperial Credit Industries, Inc., Southern Pacific Thrift & Loan Association, Impac Funding Corporation and Imperial Warehouse Lending Group, Inc. (incorporated by reference to exhibit 10.10 to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7, 1995).

10.8 Dividend Reinvestment and Stock Purchase Plan (incorporated by reference to Exhibit 4 to, and the prospectus included in, the Registrant's Registration Statement on Form S-3/A (File No. 333-52335), as filed with the Securities and Exchange Commission on September 4, 1998).

10.9 Servicing Agreement effective November 11, 1995 between the Registrant and Impac Funding Corporation (incorporated by reference to exhibit 10.14 to the Registrant's Registration Statement on Form S-11, as amended (File No. 333-04011), filed with the Securities and Exchange Commission on May 17, 1996).

10.10 Impac Mortgage Holdings, Inc. 1996 Stock Option Loan Plan (incorporated by reference to exhibit 10.15 to the Registrant's Form 10-K for the year ended December 31, 1996).

10.11 Real Estate Purchase, Sale and Escrow Agreement by and between TW/BRP Dove, LLC and IMH/ICH Dove Street, LLC, dated as of August 25, 1997 (incorporated by reference to exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q, as amended, for the quarter ended June 30, 1997).

10.11(a) Contract of Sale between the Registrant and Impac Commercial Holdings, Inc.

10.12 Revolving Credit and Term Loan Agreement, dated August 21, 1997, between the Registrant and Impac Commercial Holdings, Inc. (incorporated by reference to exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).

10.13 Termination Agreement, effective December 19, 1997, between the Registrant, Impac Funding Corporation, Imperial Credit Industries, Inc. and Imperial Credit Advisors, Inc. and Joseph R. Tomkinson, William S. Ashmore and Richard J. Johnson (incorporated by reference to exhibit 10.18 to the Registrant's Current Report on Form 8-K, as amended, dated December 19, 1997).

10.14 Services Agreement, dated December 29, 1997, between the Registrant, Impac Funding Corporation and Imperial Credit Advisors, Inc. (incorporated by reference to exhibit 10.19 to the Registrant's Current Report on Form 8-K, as amended, dated December 19, 1997).

10.15 Registration Rights Agreement, dated December 29, 1997, between Registrant and Imperial Credit Advisors, Inc. (incorporated by reference to exhibit 10.20 to the Registrant's Current Report on Form 8- K, as amended, dated December 19, 1997).

10.16 Sales Agency Agreement between the Registrant and PaineWebber, Incorporated, dated May 12, 1998 (incorporated by reference to exhibit 1.1 of the Registrant's Current Report on Form 8-K, filed June 2, 1998).

10.17 Lease dated June 1, 1998 regarding Dove Street facilities.

10.18 Employment Letter between Impac Funding Corporation and Ronald Morrison dated May 28, 1998.

21.1 Subsidiaries of the Registrant.

23.1	Consent of KPMG LLP regarding the Registrant.
23.2	Consent of KPMG LLP regarding Impac Funding Corporation.
24	Power of Attorney (included on signature page).
27	Financial Data Schedule.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Irvine, State of California, on the 15th day of March, 1999.

IMPAC MORTGAGE HOLDINGS, INC.

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

We, the undersigned directors and officers of Impac Mortgage Holdings, Inc., do hereby constitute and appoint Joseph R. Tomkinson and Richard J. Johnson, or either of them, our true and lawful attorneys and agents, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys and agents, or either of them, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connections with this report, including specifically, but without limitation, power and authority to sign for us or any of us in our names and in the capacities indicated below, any and all amendments to this report, and we do hereby ratify and confirm all that the said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ Joseph R. Tomkinson Joseph R. Tomkinson	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 15, 1999
/s/ Richard J. Johnson Richard J. Johnson	Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 1999
/s/ James Walsh James Walsh	Director	March 15, 1999
/s/ Frank P. Filipps Frank P. Filipps	Director	March 15, 1999
/s/ Stephan R. Peers Stephan R. Peers	Director	March 15, 1999
/s/ William S. Ashmore William S. Ashmore	Director	March 15, 1999

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Impac Mortgage Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Impac Mortgage Holdings, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations and comprehensive earnings (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Impac Mortgage Holdings, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

KPMG LLP

Orange County, California
February 11, 1999, except as to Note R
to the consolidated financial statements
which is as of February 24, 1999.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	At December 31,	
	1998	1997
ASSETS		
Cash and cash equivalents	$ 33,876	$ 16,214
Investment securities available-for-sale	93,486	67,011
Loan Receivables:		
CMO collateral	1,161,220	794,893
Finance receivables	311,571	533,101
Mortgage loans held-for-investment	20,627	257,717
Allowance for loan losses	(6,959)	(5,129)
Net loan receivables	1,486,459	1,580,582
Due from affiliates	17,904	16,679
Investment in Impac Funding Corporation	13,246	27,122
Investment in Impac Commercial Holdings, Inc	--	17,985
Accrued interest receivable	10,039	15,012
Other real estate owned	8,456	5,662
Premises and equipment, net	--	3,866
Other assets	2,038	2,679
Total assets	$ 1,665,504	$ 1,752,812
LIABILITIES AND STOCKHOLDERS' EQUITY		
CMO borrowings	$ 1,072,316	$ 741,907
Reverse repurchase agreements	323,625	755,559
Accrued dividends payable	12,129	10,371
Due to affiliates	2,670	12,421
Other liabilities	3,158	3,524
Total liabilities	1,413,898	1,523,782
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 6,300,000 shares authorized; none issued and outstanding at December 31, 1998 and 1997	--	--
Series A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued and outstanding at December 31, 1998 and 1997, respectively	--	--
Series B 10.5% cumulative convertible preferred stock, $0.01 par value; liquidation value $30,000; 1,200,000 shares authorized; 1,200,000 and none issued and outstanding at December 31, 1998 and 1997, respectively	12	--
Common stock, $0.01 par value; 50,000,000 shares authorized; 24,557,657 and 22,545,664 shares issued and outstanding at December 31, 1998 and 1997, respectively	246	225
Additional paid-in capital	342,945	283,012
Accumulated other comprehensive loss	(1,736)	(5,116)
Notes receivable from common stock sales	(918)	(1,330)
Accumulated deficit:		
Cumulative dividends declared	(79,176)	(43,927)
Accumulated deficit	(9,767)	(3,834)
Net accumulated deficit	(88,943)	(47,761)
Total stockholders' equity	251,606	229,030
Total liabilities and stockholders' equity	$ 1,665,504	$ 1,752,812

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE EARNINGS (LOSS)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
INTEREST INCOME:			
Mortgage Assets	$ 160,720	$ 108,339	$ 62,953
Other interest income	2,938	1,194	720
Total interest income	163,658	109,533	63,673
INTEREST EXPENSE:			
CMO borrowings	76,309	36,665	16,603
Reverse repurchase agreements	42,139	39,717	27,541
Other borrowings	3,247	195	--
Total interest expense	121,695	76,577	44,144
Net interest income	41,963	32,956	19,529
Provision for loan losses	4,361	6,843	4,350
Net interest income after provision for loan losses	37,602	26,113	15,179
NON-INTEREST INCOME:			
Equity in net earnings (loss) of Impac Funding Corporation	(13,876)	8,316	903
Equity in net loss of Impac Commercial Holdings, Inc	(998)	(239)	--
Loss on sale of loans	(3,111)	--	--
Servicing fees	1,929	980	--
Gain on sale of securities	427	648	--
Other income	2,090	621	593
Total non-interest income	(13,539)	10,326	1,496
NON-INTEREST EXPENSE:			
Write-down on investment securities available-for-sale	14,132	--	--
Loss on equity investment of Impac Commercial Holdings, Inc	9,076	--	--
General and administrative and other expense	2,320	836	398
Professional services	2,243	1,117	741
(Gain) loss on sale of other real estate owned	1,707	(433)	--
Personnel expense	518	331	310
Advisory fees	--	6,242	3,347
Termination agreement expense	--	44,375	--
Total non-interest expense	29,996	52,468	4,796
Net earnings (loss)	(5,933)	(16,029)	11,879
Other comprehensive earnings (loss):			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	7,395	(2,657)	(2,366)
Reclassification of realized losses included in income	4,015	--	--
Net unrealized gains (losses) arising during period	3,380	(2,657)	(2,366)
Comprehensive earnings (loss)	$ (2,553)	$ (18,686)	$ 9,513
Net earnings (loss) per share--basic	$ (0.25)	$ (0.99)	$ 1.34
Net earnings (loss) per share--diluted	$ (0.25)	$ (0.99)	$ 1.32

See accompanying notes to consolidated financial statements.

HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	NUMBER OF PREFERRED SHARES OUTSTANDING	PREFERRED STOCK	NUMBER OF COMMON SHARES OUTSTANDING	Common STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS)
Balance, December 31, 1995................	--	$ --	4,250,000	$ 43	$ 44,971	$ (93)
Dividends declared ($1.61 per share).......	--	--	--	--	--	--
Net proceeds from public stock offerings...	--	--	5,000,000	50	87,888	--
Sale of common stock......................	--	--	105,000	1	2,078	--
Exercise of stock options ($8.67 per share)........................	--	--	45,000	--	584	--
Notes receivable from common stock sales..................................	--	--	--	--	--	--
Net earnings, 1996........................	--	--	--	--	--	--
Other comprehensive loss..................	--	--	--	--	--	(2,366)
Balance, December 31, 1996................	--	--	9,400,000	94	135,521	(2,459)
Dividends declared ($1.68 per share).......	--	--	--	--	--	--
Net proceeds from public stock offerings...	--	--	3,229,906	32	83,088	--
Proceeds from DRSPP.......................	--	--	1,062,844	11	24,678	--
Proceeds from exercise of stock options....	--	--	72,966	1	935	--
Notes receivable from common stock sales..................................	--	--	--	--	--	--
Stock issued for termination of management agreement.....................	--	--	2,009,310	20	35,017	--
Gain on sale of ICH preferred stock........	--	--	--	--	3,840	--
3-for-2 stock split.......................	--	--	6,770,638	67	(67)	--
Net loss, 1997............................	--	--	--	--	--	--
Other comprehensive loss..................	--	--	--	--	--	(2,657)
Balance, December 31, 1997................	--	--	22,545,664	225	283,012	(5,116)
Dividends declared ($1.46 per share).......	--	--	--			--
Net proceeds from preferred stock offering................................	1,200,000	12	--	--	28,758	--
Proceeds from DRSPP.......................	--	--	1,758,493	18	27,822	--
Proceeds from structured equity shelf......	--	--	245,700	3	3,245	--
Proceeds from exercise of stock options....	--	--	7,800	--	108	--
Notes receivable from common stock sales..................................	--	--	--	--	--	--
Net loss, 1998............................	--	--	--	--	--	--
Other comprehensive earnings..............	--	--	--	--	--	3,380
Balance, December 31, 1998................	1,200,000	$ 12	24,557,657	$ 246	$ 342,945	$ (1,736)

	NOTES RECEIVABLE-COMMON STOCK SALES	CUMULATIVE DIVIDENDS DECLARED	RETAINED EARININGS (ACCUMULATED) DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
	$ --	$ --	$ 316	$ 45,237
Balance, December 31, 1995................	--	(15,441)	--	(15,441)
Dividends declared ($1.61 per share).......	--	--	--	87,938
Net proceeds from public stock offerings...	--	--	--	2,079
Sale of common stock......................	--	--	--	584
Exercise of stock options ($8.67 per share)........................	(720)	--	--	(720)
Notes receivable from common stock sales..................................	--	--	11,879	11,879
Net earnings, 1996........................	--	--	--	(2,366)
Other comprehensive loss..................				
Balance, December 31, 1996................	(720)	(15,441)	12,195	129,190
Dividends declared ($1.68 per share).......	--	(28,486)	--	(28,486)
Net proceeds from public stock offerings...	--	--	--	83,120
Proceeds from DRSPP.......................	--	--	--	24,689
Proceeds from exercise of stock options....	--	--	--	936
Notes receivable from common stock sales..................................	(610)	--	--	(610)
Stock issued for termination of management agreement.....................	--	--		
Gain on sale of ICH preferred stock........	--	--	--	3,840
3-for-2 stock split.......................	--	--	--	--
Net loss, 1997............................	--	--	(16,029)	(16,029)
Other comprehensive loss..................	--	--	--	(2,657)
Balance, December 31, 1997................	(1,330)	(43,927)	(3,834)	229,030
Dividends declared ($1.46 per share).......	--	(35,249)	--	(35,249)
Net proceeds from preferred stock offering................................	--	--	--	28,770
Proceeds from DRSPP.......................				
Proceeds from structured equity shelf......	--	--	--	27,840

Proceeds from exercise of stock options....	--	--	--	3,248
Notes receivable from common stock sales....................................	--	--	--	108
Net loss, 1998............................	412	--	--	412
Other comprehensive earnings...............	--	--	(5,933)	(5,933)
	--	--	--	3,380
Balance, December 31, 1998.................	$ (918)	$ (79,176)	$ (9,767)	$ 251,606

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	$ (5,933)	$ (16,029)	$ 11,879
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Equity in net (earnings) loss of Impac Funding Corporation	13,876	(8,316)	(903)
Equity in net loss of Impac Commercial Holdings, Inc.	998	239	--
Provision for loan losses	4,361	6,843	4,350
Buyout of management agreement	--	44,375	--
Depreciation and amortization	355	75	--
Loss on sale of ICH common stock	9,076	--	--
Net change in accrued interest receivable	4,973	(7,749)	(5,618)
Write-down of investment securities available-for-sale	14,132	--	--
Gain on sale of investment securities available-for-sale	(427)	(648)	--
Net change in other assets and liabilities	1,398	(10,274)	(3,299)
Net cash provided by operating activities	42,809	8,516	6,409
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in CMO collateral	(371,210)	(299,600)	(501,744)
Net change in finance receivables	221,100	(161,533)	220,709
Net change in mortgage loans held-for-investment	225,301	(269,681)	(980)
Purchase of investment securities available-for-sale	(66,329)	(12,555)	(64,331)
Sale of investment securities available-for-sale	15,801	10,285	14,370
Principal reductions on investment securities available-for-sale	13,727	(3,244)	1,468
Purchase of equity in residual interests in securitizations from IFC	--	(9,338)	--
Proceeds from sale of other real estate owned	11,777	7,902	--
Purchase of premises and equipment	(2,489)	(3,941)	--
Contributions to Impac Funding Corporation	--	(8,910)	(8,128)
Contributions to Impac Commercial Holdings, Inc.	--	(15,123)	--
Dividends from investment in Impac Commercial Holdings, Inc.	1,812	739	--
Net decrease in lease payment receivables	--	--	8,441
Net cash provided by (used in) investing activities	49,490	(764,999)	(330,195)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in reverse repurchase agreements	(431,934)	397,843	(210,012)
Proceeds from CMO borrowings	768,012	521,746	556,114
Repayment of CMO borrowings	(437,602)	(254,352)	(81,601)
Proceeds from preferred stock	28,770	--	--
Proceeds from public stock offerings, net	--	83,120	87,938
Dividends paid	(33,491)	(23,285)	(10,271)
Proceeds from sale of common stock issued through DRSPP and SES	31,088	24,689	2,080
Proceeds from exercise of stock options	108	936	584
Advances to purchase common stock	412	(610)	(720)
Net cash provided by (used in) financing activities	(74,637)	750,087	344,112

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)

(IN THOUSANDS)

Net change in cash and cash equivalents	17,662	(6,396)	20,326
Cash and cash equivalents at beginning of year	16,214	22,610	2,284
Cash and cash equivalents at end of year	$ 33,876	$ 16,214	$ 22,610
SUPPLEMENTARY INFORMATION:			
Interest paid	$ 122,904	$ 73,053	$ 42,545
NON-CASH TRANSACTIONS:			
Sale of Impac Commercial Holdings common stock	$ 6,099	$ --	$ --
Sale of Dove St. building and other assets in exchange for debt	6,000	--	--
Increase in accumulated other comprehensive earnings (loss)	3,380	(2,657)	(2,366)
Gain on sale of subsidiary preferred stock	--	3,840	--
Issuance of stock to ICAI for termination of management agreement	--	35,037	--
Transfer of loans held-for-investment to other real estate owned	7,924	6,780	--
Transfer of CMO collateral to other real estate owned	4,883	6,451	--
Dividends declared and unpaid	12,129	10,371	5,170

See accompanying notes to consolidated financial statements.NOTE A--SUMMARY OF

NOTE A -- SUMMARY OF BUSINESS AND SIGNIFICIANT ACCOUNTING POLICIES

1. FINANCIAL STATEMENT PRESENTATION

The operations of the Company have been presented in the consolidated financial statements for the three-year period ended December 31, 1998 and include the financial results of Impac Mortgage Holdings, Inc. (IMH), IMH Assets Corporation (IMH Assets) and Impac Warehouse Lending Group (IWLG) as stand-alone entities and the financial results of IMH's equity interest in net earnings (loss) in Impac Funding Corporation (IFC) as a stand-alone entity, and the financial results of IMH's equity interest in net loss in Impac Commercial Holdings, Inc. (ICH) as a stand-alone entity.

The Company is entitled to 99% of the earnings or losses of IFC through its ownership of all of the non-voting preferred stock of IFC. As such, the Company records its investment in IFC using the equity method. Under this method, original investments are recorded at cost and adjusted by the Company's share of earnings or losses. Certain officers and directors of the Company own all of the common stock of IFC and are entitled to 1% of the earnings or loss of IFC. Gain on the sale of loans or securities by IFC to IMH are deferred and accreted for gain on sale over the estimated life of the loans or securities using the interest method.

All significant intercompany balances and transactions with IMH's consolidated subsidiaries have been eliminated in consolidation. Interest income on affiliated short-term advances, due from affiliates, has been earned at the rate of 8% per annum. Interest expense on affiliated short-term borrowings, due to affiliates, has been incurred at the rate of 8% per annum. Costs and expenses of affiliates have been allocated to ICH in proportion to services provided. Certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current presentation.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash and cash equivalents consists of cash and money market mutual funds. The Company considers investments with maturities of three months or less at date of acquisition to be cash equivalents.

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The Company classifies investment and mortgage-backed securities as held-to-maturity, available-for-sale, and/or trading securities. Held-to-maturity investment and mortgage-backed securities are reported at amortized cost, available-for-sale securities are reported at fair value with unrealized gains and losses as a separate component of stockholders' equity, and trading securities are reported at fair value with unrealized gains and losses reported in earnings. The Company's investment securities are held as available-for-sale, reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. As the Company qualifies as a Real Estate Investment Trust (REIT) and no income taxes are paid, the unrealized gains and losses are reported gross in stockholders' equity. Premiums or discounts obtained on investment securities are accreted or amortized to interest income over the estimated life of the investment securities using the interest method. Such investments may subject the Company to credit, interest rate and/or prepayment risk.

IMH purchases a large portion of the residuals created by IFC's securitizations recorded at IFC as a result of the sale of mortgage loans through securitizations. IFC sells a portfolio of mortgage loans to a special purpose entity that has been established for the limited purpose of buying and reselling the mortgage loans. IFC then transfers the same mortgage loans to a special purpose entity or owners trust (the Trust). The Trust issues interest-bearing asset-backed securities generally in an amount equal to the aggregate principal balance of the mortgage loans. IFC typically sells these certificates at face value and without recourse except that representations and warranties customary to the mortgage banking industry are provided by IFC. IMH or other investors purchase these certificates from the Trust and the proceeds from the sale of the certificates are used as consideration to purchase the underlying mortgage loans from the Company. In addition, IFC may provide a credit enhancement for the benefit of the investors in the form of additional collateral held by the Trust. The over-collateralization account is required to be maintained at specified levels.

To determine the value of the securities, the Company must estimate future rates of prepayments, prepayment penalties to be received by the Company, delinquencies, defaults and default loss severity and their impact on estimated cash flows. At December 31, 1998 the Company used a 0% to 8% constant default rate estimate with a 25% to 43% severity resulting in loss estimates of 0% to 3%. These estimates are based on historical loss data for comparable loans. The Company estimates prepayments by evaluating historical prepayment performance of comparable mortgage loans and trends in the industry. Ar December 31, 1998 the Company used a constant prepayment assumption of 16% to 32% to estimate the prepayment characteristics of the underlying collateral. The Company determines the estimated fair value of the residuals by discounting the expected cash flows using a discount rate which it believes is commensurate with the risks involved. At December 31, 1998, the Company used a weighted average discount rate of approximately 15%.

4. CMO COLLATERAL AND MORTGAGE LOANS HELD-FOR-INVESTMENT

The Company purchases non-conforming mortgage loans to be held as long-term investment or as CMO collateral. Mortgage loans held-for-investment and CMO collateral are recorded at cost at the date of purchase. Mortgage loans held-for-investment and CMO collateral include various types of fixed and adjustable rate loans secured by mortgages on single-family residential real estate properties and fixed-rate loans secured by second trust deeds on single-family residential real estate properties. Premiums and discounts, which may result from the purchase or acquisition of mortgage loans in excess of the outstanding principal balance, are amortized to interest income over their estimated lives using the interest method as an adjustment to the carrying amount of the loan. Prepaid securitization costs related to the issuance of CMOs are amortized to interest expense over their estimated lives using the interest method. Mortgage loans are continually evaluated for collectibility and, if appropriate, the mortgage loans may be placed on non-accrual status, generally when the mortgage is 90 days past due, and previously accrued interest reversed from income. Other than temporary impairment in the carrying value of mortgage loans held-for-investment, if any, will be recognized as a reduction to current operations.

5. FINANCE RECEIVABLES

Finance receivables represent transactions with customers, including affiliated companies, involving residential real estate lending. As a warehouse lender, the Company is a secured creditor of the mortgage bankers and brokers to which it extends credit and is subject to the risks inherent in that status including, the risk of borrower default and bankruptcy. Any claim of the Company as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay. The Company's finance receivables represent warehouse lines of credit with mortgage banking companies collateralized by mortgage loans on single family residences. Finance receivables are stated at the principal balance outstanding. Interest income is recorded on the accrual basis in accordance with the terms of the loans. Finance receivables are continually evaluated for collectibility and, if appropriate, the receivable is placed on non-accrual status, generally when 90 days past due. Future collections of interest income are included in interest income or applied to the loan balance based on an assessment of the likelihood that the loans will be repaid.

6. ALLOWANCE FOR LOAN LOSSES

The Company maintains an allowance for losses on mortgage loans held-for-investment, collateral for CMOs, and finance receivables at an amount which it believes is sufficient to provide adequate protection against future losses in the mortgage loans portfolio. The allowance for losses is determined primarily on management's judgment of net loss potential including specific allowances for known impaired loans, changes in the nature and volume of the portfolio, value of the collateral and current economic conditions that may affect the borrowers' ability to pay. A provision is recorded for loans deemed to be uncollectible thereby increasing the allowance for loan losses. Subsequent recoveries on mortgage loans previously charged off are credited back to the allowance.

7. PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation or amortization. Depreciation on premises and equipment is recorded using the straight-line method over the estimated useful lives of individual assets (three to twenty years).

8. CMO BORROWINGS

The Company issues CMOs, which are primarily secured by non-conforming mortgage loans on single-family residential real property, as a means of financing its Long-Term Investment Operations. CMOs are carried at their outstanding principal balances including accrued interest on such obligations. For accounting and tax purposes, mortgage loans financed through the issuance of CMOs are treated as assets of the Company and the CMOs are treated as debt of the Company. Each issue of CMOs are fully payable from the principal and interest payments on the underlying mortgage loans collateralizing such debt and any investment income on such collateral. The maturity of each class of CMO is directly affected by the rate of principal prepayments on the related CMO collateral. Each CMO series is also subject to redemption according to specific terms of the respective indentures. As a result, the actual maturity of any class of a CMO series is likely to occur earlier than the stated maturities of the underlying mortgage loans.

9. INCOME TAXES

IMH operates 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 95% of its taxable income to its stockholders, the distribution of which 85% must be distributed within the taxable year in order to avoid the imposition of an excise tax and the remaining balance may extend until timely filing of its tax return in its subsequent taxable year. Qualifying distributions of its taxable income are deductible by a REIT in computing its taxable income. Although IMH did not make any distributions during the calendar year of 1995, it retained its qualified REIT status and eliminated its 1995 taxable income by making a qualified distribution after the close of the 1995 taxable year. IMH elected to apply amounts out of its first distributions in calendar year 1996 to effectively distribute 100% of its 1995 taxable income. If in any tax year IMH should not qualify as a REIT, it would be taxed as a corporation and distributions to the stockholders would not be deductible in computing taxable income. If IMH were to fail to qualify as a REIT in any tax year, it would not be permitted to qualify for that year and the succeeding four years.

10. NET EARNINGS (LOSS) PER SHARE

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share" (SFAS 128). SFAS 128 replaces the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earning per share, basic earnings per share excludes any dilutive effects of stock options. Diluted earnings per share are very similar to the previously reported fully diluted earnings per share. Basic net earnings per share are computed on the basis of the weighted average number of shares outstanding for the period. Diluted net earnings per share are computed on the basis of the weighted average number of shares and common equivalent shares outstanding for the period.

The following tables represent the computation of basic and diluted net earnings (loss) per share, after giving effect to the 3-for-2 stock split effective November 24, 1997, for the periods presented as if all stock options and Imperial Credit Industries, Inc. (ICII) ownership interest in IMH were outstanding for these periods (in thousands, except per share data):

	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
NUMERATOR:			
Numerator for basic earnings per share--			
Net earnings (loss)............................	$ (5,933)	$ (16,029)	$ 11,879
DENOMINATOR:			
Denominator for basic earnings per share--			
Weighted average number of common shares outstanding during the period.................	23,914	16,267	8,863
Net effect of dilutive stock options............	--	--	149
Denominator for diluted earnings per share.........	23,914	16,267	9,012
Net earnings (loss) per share--basic..............	$ (0.25)	$ (0.99)	$ 1.34
Net earnings (loss) per share--diluted............	$ (0.25)	$ (0.99)	$ 1.32

The antidilutive effect of stock options outstanding as of December 31, 1998, 1997 and 1996 were 137,105, 210,110 and none, respectively. The antidilutive effect of Series B Cumulative Convertible Preferred Stock (Series B Preferred Stock) outstanding as of December 31, 1998 was 6,060,606. There was no Series B Preferred Stock outstanding at December 31, 1997 and 1996.

11. Recent Accounting Pronouncements

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

In October 1998, the FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise an amendment of Statement No. 65" (SFAS 134). SFAS 65 as amended by SFAS No. 115, "Accounting for Investments in Debt and Equity Securities," (SFAS 115) and SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of

Liabilities," (SFAS 125) requires that after the securitization of a mortgage loan held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed security as a trading security. SFAS 134 further amends SFAS 65 and requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or to hold those investments. SFAS 134 conforms the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking enterprise with the subsequent accounting for securities retained after the securitization of other types of assets by non-mortgage banking enterprises. SFAS 134 is effective for the first fiscal quarter beginning first quarter 1999. The Company believes that the adoption of SFAS 134 will not have a material impact on the Company's financial position or results of operations.

NOTE B--INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The Company's mortgage-backed securities are primarily secured by conventional, one-to-four family mortgage loans. The yield to maturity on each security depends on, among other things, the rate and timing of principal payments, including prepayments, repurchases, defaults and liquidations, the pass-through rate, and interest rate fluctuations. The Company's interest in these securities is subordinated so that, in the event of a loss, payments to senior certificate holders will be made before the Company receives its payments. At December 31, 1998 and 1997, the Company's investment securities available-for-sale included $88.1 million and $47.4 million, respectively, of subordinated securities collateralized by mortgages and $5.4 million and $4.8 million, respectively, of subordinated securities collateralized by other loans. The majority of the Company's investment securities available-for-sale had a credit rating of "B" to "BBB."

In connection with the issuance of REMICs by IFC for the year ended December 31, 1998 and 1997 of $907.5 million and $878.0 million, respectively, IMH purchased $23.4 million and $12.6 million, respectively, of securities as regular interests, $37.2 million and $8.1 million, respectively, of "interest-only" securities and none and $431,000, respectively, of "principal-only" securities. The Company recorded $4.5 million in discounts in connection with these purchases. The amortized cost and estimated fair value of mortgage-backed securities available-for-sale and other collateralized securities available-for-sale are summarized as follows:

	AMORTIZED Cost	GROSS Unrealized GAIN	GROSS UNREALIZED LOSS	ESTIMATED FAIR VALUE
		(IN THOUSANDS)		
At December 31, 1998:				
Mortgage-backed securities....................................	$ 89,825	$ 2,560	$ 4,296	$ 88,089
Other collateralized securities..............................	5,397	--	--	5,397
	$ 95,222	$ 2,560	$ 4,296	$ 93,486
At December 31, 1997:				
Mortgage-backed securities....................................	$ 66,811	$ 771	$ 5,384	$ 62,198
Other collateralized securities..............................	5,316	--	503	4,813
	$ 72,127	$ 771	$ 5,887	$ 67,011

NOTE C--MORTGAGE LOANS HELD-FOR-INVESTMENT

Mortgage loans held-for-investment include various types of adjustable rate loans secured by mortgages on single-family residential real estate properties and fixed rate loans secured by second trust deeds on single-family residential real estate properties. During the year ended December 31, 1998 and 1997, IMH purchased $866.7 million and $877.1 million, respectively, of mortgage loans from IFC. At December 31, 1998 and 1997, approximately 39% and 29%, respectively, of mortgage loans held-for-investment were collateralized by properties located in California. During 1997, IMH purchased $208.6 million of fixed rate mortgage loans secured by second liens on single family residential properties with loan-to-value ratios of approximately 125% from IFC. As of December 31, 1998, the principal balance outstanding of these mortgage loans was zero. Mortgage loans held-for-investment consisted of the following:

	AT DECEMBER 31, 1998	AT DECEMBER 31, 1997
	(IN THOUSANDS)	
Fixed rate loans secured by second trust deeds on single-family residential real estate...	$ --	$ 197,634
Adjustable rate loans secured by single-family residential real estate....................	20,145	49,392
Unamortized net premiums on mortgage loans...	482	10,691
	$ 20,627	$ 257,717

At December 31, 1998 and 1997, there were $7.3 million and $6.4 million, respectively, of mortgage loans held-for-investment which were not accruing interest due to the delinquent nature of the mortgage loans. If interest on such loans had been accrued for the year ended December 31, 1998 and 1997, interest income would have increased by $724,000 and $299,000, respectively.

NOTE D--CMO COLLATERAL

CMO collateral includes various types of fixed and adjustable rate loans secured by mortgages on single-family residential real estate properties and fixed-rate loans secured by second trust deeds on single-family residential real estate properties. During the years ended December 31, 1998 and 1997, $768.0 million and $521.7 million, respectively, of CMOs were issued and collateralized by $788.2 million and $533.9 million, respectively, of mortgage loans. At December 31, 1998 and 1997, approximately 43% and 53%, respectively, of CMO collateral was collateralized by properties located in California. At December 31, 1998 and 1997, the underlying principal balance of mortgages supporting CMO borrowings of $1.1 billion and $741.9 million, respectively, represented approximately $1.1 billion and $732.0 million, respectively, of adjustable and fixed rate mortgage loans with varying grade quality and approximately $24.2 million and $30.9 million, respectively, of second mortgage loans. Collateral for CMOs consisted of the following:

	AT DECEMBER 31, 1998	AT DECEMBER 31, 1997
	(IN THOUSANDS)	
Adjustable and fixed rate loans secured by single-family residential real estate.......	$ 1,085,388	$ 732,033
Fixed rate loans secured by second trust deeds on single-family residential real estate	24,189	30,906
Unamortized net premiums on loans..	39,369	28,617
Securitization expenses...	12,274	3,337
	$ 1,161,220	$ 794,893

NOTE E--FINANCE RECEIVABLES

Terms of IWLG's affiliated warehouse lines are based on Bank of America's prime rate, which was 7.75% and 8.50% as of December 31, 1998 and 1997, respectively, with advance rates between 90% and 98% of the fair value of the mortgage loans outstanding. Terms of IWLG's non-affiliated warehouse lines, including the maximum warehouse line amount and interest rate, are determined based upon the financial strength, historical performance and other qualifications of the borrower. The warehouse lines have maturities that range from on-demand to one year and are generally collateralized by mortgages on single-family residential real estate.

At December 31, 1998 and 1997, IWLG had $813.1 million and $1.2 billion, respectively, of warehouse lines of credit available to 32 and 21 borrowers, respectively, of which $311.6 million and $533.1 million, respectively, was outstanding. IWLG finances its Warehouse Lending Operations through reverse repurchase agreements and equity. Finance receivables consisted of the following:

	AT DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Due from IFC	$ 192,900	$ 454,840
Due from Impac Commercial Capital Corporation (1)	3,642	8,508
Due from Walsh Securities, Inc	1,544	10,969
Due from other mortgage banking companies	113,485	58,784
	$ 311,571	$ 533,101

(1) Warehouse line is maintained by IMH at the same rates and terms as those offered by IWLG to affiliates except for the advance rate, which is 8% of the fair market value of the collateral.

NOTE F--PREMISES AND EQUIPMENT, NET

Premises and equipment consisted of the following:

	AT DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Premises and equipment	$ --	$ 3,941
Less accumulated depreciation	--	(75)
	$ --	$ 3,866

NOTE G--ALLOWANCE FOR LOAN LOSSES

Activity for allowance for loan losses was as follows:

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
		(IN THOUSANDS)	
Balance, beginning of period	$ 5,129	$ 4,384	$ 100
Provision for loan losses	4,361	6,843	4,350
Charge-offs	(1,711)	(4,748)	(146)
Loss on sale of delinquent loans	(820)	(1,350)	--
Recoveries	--	--	80
Balance, end of period	$ 6,959	$ 5,129	$ 4,384

Note H--Reverse repurchase agreements

The Company entered into reverse repurchase agreements with major brokerage firms to finance its Warehouse Lending Operations and to fund the purchase of mortgage loans and mortgage-backed securities. Mortgage loans and mortgage-backed securities underlying reverse repurchase agreements are delivered to dealers that arrange the transactions. The Company's reverse repurchase agreements are uncommitted lines, which may be withdrawn at any time by the lender, with interest rates that range from one-month LIBOR plus 0.85% to 2.00% depending on the type of collateral provided. The Company also uses reverse repurchase agreements to fund the purchase of its mortgage-backed securities and to provide the Company additional working capital. At December 31, 1998 interest rates on these reverse repurchase agreements range from LIBOR plus 0.45% to 2.00% with maturities generally for 30 days. The Company's interest expense on reverse repurchase agreements for the years ended 1998, 1997 and 1996 was $42.1 million, $39.7 million and $27.5 million, respectively. The following tables set forth information regarding the Company's reverse repurchase agreements (in thousands):

	AT DECEMBER 31, 1998					
	TYPE OF COLLATERAL	COMMITTED	COMMITMENT Amount	REVERSE REPURCHASE LIABILITY	UNDERLYING COLLATERAL	MATURITY DATE
Lender 1........................	Mortgages	No	$ 299,567	$ 299,567	$ 313,338	N/A
Lender 2........................	Securities	Yes	10,017	10,017	30,595	12/29/99
Lender 3........................	Securities	Yes	7,876	7,876	18,578	1/21-3/26/99(1)
Lender 4........................	Securities	Yes	3,632	3,632	12,189	1/05/99(1)
Lender 5........................	Securities	Yes	2,533	2,533	8,715	1/15/99(1)
			$ 323,625	$ 323,625	$ 383,415	

	AT DECEMBER 31, 1997					
	TYPE OF COLLATERAL	COMMITTED	COMMITMENT Amount	REVERSE REPURCHASE LIABILITY	UNDERLYING COLLATERAL	MATURITY DATE
Lender 1......................	Mortgages	No	$ 741,469	$ 741,469	$ 759,819	N/A
Lender 2......................	Mortgages	No	4,986	4,986	5,182	N/A
Lender 3......................	Securities	Yes	9,104	9,104	12,091	1/2/1998
			$ 755,559	$ 755,559	$ 777,092	

(1) Upon expiration these securities were renewed.

At December 31, 1998 and December 31, 1997, reverse repurchase agreements includes accrued interest payable of $2.0 million and $5.4 million, respectively. The following table presents certain information on reverse repurchase agreements, excluding accrued interest payable:

	FOR THE YEAR ENDED DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
Maximum month-end outstanding balance...	$ 912,444	$ 924,638
Average balance outstanding...	631,537	609,017
Weighted average rate...	6.67%	6.52%

NOTE I--CMO BORROWINGS

The Company's CMOs are guaranteed for the holders by a mortgage loan insurer giving the CMOs the highest rating established by a nationally recognized rating agency. Each issue of CMOs is fully payable from the principal and interest payments on the underlying mortgage loans collateralizing such debt, any cash or other collateral required to be pledged as a condition to receiving the desired rating on the debt, and any investment income on such collateral. The Long-Term Investment Operations earns the net interest spread between the interest income on the mortgage loans securing the CMOs and the interest and other expenses associated with the CMO financing. The net interest spread may be directly impacted by the levels of prepayment of the underlying mortgage loans and, to the extent each CMO class has variable rates of interest, may be affected by changes in short-term interest rates. Variable rate CMOs are typically structured as one-month LIBOR "floaters." Interest on variable and fixed rate CMOs is payable to the holders monthly. For the years ended December 31, 1998, 1997 and 1996, interest expense on CMO borrowings was $76.3 million,

$36.7 million $16.6 million, respectively. The following table sets forth CMOs issued by the Company, CMOs outstanding as of December 31, 1998, and certain interest rate information:

ISSUE DATE	ISSUANCE NAME	ISSUANCE AMOUNT	CMOS OUTSTANDING	Range of FIXED INTEREST RATES	RANGE OF INTEREST RATE MARGINS OVER ONE-MONTH LIBOR	INTEREST RATE MARGIN ADJUSTMENT DATE	RANGE OF INTEREST RATE MARGINS AFTER ADJUSTMENT DATE
		(IN MILLIONS)					
4/22/96	Fund America Investors Trust V...............	$ 296.3	$ 79.2	N/A	0.50%	6/2003	1.00%
8/27/96	Impac CMB Trust Series 1996-1....	259.8	64.6	N/A	0.32%	10/2003	1.32%
5/22/97	Impac CMB Trust Series 1997-1....	348.0	168.9	N/A	0.22%	7/2004	0.44%
12/10/97	Impac CMB Trust Series 1997-2....	173.7	120.9	N/A	0.26-1.30%	1/2005	0.522.60%
1/27/98	Impac CMB Trust Series 1998-1....	362.8	283.7	6.657.25%	N/A	N/A	N/A
3/24/98	Impac CMB Trust Series 1998-2....	220.2	190.4	6.707.25%	N/A	N/A	N/A
6/23/98	Impac CMB Trust Series 1998-3....	185.0	161.6	N/A	0.18-1.24%	7/2005	0.362.48%
		1,845.8	1,069.3				
	Accrued interest.......	--	3.0				
		$ 1,845.8	$ 1,072.3				

At December 31, 1998 and 1997, CMO borrowings include accrued interest payable of $3.0 million and $815,000, respectively.

NOTE J--SEGMENT REPORTING

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

The Company reviews and analyzes its segments into three basic segments:

- The Long-Term Investment Operations, conducted by IMH and IMH Assets, invests primarily in non-conforming residential mortgage loans and mortgage-backed securities secured by or representing interests in such loans and in second mortgage loans.

- The Warehouse Lending Operations provides warehouse and repurchase financing to affiliated companies and to approved mortgage banks, most of which are correspondents of IFC, to finance mortgage loans.

- The Conduit Operations, conducted by IFC, purchases non-conforming mortgage loans and second mortgage loans from its network of third party correspondents and other sellers. (1)

The following table breaks out IMH's 1998 segments (in thousands):

	LONG-TERM INVESTMENT OPERATIONS	WAREHOUSE LENDING OPERATIONS	OTHER (2)	ELIMINATIONS (3)	CONSOLIDATED
BALANCE SHEET ITEMS:					
CMO collateral	$ 1,161,220	$ --	$ --	$ --	$ 1,161,220
Total assets	1,410,019	338,365	3,418	(86,298)	1,665,504
Total stockholders' equity	277,868	38,745	615	(65,622)	251,606
Total liabilities and stockholders' equity	1,410,019	338,365	3,418	(86,298)	1,665,504
INCOME STATEMENT ITEMS:					
Interest income	121,271	57,500	358	(15,471)	163,658
Interest expense	95,095	41,903	168	(15,471)	121,695
Depreciation and amortization	11	--	344	--	355
Equity in IFC	--	--	--	(13,876)	(13,876)
Net earnings (loss)	(6,369)	15,057	560	(15,181)	(5,933)

The following table breaks out IMH's 1997 segments (in thousands):

	LONG-TERM INVESTMENT OPERATIONS	WAREHOUSE LENDING OPERATIONS	OTHER (2)	ELIMINATIONS (3)	CONSOLIDATED
BALANCE SHEET ITEMS:					
CMO collateral	$ 794,893	$ --	$ --	$ --	$ 794,893
Total assets	1,287,200	766,844	19,872	(321,104)	1,752,812
Total stockholders' equity	255,729	23,688	3,889	(54,276)	229,030
Total liabilities and stockholders' equity	1,287,200	766,844	19,872	(321,104)	1,752,812
INCOME STATEMENT ITEMS:					
Interest income	72,092	52,643	--	(15,202)	109,533
Interest expense	53,607	38,172	--	(15,202)	76,577
Depreciation and amortization	10	--	65	--	75
Equity in IFC	--	--	--	8,316	8,316
Net earnings (loss)	(38,279)	14,527	27	7,696	(16,029)

The following table breaks out IMH's 1996 segments (in thousands):

	LONG-TERM INVESTMENT OPERATIONS	WAREHOUSE LENDING OPERATIONS	OTHER (2)	ELIMINATIONS (3)	CONSOLIDATED
BALANCE SHEET ITEMS:					
CMO collateral	$ 501,744	$ --	$ --	$ --	$ 01,744
Total assets	643,090	357,634	--	(28,369)	72,355
Total stockholders' equity	148,399	9,160	--	(28,369)	29,190
Total liabilities and stockholders' equity	643,090	357,634	--	(28,369)	72,355
INCOME STATEMENT ITEMS:					
Interest income	28,054	35,619	--	--	63,673
Interest expense	17,339	26,805	--	--	44,144
Equity in IFC	--	--	--	903	903
Net earnings (loss)	2,334	8,642	--	903	11,879

(1) The Conduit Operations is accounted for based on the equity method and is not consolidated.
(2) Includes mainly the operations of the building purchased on Dove Street and account reclassifications.
(3) Used to eliminate intercompany balances and intercompany operations.

NOTE K--DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by IMH using available market information and appropriate valuation methodologies, however, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts IMH could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
ASSETS	(IN THOUSANDS)			
Cash and cash equivalents	$ 33,876	$ 33,876	$ 16,214	$ 16,214
Investment securities available-for-sale	93,486	93,486	67,011	67,011
CMO collateral	1,161,220	1,185,188	794,893	802,044
Finance receivables	311,571	311,571	533,101	533,101
Mortgage loans held-for-investment	20,627	20,627	257,717	257,717
Due from affiliates	17,904	17,904	16,679	16,679
LIABILITIES				
CMO Borrowings, excluding accrued interest	1,069,323	1,071,375	741,092	741,092
Reverse-repurchase agreements, excluding accrued interest	321,667	321,667	750,174	750,174
Due to affiliates	2,670	2,670	12,421	12,421
Short-term commitments to extend credit	--	--	--	--

The fair value estimates as of December 31, 1998 and 1997 are based on pertinent information available to management as of that date. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented.

The following describes the methods and assumptions used by IMH in estimating fair values:

Cash and Cash Equivalents

Fair value approximates carrying amounts as these instruments are demand deposits and money market mutual funds and do not present unanticipated interest rate or credit concerns.

Investment Securities Available-for-Sale

Fair value is estimated using a bond model, which incorporates certain assumptions such as prepayment, yield and losses.

CMO Collateral

Fair value is estimated based on quoted market prices from dealers and brokers for similar types of mortgage loans.

Finance Receivables

Fair value approximates carrying amounts due to the short-term nature of the assets and do not present unanticipated interest rate or credit concerns.

Mortgage Loans Held-for-Investment

Fair value is estimated based on estimates of proceeds the Company would receive from the sale of the underlying collateral of each loan.

Due From / To Affiliates

Fair value approximates carrying amount because of the short-term maturity of the liabilities and does not present unanticipated interest rate or credit concerns.

CMO Borrowings

Fair value of fixed rate borrowings is estimated based on the use of a bond model, which incorporates certain assumptions such as yield, prepayment and losses. Fair value of variable rate borrowings approximate carrying amount because of the variable interest rate nature of the borrowings.

Reverse Repurchase Agreements

Fair value approximates carrying amounts due to the short-term nature of the liabilities and do not present unanticipated interest rate or credit concerns.

Short-term Commitments to Extend Credit

The Company does not collect fees associated with its warehouse lines of credit. Accordingly, these commitments do not have an estimated fair value.

NOTE L--EMPLOYEE BENEFIT PLANS

Profit Sharing and 401(k) Plan

The Company does not have its own 401(K) or profit sharing plan. As such, employees of the Company participate in Imperial Credit Industries, Inc. (ICII) 401(K) plan. Under ICII's 401(K) plan, employees of the Company may contribute up to 14% of their salaries. The Company will match 50% of the first 4% of employee contributions. Additional Company contributions may be made at the discretion of the Company. The Company's matching and discretionary contributions were not significant for any period presented.

NOTE M--RELATED PARTY TRANSACTIONS

Related Party Cost Allocations

IMH entered into a services agreement with ICII under which ICII provides various services to the Company, including data processing, human resource administration, general ledger accounts, check processing, remittance processing and payment of accounts payable. ICII charged fees for each of the services based upon usage. As part of the services provided, ICII provided the Company with insurance coverage and self-insurance programs, including health insurance. This service agreement was replaced with the ICAI services agreement in December 1997. The charge to the Company for coverage was based upon a pro rata portion of the costs to ICII for its various policies. Total charges to the Company for the year ended December 31, 1998, 1997 and 1996 were none, $8,000 and $55,000, respectively. In December 1996, IFC began providing data processing, professional services and accounting functions to the Company while ICII continues to provide human resource administration functions, thereby reducing the Company's charges from ICII.

During 1998, the Company was allocated data processing, executive and operations management, and accounting services that IFC incurred during the normal course of business per the Company's Submanagement Agreement with RAI. IFC, through RAI, charged the Company for management and operating services based upon usage which management believes was reasonable. Total cost allocations charged by IFC, through RAI, to the Company for the year ended December 31, 1998 was $968,000. During 1997, prior to the Submanagement Agreement with RAI, the Company was allocated data processing, executive and operations management, and accounting services that IFC incurred during the normal course of business. IFC charged the Company for management and operating services based upon usage which management believes was reasonable. Total cost allocations charged by IFC to the Company for the year ended December 31, 1997 was $385,000.

IMH has entered into a premises operating sublease agreement with ICII (see Note N--Commitments and Contingencies) to rent approximately 33,000 square feet of office space in Santa Ana Heights, California, for a two-year term that expired in February 1999. IMH pays the monthly rental expense and allocates the cost to subsidiaries and affiliated companies on the basis of square footage occupied. The majority of occupancy charges incurred were allocated to IFC as most of the Company's employees are employed by the Conduit Operations. Total rental expense for the years ended December 31, 1998, 1997 and 1996 were $1.3 million, $396,000, and $181,000, of which $1.2 million, $385,000, and $179,000 was allocated to IFC.

Credit Arrangements

IWLG maintains a warehouse financing facility with IFC. Advances under such warehouse facilities bear interest at Bank of America's prime rate. As of December 31, 1998 and 1997, finance receivables outstanding to IFC were $192.9 million and $454.8 million, respectively. Interest income recorded by IWLG related to finance receivables due from IFC for the years ended December 31, 1998, 1997, and 1996, was $32.7 million, $33.4 million, and $31.8 million, respectively.

IWLG maintains a warehouse financing facility with WSI, a firm affiliated with James Walsh, a Director of the Company. Advances under the line of credit bear interest at a rate determined at the time of each advance. As of December 31, 1998 and 1997, finance receivables outstanding to WSI were $798,000 and $5.9 million, respectively. Interest income recorded by IWLG related to finance receivables due from WSI for the years ended December 31, 1998 and 1997 was $699,000 and $255,000, respectively.

During 1997, IWLG extended loans of $5.1 million to WSI at rates ranging from prime plus 2% per annum to prime plus 4% per annum. As of December 31, 1998 and 1997, WSI had an aggregate of $746,000 and $5.1 million, respectively, outstanding on the loans. Interest income recorded by IWLG related to loans due from WSI for the years ended December 31, 1998 and 1997 was $254,000 and $135,000, respectively.

IMH maintains an uncommitted warehouse line agreement with ICCC. The margins on the warehouse line agreement are at 8% of the fair market value of the collateral provided. Advances under such warehouse facilities bear interest at Bank of America's prime rate. As of December 31, 1998 and 1997, finance receivables outstanding to ICCC were $3.6 million and $8.5 million, respectively. Interest income recorded by IMH related to finance receivables due from ICCC for the years ended December 31, 1998 and 1997 was $785,000 and $262,000, respectively.

During 1998 and 1997, IMH had a credit arrangement with ICH whereby ICH agreed to advance to IMH up to a maximum amount of $15.0 million for general working capital needs. Subsequent to 1998, the credit agreement was terminated and will no longer be used. Advances under the credit arrangement were at an interest rate and maturity determined at the time of each advance at the discretion of the Board of Directors with interest and principal paid monthly. As of December 31, 1998 and 1997, there was no outstanding balance under the credit arrangement. Interest expense recorded by IMH for the years ended December 31, 1998 and 1997 related to such advances to ICH was $295,000 and $68,000, respectively.

During 1998 and 1997, IMH had a credit arrangement with ICH whereby IMH agreed to advance to ICH up to maximum amount of $15.0 million for general working capital needs. Subsequent to 1998, the credit agreement was terminated and will no longer be used. Advances under the revolving credit arrangement were at an interest rate and maturity determined at the discretion of the Board of Directors at the time of each advance with interest and principal paid monthly. As of December 31, 1998 and 1997, there were none and $9.1 million, respectively, outstanding under the credit arrangement. Interest income recorded by IMH for the years ended December 31, 1998 and 1997 was $43,000 and $55,000, respectively.

IMH entered into a revolving credit arrangement with a commercial bank, which is an affiliate of ICII, whereby IMH can borrow up to maximum amount of $10.0 million for general working capital needs. The revolving credit agreement was converted to a reverse repurchase agreement in October 1998. Advances under the reverse repurchase agreement are at an interest rate of LIBOR plus 2.00%, with interest paid monthly. As of December 31, 1998, IMH's outstanding borrowings under the reverse repurchase arrangement were $10.0 million. Interest expense recorded by IMH for the year ended December 31, 1998 related to such advances was $202,000.

On December 18, 1997, IMH/ICH Dove St., LLC (of which IMH had a 50% interest), partly financed its purchase in a commercial office building located in Newport Beach, California with a loan for $5.2 million from ICCC. The loan was repaid by IMH/ICH Dove St., LLC in the fourth quarter of 1998 with proceeds from the sale of the building to ICH. IMH/ICH Dove St., LLC paid loan fees of $71,000 upon origination of the loan.

During the normal course of business, the Company may advance or borrow funds on a short-term basis with affiliated companies. Advances to affiliates are reflected as "Due from affiliates", while borrowings are reflected as "Due to affiliates" on the Company's balance sheet. These short-term advances and borrowings bear interest at a fixed rate of 8.00% per annum. As of December 31, 1998 and 1997, due from affiliates was $17.9 million and $16.7 million, respectively. Interest income recorded by the Company related to short-term advances due from affiliates for the years ended December 31, 1998, 1997 and 1996 was $2.4 million, $219,000 and none, respectively. As of December 31, 1998 and 1997, due to affiliates was $2.7 million and $12.4 million, respectively. Interest expense recorded by the Company related to short-term borrowings due to affiliates for the years ended December 31, 1998, 1997 and 1996 was $2.7 million, $196,000 and none, respectively.

In February 1997, the Company financed ICH's purchase of $17.5 million of commercial mortgage loans from IFC with $16.6 million in borrowings from IWLG and $900,000 in other borrowings from IMH. The Company recorded interest income on the amounts borrowed from IWLG at 6.3% per annum, which totaled $164,000. In March 1997, ICH repaid the $900,000 in other borrowings from IMH. Interest income recorded by IMH related to other borrowings with ICH was $53,000 for the year ended December 31, 1997.

In June 1997, IMH canceled debt in the amount $9.0 million owed to IMH by IFC. Of the canceled amount, $8.91 million was contributed to IFC as a contribution to preferred stock and $90,000 was contributed on behalf of IFC's common shareholders, Messrs. Tomkinson, Ashmore, and Johnson, so as to maintain their 1% economic interest.

As part of the Company's termination agreement of its Management Agreement with ICAI, the Company purchased the equity in residual interests in securitizations from IFC for $9.0 million and simultaneously retired IFC's borrowings with the Company for the equity in residual interests in securitizations for $9.0 million. No gain or loss on the sale of residual interests in securitizations was recorded by the Company or IFC.

Indebtedness of Management. In connection with the exercise of stock options by certain directors of the Company, the Company made loans secured by the related stock. The loans were made for a five-year term with a current interest rate of 5.63%. Interest on the loans is payable quarterly upon receipt of the dividend payment and the interest rate is set annually by the compensation committee. At each dividend payment date, 50% of excess quarterly stock dividends, after applying the dividend payment to interest due, is required to reduce the principal balance outstanding on the loans. The interest rate on these loans adjusts annually at the discretion of the Board of Directors. As of December 31, 1998 and 1997, total notes receivable from common stock sales was $918,000 and $1.3 million, respectively. Interest income recorded by the Company related to the loans for the years ended December 31, 1998, 1997 and 1996 was $60,000, $68,000 and $1,000, respectively.

Organizational Transactions with ICH and ICCC

In February 1997, certain officers and directors of the Company, as a group, and IMH purchased 300,000 and 299,000 shares of the Common Stock of ICH, respectively. In addition, IMH purchased all of the non-voting preferred stock of ICCC, which represents 95% of the economic interest in ICCC, for $500,000, and certain of the Company's officers purchased all of the outstanding shares of common stock of ICCC, which represents 5% of the economic interest in ICCC. In addition, ICCC brokered ICH's purchase of $7.3 million and $10.2 million of condominium conversion loans which were financed with $16.6 million in borrowings under a warehouse lending facility provided by a subsidiary of IMH, and $900,000 in borrowings from IMH.

In March 1997, IMH loaned ICH $15.0 million evidenced by a promissory note convertible into shares of non-voting preferred stock of ICH at the rate of one share of ICH Preferred Stock for each $5.00 principal amount of said note. IMH converted the aforementioned $15.0 million principal amount promissory note into an aggregate of 3,000,000 shares of ICH Preferred Stock. All shares of ICH Preferred Stock were automatically converted upon the closing of ICH's initial public offering into shares of ICH Common Stock determined by multiplying the number of shares of ICH Preferred Stock to be converted by a fraction, the numerator of which was $5.00 and the denominator of which was $15.00. Notwithstanding the foregoing, consistent with IMH's classification as a REIT, IMH was not entitled to convert into ICH Common Stock more than that number of shares of ICH Preferred Stock whereby IMH would own, immediately after such conversion, greater than 9.8% of ICH's outstanding Common Stock. Any shares of ICH Preferred Stock not converted into ICH Common Stock upon the closing of the Offering shall on such date automatically convert into shares of ICH non-voting Class A Common Stock at the same rate as the ICH Preferred Stock converted into Common Stock. Shares of ICH Class A Stock convert into shares of Common Stock on a one-for-one basis and each such class of Common Stock is entitled to cash dividends on a pro rata basis. Upon any subsequent issuances of Common Stock by ICH or sale of ICH Common Stock held by IMH, shares of ICH Class A Stock shall automatically convert into additional shares of the Common Stock of ICH, subject to a 9.8% limitation. In addition, ICH purchased $10.1 million in Commercial Mortgage-Backed Securities (CMBS) from IFC which was financed with a promissory note. The promissory note was repaid to IFC with cash from IMH's above-referenced $15.0 million investment. Concurrently, ICH repaid the $900,000 owed to IMH in connection with its purchase of condominium conversion loans. Subsequently, ICH entered into a borrowing agreement with ICII for $7.9 million secured by $10.1 million CMBS.

In April 1997, IMH exchanged the 299,000 shares of ICH Common Stock held by it for an equivalent number of shares of ICH Class A Stock.

Upon the closing of the ICH initial public offering in August 1997, IMH contributed to ICH 100% of the outstanding shares of non-voting preferred stock of ICCC in exchange for 95,000 shares of ICH Class A Stock.

Lease Agreement

During 1998, IMH entered into a premises operating lease with ICH to rent approximately 74,000 square feet of office space. The lease agreement is for a term of ten years expiring in May 2008 with monthly lease payments of $145,000 per month. The office space will be allocated to the Company's affiliates and subsidiaries based on the aggregate square feet of space occupied. The majority of the monthly lease expense will be allocated to IFC.

Purchase of Mortgage-Backed Securities

During the years ended December 31, 1998 and 1997, the Company purchased $60.6 million and $15.0 million, respectively, of mortgage-backed securities issued by IFC for $56.1 million and $12.6 million, respectively, net of discounts of $4.5 million and $2.4 million, respectively. IFC issued mortgage-backed securities during 1998 and 1997 in connection with its REMIC securitizations.

Purchase of Mortgage Loans

During the years ended December 31, 1998 and 1997, the Company purchased from IFC mortgage loans having a principal balance of $842.9 million and $839.5 million, respectively, including premiums of $23.9 million and $37.5 million, respectively. Servicing rights on all mortgages purchased by IMH were retained by IFC.

Redemption of Senior Notes

On January 24, 1997, IMH redeemed ICII senior note obligations for $5.2 million, resulting in a gain of $648,000.

Sale of Commercial Office Building

On October 27, 1998, the Company sold to ICH its remaining 50% ownership interest in a commercial office building located in Newport Beach, California for $6.0 million. After the sale of the 50% ownership interest to ICH, the Company has no ownership interest in the commercial office building.

Sale of Franchise Loans Receivables

In April 1998, IMH sold the beneficial interest in the Class A Trust Certificate for the Franchisee Loan Receivables Trust 1995-B Franchise Loans Receivables and the beneficial interest in the Class E Trust Certificate for the Franchisee Loan Receivables Trust 1996-B to IFC at carrying value which approximated fair value. No gain or loss was recorded on the sale and IMH was under no obligation to sell the securities.

Sale of ICH Common Stock

On October 21, 1998, ICH repurchased 937,084 shares of ICH Common Stock and 456,916 shares of ICH Class A Common Stock from IMH at a per share price of $4.375, based upon the closing sales price of the Common Stock on the AMEX on October 19, 1998, for a total repurchase of $6.1 million. The Company recorded a loss on the sale of ICH Common Stock of $9.1 million. The sale of ICH Common Stock represented 100% of IMH's ownership of ICH Common Stock.

Sale of Mortgage Loans

During the year ended December 31, 1998, the Company sold to IFC mortgage loans having a principal balance of $170.4 million including premiums of $7.7 million.

Services Agreement

In connection with the Termination Agreement effective in December 1997, the Company entered into a service agreement with ICAI for a term of one year. Under the agreement, ICAI agreed to provide certain human resource and data and phone communication services based on an arranged fee. The service agreement was extended for an additional one-year term. For the year ended December 1998, IMH was charged $13,000 for these services.

Sub-Servicing Agreement

IFC acts as a servicer of mortgage loans acquired on a "servicing-released" basis by the Company in its Long-Term Investment Operations pursuant to the terms of a Servicing Agreement, which became effective on November 20, 1995. IFC subcontracts all of its servicing obligations under such loans to independent third parties pursuant to sub-servicing agreements.

Non-Compete Agreement and Right of First Refusal Agreement

Pursuant to the Non-Compete Agreement executed on the date of the ICH initial public offering, IFC will not acquire any commercial mortgages for a period of the earlier of nine months from the closing of the ICH initial public offering or the date upon which ICH and/or ICCC accumulates (for investment or sale) $300.0 million of commercial mortgages or commercial mortgage-backed securities. This agreement expired in March 1998.

Pursuant to the Right of First Refusal Agreement by and among IMH, IFC, ICH, ICCC and RAI, pursuant to which, in part, RAI will agree that any mortgage loan or mortgage-backed security investment opportunity which is offered to it on behalf of either ICH, IMH any affiliated REIT will first be offered to that entity whose initial primary business as described in its initial public offering documentation most closely aligns with such investment opportunity.

Termination of Management Agreement

Effective December 19, 1997, the Company terminated its Management Agreement with ICAI. A termination fee in the aggregate of $44.0 million was paid with 2,009,310 shares of the Company's common stock representing a value of $35.0 million in addition to equity in IFC's residual interests in securitizations. In connection with the Termination Agreement, the Company entered into a Registration Rights Agreement with ICAI with regards to the 2,009,310 shares of Common Stock. IMH purchased the equity in residual interests in securitizations from IFC for $9.0 million and simultaneously retired IFC's borrowings with IMH for the equity in residual interests in securitizations of $9.0 million. No gain or loss on the sale of residual interests in securitizations was recorded by IMH or IFC. For financial accounting purposes, the termination fee was treated as a non-recurring, non-cash expense and resulted in a charge of $44.4 million to the Company's fourth quarter income.

NOTE N--COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk

IMH is a party to financial instruments with off-balance-sheet risk in the normal course of business. Such instruments include short-term commitments to extend credit to borrowers under warehouse lines of credit, which involve elements of credit risk. In addition, IMH is exposed to credit loss in the event of nonperformance by the counterparties to the various agreements associated with loan purchases. However, IMH does not anticipate nonperformance by such borrowers or counterparties. Unless noted otherwise, IMH does not require collateral or other security to support such commitments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The contract or notional amounts of forward contracts do not represent exposure to credit loss. The Company controls the credit risk of its forward contracts through credit approvals, limits and monitoring procedures.

In the ordinary course of business, IFC is exposed to liability under representations and warranties made to purchasers and insurers of mortgage loans and the purchasers of servicing rights. Under certain circumstances, IFC is required to repurchase mortgage loans if there had been a breach of representations or warranties. IMH has guaranteed the performance obligation of IFC under such representation and warranties related to loans included in securitizations.

Lease Commitments

As of December 31, 1998, the Company had two non-cancelable premises operating leases. One premises operating lease was executed with ICII for approximately 33,000 square feet of office space in Santa Ana Heights, California, which expired in February 1999. The Company entered into an additional premises operating lease with ICH for approximately 74,000 square feet of office space in Newport Beach, California which expires in May 2008. Minimum premises rental commitments under non-cancelable leases are as follows (in thousands):

1999	$ 1,846
2000	1,812
2001	1,856
2002	1,901
2003 and thereafter	11,067
Total	$ 18,482

Rent expense associated with the leases is allocated between IMH, IWLG and IFC based on square footage. The Company's portion of premises rental expense for the years ended December 31, 1998, 1997, and 1996 was $65,000, $11,000, and $2,000, respectively.

Loan Commitments

IWLG's warehouse lending program provides secured short-term non-recourse revolving financing to small-and medium-size mortgage originators and affiliated companies to finance mortgages from the closing of the loans until sold to permanent investors. As of December 31, 1998, IWLG had 32 committed lines of credit extended in the aggregate principal amount of $813.1 million, of which $215.5 million was outstanding with affiliated companies. The Company's warehouse lines are non-recourse and IWLG can only look to the sale or liquidation of the mortgages as a source of repayment.

NOTE O--MANAGEMENT CONTRACT

Effective December 19, 1997, the Company terminated its Management Agreement with ICAI. The termination fee of $44.0 million was paid with 2,009,310 shares of the Company's Common Stock in addition to other assets. During the years ended December 31, 1998, 1997 and 1996, the Company paid fees to ICAI of none, $6.2 million and $3.3 million, respectively.

NOTE P--STOCK OPTION PLAN

The Company adopted a Stock Option, Deferred Stock and Restricted Stock Plan (the Stock Option Plan) which provides for the grant of qualified incentive stock options (ISOs), options not qualified (NQSOs) and deferred stock, restricted stock, stock appreciation, dividend equivalent rights and limited stock appreciation rights awards (Awards). The Stock Option Plan is administered by a committee of directors appointed by the Board of Directors (the Administrator). ISOs may be granted to the officers and key employees of the Company. NQSOs and Awards may be granted to the directors, officers and key employees of the Company or any of its subsidiaries, to the directors, officers and key employees of IFC. The exercise price for any NQSO or ISO granted under the Stock Option Plan 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. Unless previously terminated by the Board of Directors, no options or Awards may be granted under the Stock Option Plan after August 31, 2005.

Options granted under the Stock Option Plan will become exercisable in accordance with the terms of the grant made by the Administrator. Awards will be subject to the terms and restrictions of the award made by the Administrator. The Administrator has discretionary authority to select participants from among eligible persons and to determine at the time an option or Award is granted and, in the case of options, whether it is intended to be an ISO or a NQSO, and when and in what increments shares covered by the option may be purchased. As of December 31, 1998, 1997 and 1996, options to purchase 562,500 shares, 25,550 shares and none, respectively, were exercisable and 462,219 shares, 304,125 shares and 755,000 shares, respectively, were reserved for future grants under the Stock Option Plan.

Option transactions for the periods shown are summarized as follows:

	FOR THE YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Options outstanding at beginning of year..	724,675	$ 12.56	548,250	$ 9.47	465,000	$ 7.67
Options granted...........................	195,781	5.68	325,125	16.73	173,250	13.75
Options exercised.........................	(7,800)	13.75	(103,700)	8.77	(67,500)	8.67
Options forfeited/cancelled..............	(174,875)	15.34	(45,000)	13.75	(22,500)	7.50
Options outstanding at end of year........	737,781	$ 10.06	724,675	$ 12.56	548,250	$ 9.47

In connection with the exercise of stock options under the Stock Option Plan during 1998, the Company made one loan totaling $30,000 to an employee of the Company that is secured by the related Common Stock. The loan was made for an initial five-year term with a current interest rate on the loan of 5.6%.

Interest on all loans secured by the Company's Common Stock is payable quarterly upon receipt of the Company's dividend payment. At each dividend payment date, 50% of excess quarterly stock dividends, after applying the dividend payment to interest due, is required to reduce the principal balance outstanding on the loans. The interest rate on these loans adjusts annually and is set at the discretion of the Board of Directors. As of December 31, 1998 and 1997, total notes receivable from Common Stock sales was $918,000 and $1.3 million, respectively.

The following table sets forth information about fixed stock options outstanding at December 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES ($)	NUMBER OUTSTANDING AT PERIOD END	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (MOS)	WEIGHTED-AVERAGE EXERCISE PRICE ($)	NUMBER EXERCISABLE AT PERIOD END	WEIGHTED-AVERAGE EXERCISE PRICE ($)
$ 4.44 - $ 4.44	175,281	5.10	$ 4.44	--	--
$ 7.50 - $ 7.50	292,500	6.66	$ 7.50	292,500	$ 7.50
$ 5.42 - $15.42	135,000	8.08	$15.42	135,000	$15.42
$ 7.58 - $17.58	135,000	4.81	$17.58	135,000	$17.58
$ 4.44 - $17.58	737,781	6.21	$10.06	562,500	$11.82

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 the Company to choose either a new fair value based method or the current APB Opinion 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 Opinion 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 nonemployees or to acquire goods or services from outside suppliers or vendors.

The Company elected to continue to apply APB Opinion 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. If the Company had determined its compensation cost based on the fair value, at the grant date, of its stock options exercisable under SFAS 123, the Company's net earnings (loss) and net earnings (loss) per share would have decreased to the pro forma amounts indicated below (dollars in thousands, except per share data):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Net earnings (loss) as reported	$ (5,933)	$ (16,029)	$ 11,879
Pro forma net earnings (loss)	$ (6,038)	$ (16,581)	$ 11,122
Basic earnings (loss) per share as reported	$ (0.25)	$ (0.99)	$ 1.34
Diluted earnings (loss) per share as reported	$ (0.25)	$ (0.99)	$ 1.32
Basic pro forma earnings (loss) per share	$ (0.25)	$ (1.02)	$ 1.25
Diluted pro forma earnings (loss) per share	$ (0.25)	$ (1.02)	$ 1.23

The derived fair value of the options granted during 1998 and 1997 was approximately $0.54 and $1.70, respectively, using the Black-Scholes option pricing model. The following assumptions were used to derive the fair value of options granted during 1998: risk-free interest rate of 5.09%, expected lives of three, four, five and ten years, and expected volatility of 29.9%. The following assumptions were used to derive the fair value of options granted during 1997: risk-free interest rate of 5.84%, expected lives of three, six and ten years, and expected volatility of 28.5%.

NOTE Q--STOCKHOLDERS' EQUITY

During 1998, the Company raised capital of $31.1 million as 1.8 million shares of Common Stock were purchased under the Company's Dividend Reinvestment and Stock Purchase Plan and 246,000 shares of Common Stock were purchased under the Company's structured equity shelf program. Proceeds from the sale of securities were used for general corporate purposes including funding the Long-Term Investment Operations, the Conduit Operations and the Warehouse Lending Operations, repayment of maturing obligations, redemption of outstanding indebtedness, financing future acquisitions, capital expenditures and working capital.

During 1998, directors, officers and employees of the Company exercised 7,800 shares of Common Stock resulting in proceeds of $108,000. In conjunction with the exercise of stock options, the Company approved one loan for $30,000 under the terms and conditions of the Company's stock option loan program.

On December 22, 1998, the Company completed the sale of 1,200,000 shares of Series B 10.5% Preferred Stock at $25.00 per share. The Series B Preferred Stock is convertible into shares of the Company's Common Stock at a conversion price of $4.95 per share. Accordingly, each share of Series B Preferred Stock is convertible into 5.050505 shares of the Company's Common Stock. Dividends on the Series B Preferred Stock will accumulate from the date of issuance and will be payable quarterly, in cash or the Company's Common Stock starting April 27, 1999. The dividend rate per share will be the greater of $0.65625 or the quarterly cash dividend declared on the number of shares of Common Stock into which a share of Series B Preferred Stock is convertible. The Company is authorized to issue shares of Preferred Stock designated in one or more classes or series. The Preferred Stock may be issued from time to time with such designations, rights and preferences as shall be determined by the Board of Directors. The Preferred Stock has a preference on dividend payments, takes priority over dividend distributions to the common stockholders.

NOTE R--SUBSEQUENT EVENTS

On February 24, 1999 the Company made an Exchange Offer of 11% Senior Subordinated Debentures due February 15, 2004 for up to 5,000,000 shares of its Common Stock. The Debentures will be unsecured obligations of the Company subordinated and subject in right of payment to all existing and future Senior Indebtedness of the Company and effectively subordinated to all Indebtedness of the Company's subsidiaries. The Debentures will bear interest at 11% per annum from their date of issuance, payable quarterly, commencing May 15, 1999, until the Debentures are paid in full. The Debentures mature on February 15, 2004, which date may be extended once by the Company to a date not later than May 15, 2004, provided that the Company satisfies certain conditions. Commencing on February 15, 2001, the Debentures will be redeemable, at the Company's option, in whole at any time or in part from time to time, at the principal amount to be redeemed plus accrued and unpaid interest to the redemption date.

NOTE S--QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for 1998 follows (in thousands, except per share data):

	FOR THE THREE MONTHS ENDED,			
	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
Net interest income after provision for loan losses (1).........	$ 6,742	$ 11,968	$ 11,030	$ 7,862
Non-interest income (1).......................................	(10,654)	(9,534)	3,287	3,362
Non-interest expense (1)......................................	4,187	23,050	2,639	120
Net earnings (loss)...	(8,099)	(20,616)	11,678	11,104
Net earnings (loss) per share diluted (2)......................	(0.33)	(0.85)	0.49	0.48
Dividends declared per share..................................	--	0.49	0.49	0.48

Selected quarterly financial data for 1997 follows (in thousands, except per share data):

	FOR THE THREE MONTHS ENDED,			
	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
Net interest income after provision for loan losses (1).........	$ 8,463	$ 5,899	$ 5,457	$ 6,294
Non-interest income (1).......................................	3,536	3,209	1,733	1,848
Non-interest expense (1)......................................	46,761	1,914	1,565	2,228
Net earnings (loss)...	(34,762)	7,194	5,625	5,914
Net earnings (loss) per share diluted (2)......................	(1.70)	0.45	0.39	0.41
Dividends declared per share..................................	0.46	0.43	0.40	0.39

(1) Conforms to current year presentation.

(2) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total for the year.

NOTE T--IMPAC FUNDING CORPORATION

The following condensed financial information summarizes the financial condition and results of operations of Impac Funding Corporation (dollar amounts in thousands):

CONDENSED CONSOLIDATED BALANCE SHEETS

	AT DECEMBER 31,	
	1998	1997
ASSETS		
Cash	$ 422	$ 359
Securities available-for-sale	5,965	6,083
Securities held-for-trading	5,300	--
Mortgage loans held-for-sale	252,568	620,549
Mortgage servicing rights	14,062	15,568
Due from affiliates	9,152	969
Premises and equipment, net	1,978	1,788
Accrued interest receivable	1,896	4,755
Other assets	22,529	6,873
	$ 313,872	$ 656,944
LIABILITIES AND SHAREHOLDERS' EQUITY		
Borrowings from IWLG	$ 192,900	$ 454,840
Other borrowings	67,058	148,307
Due to affiliates	24,382	6,198
Deferred revenue	10,605	7,048
Accrued interest expense	--	4,063
Other liabilities	6,064	9,092
Total liabilities	301,009	629,548
Shareholders' equity:		
Preferred stock	18,053	18,053
Common stock	182	182
Retained earnings (accumulated deficit)	(4,852)	9,161
Accumulated other comprehensive loss	(520)	--
Total shareholders' equity	12,863	27,396
	$ 313,872	$ 656,944

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Net interest income:			
Total interest income	$ 48,510	$ 48,020	$ 32,799
Total interest expense	40,743	41,628	31,751
Net interest income	7,767	6,392	1,048
Non-interest income:			
Gain (loss) on sale of loans	(11,663)	19,414	7,747
Loan servicing income	7,071	4,109	1,250
Other income	(1,091)	643	--
Total non-interest income	(5,683)	24,166	8,997
Non-interest expense:			
General and administrative and other expense	14,385	10,047	7,154
Amortization of mortgage servicing rights	6,361	2,827	613
Impairment of mortgage servicing rights	3,722	--	--
Provision for repurchases	367	3,148	687
Total non-interest expense	24,835	16,022	8,454
Earnings (loss) before income taxes	(22,751)	14,536	1,591
Income taxes (benefit)	(8,738)	6,136	679
Net earnings (loss)	$ (14,013)	$ 8,400	$ 912

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Impac Funding Corporation:

We have audited the accompanying consolidated balance sheets of Impac Funding Corporation and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of operations and comprehensive earnings (loss), changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Impac Funding Corporation and subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

KPMG LLP

Orange County, California
February 11, 1999

IMPAC FUNDING CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(DOLLAR AMOUNTS IN THOUSANDS)

	AT DECEMBER 31,	
	1998	1997
ASSETS		
Cash	$ 422	$ 359
Securities available-for-sale	5,965	6,083
Securities held-for-trading	5,300	--
Mortgage loans held-for-sale	252,568	620,549
Mortgage servicing rights	14,062	15,568
Due from affiliates	9,152	969
Premises and equipment, net	1,978	1,788
Accrued interest receivable	1,896	4,755
Other assets	22,529	6,873
Total assets	$ 313,872	$ 656,944
LIABILITIES AND SHAREHOLDERS' EQUITY		
Borrowings from IWLG	$ 192,900	$ 454,840
Other borrowings	67,058	148,307
Due to affiliates	24,382	6,198
Deferred revenue	10,605	7,048
Accrued interest expense	--	4,063
Other liabilities	6,064	9,092
Total liabilities	301,009	629,548
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 10,000 shares authorized; 10,000 shares issued and outstanding at December 31, 1998 and 1997	18,053	18,053
Common stock, no par value; 10,000 shares authorized; 10,000 shares issued and outstanding at December 31, 1998 and 1997	182	182
Retained earnings (accumulated deficit)	(4,852)	9,161
Accumulated other comprehensive loss	(520)	--
Total shareholders' equity	12,863	27,396
Total liabilities and shareholders' equity	$ 313,872	$ 656,944

See accompanying notes to consolidated financial statements.

IMPAC FUNDING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE EARNINGS (LOSS)

(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
INTEREST INCOME:			
Mortgage loans held-for-sale	$ 45,070	$ 42,373	$ 32,588
Other interest income	3,440	5,647	211
Total interest income	48,510	48,020	32,799
INTEREST EXPENSE:			
Borrowings from IWLG	32,682	33,450	31,751
Other affiliated borrowings	2,020	4,618	--
Other borrowings	6,041	3,560	--
Total interest expense	40,743	41,628	31,751
Net interest income	7,767	6,392	1,048
NON-INTEREST INCOME:			
Gain (loss) on sale of loans	(11,663)	19,414	7,747
Mark-to-market loss on investment securities	(805)	--	--
Gain (loss) on sale of investment securities	(706)	550	--
Loan servicing income	7,071	4,109	1,250
Other income	420	93	--
Total non-interest income	(5,683)	24,166	8,997
NON-INTEREST EXPENSE:			
Personnel expense	8,901	6,760	5,093
Amortization of mortgage servicing rights	6,361	2,827	613
Impairment of mortgage servicing rights	3,722	--	--
General and administrative and other expense	2,516	2,228	1,017
Occupancy expense	1,391	408	195
Professional services	978	79	456
Data processing expense	387	311	238
Provision for repurchases	367	3,148	687
Telephone and other communications	212	261	155
Total non-interest expense	24,835	16,022	8,454
Earnings (loss) before income taxes	(22,751)	14,536	1,591
Income taxes (benefit)	(8,738)	6,136	679
Net earnings (loss)	(14,013)	8,400	912
Other comprehensive earnings (loss):			
Unrealized gains (losses) arising during period	(520)	--	--
Comprehensive earnings (loss)	$ (14,533)	$ 8,400	$ 912

See accompanying notes to consolidated financial statements.

IMPAC FUNDING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(DOLLAR AMOUNTS IN THOUSANDS)

	NUMBER OF PREFERRED SHARES	PREFERRED STOCK	NUMBER OF Common SHARES	COMMON STOCK	RETAINED EARNINGS (ACCUMULATED DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 1995.....	10,000	$ 1,015	10,000	$ 10	$ (151)	$ --	$ 874
Capital Contributions, 1996....	--	8,128	--	82	--	--	8,210
Net earnings, 1996............	--	--	--	--	912	--	912
Balance, December 31, 1996.....	10,000	9,143	10,000	92	761	--	9,996
Capital Contributions, 1997....	--	8,910	--	90	--	--	9,000
Net earnings, 1997............	--	--	--	--	8,400	--	8,400
Balance, December 31, 1997.....	10,000	18,053	10,000	182	9,161	--	27,396
Net loss, 1998................	--	--	--	--	(14,013)	--	(14,013)
Other comprehensive loss.......	--	--	--	--	--	(520)	(520)
Balance, December 31, 1998.....	10,000	$ 18,053	10,000	$ 182	$ (4,852)	$ (520)	$ 12,863

See accompanying notes to consolidated financial statements.

IMPAC FUNDING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	$ (14,013)	$ 8,400	$ 912
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Provision for repurchases	367	3,148	687
Depreciation and amortization	7,141	3,371	740
Impairment of mortgage servicing rights	3,722	--	--
Additions to mortgage servicing rights	(8,577)	(9,611)	(9,398)
Net change in accrued interest receivable	2,859	(2,910)	1,140
Net change in other assets and liabilities	1,806	(54,291)	56,738
Net change in deferred taxes	(10,459)	3,172	548
Net change in deferred revenue	3,557	5,655	1,393
Purchase of securities held-for-trading	(5,300)	--	--
Write-down of investment securities	(805)	--	--
Net change in accrued interest expense	(4,063)	1,382	1,333
Net cash provided by (used in) operating activities	(23,765)	(41,684)	54,093
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of mortgage loans held-for-sale	(2,248,586)	(2,571,208)	(1,542,273)
Sale of and principal reductions on mortgage loans held-for-sale	2,616,170	2,284,763	1,752,444
Purchase of residual interests in securitizations	--	--	(46,949)
Sale of residual interests in securitizations	--	47,925	--
Principal reductions on residual interests in securitizations	--	(976)	--
Purchase of securities available-for-sale	--	(28,646)	--
Sale of securities available-for-sale	--	22,953	--
Principal reductions on securities available-for-sale	403	(390)	--
Purchase of premises and equipment	(970)	(1,498)	(445)
Net cash provided by (used in) investing activities	367,017	(247,077)	162,777
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in borrowings from IWLG	(261,940)	127,418	(222,869)
Net change in other borrowings	(81,249)	148,307	--
Capital contributions	--	9,000	8,210
Net cash provided by (used in) financing activities	(343,189)	284,725	(214,659)
Net change in cash	63	(4,036)	2,211
Cash at beginning of year	359	4,395	2,184
Cash at end of year	$ 422	$ 359	$ 4,395
SUPPLEMENTARY INFORMATION:			
Interest paid	$ 44,806	40,246	30,418
Taxes paid	5,205	2,964	2

See accompanying notes to consolidated financial statements.

NOTE A--SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

1. BUSINESS AND FINANCIAL STATEMENT PRESENTATION

IFC is a mortgage loan conduit organization which purchases primarily non-conforming mortgage loans from a network of third party correspondent loan originators and subsequently securitizes or sells such loans to permanent investors or IMH. On March 31, 1997, ownership of all of the Common Stock of IFC was transferred from ICII to Joseph R. Tomkinson, Chief Executive Officer of IMH and IFC, William S. Ashmore, President of IMH and IFC, and Richard J. Johnson, Chief Financial Officer of IMH and IFC, who are entitled to 1% of the earnings or losses of IFC.

The consolidated financial statements include the operations of IFC and its wholly owned subsidiary, Impac Secured Asset Corporation (collectively, IFC) and have been prepared in conformity with generally accepted accounting principles and prevailing practices within the mortgage banking industry.

All significant intercompany balances and transactions with IFC's consolidated subsidiary have been eliminated in consolidation. Interest income on affiliated short-term advances, due from affiliates, has been earned at the rate of 8% per annum. Interest expense on affiliated short-term borrowings, due to affiliates, has been incurred at the rate of 8% per annum. Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current presentation.

Management of the IFC has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

2. GAIN ON SALE OF LOANS

IFC recognizes gains or losses on the sale of loans when the sales transaction settles or upon the securitzation of the mortgage loans when the risks of ownership have passed to the purchasing party. Gains and losses may be increased or decreased by the amount of any servicing released premiums received and costs associated with the origination of mortgage loans. Gain on sale of loans or securities to IMH are deferred and accreted over the estimated life of the loans or securities using the interest method.

In 1997, IFC adopted SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS 125). Under SFAS 125, a transfer of financial assets in which control is surrendered is accounted for as a sale to the extent that consideration other than a beneficial interest in the transferred assets is received in the exchange. Liabilities and derivatives incurred or obtained by the transfer of financial assets are required to be measured at fair value, if practicable. Also, servicing assets and other retained interests in the transferred assets must be measured by allocating the previous carrying value between the asset sold and the interest retained, if any, based on their relative fair values at the date of transfer.

SFAS 125 also requires an assessment of interest-only strips, loans, other receivables and retained interests in securitizations (residuals). To determine the value of the securities, IFC estimates future rates of prepayments, prepayment penalties to be received by IFC, delinquencies, defaults and default loss severity and their impact on estimated cash flows. At December 31, 1998, IFC used a 0% to 8% constant default rate estimate with a 25% to 43% severity resulting in loss estimates of 0% to 3%. These estimates are based on historical loss data for comparable loans. IFC estimates prepayments by evaluating historical prepayment performance of comparable mortgage loans and trends in the industry. At December 31, 1998, IFC used a constant prepayment assumption of 16% to 32% to estimate the prepayment characteristics of the underlying collateral. These assumptions may fluctuate depending on market conditions.

3. SECURITIES AVAILABLE-FOR-SALE AND SECURITIES HELD-FOR-TRADING

IFC classifies investment and mortgage-backed securities as held-to-maturity, available-for-sale, and/or trading securities. Held-to-maturity investment and mortgage-backed securities are reported at amortized cost, available-for-sale securities are reported at fair value with unrealized gains and losses, net of related income taxes, as a separate component of shareholders' equity, and trading securities are reported at fair value with unrealized gains and losses reported in operations. IFC's investment securities are held as available-for-sale, reported at fair value with unrealized gains and losses net of related income taxes reported as a separate component of shareholders' equity. Premiums or discounts obtained on investment securities are accreted or amortized to interest income over the estimated life of the investment securities using the interest method.

Residual interests in securitization of mortgage loans are recorded as a result of the sale of mortgage loans through securitizations. IFC sells a portfolio of mortgage loans to a special purpose entity that has been established for the limited purpose of buying and reselling IFC's mortgage loans. The special purpose entity then transfers the same mortgage loans to a Real Estate Mortgage Investment Conduit or owners trust (the Trust). The Trust issues interest-bearing asset-backed securities in an amount equal to the aggregate principal balance of the mortgage loans. IFC typically sells these certificates at face value and without recourse except that representations and warranties customary to the mortgage banking industry are provided by IFC. IFC may provide a credit enhancement for the benefit of the investors in the form of additional collateral (over-collateralization) held by the Trust. The over-collateralization account is required to be maintained at specified levels.

At the closing of each securitization, IFC removes from its consolidated balance sheets the loans held-for-sale and adds to its consolidated balance sheet the cash received, and the estimated fair value of the portion of the mortgage loans retained from the securitizations (Residuals). The Residuals consist of the over-collateralization account and the net interest receivables which represent the estimated cash flows to be received by the Trust in the future. The excess of the cash received and the assets retained by IFC over the carrying value of the mortgage loans sold, less transaction costs, equals the net gain on sale of mortgage loans recorded by IFC.

IFC allocates its basis in the mortgage loans between the portion of the mortgage loans sold through the certificates and the portion retained based on the relative fair values of those portions on the date of the sale. IFC may recognize gains or losses attributable to the changes in the fair value of the residuals, which are recorded at estimated fair value and accounted for as held-for-trading securities at IFC. IFC is not aware of an active market for the purchase or sale of residuals. IFC determines the estimated fair value of the residuals by discounting the expected cash flows using a discount rate which IFC believes is commensurate with the risks involved. At December 31, 1998, IFC used a weighted average discount rate of approximately 15%. Most of the residual interests generated by IFC are sold to IMH and accounted for as available-for-sale securities at IMH.

The Company receives periodic servicing fees for the servicing and collection of the mortgage loans as master servicer of the securitized loans. The Company is also entitled to the cash flows from the residual that represent collections on the mortgage loans in excess of the amounts required to pay the certificate principal and interest, the servicing fees and certain other fees such as trustee and custodial fees. At the end of each collection period, cash collected from the mortgage loans are allocated to the base servicing and other fees for the period, then to the certificate holders for interest at the pass-through rate on the certificates plus principal as defined in the servicing agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the over-collateralization account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related over-collateralization account, the excess is released to the Company. If the over-collateralization account balance is not at the required credit enhancement level, the excess cash collected is retained in the over-collateralization account until the specified level is achieved. The cash and collateral in the over-collateralization account is restricted from use by the Company. Pursuant to certain servicing agreements, cash held in the over-collateralization accounts may be used to make accelerated principal paydowns on the certificates to create additional excess collateral in the over-collateralization account.

4. MORTGAGE LOANS HELD-FOR-SALE

Mortgage loans held-for-sale are stated at the lower of cost or market in the aggregate as determined by outstanding commitments from investors or current investor yield requirements. Interest is recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. Nonrefundable fees and direct costs associated with the origination or purchase of loans are deferred and recognized when the loans are sold as gain or loss on sale of mortgage loans. It is the policy of the Company to construct hedge positions, which will limit exposure to a rise or decline of 25 basis points in yield or approximately a one-point change in price of the benchmark instrument.

5. PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation or amortization. Depreciation on premises and equipment is recorded using the straight-line method over the estimated useful lives of individual assets (three to seven years).

6. MORTGAGE SERVICING RIGHTS

The Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS 125), on January 1, 1997 with no significant impact on the Company's financial position or results of operations. SFAS 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS 125 requires that a portion of the cost of acquiring a mortgage loan be allocated to the mortgage loan servicing rights based on its fair value relative to the components of the loan. To determine the fair value of the servicing rights created, IFC uses a valuation model that calculates the present value of future net servicing revenues to determine the fair value of the servicing rights. In using this valuation method, IFC incorporates assumptions that it believes market participants would use in estimating future net servicing, an inflation rate, ancillary income per loan, a prepayment rate, a default rate and a discount rate commensurate with the risk involved. MSRs are amortized in proportion to, and over the period of expected net servicing income.

7. 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.

8. FUTURES

To control risk, IFC uses futures to hedge against interest rate fluctuations and options on futures. The use of these instruments provides for increased liquidity, lower transaction costs and more effective short-term coverage than cash and mortgage-backed securities. However, IFC is vulnerable to the basis risk that is inherent in cross-hedging transactions. IFC uses the buying and selling of futures contracts on Treasury bonds and Treasury notes when the market is vulnerable to day to day corrections. Executing hedges with these instruments allows IFC to more effectively hedge the risks of corrections or reverses in the market without committing mandatory sales on mortgage-backed securities or cash. IFC utilizes these instruments on a short-term basis to fine-tune its overall hedge position at a lower cost. The Company's policy is to defer hedging gains or losses until the related asset is sold. The hedge is then recognized and applied against the gain or loss on the sale.

9. FORWARD CONTRACTS AND OPTIONS

In order to hedge against a change in market value of the loans it acquires, IFC sells mortgage-backed securities through forward delivery contracts. Income or loss on these contracts is recorded at the time of sale of the related contracts or loans as a component of the gain or loss on sale of the loans. If any party to the contracts fails to completely perform, IFC would be exposed to additional interest rate risk. IFC's principal hedging activity consists of optional and mandatory commitments to deliver closed mortgage loans to institutional investors, which do not require any collateral deposits. Written options are stated at market value.

10. SERVICING INCOME

Servicing income is reported as earned, principally on a cash basis when the majority of the service process is completed.

11. SERVICING RIGHTS

As of December 31, 1998, IFC is the master servicer for $1.5 billion of loans collateralizing REMIC securities and $1.1 billion of mortgage loans collateralizing CMOs. IFC recognizes gain or loss on the sale of servicing rights when the sales contract has been executed and ownership is determined to have passed to the purchasing party. Gains and losses are computed by deducting the basis in the servicing rights and any other costs associated with the sale from the purchase price.

12. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company believes that the adoption of SFAS 133 will not have a material impact on the Company's financial position or results of operations.

In October 1998, the FASB issued SFAS 134. SFAS 65, as amended by SFAS 115, and SFAS 125, require that after the securitization of a mortgage loan held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed security as a trading security. SFAS 134 further amends SFAS 65 and requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or to hold those investments. SFAS 134 conforms the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking enterprise with the subsequent accounting for securities retained after the securitization of other types of assets by non-mortgage banking enterprises. SFAS 134 is effective for the first fiscal quarter beginning first quarter 1999. The Company believes that the adoption of SFAS 134 will not have a material impact on the Company's financial position or results of operations.

NOTE B--MORTGAGE LOANS HELD-FOR-SALE

Mortgage loans purchased by IFC are fixed and adjustable-rate non-conforming mortgage loans secured by first and second liens on single-family residential properties. During the years ended December 31, 1998 and 1997, IFC acquired $2.2 billion and $2.6 billion, respectively, of mortgage loans and sold $2.7 billion and $2.2 billion, respectively, of mortgage loans. Of the mortgage loans sold by IFC during 1998 and 1997, $866.7 million and $877.1 million, respectively, were sold to IMH including premiums of $23.8 million and $37.5 million, respectively. At December 31, 1998 and 1997, approximately 50% and 35%, respectively, of mortgage loans held-for-sale were collateralized by properties located in California. During 1998 and 1997, IFC acquired $54.4 million and $576.1 million of fixed-rate mortgage loans secured by second liens on single family residential properties with loan-to-value ratios of approximately 125% of which $97.2 million of principal balance was outstanding at December 31, 1998. Mortgage loans held for sale consisted of the following:

	AT DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Mortgage loans held-for-sale	$ 247,079	$ 600,022
Premium on loans	5,226	15,417
Deferred hedging	263	5,110
	$ 252,568	$ 620,549

Included in other liabilities at December 31, 1998 and 1997 is an allowance for repurchases of $838,000 and $3.2 million, respectively.

NOTE C--PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	AT DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Premises and equipment	$ 3,463	$ 2,498
Less accumulated depreciation	(1,485)	(710)
	$ 1,978	$ 1,788

NOTE D--MORTGAGE SERVICING RIGHTS

Activity for mortgage servicing rights was as follows:

	FOR THE YEAR ENDED DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Beginning Balance	$ 15,568	$ 8,785
Additions	8,577	9,611
Impairment of mortgage servicing rights	(3,722)	--
Amortization	(6,361)	(2,828)
Ending balance	$ 14,062	$ 15,568

At December 31, 1998 and 1997, approximately $5.6 million and $2.4 million, respectively, of mortgage servicing rights relates to $1.1 billion and $473.3 million, respectively, of mortgage loans sold, servicing retained by IFC, to IMH.

NOTE E--OTHER BORROWINGS

IFC enters into reverse repurchase agreements with major brokerage firms to fund the purchase of mortgage loans. Mortgage loans underlying reverse repurchase agreements are delivered to dealers that arrange the transactions. IFC has entered into an uncommitted warehouse line agreement to obtain financing up to $200.0 million from a major investment bank. The margins on the reverse repurchase agreements are based on the type of collateral used and generally range from 95% to 98% of the fair market value of the collateral. The interest rates on the borrowings are indexed to LIBOR plus a spread of 85 basis points to 125 basis points depending on the type of collateral used.

The following tables sets forth information regarding reverse repurchase agreements:

	AT DECEMBER 31, 1998				
	TYPE OF COLLATERAL	COMMITMENT AMOUNT	REVERSE REPURCHASE LIABILITY	UNDERLYING COLLATERAL	MATURITY DATE
Lender 1	Mortgages	$ 25,024	$ 25,024	$ 30,073	N/A
Lender 2	Mortgages	42,034	42,034	43,141	N/A
		$ 67,058	$ 67,058	$ 73,214	

	AT DECEMBER 31, 1997				
	TYPE OF COLLATERAL	COMMITMENT Amount	REVERSE REPURCHASE LIABILITY	UNDERLYING COLLATERAL	MATURITY DATE
Lender 1	Mortgages	$ 76,209	$ 76,209	$ 76,385	N/A
Lender 2	Mortgages	72,098	72,098	72,098	N/A
		$ 148,307	$ 148,307	$ 148,483	

NOTE F--INCOME TAXES

IFC's income taxes (benefit) are as follows:

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
Current income taxes:			
Federal	$ (3,673)	$ 4,064	$ 82
State	--	1,346	35
Total current income taxes	(3,673)	5,410	117
Deferred income taxes:			
Federal	(3,533)	433	393
State	(1,532)	293	169
Total deferred income taxes	(5,065)	726	562
Total income taxes (benefit)	$ (8,738)	$ 6,136	$ 679

The Company's effective income taxes (benefit) differ from the amount determined by applying the statutory Federal rate of 35%, 35%, and 34% for the years ended December 31, 1998, 1997, and 1996, respectively, is as follows:

	1998	1997	1996
		(IN THOUSANDS)	
Income taxes (benefit) at Federal tax rate	$ (7,735)	$ 4,942	$ 541
California franchise tax, net of Federal income tax (benefit)	(1,011)	1,082	112
Other	8	112	26
	$ (8,738)	$ 6,136	$ 679

The tax effected cumulative temporary differences that give rise to deferred tax assets and liabilities as of December 31, 1998 and 1997 are as follows:

	1998	1997
	(IN THOUSANDS)	
Deferred tax assets:		
Deferred revenue	$ 4,364	$ 3,654
Future state tax benefit	--	614
Forward commitments	368	--
Depreciation	19	--
Salary accruals	188	--
Other accruals	103	--
Loan mark-to-market	331	--
Non-accrual loans	685	--
Provision for repurchases	345	1,442
Contribution carryover	25	--
Minimum tax credit	263	--
Net operating loss	2,926	--
Total gross deferred tax assets	9,617	5,710
Deferred tax liabilities:		
Mortgage servicing rights	5,412	6,981
Other	440	29
Net deferred tax (asset) liability	$ (3,765)	$ 1,300

As of December 31, 1998, the Company has net operating loss carry-forwards for federal and state income tax purposes of $6.9 million and $17.3 million, respectively, which are available to offset future taxable income, if any, through 2001 and 2003, respectively. In addition, the Company has an alternative minimum tax credit carry-forward of approximately $263,000 which is available to reduce future federal regular income taxes, if any, over an indefinite period.

The Company believes that the deferred tax asset will more likely than not be realized due to the reversal of the deferred tax liability and expected future taxable income. In determining the possible future realization of deferred tax assets, future taxable income from the following sources are taken into account: (a) the reversal of taxable temporary differences, (b) future operations exclusive of reversing temporary differences and (c) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire.

NOTE G--DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by IFC using available market information and appropriate valuation methodologies, however, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts IFC could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Assets				
Cash	$ 422	$ 422	$ 359	$ 359
Securities available-for-sale	5,965	5,965	6,083	6,083
Securities available-for-trading	5,300	5,300	--	--
Mortgage loans held-for-sale	252,568	252,568	620,549	620,773
Due from affiliates	9,152	9,152	969	969
LIABILITIES				
Borrowings from IWLG	192,900	192,900	454,840	454,840
Other borrowings	67,058	67,058	148,307	148,307
Due to affiliates	24,382	24,382	6,198	6,198
Off balance-sheet loan commitments	--	895	--	883

The fair value estimates as of December 31, 1998 and 1997 are based on pertinent information available to management as of that date. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented.

The following describes the methods and assumptions used by IFC in estimating fair values:

Cash

Fair value approximates carrying amounts as these instruments are demand deposits and do not present unanticipated interest rate or credit concerns.

Securities Available-for-Sale and Securities Held-for-Trading

To determine the value of the securities, the Company estimates future rates of prepayments, prepayment penalties to be received by the Company, delinquencies, defaults and default loss severity and their impact on estimated cash flows.

Mortgage Loans Held-for-Sale

Fair value of mortgage loans held-for-sale is estimated based on quoted market prices from dealers and brokers for similar types of mortgage loans.

Borrowings from IWLG

Fair value approximates carrying amounts because of the short-term maturity of the liabilities.

Other Borrowings

Fair value approximates carrying amounts because of the short-term maturity of the liabilities.

Due From / To Affiliates

Fair value approximates carrying amounts because of the short-term maturity of the liabilities and does not present unanticipated interest rate or credit concerns.

Off Balance Sheet Loan Commitments

Fair value of commitments, including hedging positions, is determined in the aggregate based on current investor yield requirements.

NOTE H--EMPLOYEE BENEFIT PLANS

Profit Sharing and 401(k) Plan

IFC does not have its own 401(k) or profit sharing plan. As such, employees of IFC participate in ICII's 401(k) plan. Under ICII's 401(k) plan, employees of the Company may contribute up to 14% of their salaries. The Company will match 50% of the first 4% of employee contributions. An additional Company contribution may be made at the discretion of IFC. The Company recorded approximately $340,000, $204,000 and $160,000 for matching and discretionary contributions during 1998, 1997 and 1996, respectively.

NOTE I--RELATED PARTY TRANSACTIONS

Related Party Cost Allocations

IFC entered into a services agreement with ICII under which ICII provides various services to IFC, including data processing, human resource administration, general ledger accounts, check processing, remittance processing and payment of accounts payable. ICII charges fees for each of the services based upon usage. The charge to IFC for coverage is based upon a pro rata portion of costs ICII incurred for its various policies. Total allocation of expense for the years ended December 31, 1998, 1997 and 1996 was $178,000, $152,000, and $386,000, respectively. In December 1996, IFC began to provide these services on its own thereby reducing cost allocations from ICII. ICII continues to provide IFC with insurance coverage and self-insurance programs, including health insurance.

During 1998, IMH and IWLG were allocated data processing, executive and operations management, and accounting services that IFC incurred during the normal course of business per the Company's Submanagement Agreement with RAI. IFC, through RAI, charged IMH and IWLG for management and operating services based upon usage which management believes was reasonable. Total cost allocations charged by IFC, through RAI, to IMH and IWLG for the year ended December 31, 1998 was $968,000. During 1997, prior to the Submanagement Agreement with RAI, IMH and IWLG were allocated data processing, executive and operations management, and accounting services that IFC incurred during the normal course of business. IFC charged IMH and IWLG for management and operating services based upon usage which management believes was reasonable. Total cost allocations charged by IFC to IMH and IWLG for the year ended December 31, 1997 were $385,000.

IMH has entered into a premises operating sublease agreement with ICII to rent approximately 33,000 square feet of office space in Santa Ana Heights, California, for a two-year term that expired in February 1999. IMH pays the monthly rental expense and allocates the cost to subsidiaries and affiliated companies on the basis of square footage occupied. The majority of occupancy charges incurred were allocated to IFC as most of the Company's employees are employed by the Conduit Operations. Total rental expense allocated to IFC for the years ended December 31, 1998, 1997 and 1996 was $1.3 million, $385,000, and $179,000, respectively.

Credit Arrangements

IFC maintains a warehouse financing facility with IWLG. Advances under such warehouse facilities bear interest at Bank of America's prime rate. As of December 31, 1998 and 1997, amounts outstanding on IFC's warehouse line with IWLG were $192.9 million and $454.8 million, respectively. Interest expense recorded by IFC related to warehouse lines with IWLG for the years ended December 31, 1998, 1997 and 1996 was $32.7 million, $33.4 million and $31.8 million, respectively.

On November 9, 1998, IFC borrowed $5.0 million from ICH on a demand note secured by mortgage servicing rights of $1.1 billion at an interest rate of 10% per annum. This rate was adjusted to 15% on December 15, 1998. On December 22, 1998, this note was paid in full. Interest expense recorded by IFC for 1998 was $66,000.

During 1997, IFC had a credit arrangement with ICH whereby ICH would advance to IFC up to a maximum amount of $15.0 million. Advances under the credit arrangement were at an interest rate and maturity to be determined at the time of each advance with interest and principal paid monthly. The revolving credit arrangement expired in December 1997. Interest expense recorded by IFC for 1997 was $66,000.

During the normal course of business, IFC may advance or borrow funds on a short-term basis with affiliated companies. Advances to affiliates are reflected as "Due from affiliates", while borrowings are reflected as "Due to affiliates" on IFC's balance sheet. These short-term advances and borrowings bear interest at a fixed rate of 8.00% per annum. Interest income recorded by IFC related to short-term advances due from affiliates for the years ended December 31, 1998, 1997 and 1996 was $1.7 million, $500,000 and none, respectively. Interest expense recorded by IFC related to short-term advances due to affiliates for the years ended December 31, 1998, 1997 and 1996 was $2.0 million, $688,000 and none, respectively.

Purchase of Mortgage Loans

During the year ended December 31, 1998, IFC purchased from IMH mortgage loans having a principal balance of $170.4 million including premiums of $7.7 million.

Purchase of Mortgage Loans from Walsh Securities

During the year ended December 31, 1998, IFC acquired $4.2 million from WSI, an affiliate of the Company. James Walsh, Executive Vice President of WSI, is a Director of the Company. Until July 1999, IFC has the option to purchase a division of WSI.

Sale of Mortgage Loans

During the years ended December 31, 1998 and 1997, IFC sold to IMH mortgage loans having a principal balance of $842.9 million and $839.5 million, respectively, including premiums of $23.9 million and $37.5 million, respectively. Servicing rights on all mortgages purchased by IMH were retained by IFC.

Sale of Mortgage-Backed Securities

During the years ended December 31, 1998 and 1997, IFC sold $60.6 million and $15.0 million, respectively, of mortgage-backed securities to IMH for $56.1 million and $12.6 million, respectively, net of discounts of $4.5 million and $2.4 million, respectively. IFC issued the mortgage-backed securities during 1998 and 1997 in connection with its REMIC securitizations.

Submanagement Agreement

In 1997, IFC entered into a submanagement agreement with RAI under which IMH and IFC provide various services to ICH as RAI deems necessary, including facilities and costs associated therewith, technology, human resources, management information systems, general ledger accounts, check processing and accounts payable, plus a 15% service charge. RAI charges ICH for these services based upon usage. Total cost allocations RAI charged to ICH for the year ended December 31, 1998 and 1997 were $521,000 and $525,000, respectively.

Sub-Servicing Agreements

Prior to July 1996, ICII provided sub-servicing to IFC for a sub-servicing fee of approximately $7.50 per loan per month, which management believes to be a market rate. The sub-servicing fee offsets "Loan Servicing Income" in the accompanying statements of operations of IFC and amounted to $335,000 for the year ended December 31, 1996. IFC acts as a servicer of mortgage loans acquired on a "servicing-released" basis by the Company in its Long-Term Investment Operations pursuant to the terms of a Servicing Agreement, which became effective on November 20, 1995.

Non-Compete Agreement and Right of First Refusal Agreement

Pursuant to the Non-Compete Agreement executed on the date of the ICH initial public offering, IFC will not acquire any commercial mortgages for a period of the earlier of nine months from the closing of the ICH initial public offering or the date upon which ICH and/or ICCC accumulates (for investment or sale) $300.0 million of commercial mortgages or commercial mortgage-backed securities. This agreement expired in March 1998.

Pursuant to the Right of First Refusal Agreement by and among IFC, IMH, ICH, ICCC and RAI, pursuant to which, in part, RAI will agree that any mortgage loan or mortgage-backed security investment opportunity which is offered to it on behalf of either ICH, IMH any affiliated REIT will first be offered to that entity whose initial primary business as described in its initial public offering documentation most closely aligns with such investment opportunity.

NOTE J--COMMITMENTS AND CONTINGENCIES

Loan Servicing

Properties securing mortgage loans in IFC's servicing portfolio are primarily located in California. As of December 31, 1998 and 1997, 40% and 40%, respectively, of mortgage loans in IFC's servicing portfolio were located in California. As of December 31, 1998 and 1997, IFC was servicing loans totaling approximately $3.7 billion and $3.0 billion, respectively, of which $3.5 billion and $2.2 billion, respectively, were serviced for others. The Company has sold $944.9 million of loans scheduled to be servicing released in February and March of 1999. As of December 31, 1998 and 1997, IFC is the master servicer for $1.5 billion and $1.5 billion, respectively of loans collateralizing fixed rate REMIC securities and $1.1 billion and $738.5 million, respectively, of loans collateralizing CMOs. Related fiduciary funds are held in trust for investors in non-interest bearing accounts. These funds are segregated in special bank accounts and are held as deposits at Southern Pacific Bank.

Master Commitments

IFC establishes mortgage loan purchase commitments (Master Commitments) with sellers that, subject to certain conditions, entitle the seller to sell and obligate IFC to purchase a specified dollar amount of non-conforming mortgage loans over a period generally ranging from six months to one year. The terms of each Master Commitment specify whether a seller may sell loans to IFC on a mandatory, best efforts or optional basis. Master commitments generally do not obligate IFC to purchase loans at a specific price, but rather provide the seller with a future outlet for the sale of its originated loans based on IFC's quoted prices at the time of purchase. As of December 31, 1998 and 1997, IFC had outstanding short term Master Commitments with 54 and 77 sellers to purchase mortgage loans in the aggregate principal amount of $1.5 billion and $1.3 billion, respectively, over periods ranging from six months to one year, of which $522.3 million and $714.6 million, respectively, had been purchased or committed to be purchased pursuant to rate locks. These rate-locks were made pursuant to Master Commitments, bulk rate-locks and other negotiated rate-locks. There is no exposure to credit loss in this type of commitment until the loans are funded, and interest rate risk associated with the short-term commitments is mitigated by the use of forward contracts to sell loans to investors.

Following the issuance of a specific rate-lock, IFC is subject to the risk of interest rate fluctuations and enters into hedging transactions to diminish such risk. Hedging transactions may include mandatory or optional forward sales of mortgage loans or mortgage-backed securities, interest rate caps, floors and swaps, mandatory forward sales, mandatory or optional sales of futures, and other financial futures transactions. The nature and quantity of hedging transactions are determined by the management of IFC based on various factors, including market conditions and the expected volume of mortgage loan purchases. Deferred hedging gains and losses are presented on IFC's balance sheet in other assets. These deferred amounts are recognized upon the sale or securitization of the related mortgage loans. Deferred hedging gains and losses are presented on IFC's balance sheet in mortgage loans held-for-sale. As of December 31, 1998 and 1997, IFC had $263,000 and $5.1 million of deferred hedging losses included in mortgage loans held-for-sale.

Forward Contracts

IFC sells mortgage-backed securities through forward delivery contracts with major dealers in such securities. At December 31, 1998 and 1997, IFC had $46.0 million and $242.0 million, respectively, in outstanding commitments to sell mortgage loans through mortgage-backed securities. These commitments allow IFC to enter into mandatory commitments when IFC notifies the investor of its intent to exercise a portion of the forward delivery contracts. IFC was not obligated under mandatory commitments to deliver loans to such investors at December 31, 1998 and 1997. The credit risk of forward contracts relates to the counterparties' ability to perform under the contract. IFC evaluates counterparties based on their ability to perform prior to entering into any agreements.

Future Contracts

IFC sells future contracts against five and ten-year Treasury notes with major dealers in such securities. At December 31, 1998 and 1997, IFC had none and $118.7 million, respectively, in outstanding commitments to sell Treasury notes which expire within 90 days.

Options

In order to protect against changes in the value of mortgage loans held for sale, IFC may sell call or buy put options on U.S. Treasury bonds and mortgage-backed securities. IFC generally sells call or buys put options to hedge against adverse movements of interest rates affecting the value of its mortgage loans held for sale. The risk in writing a call option is that IFC gives up the opportunity for profit if the market price of the mortgage loans increases and the option is exercised. IFC also has the additional risk of not being able to enter into a closing transaction if a liquid secondary market does not exist. The risk of buying a put option is limited to the premium IFC paid for the put option. IFC had written option contracts with an outstanding principal balance of $25.0 million and $20.0 million at December

31, 1998 and 1997, respectively. IFC received approximately $134,000 and $66,000 in premiums on these options at December 31, 1998 and 1997, respectively.

Sales of Loans and Servicing Rights

In the ordinary course of business, IFC is exposed to liability under representations and warranties made to purchasers and insurers of mortgage loans and the purchasers of servicing rights. Under certain circumstances, IFC is required to repurchase mortgage loans if there has been a breach of representations or warranties. In the opinion of management, the potential exposure related to these representations and warranties will not have a material adverse effect. At December 31, 1998 and 1997, included in other liabilities are $838,000 and $3.2 million, respectively, in allowances for repurchases related to possible off-balance sheet recourse and repurchase agreement provisions.

NOTE K--QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for 1998 follows (in thousands):

	FOR THE THREE MONTHS ENDED,			
	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
Net interest income (1)	$ 1,031	$ 1,387	$ 1,333	$ 4,016
Non-interest income (1)	(8,469)	(9,103)	6,973	4,916
Non-interest expense (1)	2,627	224	6,491	6,755
Net earnings (loss)	(10,065)	(7,940)	1,815	2,177

Selected quarterly financial data for 1997 follows (in thousands):

	FOR THE THREE MONTHS ENDED,			
	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
Net interest income (1)	2,924	$ 2,338	$ (70)	$ 1,200
Non-interest income (1)	6,267	6,571	6,768	4,560
Non-interest expense (1)	6,984	6,456	4,525	4,193
Net earnings	2,207	2,453	2,173	1,567

(1) Conforms to current year presentation.

Exhibit 3.1(a)

STATE OF MARYLAND

404133

STATE DEPARTMENT OF
ASSESSMENTS AND TAXATION
301 West Preston Street, Baltimore, Maryland 21201

DATE: NOVEMBER 22, 1995

THIS IS TO ADVISE YOU THAT THE CERTIFICATE OF CORRECTION FOR IMPERIAL CREDIT MORTGAGE HOLDINGS, INC. WAS RECEIVED AND APPROVED FOR RECORD ON NOVEMBER 22, 1995 AT 2:51 P.M.

FEE PAID: $68.00

[SEAL]

HARRY J. NOONAN
CHARTER SPECIALIST

IMPERIAL CREDIT MORTGAGE HOLDINGS, INC.

CERTIFICATE OF CORRECTION

THIS IS TO CERTIFY THAT:

FIRST: The undersigned, William S. Ashmore, President of Imperial Credit Mortgage Holdings, Inc. (the "Corporation"), hereby corrects the Articles of Amendment and Restatement of the Corporation filed on October 3, 1995.

SECOND: The provision of the Articles of Amendment and Restatement which is to be corrected is as follows:

> "THIRD: The amendment to and restatement of the charter as hereinabove set forth has been duly advised by the Board of Directors and approved by the stockholders of the Corporation as required by law."

THIRD: The corrected provision of the Articles of Amendment and Restatement is as follows:

> "THIRD: The amendment to and restatement of the charter of the Corporation as hereinabove set forth has been duly approved by the Board of Directors of the Corporation as required by law, and no stock entitled to be voted on the matter was outstanding or subscribed for at the time of the approval of the aforementioned amendment and restatement."

The undersigned acknowledges this Certificate of Correction to be his act and states, as to all matters and facts required to be verified under oath, that, to the best of his knowledge, information and belief, these matters and facts are true and in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, I have signed this Certificate of Correction, and I acknowledge the same to be my act on this ____ day of November, 1995.

ATTEST:	IMPERIAL CREDIT MORTGAGE HOLDINGS, INC.
/s/ Richard J. Johnson	By: /s/ William S. Ashmore [SEAL]
Richard J. Johnson Secretary	William S. Ashmore President

Exhibit 3.1(b)

STATE OF MARYLAND

404175

STATE DEPARTMENT OF
ASSESSMENTS AND TAXATION
301 West Preston Street, Baltimore, Maryland 21201

DATE: NOVEMBER 22, 1995

THIS IS TO ADVISE YOU THAT THE ARTICLES OF AMENDMENT FOR IMPERIAL CREDIT MORTGAGE HOLDINGS, INC. WERE RECEIVED AND APPROVED FOR RECORD ON NOVEMBER 22, 1995 AT 6:51 P.M.

FEE PAID: $78.00

[SEAL]

HARRY J. NOONAN
CHARTER SPECIALIST

IMPERIAL CREDIT MORTGAGE HOLDINGS, INC.

ARTICLES OF AMENDMENT

THIS IS TO CERTIFY THAT:

FIRST: The charter of Imperial Credit Mortgage Holdings, Inc., a Maryland corporation (the "Corporation"), is hereby amended by deleting certain provisions of Article VII of the Articles of Amendment and Restatement as follows and substituting in lieu thereof the following:

1. Section 7.1 is hereby amended by deleting the first sentence of the definition of "Aggregate Stock Ownership Limit" in its entirety and substituting in lieu thereof the following new sentence:

> "Aggregate Stock Ownership Limit. The term "Aggregate Stock Ownership Limit" shall mean not more than 9.5 percent in value of the outstanding shares of Capital Stock."

2. Section 7.1 is hereby amended by deleting the first sentence of the definition of "Common Stock Ownership Limit" in its entirety and substituting in lieu thereof the following new sentence:

> "Common Stock Ownership Limit. The term "Common Stock Ownership Limit" shall mean not more than 9.5 percent (in value or in number of shares, whichever is more restrictive) of the aggregate of the outstanding shares of Common Stock of the Corporation."

3. Section 7.2.9 is hereby amended by deleting subsections (i) and (ii) in their entireties and substituting in lieu thereof the following new subsections:

> "(i) no person may Beneficially or Constructively own shares of the Corporation's Common Stock in excess of 9.5 percent (in value or number of shares) of the outstanding shares of Common Stock of the Corporation unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person may Beneficially or Constructively own shares of Capital Stock of the Corporation in excess of 9.5 percent of the value of the total outstanding shares of Capital Stock of the Corporation, unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable);"

SECOND: The amendment to the charter of the Corporation as set forth above has been duly advised by the Board of Directors and approved by the stockholders of the Corporation as required by law.

THIRD: The undersigned President acknowledges these Articles of Amendment to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned President acknowledges that to the best of his knowledge, information and belief, these matters and facts are true and in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Corporation has caused these Articles to be signed in its name and on its behalf by its President and attested to by its Secretary on this ____ day of November, 1995.

ATTEST:	IMPERIAL CREDIT MORTGAGE HOLDINGS, INC.
/s/ Richard J. Johnson	By: /s/ William S. Ashmore [SEAL]
Richard J. Johnson Secretary	William S. Ashmore President

EXHIBIT 3.1(d)

STATE OF MARYLAND

682696

STATE DEPARTMENT OF
ASSESSMENTS AND TAXATION
301 West Preston Street Baltimore, Maryland 21201

DATE: NOVEMBER 20, 1998

THIS IS TO ADVISE YOU THAT THE CERTIFICATE OF CORRECTION FOR IMPAC MORTGAGE HOLDINGS, INC. WAS RECEIVED AND APPROVED FOR RECORD ON NOVEMBER 20, 1998 AT 12:50 P.M.

FEE PAID: 68.00

[SEAL]

JOSEPH V. STEWART
CHARTER SPECIALIST

AT5--031

IMPAC MORTGAGE HOLDINGS, INC.

Certificate of Correction

THIS IS TO CERTIFY THAT:

Impac Mortgage Holdings Inc., a Maryland corporation (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The title of the document being is: Articles Supplementary.

SECOND: The name of the corporation for with the Articles Supplementary were filed is: Impac Mortgage Holdings, Inc.

THIRD: The document being corrected was filed on October 14, 1998.

FOURTH: Section 3(a) of the Articles Supplementary as previously filed reads as follows:

[LOGO OF IMPAC MORTGAGE HOLDINGS, INC.]

Except as provided in paragraph (c) of this Section 3 and subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation.

FIFTH: Section 3(a) of the Articles Supplementary as correct reads as follows:

Except as provided in paragraph (c) of this Section 3 and subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation.

SIXTH: The undersigned President of the Corporation acknowledges this Certificate of Correction to be the corporation act of the Corporation and, as to all matters and facts required to be verified under oath, the undersigned President acknowledges to the best of his knowledge, information and belief, these matters and facts are true in all material respect and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Correction to be signed in its name and on its behalf by its president and attested by its secretary on November 19, 1998.

ATTEST: IMPAC MORTGAGE HOLDINGS, INC.

/s/ Ronald Morrison By:/s/ William S. Ashmore

Ronald Morrison William S. Ashmore, President

STATE OF MARYLAND

672003

STATE DEPARTMENT OF
ASSESSMENTS AND TAXATION
301 West Preston Street Baltimore, Maryland 21201

DATE: OCTOBER 14, 1998

THIS IS TO ADVISE YOU THAT THE ARTICLES SUPPLEMENTARY FOR IMPAC MORTGAGE HOLDINGS, INC. WERE RECEIVED AND APPROVED FOR RECORD ON OCTOBER 14, 1998 AT 11:48 A.M.

FEE PAID: 82.00

[SEAL]

DEAN W. KITCHEN
ADMINISTRATOR

AT5--031

IMPAC MORTGAGE HOLDINGS, INC.
20371 Irvine Avenue
Santa Ana Heights, California 92707

Toll Free 800/597-4101
impaccompanies.com

ARTICLES SUPPLEMENTARY

OF

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

OF

IMPAC MORTGAGE HOLDINGS, INC.

Impac Mortgage Holdings, Inc., a corporation organized and existing under the laws of the State of Maryland (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Pursuant to the authority granted to and vested in the Board of Directors of the Corporation (the "Board of Directors") in accordance with Article VI of the charter of the Corporation, including these Articles Supplementary (the "Charter"), the Board of Directors adopted resolutions reclassifying 2,500,000 shares (the "Shares") of Preferred Stock (as defined in the Charter) as a separate class of stock, Series A Junior Participating Preferred Stock, $.01 par value per share (the "Series A Preferred Stock"), with the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms and conditions of redemption set forth below. Upon any restatement of the Charter, the immediately following heading and Sections 1 through 10 of this Article FIRST shall become Section 6.6 of Article VI of the Charter.

[LOGO OF IMPAC MORTGAGE HOLDINGS, INC.]

Series A Junior Participating Preferred Stock.

Section 1. Designation and Amount. There shall be a series of Preferred Stock that shall be designated as "Series A Junior Participating Preferred Stock" (hereinafter referred to as "Series A Preferred Stock") and the number of shares constituting such series shall be 2,500,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series A Junior Participating Preferred Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

Section 2. Dividends and Distributions.

(a) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of assets legally available for the purpose, quarterly dividends payable in cash on the first business day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $1.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock, $.01 par value per share, of the Corporation (the "Common Stock") or a subdivision of the outstanding shares of Common Stock (by reclassification

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STATE OF MARYLAND

I hereby certify that this is a true and complete copy of the 7 page document on file in this office. DATED: 10-14-98.
STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

BY: /s/ Darla D. Simms, Custodian

This stamp replaces our previous certification system. Effective: 6/95

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or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock.

(b) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $1.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Preferred Stock, unless the date of issue of such shares is before the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days before the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(a) Except as provided in paragraph (c) of this Section 3 and subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation.

(b) Except as otherwise provided herein or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) (i) If, on the date used to determine stockholders of record for any meeting of stockholders for the election of directors, a default in preference dividends (as defined in subparagraph (v) below) on the Series A Preferred Stock shall exist, the holders of the Series A Preferred Stock shall have the right, voting as a class as described in subparagraph (ii) below, to elect two directors, and the holders of shares of Common Stock shall have the right to elect the remaining directors. Such right may be exercised at any meeting of stockholders for the election of directors until all such cumulative dividends (referred to above) shall have been paid in full or until noncumulative dividends have been paid regularly for at least one year.

(ii) The right of the holders of Series A Preferred Stock to elect two directors, as described above, shall be exercised as a class concurrently with the rights of holders of any other series of Preferred Stock upon which voting rights to elect such directors have been conferred and are then exercisable. The Series A Preferred Stock and any additional series of Preferred Stock which the Corporation may issue and which may provide for the right to vote with the foregoing series of Preferred Stock are collectively referred to herein as "Voting Preferred Stock."

(iii) Each director elected by the holders of shares of Voting Preferred Stock shall be referred to herein as a "Preferred Director." A Preferred Director so elected shall continue to serve as such director for a term of one year, except that upon any termination of the right of all of such holders to vote as a class for Preferred Directors, the term of office of such directors shall terminate. Any Preferred Director may be removed by, and shall not be removed except by, the vote of the holders of record of a majority of the outstanding shares of Voting Preferred Stock then entitled to vote for the election of directors, present (in person or by proxy) and voting together as a single class (a) at a meeting of the stockholders, or (b) at a meeting of the holders of shares of such Voting Preferred Stock, called for the purpose in accordance with the Bylaws of the Corporation, or (c) by written consent signed by the holders of a majority of the then outstanding shares of Voting Preferred Stock then entitled to vote for the election of directors, taken together as a single class.

(iv) So long as a default in any preference dividends on the Series A Preferred Stock shall exist or the holders of any other series of Voting Preferred Stock shall be entitled to elect Preferred Directors, (a) any vacancy in the office of a Preferred Director may be filled (except as provided in the following clause (b)) by an instrument in writing signed by the remaining Preferred Director and filed with the Corporation and (b) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote or written consent of the holders of a majority of the outstanding shares of Voting Preferred Stock then entitled to vote for the election of directors, present (in person or by proxy) and voting together as a single class, at such time as the removal shall be effected. Each director appointed as aforesaid by the remaining Preferred Director shall be deemed, for all purposes hereof, to be a Preferred Director. Whenever (x) no default in preference dividends on the Series A Preferred Stock shall exist and (y) the holders of any other Series of Voting Preferred Stock shall no longer be entitled to elect such Preferred Directors, then the number of directors of the Corporation shall be reduced by two.

(v) For purposes hereof, a "default in preference dividends" on the Series A Preferred Stock shall be deemed to have occurred whenever the amount of cumulative and unpaid dividends on the Series A Preferred Stock shall be equivalent to six full quarterly dividends or more (whether or not consecutive), and, having so occurred, such default shall be deemed to exist thereafter until, but only until, all cumulative dividends on all shares of the Series A Preferred Stock then outstanding shall have been paid through the last Quarterly Dividend Payment Date or until, but only until, non-cumulative dividends have been paid regularly for at least one year.

(d) Except as set forth herein (or as otherwise required by applicable law), holders of Series A Preferred Stock shall have no general or special voting rights and their consent shall not be required for taking any corporate action

Section 4. Certain Restrictions.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration (except as provided in (iv) below) shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock;

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, in any other Certificate of Amendment creating a series of Preferred Stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding Up.

(a) Subject to the prior and superior rights of holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Preferred Stock with respect to rights upon liquidation, dissolution or winding up (voluntary or otherwise), no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received $100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Capital Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 100 (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Capital Adjustment in respect of all outstanding shares of Series A Preferred Stock and Common Stock, respectively, holders of Series A Preferred Stock and holders of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series A Preferred Stock, then such remaining assets shall be distributed ratably to the holders of Series A Preferred Stock and the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Capital Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

Section 8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section 9. Ranking. The Series A Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. The Certificate of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Preferred Stock, voting separately as a class.

SECOND: The Shares have been reclassified by the Board of Directors pursuant to Article VI of the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned Chairman of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned President acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be signed in its name and on its behalf by its Chairman and attested to by its Secretary on this 13th day of October, 1998.

ATTEST:

/s/ Ronald Morrison	By: /s/ Joseph R. Tomkinson(SEAL)
- -------------------	-----------------------
Ronald Morrison	Joseph R. Tomkinson
Secretary	Chairman

EXHIBIT 10.11(a)

CONTRACT OF SALE

IMPAC Commercial Holdings, Inc. fdba IMH Commercial Holdings, Inc., a Maryland corporation, herein called "Buyer" and IMPAC Mortgage Holding, Inc. fdba Imperial Credit Mortgage Holding, Inc., a Maryland corporation, herein called " Seller", hereby agree as follows:

RECITALS

WHEREAS, Buyer and Seller were the sole members of a California Limited Liability Company by the name of IMH/ICH Dove Street, LLC (herein called "Limited Liability Company") which was created on August 25, 1997;

WHEREAS, Buyer and Seller have entered into a Limited Liability Operating Agreement dated August 25, 1997 (herein called "Operating Agreement", a copy of which is attached hereto as Exhibit "N');

WHEREAS, Buyer and Seller have entered into an agreement to distribute from the Limited Liability Company to the members the real property owned by the Limited Liability Company, commonly known as 1401 Dove Street, Newport Beach.

WHEREAS, Seller and Buyer will have a fifty percent (50%) interest in the real property previously owned by the Limited Liability Company hereinafter referred to as "Asset".

WHEREAS, Buyer is desirous of purchasing Seller's interest in the Asset;

WHEREAS, Seller is desirous of selling Buyer's interest in the Asset.

ARTICLE 1.

PURCHASE AND SALE OF PARTIAL INTEREST OF SELLER IN ASSET

Partial Interest Being Purchased

Section 1.01. Seller shall sell to Buyer and Buyer shall purchase from Seller on the terms specified in this contract fifty percent (50%) interest in the Asset from Seller.

Purchase Price

Section 1.02. Buyer shall pay to Seller on October 31, 1998, $6,000,000.00 less one half of the present principal due on the property's first mortgage in cash in lawful money of the United States in full payment of the purchase price.

Conditions of Sale

Section 1.03. The purchase and sale described in and covered by this contract shall be conducted and consummated in full compliance with all the requirements of the laws of the State of California.

ARTICLE 2

WARRANTIES BY SELLER

Due Organization

Section 2.01. Seller warrants to Buyer that it, Seller, is a corporation duly organized and existing under the General Corporation Law of the State of Maryland and that its powers as a corporation have never been and are not now suspended or limited in anyway.

Title to Assets

Section 2.02. Seller warrants it will convey good and marketable title to Seller of the Asset covered by this contract. Seller further warrants that its title to its interest in the Asset is free and clear of any liens, encumbrances, or other defects except for an existing first mortgage.

Authority to Sell

Section 2.03. Seller warrants and represents it has complied with all the requirements of the laws of the State of California relative to the sale of its interest in the Asset described in this contract and that the principal terms of the sale as set forth in this contract were duly approved by Seller's board of directors on October 19, 1998. Seller shall transfer title and interest in the Asset, including all leases, income or revenue of any nature generated by the Asset after delivery of the Quitclaim Deed, attached hereto as Exhibit "B".

Survival of Warranties

Section 2.04. Seller agrees that all warranties made by it in this contract shall survive the consummation of the sale.

ARTICLE 3

WARRANTIES BY BUYER

Due Organization

Section 3.01. Buyer warrants to Seller that it, Buyer, is a corporation duly organized and existing under the General Corporation Law of the State of Maryland and that its power as a corporation has never been and is not now suspended.

Authority to Buy

Section 3.02. Buyer further warrants to Seller that this contract has been approved by its Board of Directors and that Buyer has full power and authority to both execute and perform this contract.

Section 3.03. Buyer agrees that all warranties made by it in this contract shall survive the consummation of the sale.

ARTICLE 4

ASSUMPTION OF LIABILITIES

Acknowledgment of Assumption of Liability

Section4.01. Buyer hereby acknowledges and agrees to assume all of the expenses and costs associated with the Asset and in the sale set forth in this contract. This assumption of liability will be effective upon execution of this contract. However, this shall not include the costs of completing the current modifications and capital improvements being made to the building. Seller shall remain responsible for 1/2 the costs of completing the exterior modifications and the interior improvements needed to make the building ready under the IMPAC Funding Corp. lease.

Section 4.02. All costs and expenses of the sale described in this contract shall be borne by Buyer and Seller in equal proportions.

ARTICLE 5

MISCELLANEOUS PROVISIONS

Indemnity Agreement

Section 5.01. The Buyer shall indemnify and hold Seller free and harmless from any and all claims, liability, loss, damage, or expense resulting from the Buyer's ownership of the Asset , including any claim, liability, loss or damage arising by reason of the injury to or death of any person or persons, or the damage of any property, caused by the Buyer's use of said Asset, including the cost of defense, for any claim arising after execution of this contract.

Section 5.02. This instrument with its attachment constitutes the entire agreement between Buyer and Seller respecting the sale of the Asset to the Seller and any agreement or representation respecting said sale by Seller to Buyer not expressly set forth in this instrument is null and void.

Notices

Section 5.03. Any and all notices or other communications-required or permitted by this contract or by law to be served on or given to either party hereto, Buyer or Seller, by the other party shall be, unless otherwise required by law, in writing and deemed duly served and given when personally delivered to the party to whom directed or any of its officers or, in lieu of such personal service, when deposited in the United States mail, first class postage prepaid, addressed to

Buyer at I Park Plaza, Suite 1100
Irvine, California 92614

or

Seller at 20371 Irvine Ave.
Santa Ana Heights, California 92707

Attorney's Fees

Section 5.04. Should any litigation be commenced between the parties hereto, Buyer and Seller, concerning this contract, the sale and purchase described in this contract or the rights and duties of either in relation to this contract, the party Buyer or Seller, prevailing in that litigation shall be entitled, in addition to any other relief that may be granted, to a reasonable sum as and for its attorneys' fees in that litigation which shall be determined by the court in that litigation or in a separate action brought for that purpose.

Cooperation in Execution of Documents

Section 5.05 Buyer and Seller agree to execute any documents necessary to carry out the terms of this contract, including but not limited to, assignment of leases, assignment of deposits, change of ownership declaration, or other documents required by any governmental agency.

Assignment

Section 5.06. Neither this contract nor any right or interest in it may be assigned by either party to any other person or corporation without the express written consent of the other party to this contract.

Governing Law

Section 5.07. This contract shall be governed and all rights and liabilities under it determined in accordance with the laws of the State of California in effect on this date.

EXECUTED on   October 27, 1998, at Orange County, California.

"BUYER"
IMPAC COMMERCIAL HOLDINGS, INC.
fdba IMH COMMERCIAL HOLDINGS, INC.

by: /s/ William D. Endersen

William D. Endresen, President

"SELLER"
IMPAC MORTGAGE HOLDING, INC.
fdba IMPERIAL CREDIT MORTGAGE HOLDING, INC.

by: /s/ William S. Ashmore

William S. Ashmore, President

IMH/ICH DOVE STREET

LIMITED LIABILITY OPERATING AGREEMENT

This Operating Agreement (this "Agreement") is entered into this 25th day of August, 1997 by and among Imperial Credit Mortgage Holdings, Inc., a Maryland corporation and IMH Commercial Holdings, Inc., a Maryland corporation.

Explanatory Statement

The parties have agreed to organize a limited liability company in accordance with the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, the parties agree as follows:

ARTICLE I

DEFINITIONS

Capitalized terms used in this Agreement have the meanings specified in this Article or elsewhere in this Agreement and when not so defined shall have the meanings set forth in California Corporations Code section 17001.

1. 1. "Act" means the Beverly-Killea Limited Liability Company Act (California Corporations Code (S) (S) 17000-17705), including amendments from time to time.

1.2. "Adjusted Capital Contribution" is defined in Article IV, Section 4.6(a).

1.3. "Affiliate" of a Member means (1) any Person directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with the Member. The term "control" (including the terms "controlled by" and "funder common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through membership, ownership of voting securities, by contract, or otherwise.

1.4. "Agreement" means this operating agreement, as originally executed and as amended from time to time.

1.5. "Articles of Organization" is defined in Corporations Code section 17001(b) as applied to this Company.

1.6. "Assignee" means a person who has acquired a Member's Economic Interest in the Company, by way of a Transfer in accordance with the terms of this Agreement, but who has not become a Member.

1.7. "Assigning Member" means a Member who by means of a Transfer has transferred an Economic Interest in the Company to an Assignee.

1.8. "Available Cash" means all net revenues from the Company's operations, including net proceeds from all sales, refinancings, and other dispositions of Company property that the Manager, in the Manager's sole discretion, deems in excess of the amount reasonably necessary for the operating requirements of the Company, including debt reduction and Reserves.

1.9. "Capital Account" means, with respect to any Member, the account reflecting the capital interest of the Member in the Company, consisting of the Member's initial Capital Contribution maintained and adjusted in accordance with Article III, Section 3.6.

1.10. "Capital Contribution" means, with respect to any Member, the amount of the money and the Fair Market Value of any property (other than money) contributed to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take "subject to" under IRC section 752) in consideration of a Percentage Interest held by such Member. A Capital Contribution shall not be deemed a loan.

1.11. "Capital Event" means a sale or disposition of any of the Company's capital assets, the receipt of insurance and other proceeds derived from the involuntary conversion of Company property, the receipt of proceeds from a refinancing of Company property, or a similar event with respect to Company property or assets.

1.12. "Code" or "IRC' means the Internal Revenue Code of 1986, as amended, and any successor provision.

1.13. "Company" means the company named in Article II, Section 2.2 of this Agreement.

1.14. "Corporations Code" ("Corp C") means the California Corporations Code.

1.15. "Economic Interest" means a Person's right to share in the income, gains, losses, deductions, credit or similar items of, and to receive distributions from, the Company, but does not include any other rights of a Member, including the right to vote or to participate in management.

1.16. "Encumber" means the act of creating or purporting to create an Encumbrance, whether or not perfected under applicable law.

1.17. "Encumbrance" means, with respect to any Membership Interest, or any element thereof, a mortgage, pledge, security interest, lien, proxy coupled with an interest (other than as contemplated in this Agreement), option, or preferential right to purchase.

1.18. "Fair Market Value" means, with respect to any item of property of the Company, the item's adjusted basis for federal income tax purposes, except as follows:

(a) The Fair Market Value of any property contributed by a Member to the Company shall be the value of such property, as mutually agreed by the contributing Member and the Company;

(b) The Fair Market Value of any item of Company property distributed to any Member shall be the value of such item of property on the date of distribution as mutually agreed by the distributes Member and the Company; and

(c) The Fair Market Value for purposes of Article VIII, Section 8.7, shall be as determined in that section.

1.19. "Initial Members" means those Persons whose names are set forth in the first sentence of this Agreement. A reference to an "Initial Member" means any of the Initial Members.

1.20. "Involuntary Transfer' means, with respect to any Membership Interest, or any element thereof, any Transfer or Encumbrance, whether by operation of law, pursuant to court order, foreclosure of a security interest, execution of a judgment or other legal process, or otherwise, including a purported transfer to or from a trustee in bankruptcy, receiver, or assignee for the benefit of creditors.

1.21. "Losses. " See Article IV, Section 4.2.

1.22. "Majority of Members" means a Member or Members whose Percentage Interests represent more than 50 percent of the Percentage Interests of all the Members.

1.23. "Manager" or "Managers" means the Person(s) named as such in Article H or the Persons who from time to time succeed any Person as a Manager and who, in either case, are serving at the relevant time as a Manager.

1.24. "Member" means an Initial Member or a Person who otherwise acquires a Membership Interest, as permitted under this Agreement, and who remains a Member.

1.25. "Membership Interest" means a Member's rights in the Company, collectively, including the Member's Economic Interest, any right to Vote or participate in management, and any right to information concerning the business and affairs of the Company.

1.26. "Notice" means a written notice required or permitted under this Agreement. A notice shall be deemed given or sent when deposited, as certified mail or for overnight delivery, postage and fees prepaid, in the United States mails; when delivered to Federal Express, United Parcel Service, DHL WorldWide Express, or Airborne Express, for overnight delivery, charges prepaid or charged to the sender's account; when personally delivered to the recipient; when transmitted by electronic means, and such transmission is electronically confirmed as having been successfully transmitted; or when delivered to the home or office of a recipient in the care of a person whom the sender has reason to believe will promptly communicate the notice to the recipient.

1.27. "Percent of the Members" means the specified total of Percentage Interests of all the Members.

1.28. "Percentage Interest" means a fraction, expressed as a percentage, the numerator of which is the total of a Member's Capital Account and the denominator of which is the total of all Capital Accounts of all Members.

1.29. "Person" means an individual, partnership, limited partnership, trust, estate, association, corporation, limited liability company, or other entity, whether domestic or foreign.

1.30. "Profits" and "Losses" are defined in Article IV, Section 4.2.

1.31. "Proxy" has the meaning set forth in the first paragraph of Corp C 1001(ai). A Proxy may not be transmitted orally.

1.32. "Regulations" ("Reg") means the income tax regulations promulgated by the United States Department of the Treasury and published in the Federal Register for the purpose of interpreting and applying the provisions of the Code, as such Regulations may be amended from time to time, including corresponding provisions of applicable successor regulations.

1.33. "Reserves" means the aggregate of reserve accounts that the Manager, in the Manager's sole discretion, deems reasonably necessary to most accrued or contingent liabilities of the Company, reasonably anticipated operating expenses, and working capital requirements.

1.34. "Successor in Interest" means an Assignee, a successor of a Person by merger or otherwise by operation of law, or a transferee of all or substantially all of the business or assets of a Person.

1.35. "Tax Item" means each item of income, gain, loss, deduction, or credit of the Company.

1.36. "Transfer" means, with respect to a Membership Interest or any element of a Membership interest, any sale, assignment, gift, Involuntary Transfer, Encumbrance, or other disposition of such a Membership Interest or any element of such Membership Interest, directly or indirectly, other than an Encumbrance that is expressly permitted under this Agreement.

1.37. "Triggering Event" is defined in Article VIII, Section 8.4.

1.38. "Vote" means a written consent or approval, a ballot cast at a meeting, or voice vote.

1.39. "Voting Interest" means, with respect to a Member, the right to Vote or participate in management and any right to information concerning the business and affairs of the Company provided under the Act, except as limited by the provisions of this Agreement. A Member's Voting Interest shall be directly proportional to that Member's Percentage Interest.

ARTICLE II

ARTICLES OF ORGANIZATION

2.1 The Articles of Organization were filed with the California Secretary of State on August 25, 1997, File Number 101997237028. A copy of the Articles of Organization as filed is attached to this Agreement as Exhibit "A".

2.2 The name of the Company is IMH/ICH Dove Street, LLC.

2.3. The principal executive office of the Company shall be at 1401 Dove Street, Newport Beach, California, 92660, or such other place or places as may be determined by the Manager from time to time.

2.4. The initial agent for service of process on the Company shall be Douglas S. Smith, whose address is 5 Hutton Centre Drive, Suite 600, Santa Ana, California 92707. The Managers may from time to time change the Company's agent for service of process.

2.5 The Company will be formed for the purposes of engaging in the business of managing and operating the real property owned by the Company.

2.6. The Members intend the Company to be a limited liability company under the Act. Neither the Manager nor any Member shall take any action inconsistent with the express intent of the parties to this Agreement.

2.7. The term of existence of the Company shall commence on the effective date of filing of Articles of Organization with the California Secretary of State, and shall continue until August 25, 2047 unless sooner terminated by the provisions of this Agreement or as provided by law.

2.8. The names and addresses of the Initial Members are as follows:

Imperial Credit Mortgage Holding, Inc.
20371 Irvine Ave.
Santa Ana Heights, CA 92707

and

IMH Commercial Holdings, Inc.
20371 Irvine Ave.
Santa Ana Heights, CA 92707

2.9. The Members shall be the Managers of the Company.

ARTICLE III

CAPITAL AND CAPITAL CONTRIBUTIONS

3.1. Each Member shall, contribute to the capital of the Company as the Member's initial Capital Contribution the money and property specified in Exhibit 'B'. If a Member fails to make the initial Capital Contributions specified in this Section within 30 days after the effective date of this Agreement, that Member's entire Membership Interest shall terminate, and that Member shall indemnify and hold the Company and the other Members harmless from any loss, cost, or expense, including reasonable attorney fees caused by the failure to make the initial Capital Contribution.

3.2. The Manager may determine from time to time that Capital Contributions in addition to the Members' initial Capital Contributions are needed to enable the Company to conduct its business. On making such a determination, the Manager shall give notice to all Members in writing at least 90 days before the date on which such additional Capital Contribution is due. The Notice shall set forth the amount of additional Capital Contribution needed, the purpose for which it is needed, and the date by which the Members shall contribute. Each Member shall be required to make an additional Capital Contribution in an amount that bears the same proportion to the total additional Capital Contribution that such Member's Capital Account balance bears to the total Capital Account balances of all Members. No Member may voluntarily make any additional Capital Contribution.

3.3 If a Member fails to make an additional Capital Contribution required under Section 3.2 above within 30 days after it is required to be made (a Defaulting Member), the Manager shall within five days after said failure notify each other Member (a Nondefaulting Member) in writing of the total amount of Defaulting Member Capital Contributions not made (the Additional Capital Shortfall), and shall specify a number of days within which each Nondefaulting Member may make an additional Capital Contribution, which shall not be less than an amount bearing the same ratio to the amount of Additional Capital Shortfall as the Nondefaulting Member's Capital Account balance bears to the total Capital Accounts of all Nondefaulting Members. If the total amount of Additional Capital Shortfall is not so contributed, the Manager may use any reasonable method to provide Members the opportunity to make additional Capital Contributions, until the Additional Capital Shortfall is as fully contributed as possible. Following the Nondefaulting Members' making of such additional Capital Contributions, each Member's Percentage Interest shall be adjusted to reflect the ratio that the Member's Capital Account bears to the total Capital Accounts of all of the Members.

3.4. If a Member fails for 30 days to make an additional Capital Contribution required under Section 3.2 (a Defaulting Member): (a) The Defaulting Member shall indemnify and hold the Company and the other Members harmless from any loss, cost, or expense, including reasonable attorney fees caused by the failure to make the additional Capital Contribution. Such additional Capital Contributions that are not made by a Defaulting Member are referred to as Additional Capital Shortfall. A Member who makes the respective required additional Capital Contributions (Nondefaulting Member) shall have the right, but not the obligation, to advance an amount bearing the same ratio to the total amount of the Additional Capital Shortfall as a Nondefaulting Member's Capital Account bears to the total Capital Accounts of all Nondefaulting Members. A Member advancing an additional a Defaulting Member under this Section 3.4(a) shall: (1) be paid interest by the Defaulting Member on the amount of such advance at an annual rate, from the date of the advance until paid, equal to the floating rate of three percent (3%) over the prime rate charged by Imperial Bank or the highest rate permitted by applicable law, whichever rate is lower; and (2) receive all distributions that the Defaulting Member would otherwise be entitled to receive under the provisions of this Agreement as though the advances by the Nondefaulting Member were Capital Contributions made by such Nondefaulting Member, which distributions shall be applied first to attorneys' fees, costs, and expenses, if any; then to accrued and unpaid interest, and, finally, in reduction of the principal amount of such advance.

The Defaulting Member grants any Nondefaulting Members who make advances to the Company in accordance with this Subsection 3.4(a) a security interest in the Defaulting Member's Membership Interest to secure the Defaulting Member's obligations under this Subsection 3.4(a). The Defaulting Member shall, within five days of written notice, execute any documents or instruments reasonably necessary to enable Nondefaulting Members who make advances hereunder to perfect the foregoing security interests. Each Member irrevocably appoints each other Member, and any one of them acting alone, as his, her, or its attorney-in-fact for the limited purpose of executing, on behalf of such Member, if such Member becomes a Defaulting Member, any of the foregoing documents or instruments.

3.5 An individual Capital Account for each Member shall be maintained in accordance with the requirements of Reg 1.704-1(b)(2)(iv) and adjusted in accordance with the following provisions:

(a) A Member's Capital Account shall be increased by that Member's Capital Contributions, that Member's share of Profits, and any items in the nature of income or gain that are specially allocated to that Member pursuant to Article IV.

(b) A Member's Capital Account shall be increased by the amount of any Company liabilities assumed by that Member subject to and in accordance with the provisions of Reg 1.704-1(b)(2)(iv)(c).

(c) A Member's Capital Account shall be decreased by (a) the amount of cash distributed to that Member; (b) the Fair Market Value of any property of the Company so distributed, net of liabilities secured by such distributed property that the distributes Member is considered to assume or to be subject to under IRC section 752; and (c) the amount of any items in the nature of expenses or losses that are specially allocated to that Member pursuant to Article IV.

(d) A Member 's Capital Account shall be reduced by the Member's share of any expenditures of the Company described in IRC section 705(a)(2)(B) or which are treated as IRC section 705(a)(2)(B) expenditures pursuant to Reg section 1.7041(b)(2)(iv)(i) (including syndication expenses and losses nondeductible under IRC sections 267(a)(1) or 707(b)).

(e) If any Economic Interest (or portion thereof) is transferred, the transferee of such Economic Interest or portion shall succeed to the transferor's Capital Account attributable to such interest or portion.

(f) The principal amount of a promissory note that is not readily traded on an established securities market and that is contributed to the Company by the maker of the note shall not be included in the Capital Account of any Person until the Company makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Reg section 1.704-1 (b)(2)(iv)(d)(2).

(g) Each Member's Capital Account shall be increased or decreased as necessary to reflect a revaluation of the Company's property assets in accordance with the requirements of Reg sections 1.704-1(b)(2)(iv)(f) and 1.704-1(b)(2)(iv)(g), including the special rules under Reg section 1.701-1(b)(4), as applicable. The provisions of this Agreement respecting the maintenance of Capital Accounts are intended to comply with Reg section 1.704-1(b) and shall be interpreted and applied in a manner consistent with those Regulations.

3.6. A Member shall not be entitled to withdraw any part of the Member's Capital Contribution or to receive any distributions, whether of money or property, from the Company except as provided in this Agreement.

3.7 No interest shall be paid on Capital Contributions or on the balance of a Member's Capital Account.

3.8 A Member shall not be bound by, or be personally liable for, the expenses, liabilities, or obligations of the Company except as otherwise provided in the Act or in this Agreement.

3.9. Except as otherwise provided in this Agreement, no member shall have priority over any other Member with respect to the return of a Capital Contribution or distributions or allocations of income, gain, losses, deductions, credits, or items thereof.

ARTICLE IV

ALLOCATIONS AND DISTRIBUTIONS

4.1. The Profits and Losses of the Company and all items of Company income, gain, loss, deduction, or credit shall be allocated, for Company book purposes and for tax purposes, to a Member in accordance with the Member's Percentage Interest.

4.2 As used in this Agreement, "Profits and Losses" means, for each fiscal year or other period specified in this Agreement, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with IRC section 703(a), including all Tax Items required to be stated separately pursuant to IRC section 703(a)(1), with the following adjustments:

(a) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses shall be added to such taxable income or loss;

(b) Any expenditures of the Company described in IRC section 705(a)(2)(B) or treated as IRC section 705(a)(2)(8) expenditures pursuant to Reg section 1.704-l(b)(2)(iv)(i) and not otherwise taken into account in computing Profits or Losses shall be subtracted from such taxable income or shall increase such loss;

4.3. In any fiscal year of the Company, Profits in excess of Losses of the Company resulting from a Capital Event in that Fiscal Year shall be allocated to the Members in the following order:

(a) To Members whose Adjusted Capital Contributions are in excess of their Capital Accounts, in proportion to those excesses, until all of those excesses have been eliminated. "Adjusted Capital Contributions" means, with respect to each Member, the excess of such Member's contribution to the capital of the Company over all prior distributions to the Member that have resulted from Capital Events.

(b) Among the Members in the proportion that the Capital Contribution of each Member bears to the total Capital Contributions of all Members.

4.4 In any fiscal year of the Company, Losses in excess of Profits of the Company, resulting from a Capital Event in that fiscal year, shall be allocated to the Members with positive Capital Accounts, in proportion to their positive Capital Account balances, until no Member has a positive Capital Account. For this purpose, Capital Accounts shall be reduced by the adjustments set forth in Reg sections 1.704-1(b)(2)(ii)(d)(4), (5), and (6).

4.5. Any unrealized appreciation or unrealized depreciation in the values of Company property distributed in kind to Members shall be deemed to be Profits or Losses realized by the Company immediately prior to the distribution of the property and such Profits or Losses shall be allocated to the Capital Accounts in the same proportions as Profits are allocated under Section 4. 1. Any property so distributed shall be treated as a distribution to the Members to the extent of the Fair Market Value of the property, less the amount of any liability secured by and related to the property. Nothing contained in this Agreement is intended to treat or cause such distributions to be treated as sales for value. For the purposes of this Section 4.5 "unrealized appreciation" or "unrealized depreciation" shall mean the difference between the Fair Market Value of such property and the Company's federal adjusted tax basis for such property.

4.6. In the case of a Transfer of an Economic Interest during any fiscal year of the Company, the Assigning Member and Assignee shall each be allocated Profits or Losses based on the number of days each held the Economic Interest during that fiscal year. If the Assigning Member and Assignee agree to a different proration and advise the Manager of the agreed proration before the date of the Transfer, Profits or Losses from a Capital Event during that fiscal year shall be allocated to the holder of the Interest on the day such Capital Event occurred. If an Assignee makes a subsequent Assignment, said Assignee shall be considered an "Assigning Member" with respect to the subsequent Assignee for purposes of the aforesaid allocations.

4.7. It is the intent of the Members that each Member's allocated share of Company Tax Items be determined in accordance with this Agreement to the fullest extent permitted by IRC sections 704(b) and 704(c). Notwithstanding anything to the contrary contained in this Agreement, if the Company is advised that, as a result of the adoption of new or amended regulations pursuant to IRC sections 704(b) and 704(c), or the issuance of authorized interpretations, the allocations provided in this Agreement are unlikely to be respected for federal income tax purposes, the Manager is hereby granted the power to amend the allocation provisions of this Agreement, on advice of accountants and legal counsel, to the minimum extent necessary to cause such allocation provisions to be respected for federal income tax purposes.

4.8. All available cash, other than revenues or proceeds from a Capital Event or the dissolution of the Company, shall be distributed among the Members in the same manner as Profits. The parties intend that Available Cash shall be distributed as soon as practicable following the Manager's determination that such cash is available for distribution. The parties acknowledge that no assurances can be given with respect to when or whether said cash will be available for distributions to the Members.

4.9. All Available Cash resulting from a Capital Event (as distinguished from normal business operations or the dissolution of the Company) shall be distributed to the Members in accordance with their respective Percentage Interests as soon as practicable following the Manager's determination that such cash is available for distribution.

4.10. If the proceeds from a sale or other disposition of an item of Company property consist of property other than cash, the value of that property shall be as determined by the Manager. If such noncash proceeds are subsequently reduced to cash, such cash shall be taken into account by the Manager in determining Available Cash and the Manager shall determine whether such cash has resulted from operations or from a Capital Event.

4.11. Notwithstanding any other provisions of this Agreement to the contrary, when there is a distribution in liquidation of the Company, or when any Member's interest is liquidated, all items of income and loss first shall be allocated to the Members' Capital Accounts under this Article IV, and other credits and deductions to the Members' Capital Accounts shall be made before the final distribution is made. The final distribution to the Members shall be made as provided in Article IX, Section 9.2(d) of this Agreement. The provisions of this Section 4. 11 and Article IX, Section 9.2(d) shall be construed in accordance with the requirements of Reg section 1.704-1(b)(2)(ii)(b)(2).

ARTICLE V

MANAGEMENT

5.1. The business of the Company shall be managed by all the Members. A Member shall be a Manager only during the time the Member is a Member of the Company. AU decisions concerning the management of the Company's business shall be made by the Vote of a Majority of Members.

5.2. Each manager shall serve until the earlier of (1) the Manager's resignation; (2) the Manager's removal by the Members; and (3) the expiration of the Manager's term as Manager, if a term has been designated by a Majority of Members. A new Manager shall be appointed by a Majority of Members on the occurrence of any of the foregoing events.

5.3. Each Manager shall be appointed by a Majority of Members for (a) a term expiring with the appointment of a successor, or (b) a term expiring at a definite time specified by a Majority of Members in connection with such an appointment. A Manager who is not also a Member may be removed with or without cause at any time by action of a Majority of Members. A Manager who is a Member may be removed only on the Vote of all other Members and the execution and filing of a Certificate of Amendment of the Articles of Organization of the Company in conformity with Corp C section 17054, if necessary, to provide that the Company is to be managed by managers.

5.4. The Managers shall be the chief executive officers of the Company and shall have the powers and duties described in Section 5.8 hereof and such other powers and duties as may be prescribed in this Agreement or by the Members. Notwithstanding the foregoing, the Manager shall not take any of the following actions on behalf of the Company unless all Members has consented to the taking of such action:

(a) Any act that would make it impossible to carry on the ordinary business of the Company;

(b) Any confession of a judgment against the Company;

(c) The dissolution of the Company;

(d) The disposition of all or a substantial part of the Company's assets not in the ordinary course of business;

(e) The incurring of any debt not in the ordinary course of business; A change in the nature of the principal business of the Company;

(g) The incurring of any contractual obligation or the making of any capital expenditure with a total cost of more than $100,000.00;

(h) The filing of a petition in bankruptcy or the entering into of an arrangement among creditors; and

(i) The entering into, on behalf of the Company, of any transaction constituting a "reorganization" within the meaning of Corp C 17600.

5.5. Actions of the Managers shall be taken at meetings or as otherwise provided in this Section 5.5 by a majority. No regular meetings of the Managers need be held. The President or any two Managers may call a meeting of the Managers by giving Notice of the time and place of the meeting at least 48 hours prior to the time of the holding of the meeting. The Notice need not specify the purpose of the meeting, nor the location if the meeting is to be held at the principal executive office of the Company.

A majority of Managers shall constitute a quorum for the transaction of business at any meeting of the Managers. The transactions of the Managers at any meeting, however called or noticed, or wherever held, shall be as valid as though transacted at a meeting duly held after call and notice if a quorum is present and if, either before or after the meeting, each Manager not present signs a written waiver of notice or a consent to the holding of such meeting or an approval of the minutes of such meeting.

Any action required or permitted to be taken by the Managers under this Agreement may be taken without a meeting if a majority of the Managers individually or collectively consent in writing to such action.

Managers may participate in the meeting through the use of a conference telephone or similar communications equipment, provided that all Managers participating in the meeting can hear one another.

The Managers shall keep or cause to be kept with the books and records of the Company full and accurate minutes of all meetings, notices and waivers of notices of meetings, and all written consents to actions of the Managers.

5.6. It is acknowledged that the Manager has other business interests to which the Manager devotes part of the Manager's time. The Manager shall devote such time to the conduct of the business of the Company as the Manager, in the Manager's own good faith and discretion, deems necessary.

5.7. The Manager shall be entitled to compensation for the Manager's services as determined by the Members, and to reimbursement for all expenses reasonably incurred by the Manager in the performance of the Manager's duties.

5.8 The Company shall have a President, who shall be a Manager. The President shall have general supervision of the business and affairs of the Company, shall preside at all meetings of Members and of Managers, and shall have such other powers and duties usually vested in a president. A Majority of the Members may provide for additional officers of the Company, may alter the powers and duties of the President, and shall establish the powers and duties of all other officers and the compensation of all company officers.

5.9. The Manager shall cause all assets of the Company, whether real or personal, to be held in the name of the Company.

5.10. All funds of the Company shall be deposited in one or more accounts with one or more recognized financial institutions in the name of the Company, at such locations as shall be determined by the Manager. Withdrawal from such accounts shall require only the signature of the Manager or such other person or persons as the Manager may designate.

ARTICLE VI

ACCOUNTS AND ACCOUNTING

6.1. Complete books of account of the Company's business, in which each Company transaction shall be fully and accurately entered, shall be kept at the Company's principal executive office and at such other locations as the Manager shall determine from time to time and shall be open to inspection and copying on reasonable Notice by any Member or the Member's authorized representatives during normal business hours. The costs of such inspection and copying shall be borne by the Member.

6.2. Financial books and records of the Company shall be kept on the accrual/cash method of accounting, which shall be the method of accounting followed by the Company for federal income tax purposes. The financial statements of the Company shall be prepared in accordance with generally accepted accounting principles and shall be appropriate and adequate for the Company's business and for carrying out the provisions of this Agreement. The fiscal year of the Company shall be January 1 through December 31.

6.3. At all times during the term of existence of the Company, and beyond that term if the Manager deems it necessary, the Manager shall keep or cause to be kept the books of account referred to in Section 6.2, together with:

(a) A current list of the full name and last known business or residence address of each Member, together with the Capital Contribution and the share in Profits and Losses of each Member;

(b) A current list of the full name and business or residence address of each Manager;

(c) A copy of the Articles of Organization, as amended;

(d) Copies of the Company's federal, state, and local income tax or information returns and reports, if any, for the six most recent taxable years;

(e) An original executed copy or counterparts of this Agreement, as amended;

(f) Any powers of attorney under which the Articles of Organization or any amendments to said articles were executed;

(g) Financial statements of the Company for the six most recent fiscal years; and

(h) The books and Records of the Company as they relate to the Company's internal affairs for the current and past four fiscal years.

If the Manager deems that any of the foregoing items shall be kept beyond the term of existence of the Company, the repository of said items shall be as designated by the Manager.

6.4 All Members shall receive not less frequently than at the end of each calendar quarter, copies of such financial statements regarding the previous calendar quarter, as may be prepared in the ordinary course of business, by the Manager or accountants selected by the Manager. The Manager shall deliver to each Member, within 120 days after the end of the fiscal year of the Company, a financial statement that shall include:

(a) A balance sheet and income statement, and a statement of changes in the financial position of the Company as of the close of the fiscal year;

(b) A statement showing the Capital Account of each Member as of the close of the fiscal year and the distributions, if any, made to each Member during the fiscal year. Members representing at least 30 percent of the Members, by number, may request interim balance sheets and income statements, and may, at their own discretion and expense, obtain an audit of the Company books, by certified public accountants selected by them; provided, however, that not more than one such audit shall be made during any fiscal year of the Company.

6.5. Within 90 days after the end of each taxable year of the Company the Manager shall send to each of the Members all information necessary for the Members to complete their federal and state income tax or information returns and a copy of the Company's federal, state, and local income tax or information returns for such year.

ARTICLE VII

MEMBERSHIP MEETINGS, VOTING, INDEMNITY

7.1. There shall be only one class of membership and no Member shall have any rights or preferences in addition to or different from those possessed by any other Member except as specifically provided for in

Article IV. Members shall have the right and power to appoint, remove, and replace Managers and officers of the Company and the right to Vote on all other matters with respect to which this Agreement or the Act requires or permits such Member action. Each Member shall Vote in proportion to the Member's Percentage Interest as of the governing record date, determined in accordance with Section 7.2. If a Member has assigned all or part of the Member's Economic Interest to a person who has not been admitted as a Member, the Assigning Member shall Vote in proportion to the Percentage Interest that the Assigning Member would have had, if the assignment had not been made.

Without limiting the foregoing, all of the following acts shall require the unanimous Vote of the Members:

(a) A decision to continue the business of the Company after any event mentioned in Article IX, Section 9. 1;

(b) The Transfer of a Membership Interest and the admission of the Assignee as a Member of the Company;

(c) Any amendment of the articles of organization or this Agreement; and

(d) A compromise of the obligation of a Member to make a Capital Contribution under Article III.

7.2. The record date for determining the Members entitled to receive Notice of any meeting, to Vote, to receive any distribution, or to exercise any right in respect of any other lawful action, shall be the date set by the Manager or by a Majority of Members; provided that such record date shall not be more than 60, or less than ten calendar days prior to the date of the meeting and not more than 60 calendar days prior to any other action. In the absence of any action setting a record date, the record date shall be determined in accordance with Corp C section 17104(k).

7.3. The Company may, but shall not be required, to issue certificates evidencing membership Interests (Membership Interest Certificates) to Members of the Company. Once Membership Interest Certificates have been issued, they shall continue to be issued as necessary to reflect current Membership Interests held by Members. Membership Interest Certificates shall be in such form as may be approved by the Manager, shall be manually signed by the Manager, and shall bear conspicuous legends evidencing the restrictions on Transfer and the purchase rights of the Company and Members set forth in Article VIII. All issuances, reissuances, exchanges, and other transactions in Membership Interests involving Members shall be recorded in a permanent ledger as part of the books and records of the Company.

7.4. Meetings of the Members may be called at any time by the Manager, or by Members representing more than 10 percent of the Interests of the Members for the purpose of addressing any matters on which the Members may Vote. If a meeting of the Members is called by the Members, Notice of the call shall be delivered to the Manager. Meetings may be held at the principal executive office of the Company or at such other location as may be designated by the Manager. Following the call of a meeting, the Manager shall give Notice of the meeting not less than ten, or more than 60 calendar days prior to the date of the meeting to all Members entitled to Vote at the meeting. The Notice shall state the place, date, and hour of the meeting and the general nature of business to be transacted. No other business may be transacted at the meeting. A quorum at any meeting of Members shall consist of a Majority of Members, represented in person or by Proxy. The Members present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of a sufficient number of Members to leave less than a quorum, if the action taken, other than adjournment, is approved by the requisite Percentage of Members as specified in this Agreement or the Act.

7.5. A meeting of Members at which a quorum is present may be adjourned to another time or place and any business which might have been transacted at the original meeting may be transacted at the adjourned meeting. If a quorum is not present at an original meeting, that meeting may be adjourned by the Vote of a majority of Voting Interests represented either in person or by Proxy. Notice of the adjourned meeting need not be given to Members entitled to Notice it the time and place of the adjourned meeting are announced at the meeting at which the adjournment is taken, unless (a) the adjournment is for more than 45 days, or (b) after the adjournment, a new record date is fixed for the adjourned meeting. in the situations described in clauses (a) and (b), Notice of the adjourned meeting shall be given to each Member of record entitled to Vote at the adjourned meeting

7.6. The transactions of any meeting of Members, however called and noticed, and wherever held, shall be as valid as though consummated at a meeting duly held after regular call and notice, it (a) a quorum is present at that meeting, either in person or by Proxy, and (b) either before or after the meeting, each of the persons entitled to Vote, not present in person or by Proxy, signs either a written waiver of notice, a consent to the holding of the meeting, or an approval of the minutes of the meeting. Attendance of a Member at a meeting shall constitute waiver of notice, unless that Member objects, at the beginning of the meeting, to the transaction of any business on the ground that the meeting was not lawfully called or convened. Attendance at a meeting is not a waiver of any right to object to the consideration of matters required to be described in the notice of the meeting and not so included, if the objection is expressly made at the meeting.

7.7. At all meetings of Members, a Member may Vote in person or by Proxy. Such Proxy shall be filed with the Manager before or at the time of the meeting, and may be filed by facsimile transmission to the Manager at the principal executive office of the Company or such other address as may be given by the Manager to the Members for such purposes.

7.8. Members may participate in a meeting through use of conference telephone or similar communications equipment, provided that all Members participating in such meeting can hear one another. Such participation shall be deemed attendance at the meeting.

7.9. Any action that may be taken at any meeting of the Members may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by Members having not less than the minimum number of Votes that would be necessary to authorize or take that action at a meeting at which all Members entitled to Vote thereon were present and voted. If the Members are requested to consent to a matter without a meeting, each Member shall be given notice of the matter to be voted upon in the manner described in Section 7.4. Any action taken without a meeting shall be effective when the required minimum number of Votes have been received. Prompt Notice of the action taken shall be given to all Members who have not consented to the action.

7.10. No Member acting solely in the capacity of a Member is an agent of the Company, nor can any Member acting solely in the capacity of a Member bind the Company or execute any instrument on behalf of the Company. Accordingly, each Member shall indemnify, defend, and save harmless each other Member and the Company from and against any and all loss, cost, expense, liability or damage arising from or out of any claim based upon any action by such Member in contravention of the first sentence of this Section 7. 10.

ARTICLE VIII

TRANSFERS OF MEMBERSHIP INTERESTS

8.1. A Member may withdraw from the Company at any time by giving Notice of withdrawal to all other Members at least 180 calendar days before the effective date of withdrawal. Withdrawal shall not release a Member from any obligations and liabilities under this Agreement accrued or incurred before the effective date of withdrawal. A withdrawing Member shall divest the Member's entire Membership Interest before the effective date of withdrawal in accordance with and subject to the provisions of this Article VIII.

8.2. Except as expressly provided in this Agreement, a Member shall not transfer any part of the Member's Membership Interest in the Company, whether now owned or later acquired, unless (a) the other Members unanimously approve the transferee's admission to the Company as a Member upon such Transfer, which approval shall be given or withheld by each Member in its sole and absolute discretion, and (b) the Membership Interest to be transferred, when added to the total of all other Membership Interests transferred in the preceding 12 months, will not cause the termination of the Company under the Code. No Member may Encumber or permit or suffer any Encumbrance of all or any part of the Member's Membership Interest in the Company unless such Encumbrance has been approved in writing by the Manager. Such approval may be granted or withheld in the Manager's sole discretion. Any Transfer or Encumbrance of a Membership Interest without such approval shall be void. Notwithstanding any other provision of this Agreement to the contrary, a Member who is a natural person may transfer all or any portion of his or her Membership Interest to any revocable trust created for the benefit of the Member, or any combination between or among the Member, the Member's spouse, and the Member's issue; provided that the Member retains a beneficial interest in the trust and all of the Voting Interest included in such Membership Interest. A Transfer of a Member's beneficial interest in such trust, or failure to retain such Voting Interest, shall be deemed a Transfer of a Membership Interest.

8.3. If a Member wishes to transfer any or all of the Member's Membership Interest in the Company pursuant to a Bona Fide Offer (as defined below), the Member shall give Notice to all other Members at least 30 days in advance of the proposed sale or Transfer, indicating the terms of the Bona Fide Offer and the identity of the offeror. The Company and the other Members shall have the option to purchase the Membership Interest proposed to be transferred at the price and on the terms provided in this Agreement. If the price for the Membership Interest is other than cash, the fair value in dollars of the price shall be as established in good faith by the Company. For purposes of this Agreement, "Bona Fide Offer" means an offer in writing setting forth all relevant terms and conditions of purchase from an offeror who is ready, willing, and able to consummate the purchase and who is not an Affiliate of the selling Member. For 30 days after the Notice is given, the Company shall have the right to purchase the Membership Interest offered, on the terms stated in the Notice, for the lesser of (a) the price stated in the Notice (or the price plus the dollar value of noncash consideration, as the case may be) and (b) the price determined under the appraisal procedures set forth in Section 8.8.

If the Company does not exercise the right to purchase all of the Membership Interest, then, with respect to the portion of the Membership Interest that the Company does not elect to purchase, that right shall be given to the other Members for an additional 30-day period, beginning on the day that the Company's right to purchase expires. Each of the other Members shall have the right to purchase, on the same terms, a part of the interest of the offering Member in the proportion that the Member's Percentage Interest bears to the total Percentage Interests of all of the Members who choose to participate in the purchase; provided, however, that the Company and the participating Members may not, in the aggregate, purchase less than the entire interest to be sold by the offering Member.

If the Company and the other Members do not exercise their rights to purchase all of the Membership Interest, the offering Member may, within 90 days from the date the Notice is given and on the terms and conditions stated in the Notice, sell or exchange that Membership Interest to the offeror named in the Notice. Unless the requirements of Section 8.2 are met, the offeror under this section shall become an Assignee, and shall be entitled to receive only the share of Profits or other compensation by way of income and the return of Capital Contribution to which the assigning Member would have been entitled.

8.4. On the happening of any of the following events (Triggering Events) with respect to a Member, the Company and the other Members shall have the option to purchase the Membership Interest in the Company of such Member (Selling Member) at the price and on the terms provided in Section 8.7 of this Agreement:

(a) The bankruptcy or withdrawal of a Member, or the winding up and dissolution of a corporate Member, or merger or other corporate reorganization of a corporate Member as a result of which the corporate Member does not survive as an entity; provided that the remaining Members have elected to continue the business of the Company as provided in Article IX, Section 9. l (a).

(b) The occurrence of any other event that is, or that would cause, a Transfer in contravention of this Agreement.

Each member agrees to promptly give Notice of a Triggering Event to all other Members. 8.5. On the receipt of Notice by the Manager and the other Members as contemplated by Sections 8.1 or 8.3, and on receipt of actual notice of any Triggering Event as determined in good faith by the Manager, the Company shall have the option, for a period ending 30 calendar days following the determination of the purchase price as provided in Section 8.8, to purchase the Membership Interest in the Company to which the option relates, at the price and on the terms set forth in Section 8.7 of this Agreement, and the other Members, pro rata in accordance with their prior Membership Interests in the Company, shall then have the option, for a period of 30 days thereafter, to purchase the Membership Interest in the Company not purchased by the Company, on the same terms and conditions as apply to the Company. If all other Members do not elect to purchase the entire remaining Membership Interest in the Company, then the Members electing to purchase shall have the right, pro rata in accordance with their prior Membership Interest in the Company, to purchase the additional Membership Interest in the Company available for purchase. The transferee of the Membership Interest in the Company that is not purchased shall hold such Membership Interest in the Company subject to all of the provisions of this Agreement.

8.6 Neither the Member whose interest is subject to purchase under this Article, nor such Member's Affiliate, shall participate in any Vote or discussion of any matter pertaining to the disposition of the Member's Membership Interest in the Company under this Agreement.

8.7. The purchase price of the Membership Interest that is the subject of an option under Section 8.5 shall be the "Fair Option Price" of the interest as determined under this Section 8.7. "Fair Option Price" means the cash price that a willing buyer would pay to a willing seller when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts on the date the option is first execrable (the Option Date). Each of the selling and purchasing parties shall use his, her, or its best efforts to mutually agree upon the Fair Option Price. If the parties are unable to so agree within 30 days of the Option Date, the selling party shall appoint, within 40 days of the Option Date, one appraiser, and the purchasing party shall appoint within 40 days of the Option Date, one appraiser. The two appraisers shall within a period of five additional days, agree upon and appoint an additional appraiser. The three appraisers shall, within 60 days after the appointment of the third appraiser, determine the Fair Option Price of the Membership Interest in writing and submit their report to all the parties.

The Fair Option Price shall be determined by disregarding the appraiser's valuation that diverges the greatest from each of the other two appraisers' valuations, and the arithmetic mean of the remaining two appraisers' valuations shall be the Fair Option Price. Each purchasing party shall pay for the services of the appraiser selected by it, plus one half of the fee charged by the third appraiser, and one half of all other costs relating to the determination of Fair Option Price. The Fair Option Price as so determined shall be payable in cash.

8.8. Except as expressly permitted under Section 8.2, a prospective transferee (other than an existing Member) of a Membership Interest may be admitted as a Member with respect to such Membership Interest (Substituted Member) only (a) on the unanimous Vote of the other Members in favor of the prospective transferee's admission as a Member, which approval shall be given or withheld by each Member in its sole and absolute discretion, and (b) on such prospective transferee executing a counterpart of this Agreement as a party hereto. Any prospective transferee of a Membership Interest shall be deemed an Assignee, and, therefore, the owner of only an Economic Interest until such prospective transferee has been admitted as a Substituted Member. Except as otherwise permitted in the Act, any such Assignee shall be entitled only to receive allocations and distributions under this Agreement with respect to such Membership Interest and shall have no right to Vote or exercise any rights of a Member until such Assignee has been admitted as a Substituted Member. Until the Assignee becomes a Substituted Member, the Assigning Member will continue to be a Member and to have the power to exercise any rights and powers of a Member under this Agreement, including the right to Vote in proportion to the Percentage Interest that the Assigning Member would have had in the event that the assignment had not been made.

8.9 Any person admitted to the Company as a Substituted Member shall be subject to all the provisions of this Agreement that apply to the Member from whom the Membership Interest was assigned, provided, however, that the assigning Member shall not be released from liabilities as a Member solely as a result of the assignment, both with respect to obligations to the Company and to third parties, incurred prior to the assignment.

8.10. The initial sale of Membership Interests in the Company to the Initial Members has not been qualified or registered under the securities laws of any state, including California, or registered under the Securities Act of 1933, in reliance upon exemptions from the registration provisions of those laws. Notwithstanding any other provision of this Agreement, Membership Interests may not be Transferred unless registered or qualified under applicable state and federal securities law unless, in the opinion of legal counsel satisfactory to the Company, such qualification or registration is not required. The Member who desires to transfer a Membership Interest shall be responsible for all legal fees incurred in connection with said opinion.

ARTICLE IX

DISSOLUTION AND WINDING UP

9.1. The Company shall be dissolved upon the first to occur of the following events:

(a) The bankruptcy, withdrawal, or dissolution of a Member, provided, however, that the remaining Members may by the Vote of a Majority of Members within 90 days of the happening of that event Vote to continue the business of the Company, in which case, the Company shall not dissolve. If the remaining Members fail to so Vote, the remaining Members shall wind up the Company. For purposes of this Paragraph (a), in determining a Majority of Members, the Percentage Interest of the Member who has died, become incapacitated, withdrawn, or who has become bankrupt or dissolved shall not be taken into account.

(b) The expiration of the term of existence of the Company.

(c) The written agreement of all Members to dissolve the Company.

(d) The sale or other disposition of substantially all of the Company's assets.

(e) Entry of a decree of judicial dissolution under Corp C section 17351.

9.2. On the dissolution of the Company, the Company shall engage in no further business other than that necessary to wind up the business and affairs of the Company. The Managers who have not wrongfully dissolved the Company or, if there is no such Manager, the Members, shall wind up the affairs of the Company. The Delegates winding up the affairs of the Company shall give Notice of the commencement of winding up by mail to all known creditors and claimants against the Company whose addresses appear in the records of the Company. After paying or adequately providing for the payment of all known debts of the Company (except debts owing to Members), the remaining assets of the Company shall be distributed or applied in the following order:

(a) To pay the expenses of liquidation.

(b) To the establishment of reasonable reserves by the Delegate for contingent liabilities or obligations of the Company. Upon the Delegate's determination that such reserves are no longer necessary, said reserves shall be distributed as provided in this Section 9.2. -

(c) To repay outstanding loans to Members. If there are insufficient funds to pay such loans in full, each Member shall be repaid in the ratio that the Member's loan, together with interest accrued and unpaid thereon, bears to the total of all such loans from Members, including all interest accrued and unpaid thereon. Such repayment shall first be credited to unpaid principal and the remainder shall be credited to accrued and unpaid interest.

(d) Among the Members with Positive Capital Account Balances as provided in Article IV.

9.3. Each Member shall look solely to the assets of the Company for the return of the Member's investment, and if the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the investment of each Member, such Member shall have no recourse against any other Members for indemnification, contribution, or reimbursement, except as specifically provided in this Agreement.

ARTICLE X

INDEMNIFICATION AND ARBITRATION

10.1. The Company shall have the power to indemnify any Person who was or is a party, or who is threatened to be made a party, to any Proceeding by reason of the fact that such Person was or is a Member, Manager, officer, employee, or other agent of the Company, or was or is serving at the request of the Company as a director, officer, employee, or other Agent of another limited liability company, corporation, partnership, joint venture, trust, or other enterprise, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred by such Person in connection with such proceeding, if such Person acted in good faith and in a manner that such Person reasonably believed to be in the best interests of the Company, and, in the case of a criminal proceeding, such Person had no reasonable cause to believe that the Person's conduct was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contenders or its equivalent, shall not, of itself, create a presumption that the Person did not act in good faith and in a manner that such Person reasonably believed to be in the best interests of the Company, or that the Person had reasonable cause to believe that the Person's conduct was unlawful. To the extent that an agent of the Company has been successful on the merits in defense of any Proceeding, or in defense of any claim, issue, or matter in any such Proceeding, the agent shall be indemnified against expenses actually and reasonably incurred in connection with the Proceeding. In all other cases, indemnification shall be provided by the Company only if authorized in the specific case by a Majority of Members.

"Agent," as used in this Section 10.1, shall include a trustee or other fiduciary of a plan, trust, or other entity or arrangement described in Corp C section 207(f).

"Proceeding," as used in this Section 10.1, means any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative.

Expenses of each Person indemnified under this Agreement actually and reasonably incurred in connection with the defense or settlement of a proceeding may be paid by the Company in advance of the final disposition of such proceeding, as authorized by the Managers who are not seeking indemnification or, if there are none, by a Majority of the Members, upon receipt of an undertaking by such Person to repay such amount unless it shall ultimately be determined that such Person is entitled to be indemnified by the Company. "Expenses," as used in this Section 10.1, includes, without limitation, attorney fees and expenses of establishing a right to indemnification, if any, under this Section 10. 1

10.2. Any action to enforce or interpret this Agreement, or to resolve disputes with respect to this Agreement as between the Company and a Member, or between or among the Members, shall be settled by arbitration in accordance with the rules of the American Arbitration Association. Arbitration shall be the exclusive dispute resolution process in the State of California, but arbitration shall be a nonexclusive process elsewhere. Any party may commence arbitration by sending a written demand for arbitration to the other parties. Such demand shall set forth the nature of the matter to be resolved by arbitration. The Manager shall select the place of arbitration. The substantive law of the State of California shall be applied by the arbitrator to the resolution of the dispute. The parties shall share equally all initial costs of arbitration. The prevailing party shall be entitled to reimbursement of attorney fees, costs, and expenses incurred in connection with the arbitration. AR decisions of the arbitrator shall be final, binding, and conclusive on all parties. Judgment may be entered upon any such decision in accordance with applicable law in any court having jurisdiction thereof. The arbitrator (if permitted under applicable law) or such court may issue a writ of execution to enforce the arbitrator's decision.

ARTICLE XI

ATTORNEY-IN-FACT AND AGENT

11.1. Each Member, by execution of this Agreement, irrevocably constitutes and appoints each Manager and any of them acting alone as such Member's true and lawful attorney-in-fact and agent, with full power and authority in such Member's name, place, and stead to execute, acknowledge, and deliver, and to file or record in any appropriate public office: (a) any certificate or other instrument that may be necessary, desirable, or appropriate to qualify the Company as a limited liability company or to transact business as such in any jurisdiction in which the Company conducts business; (b) any certificate or amendment to the Company's articles of organization or to any certificate or other instrument that may be necessary, desirable, or appropriate to reflect an amendment approved by the Members in accordance with the provisions of this Agreement; (c) any certificates or instruments that may be necessary, desirable, or appropriate to reflect the dissolution and winding up of the Company; and (d) any certificates necessary to comply with the provisions of this Agreement. This power of attorney will be deemed to be coupled with an interest and 'will survive the Transfer of the Member's Economic Interest. Notwithstanding the existence of this power of attorney, each Member agrees to join in the execution, acknowledgment, and delivery of the instruments referred to above if requested to do so by a Manager. This power of attorney is a limited power of attorney and does not authorize any Manager to act on behalf of a Member except as described in this Article XI.

ARTICLE XII

GENERAL PROVISIONS

12.1. This Agreement constitutes the whole and entire agreement of the parties with respect to the subject matter of this Agreement, and it shall not be modified or amended in any respect except by a written instrument executed by all the parties. This Agreement replaces and supersedes all prior written and oral agreements by and among the Members and Managers or any of them.

12.2. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

12.3. This Agreement shall be construed and enforced in accordance with the internal laws of the State of California. If any provision of this Agreement is determined by any court of competent jurisdiction or arbitrator to be invalid, illegal, or unenforceable to any extent, that provision shall, if possible, be construed as though more narrowly drawn, if a narrower construction would avoid such invalidity, illegality, or unenforceability or, if that is not possible, such provision shall, to the extent of such invalidity, illegality, or unenforceability, be severed, and the remaining provisions of this Agreement shall remain in effect.

12.4. This Agreement shall be binding on and inure to the benefit of the parties and their heirs, personal representatives, and permitted successors and assigns

12.5. Whenever used in this Agreement, the singular shall include the plural and the plural shall include the singular, and the neuter gender shall include the male and female as well as a trust, firm, company, or corporation, all as the context and meaning of this Agreement may require.

12.6. The parties to this Agreement shall promptly execute and deliver any and all additional documents, instruments, notices, and other assurances, and shall do any and all other acts and things, reasonably necessary in connection with the performance of their respective obligations under this Agreement and to carry out the intent of the parties.

12.7. Except as provided in this Agreement, no provision of this Agreement shall be construed to limit in any manner the Members in the carrying on of their own respective businesses or activities.

12.8. Except as provided in this Agreement, no provision of this Agreement shall be construed to constitute a Member, in the Member's capacity as such, the agent of any other Member.

12.9. Each Member represents and warrants to the other Members that the Member has the capacity and authority to enter into this Agreement.

12.10. The article, section, and paragraph titles and headings contained in this Agreement are inserted as matter of convenience and for ease of reference only and shall be disregarded for all other purposes, including the construction or enforcement of this Agreement or any of its provisions.

12.11. This Agreement may be altered, amended, or repealed only by a writing signed by all of the Members.

12.12. Time is of the essence of every provision of this Agreement that specifies a time for performance.

12.13. This Agreement is made solely for the benefit of the parties to this Agreement and their respective permitted successors and assigns, and no other person or entity shall have or acquire any right by virtue of this Agreement.

IN WITNESS WHEREOF, the parties have executed or caused to be executed this Agreement on the day and year first above written.

IMPERIAL CREDIT
MORTGAGE HOLDING, INC.

by: /s/ Joseph R. Tomkinson

JOSEPH R. TOMKINSON, CEO

IMH COMMERCIAL
HOLDINGS, INC.

```
by:      /s/ William S. Ashmore
   --------------------------------
   WILLIAM S. ASHMORE, President
```

EXHIBIT "A"

RECORDING REQUESTED BY AND

WHEN RECORDED MAIL TO:

SPACE ABOVE THIS LINE FOR RECORDER'S USE

==

State of California [SEAL]

Bill Jones

Secretary of State
SACRAMENTO

I, BILL JONES, Secretary of State of California., hereby certify:

That the annexed transcript of 1 page(s) was prepared by and in this office from the record on file, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this
certificate and affix the Great
Seal of the State of California

[SEAL]

AUG 26 1997

/s/ Bill Jones

Secretary of State

SEC STATE FORM LP-222A (Rev 5/95)

[SEAL]

State of California

Bill Jones

Secretary of State

LLC-1

LIMITED LIABILITY COMPANY
ARTICLES OF ORGANIZATION

IMPORTANT - Read the instructions before completing the form.

This document is presented for filing pursuant to Section 17050 of the California Corporations Code.

---

1. Limited liability company name:

IMH/ICH DOVE STREET, LLC

---

2. Latest date (month/day/year) on which the limited liability company is to dissolve:

AUGUST 25, 2047

---

3. The purpose of the limited liability company is to engage in any lawful act or activity for which a limited liability company may be organized under the Beverly-Killea Limited Liability Company Act.

---

4. Enter the name of initial agent for service of process and check the appropriate provision below:

DOUG SMITH, ESQ.   , which is

[X] an individual residing in California. Proceed to Item 5.

[_] a corporation which has filed a certificate pursuant to Section 1505 of the California Corporations Code. Skip Item 5 and proceed to Item 6.

---

5. If the initial agent for service of process is an individual, enter a business or residential street address in California:

Street Address: 5 HUTTON CENTRE DRIVE, STE 600

City: SANTA ANA   State: CALIFORNIA   Zip Code: 92707

---

6. The limited liability company will be managed by: (check one)

[_] one manager   [_] more than one manager [X] limited liability company members

---

7. If other matters are to be included in the Articles of Organization attach one or more separate pages. Number of pages attached, if any.

---

8. It is hereby declared that I am the person who   For Secretary of State Use

executed this instrument, which execution is
my act and deed.

101997237028

/s/ Jeffery A. Robinson

- --------------------------------

Signature of organizer

FILED
In the office of the Secretary of State
of the State of California

Jeffery A. Robinson

- --------------------------------

Type or print name of organizer

AUG 25 1997

Date: August 25, 1997

/s/ Bill Jones

BILL JONES, Secretary Of State

- --------------------------------

LLC-1 Approved by the Secretary of State
Filing Fee$70 1/96

EXHIBIT "B"

MEMBER	CONTRIBUTION
IMPERIAL CREDIT MORTGAGE HOLDINGS, INC.	$ 3,862,500.00
IMH COMMERCIAL HOLDINGS, INC.	$ 3,862,500.00

EXHIBIT 10.17

STANDARD OFFICE LEASE-GROSS
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. BASIC LEASE PROVISIONS ("Basic Lease Provisions")

1.1 PARTIES: This Lease, dated, for reference purposes only, June 1, 1998, is made by and between IMH/ICH Dove Street, LLC (herein called "Lessor") and IMPAC Mortgage Holdings, Inc. and IMPAC Funding Corporation, (herein called "Lessee").

1.2 PREMISES: Floors 1-6 consisting of approximately 74,405 feet, more or less, as defined in paragraph 2 and as shown on Exhibit "A" hereto (the "Premises").

1.3 BUILDING: Commonly described as being located at 1401 Dove Street, in the City of Newport Beach, County of Orange State of California, as more particularly described in Exhibit A hereto, and as defined in paragraph 2.

1.4 USE: general office use, subject to paragraph 6.

1.5 TERM: 10 years commencing June 1, 1998 ("Commencement Date") and ending May 31, 2008, as defined in paragraph 3.

1.6 BASE RENT: $145,090 per month, payable on the 1st day of each month, per paragraph 4.1.

1.7 BASE RENT INCREASE: On see Paragraph 50 attached the monthly Base Rent payable under paragraph 1.6 above shall be adjusted as provided in paragraph 4.3 below.

1.8 RENT PAID UPON EXECUTION: $145,090 for the month of June.

1.9 SECURITY DEPOSIT: N/A.

1.10 LESSEE'S SHARE OF OPERATING EXPENSE INCREASE: 100% as defined in paragraph 4.2.

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES: The Premises are a portion of a building, herein sometimes referred to as the "Building" identified in paragraph 1.3 of the Basic Lease Provisions. "Building" shall include adjacent parking structures used in connection therewith. The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon or thereunder, are herein collectively referred to as the "Office Building Project." Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, the real property referred to in the Basic Lease Provisions, paragraph 1.2, as the "Premises" including rights to the Common Areas as hereinafter specified.

2.2 VEHICLE PARKING: So long as Lessee is not in default and subject to the rules and regulations attached hereto, and as established by Lessor from time to time, Lessee shall be entitled 298 parking spaces in the Office Building Project for monthly parking.

2.2.1 If Lessee commits, permits or allows any of the prohibited activities described in the Lease or the rules then in effect, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS-DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Office Building Project that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Office Building Project and their respective employees, suppliers, shippers, customers and invitees, including but not limited to common entrances, lobbies, corridors, stairways and stairwells, public restrooms, elevators, escalators, parking areas to the extent not otherwise prohibited by this Lease, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, ramps, driveways, landscaped areas and decorative walls.

2.4 COMMON AREAS-RULES AND REGULATIONS. Lessee agrees to abide by and conform to the rules and regulations attached hereto as Exhibit B with respect to the Office Building Project and Common Areas, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to modify, amend and enforce said rules and regulations. Lessor shall not be responsible to Lessee for the noncompliance with said rules and regulations by other lessees, their agents, employees and invitees of the Office Building Project.

2.5 COMMON AREAS-CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Building interior and exterior and Common Areas, including, without limitation, changes in the location, size, shape, number, and appearance thereof, including but not limited to the lobbies, windows, stairways, air shafts, elevators, escalators, restrooms, driveways, entrances parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, decorative walls, landscaped areas and walkways; provided, however, Lessor shall at all times provide the parking facilities required by applicable law;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land and Improvements outside the boundaries of the Office Building Project to be a part of the Common Areas, provided that such other land and improvements have a reasonable and functional relationship to the Office Building Project;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Office Building Project, or any portion thereof;

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Office Building Project as Lessor may, in the exercise of sound business judgment deem to be appropriate.

3. TERM.

3.1 TERM. The term and Commencement Date of this Lease shall be as specified in paragraph 1.5 of the Basic Lease Provisions.

3.2 DELAY IN POSSESSION. Notwithstanding said Commencement Date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date and subject to paragraph 3.2.2, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof; but, in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee, as hereinafter defined; provided, however, that if Lessor shall not have delivered possession of the Premises within sixty (60) days following said Commencement Date, as the same may be extended under the terms of a Work Letter executed by Lessor and Lessee, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder;

provided, however, that, as to Lessee's obligations, Lessee first reimburses Lessor for all costs incurred for Non-Standard Improvements and, as to Lessor's obligations, Lessor shall return any money previously deposited by Lessee (less any offsets due Lessor for Non-Standard Improvements); and provided further, that if such written notice by Lessee is not received by Lessor within said ten (10) day period, right to cancel this Lease hereunder shall terminate and be of no further force or effect.

3.2.1 Possession Tendered Defined. Possession of the Premises shall be deemed tendered to Lessee ("Tender of Possession") when (1) the improvements to be provided by Lessor under this Lease are substantially completed, (2) the Building utilities are ready for use in the Premises, (3) Lessee has reasonable access to the Premises, and (4) ten (10) days shall have expired following advance written notice to Lessee of the occurrence of the matters described in (1), (2) and (3), above of this paragraph 3.2.1.

3.2.2 Delays Caused by Lessee. There shall be no abatement of rent, and the sixty (60) day period following the Commencement Date before which Lessee's right to cancel this Lease accrue under paragraph 3,2, shall be deemed extended to the extent of any delays caused by acts or omissions of Lessee, Lessee's agents, employees and contractors.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said Commencement Date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not change the termination date, and Lessee shall pay rent for such occupancy.

3.4 UNCERTAIN COMMENCEMENT. In the event commencement of the Lease term is defined as the completion of the improvements, Lessee and Lessor shall execute an amendment to this Lease establishing the date of Tender of Possession (as defined in paragraph 3.2.1) or the actual taking of Possession by Lessee, whichever first occurs, as the Commencement Date.

4. RENT

4.1 BASE RENT. Subject to adjustment as hereinafter provided in paragraph 4.3, and except as may be otherwise expressly provided in this Lease Lessee shall pay to Lessor the Base Rent for the Premises set forth in paragraph 1.6 of the Basic Lease Provisions, without offset or deduction. Lessee shall pay Lessor upon execution hereof the advance Base Rent described in paragraph 1.8 of the Basic Lease Provisions. Rent for any period during the term hereof which is for less than one month shall be prorated based upon the actual number of days of the calendar month involved. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSE INCREASE. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of the amount by which all Operating Expenses, as hereinafter defined, for each Comparison Year exceeds the amount of all Operating Expenses for the Base Year, such excess being hereinafter referred to as the "Operating Expense Increase," in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as the percentage set forth in paragraph 1.10 of the Basic Lease Provisions, which percentage has been determined by dividing the approximate square footage of the Premises by the total approximate square footage of the rentable space contained in the Office Building Project. It is understood and agreed that the square footage figures set forth in the Basic Lease Provisions are approximations which Lessor and Lessee agree are reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the space available for lease in the Office Building Project.

(b) "Base Year" is defined as the calendar year in which the Lease term commences.

(c) "Comparison Year" is defined as each calendar year during the term of this Lease subsequent to the Base Year; provided, however, Lessee shall have no obligation to pay a share of the Operating Expense Increase applicable to the first twelve (12) months of the Lease Term (other than such as are mandated by a governmental authority, as to which government mandated expenses Lessee shall pay Lessee's Share, notwithstanding they occur during the First twelve (12) months). Lessee's Share of the Operating Expense Increase for the first and last Comparison Years of the Lease Term shall be prorated according to that portion of such Comparison Year as to which Lessee is responsible for a share of such increase.

(d) "Operating Expenses" is defined, for purposes of this Lease, to include all costs, if any, incurred by Lessor in the exercise of its reasonable discretion, for:

(i) The operation, repair, maintenance, and replacement, in neat, clean, safe, good order and condition, of the Office Building Project, including but not limited to, the following:

(aa) The Common Areas, including their surfaces, coverings, decorative items, carpets, drapes and window coverings, and including Parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, stairways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, building exteriors and roofs, fences and gates;

(bb) All heating, air conditioning, plumbing, electrical systems, life safety equipment, telecommunication and other equipment used in common by, or for the benefit of, lessees or occupants of the Office Building Project, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair.

(ii) Trash disposal, janitorial and security services;

(iii) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense";

(iv) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(v) The amount of the real property taxes to be paid by Lessor under paragraph 10.1 hereof;

(vi) The cost of water, sewer, gas, electricity, and other publicly mandated services to the Office Building Project;

(vii) Labor, salaries and applicable fringe benefits and costs, materials, supplies and tools, used in maintaining and/or cleaning the Office Building Project and accounting and a management fee attributable to the operation of the Office Building Project;

(viii) Replacing and/or adding improvements mandated by any governmental agency and any repairs or removals necessitated thereby amortized over its useful life according to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then reasonable in the judgment of Lessor's accountants);

(ix) Replacements of equipment or improvements that have a useful life for depreciation purposes according to Federal income tax guidelines of five (5) years or less, as amortized over such life.

equipment or improvements that have a useful life for Federal income tax purposes in excess of five (5) years unless it is of the type described in paragraph 4.2(d)(viii), in which case their cost shall be included as above provided.

(f) Operating Expenses shall not include any expenses paid by any lessee directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or by insurance proceeds.

(g) Lessee's Share of Operating Expense Increase shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time in advance of Lessee's Share of the Operating Expense Increase for any Comparison Year, and the same shall be payable monthly or quarterly, as Lessor shall designate, during each Comparison Year of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of lessee's Share of 0perating Expense Increase as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each Comparison Year a reasonably detailed statement showing Lessee's Share of the actual Operating Expense Increase incurred during such year. If Lessee's payments under this paragraph 4.2(g) during said Comparison Year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expense Increase next falling due. If Lessee's payments under this paragraph during said Comparison Year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement. Lessor and Lessee shall forthwith adjust between them by cash payment any balance determined to exist with respect to that portion of the last Comparison Year for which Lessee is responsible as to Operating Expense Increases, notwithstanding that the Lease term may have terminated before the end of such Comparison Year.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose set forth in paragraph 1.4 of the Basic Lease Provisions or any other use which 13 reasonably comparable to that use and for no other purpose.

6.2 COMPLIANCE WITH LAW

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to alterations or improvements made by Lessee or the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term Commencement Date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises. Lessee shall conduct its business in a lawful manner and shall not use or permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Office Building Project.

6.3 CONDITION OF PREMISES

(a) Lessor shall deliver the Premises to Lessee in a clean condition on the Lease Commencement Date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, and heating system in the Premises shall be in good operating condition. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises and the Office Building Project in their condition existing as of the Lease Commencement Date or the date that Lessee takes possession of the Premises, which ever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any easements, covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that it has satisfied itself by its own independent investigation that the Premises are suitable for its intended use, and that neither Lessor nor Lessor's agent or agents has made any representation or warranty as to the present or future suitability of the Premises, Common Areas, or Office Building Project for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Lessor shall keep the Office Building Project, including the Premises, interior and exterior walls, roof, and common areas, and the equipment whether used exclusively for the Premises or in common with other premises, in good condition and repair: provided, however, Lessor shall not be obligated to paint, repair or replace wall coverings, or to repair or replace any improvements that are not ordinarily a part of the Building or are above then Building standards. Except as provided in paragraph 9.5, there shall be no abatement of rent or liability of Lessee on account of any injury or interference with Lessee's business with respect to any improvements, alterations or repairs made by Lessor to the Office Building Project or any part thereof. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair.

7.2 LESSEE'S OBLIGATIONS.

(a) Notwithstanding Lessor's obligation to keep the Premises in good condition and repair, Lessee shall be responsible for payment of the cost thereof to Lessor as additional rent for that portion of the cost of any maintenance and repair of the Premises, or any equipment (wherever located) that serves only Lessee or the Premises, to the extent such cost is attributable to causes beyond normal wear and tear. Lessee shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any Premises improvements that are not ordinarily a part of the Building or that are above then Building standards. Lessor may, at its option, upon reasonable notice, elect to have Lessee perform any particular such maintenance or repairs the cost of which is otherwise Lessee's responsibility hereunder.

(b) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices by Lessee. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Except as otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, air conditioning, window coverings, wall coverings, carpets, wall panelling, ceilings and plumbing on the Premises and in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, Utility Installations or repairs in, on or about the Premises, or the Office Building Project. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window and wall coverings, power panels, electrical distribution systems, lighting fixtures, air conditioning, plumbing, and telephone and telecommunication wiring and equipment. At the expiration of the term, Lessor may require the removal of any or all of said alterations, improvements, additions or Utility Installations, and the restoration of the Premises and the Office Building Project to their prior condition, at Lessee's expense. Should Lessor permit Lessee to make its own alterations, improvements, additions or Utility Installations, Lessee shall use only such contractor as has been expressly approved by Lessor, and Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one an one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and marterialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, or use a contractor not expressly approved by Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any part or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Office Building Project that Lessee shall desire to make shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent to Lessee's making such alteration, improvement, addition or Utility Installation, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from the applicable governmental agencies, furnishing a copy thereof to Lessor prior to the commencement of the work, and compliance by Lessee with all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, the Building or the Office Building Project, or any interest therein.

(d) Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises by Lessee, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. It Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises, the Building or the Office Building Project, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises the Building and the Office Building Project free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's reasonable attorneys' fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest so to do.

(e) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made to the Premises by Lessee, including but not limited to, floor coverings, panelings, doors, drapes, built-ins, moldings, sound attenuation, and lighting and telephone or communication systems, conduit, wiring and outlets, shall be made and done in a good and workmanlike manner and of good and sufficient quality and materials and shall be the property of Lessor and remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Provided Lessee is not in default, notwithstanding the provisions of this paragraph 7.3(e), Lessee's personal property and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises or the Building, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

(f) Lessee shall Provide Lessor with as-built plans and specifications for any alterations, improvements, additions or Utility Installations.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Office Building Project for the benefit of Lessor or Lessee, or any other lessee of the Office Building Project, including, but not by way of limitation, such utilities as plumbing, electrical systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability Insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GLO404), or equivalent, in an amount of not less than $1,000,000 per occurrence of bodily injury and property damage combined or in a greater amount as reasonably determined by Lessor and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. Compliance with the above requirement shall not, however, limit the liability of Lessee hereunder.

8.2 LIABILITY INSURANCE-LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Broad Form Property Damage Insurance, plus coverage against such other risks Lessor deems advisable from time to time, insuring Lessor, but not Lessee, against liability arising out of the ownership, use, occupancy or maintenance of the Office Building Project in an amount not less than $5,000,000.00 per occurrence.

8.3 PROPERTY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease for the benefit of Lessee, replacement cost fire and extended coverage insurance, with vandalism and malicious mischief, sprinkler leakage and earthquake sprinkler leakage endorsements, in an amount sufficient to cover not less than 100% of the full replacement cost, as the same may exist from time to time, of all of Lessee's personal property, fixtures, equipment and tenant improvements.

8.4 PROPERTY INSURANCE-LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Office Building Project improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in the amount of the full replacement cost thereof, as the same may exist from time to time, utilizing Insurance Services Office standard form, or equivalent, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, plate glass, and such other perils as Lessor deems advisable or may be required by a lender having a lien on the Office Building Project. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. Lessee will not be named in any such policies carried by Lessor and shall have no right to any proceeds therefrom. The policies required by these paragraphs 8.2 and 8.4 shall contain such deductibles as Lessor or the aforesaid lender may determine. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(f) hereof, the deductible amounts under the applicable insurance policies shall be deemed an Operating Expense. Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall pay the entirety of any increase in the property insurance premium for the Office Building Project over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the Commencement Date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other and waive their entire right of recovery against the other, for direct or consequential loss or damage arising out of or incident to the perils covered by property insurance carried by such party, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. If necessary all property insurance policies required under this Lease shall be endorsed to so provide.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor and its agents, Lessor's master or ground lessor, partners and lenders, from and against any and all claims for damage to the person or property of anyone or any entity arising from Lessee's use of the Office Building Project, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnity and hold harmless Lessor from and against any and all claims, costs and expenses arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, employees, or invitees, and from and against all costs, attorney's fees, expenses and liabilities incurred by Lessor as the result of any such use, conduct, activity, work, things done, permitted or suffered, breach, default or negligence, and in dealing reasonably therewith, including but not limited to the defense or pursuit of any claim or any action or proceeding involved therein; and in case any action or proceeding be brought against Lessor by reason of any such matter, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Office Building Project arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for loss of or damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Office Building Project, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury Is caused by or results from theft, fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Office Building Project, or from other sources or places, or from new construction or the repair, alteration or improvement of any part of the Office Building Project, or of the equipment, fixtures or appurtenances applicable thereto, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible, Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Office Building Project, nor from the failure of Lessor to enforce the provisions of any other lease of any other lessee of the Office Building Project.

8.9 NO REPRESENTATION OF ADEQUATE COVERAGE. Lessor makes no representation that the limits or forms of coverage of insurance specified in this paragraph 8 are adequate to cover Lessee's property or obligations under this Lease.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Damage" shall mean if the Premises are damaged or destroyed to any extent.

(b) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent (50%) of the then Replacement Cost of the building.

(c) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent (50%) or more of the then Replacement Cost of the Building.

(d) "Office Building Project Buildings" shall mean all of the buildings on the Office Building Project site.

(e) "Office Building Project Buildings Total Destruction" shall mean if the Office Building Project Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent (50%) or more of the then Replacement Cost of the Office Building Project Buildings.

(f) "Insured Loss" shall mean damage or destruction which was caused by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(g) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring, excluding all Improvements made by lessees, other than those installed by Lessor at Lessee's expense.

9.2 PREMISES DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Damage or Premises Building Partial Damage, then Lessor shall, as soon as reasonably possible and to the extent the required materials and labor are readily available through usual commercial channels, at Lessor's expense, repair such damage (but not Lessee's fixtures, equipment or tenant improvements originally paid for by Lessee) to its condition existing at the time of the damage, and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from making any substantial use of the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage, in which event this Lease shall terminate as of the date of the occurrence of such damage.

9.3 PREMISES BUILDING TOTAL DESTRUCTION; OFFICE BUILDING PROJECT TOTAL DESTRUCTION. Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, which falls into the classifications of either (i) Premises Building Total Destruction, or (ii) Office Building Project Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction as soon as reasonably possible at Lessor's expense (to the extent the required materials are readily available through usual commercial channels) to its condition existing at the time of the damage, but not Lessee's fixtures, equipment or tenant improvements, and this lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall terminate as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last twelve (12) months of the term of this Lease there is substantial damage to the Premises, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Damage during the last twelve (12) months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee falls to exercise such -option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Building or Premises pursuant to the provisions of this paragraph 9, and any part of the Premises are not usable (including loss of use due to loss of access or essential services), the rent payable hereunder (including Lessee's Share of Operating Expense Increase) for the period during which such damage, repair or restoration continues shall be abated, provided (1) the damage was not the result of the negligence of Lessee, and (2) such abatement shall only be to the extent the operation and profitability of Lessee's business as operated from the Premises is adversely affected. Except for said abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises or the Building under the provisions of this Paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such occurrence, or if Lessor shall not complete the restoration and repair within six (6) months after such occurrence, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement or completion, respectively, of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

(c) Lessee agrees to cooperate with Lessor in connection with any such restoration and repair, including but not limited to the approval and/or execution of plans and specifications required.

9.6 TERMINATION--ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Office Building Project subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional Improvements placed upon the Office Building Project by other lessees or by Lessor for the exclusive enjoyment of any other lessee. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirely of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Office Building Project or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Office Building Project or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Office Building Project. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a change in ownership, as defined by applicable local statutes for property tax purposes, of the Office Building Project or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such change of ownership, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. It the improvements or property, the taxes for which are to be paid separately by Lessee under paragraph 10.2 or 10.5 are not separately assessed, Lessee's portion of that tax shall be equitably determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information (which may include the cost of construction) as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES

11.1 SERVICES PROVIDED BY LESSOR. Lessor shall provide heating, ventilation, air conditioning, and janitorial service as reasonably required, reasonable amounts of electricity for normal lighting and office machines, water for reasonable and normal drinking and lavatory use, and replacement light bulbs and/or fluorescent tubes and ballasts for standard overhead fixtures.

11.2 SERVICES EXCLUSIVE TO LESSEE. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services specially or exclusively supplied and/or metered exclusively to the Premises or to Lessee, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

11.3 HOURS OF SERVICE. Said services and utilities shall be provided during generally accepted business days and hours or such other days or hours as may hereafter be set forth. Utilities and services required at other times shall be subject to advance request and reimbursement by Lessee to Lessor of the cost thereof.

11.4 EXCESS USAGE BY LESSEE. Lessee shall not make connection to the utilities except by or through existing outlets and shall not install or use machinery or equipment in or about the Premises that uses excess water, lighting or power, or suffer or permit any act that causes extra burden upon the utilities or services, including but not limited to security services, over standard office usage for the Office Building Project. Lessor shall require Lessee to reimburse Lessor for any excess expenses or costs that may arise out of a breach of this subparagraph by Lessee. Lessor may, in its sole discretion, install at Lessee's expense supplemental equipment and/or separate metering applicable to Lessee's excess usage or loading.

11.5 INTERRUPTIONS. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not reasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a material default and breach of this Lease without the need for notice to Lessee under paragraph 13.1. "Transfer" within the meaning of this paragraph 12 shall include the transfer or transfers aggregating: (a) if Lessee is a corporation, more than twenty-five percent (25%) of the voting stock of such corporation, or (b) if Lessee is a partnership, more than twenty-five percent (25%) of the profit and loss participation in such partnership.

12.2 LESSEE AFFILIATE. Notwithstanding the provisions of paragraph 12.1 hereof, Lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted on the Premises, all of which are referred to as "Lessee Affiliate"; provided that before such assignment shall be effective, (a) said assignee shall assume, in full, the obligations of Lessee under this Lease and (b) Lessor shall be given written notice of such assignment and assumption. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

12.3 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, no assignment or subletting shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the rent and other sums due Lessor hereunder including Lessee's Share of Operating Expense Increase, and to perform all other obligations to be performed by Lessee hereunder.

(b) Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment.

(c) Neither a delay in the approval or disapproval of such assignment or subletting, nor the acceptance of rent, shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease.

(d) If Lessee's obligations under this Lease have been guaranteed by third parties, then an assignment or sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(e) The consent by Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability under this Lease or said sublease; however, such persons shall not be responsible to the extent any such amendment or modification enlarges or increases the obligations of the Lessee or sublessee under this Lease or such sublease.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) Lessor's written consent to any assignment or subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(h) The discovery of the fact that any financial statement relied upon by Lessor in giving its consent to an assignment or subletting was materially false shall, at Lessor's election, render Lessor's said consent null and void.

12.4 Additional Terms and Conditions Applicable to Subletting. Regardless of Lessor's consent, the following terms and conditions shall apply to any Subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply sar7ie toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against said sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublessee as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublease shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a Sublease to which Lessor has expressly consented in writing.

(c) In the event Lessee shall default in the performance of its obligations under this Lease. Lessor at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within three (3) days after service of said notice of default on such sub-lessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 Lessor's Expenses. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable costs and expenses incurred in connection therewith, including attorneys', architects', engineers' or other consultants' fees.

12.6 Conditions to Consent Lessor reserves the right to condition any approval to assign or sublet upon Lessor's determination that (a) the proposed assignee or sublessee shall conduct a business on the Premises of a quality substantially equal to that of Lessee and consistent with the general character of the other occupants of the Office Building Project and not in violation of any exclusives or rights then held by other tenants, and (b) the proposed assignee or sublessee be at least as financially responsible as Lessee was expected to be at the time of the execution of this Lease or of such assignment or subletting, whichever is greater.

13. DEFAULT; REMEDIES.

13.1 Default. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacation or abandonment of the Premises by Lessee. Vacation of the Premises shall include the failure to occupy the Premises for a continuous period of sixty (60) days or more, whether or not the rent is paid.

(b) The breach by Lessee of any of the covenants, conditions or provisions of paragraph 7.3(a), (b) or (d) (alterations), 12.1 (assignment or subletting), 13.1(e) (insolvency), 13.1(f) (false statement), 16(a) (estoppel certificate), 30(b) (subordination), 33 (auctions), or 41.1 (easements), all of which are hereby deemed to be material, non-curable defaults without the necessity of any notice by Lessor to Lessee thereof.

(c) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(d) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee other than those referenced in subparagraphs (b) and (c), above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance Is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently pursues such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(e) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becoming a "debtor" as defined in 11 U.S.C. (S)101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days; (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect.

(f) The discovery by Lessor that any financial statement given to Lessor by Lessee, or its successor in interest or by any guarantor of Lessee's obligation hereunder, was materially false.

13.2 Remedies. In the event of any material default or breach of this Lease by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

13.3 Default by Lessor. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such 30-day period and thereafter diligently pursues the same to completion.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expense Increase or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be Imposed on Lessor by the terms of any mortgage or trust deed covering the Office Building Project. Accordingly, if any installment of Base Rent, Operating Expense Increase, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder.

14. Condemnation. If the Premises or any portion thereof or the Office Building Project are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs; provided that if so much of the Premises or the Office Building Project are taken by such condemnation as would substantially and adversely affect the operation and profitability of Lessee's business conducted from the Premises, Lessee shall have the option, to be exercised only in writing within thirty (30) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall have taken possession), to terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent and Lessee's Share of Operating Expense Increase shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. Common Areas taken shall be excluded from the Common Areas usable by Lessee and no reduction of rent shall occur with respect thereto or by reason thereof. Lessor shall have the option in its sole discretion to terminate this Lease as of the taking of possession by the condemning authority, by giving written notice to Lessee of such election within thirty (30) days after receipt of notice of a taking by condemnation of any part of the Premises or the Office Building Project. Any award for the taking of all or any part of the Premises or the Office Building Project under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any separate award for loss of or damage to Lessee's trade fixtures, removable personal property and unamortized tenant improvements that have been paid for by Lessee. For that purpose the cost of such improvements shall be amortized over the original term of this Lease excluding any options. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

16. Estoppel Certificate.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other part ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Office Building Project or of the business of Lessee.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Office Building Project, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or the purchaser in confidence and shall be used only for the purposes herein set forth.

17. Lessor's Liability. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Office Building Project, and except as expressly provided in paragraph 15. In the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. Severability. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction shall in no way affect the validity of any other provision hereof.

19. Interest on Past-due Obligations. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law Or judgments from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expense increase and any other expenses payable by Lessee hereunder shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Office Building Project and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal

delivery or by certified or registered mail, and shall be deemed sufficiently given if delivered or addressed to Lessee or to Lessor at the address noted below or adjacent to the signature of the respective parties, as the case may be. Mailed notices shall be deemed given upon actual receipt at the address required, or forty-eight hours following deposit in the mail, postage prepaid, whichever first occurs. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge Of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in Possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, except that the rent payable shall be one hundred twenty-five percent (125%) of the rent payable immediately preceding the termination date of this Lease, and all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Office Building Project is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Office Building Project is located.

30. SUBORDINATION.

(a) This Lease, and any Option or right of first refusal granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Office Building Project and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination, or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEYS' FEES.

31.1 If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, trial or appeal thereon, shall be entitled to his reasonable attorneys' fees to be paid by the losing party as fixed by the court in the same or a separate suit, and whether or not such action is pursued to decision or judgment. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

31.2 The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred in good faith.

31.3 Lessor shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of notice of default and consultations in connection therewith, whether or not a legal transaction is subsequently commenced in connection with such default.

32. LESSOR'S ACCESS.

32.1 Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, performing any services required of Lessor, showing the same to prospective purchasers, lenders, or lessees, taking such safety measures, erecting such scaffolding or other necessary structures, making such alterations, repairs, improvements or additions to the Premises or to the Office Building Project as Lessor may reasonably deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee's use of the Premises. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs.

32.2 All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

32.3 Lessor shall have the right to retain keys to the Premises and to unlock all doors in or upon the Premises other than to files, vaults and sales, and in the case of emergency to enter the Premises by any reasonably appropriate means, and any such entry shall not be deemed a forceable or unlawful entry or detainer of the Premises or an eviction. Lessee waives any charges for damages or injuries or interference with Lessee's property or business in connection therewith.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent. The holding of any auction on the Premises or Common Areas in violation of this paragraph shall constitute a material default of this Lease.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Office Building Project without Lessor's prior written

consent. Under no circumstances shall Lessee place a sign on any roof of the Office Building Project.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraphs 33 (auctions) and 34 (signs) hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Office Building Project.

39. OPTIONS.

39.1 Definition. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other Property of Lessor; (2) the option of right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Office Building Project or other property of Lessor or the right of first offer to lease other space within the Office Building Project or other property of Lessor; (3) the right or option to purchase the Premises or the Office Building Project, or the right of first refusal to purchase the Premises or the Office Building Project or the right of first offer to purchase the Premises or the Office Building Project, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 Options Personal. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premise or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee; provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 Multiple Options. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(c) or 13.1(d) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the day after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(c), or paragraph 13.1(d), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option, (iv) if Lessee has committed any non-curable breach, including without limitation those described in paragraph 13.1(b), or is otherwise in default of any of the terms, covenants or conditions of this Lease.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(d) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessor gives to Lessee three or more notices of default under paragraph 13.1(c), or paragraph 13.1(d), whether or not the defaults are cured, or (iv) if Lessee has committed any non-curable breach, including without limitation those described in paragraph 13.1(b), or is otherwise in default of any of the terms, covenants and conditions of this Lease.

40. SECURITY MEASURES-LESSOR'S RESERVATIONS.

40.1 Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Promises or the Office Building Project. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Office Building Project or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

40.2 Lessor shall have the following rights:

(a) To change the name, address or title of the Office Building Project or building in which the Premises are located upon not less than 90 days prior written notice;

(b) To, at Lessee's expense, provide and install Building standard graphics on the door of the Premises and such portions of the Common Areas as Lessor shall reasonably deem appropriate;

(c) To permit any lessee the exclusive right to conduct any business as long as such exclusive does not conflict with any rights expressly given herein;

(d) To place such signs, notices or displays as Lessor reasonably deems necessary or advisable upon the roof, exterior of the buildings or the Office Building Project or on pole signs in the Common Areas;

40.3 Lessee shall not:

(a) Use a representation (photographic or otherwise) of the Building or the Office Building Project or their name(s) in connection with Lessee's business;

(b) Suffer or permit anyone, except in emergency, to go upon the roof of the Building.

41. EASEMENTS.

41.1 Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by

Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

41.2 The obstruction of Lessee's view, air, or light by any structure erected in the vicinity of the Building, whether by Lessor or third parties, shall in no way affect this Lease or impose any liability upon Lessor.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, Lessee, and each individual executing this Lease on behalf of such entity represent and warrant that such individual is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions, Exhibits or Addenda of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. NO OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to Lessee to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by both parties.

46. LENDER MODIFICATION. Lessee agrees to make such reasonable modifications to this Lease as may be reasonably required by an institutional lender in connection with the obtaining of normal financing or refinancing of the Office Building Project.

47. MULTIPLE PARTIES. If more than one person or entity is named as either Lessor or Lessee herein, except as otherwise expressly provided herein, the obligations of the Lessor or Lessee herein shall be the joint and several responsibility of all persons or entitles named herein as such Lessor or Lessee, respectively.

48. WORK LETTER. This Lease is supplemented by that certain Work Letter of even date executed by Lessor and Lessee, attached hereto as Exhibit C, and incorporated herein by this reference.

49. ATTACHMENTS. Attached hereto are the following documents which constitute a part of this Lease:

50. BASIC RENT INCREASE. The Basic Monthly Rent shall be subject to annually increases per the schedule below:

Year 1	$1.95 per RSF	($145,090)	Year 6	$2.20 per RSF	($163,691)
Year 2	$2.00 per RSF	($148,810)	Year 7	$2.25 per RSF	($167,411)
Year 3	$2.05 per RSF	($152,530)	Year 8	$2.30 per RSF	($171,132)
Year 4	$2.10 per RSF	($156,251)	Year 9	$2.35 per RSF	($174,852)
Year 5	$2.15 per RSF	($159,971)	Year 10	$2.40 per RSF	($178,572)

51. Provided that Lessee is not in default of the lease or any of its provisions, Lessor grants Lessee two (2) 5-year options to extend the lease term for an additional five (5) years each. Lessor must receive written notice from the Lessee of its intent to extend the lease no sooner than nine (9) months prior to the lease expiration and no later than six (6) months prior to the lease expiration. The Basic Monthly Rent for each option period will be subject to current market rental rates at the time the option is exercised.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

ICH Dove Street, LLC

By ------------------------------

Its ----------------------------

By ------------------------------

Its ----------------------------

Executed at --------------------

on -----------------------------

Address -------------------------

LESSEE

IMPAC Mortgage Holdings, Inc.
IMPAC Funding Corporation

By ----------------------------------
William S. Ashmore
Its

By -------------------------------
Richard J. Johnson
Its -----------------------

Executed at -----------------------

on -------------------------------

Address ---------------------------

STANDARD OFFICE LEASE
FLOOR PLAN

[FLOOR PLAN APPEARS HERE]

EXHIBIT A

RULES AND REGULATIONS FOR
STANDARD OFFICE LEASE
[LOGO]

[FLOOR PLAN APPEARS HERE]

Dated: June 1, 1998

By and Between IMH/ICH Dove Street, LLC (Lessor) and IMPAC Funding Corporation IMPAC Mortgage Holdings, Inc. (Lessee)

GENERAL RULES

1. Lessee shall not suffer or permit the obstruction of any Common Areas, including driveways, walkways and stairways.

2. Lessor reserves the right to refuse access to any persons Lessor in good faith judges to be a threat to the safety, reputation, or property of the Office Building Project and its occupants.

3. Lessee shall not make or permit any noise or odors that annoy or interfere with other lessees or persons having business within the Office Building Project.

4. Lessee shall not keep animals or birds within the Office Building Project, and shall not bring bicycles, motorcycles or other vehicles into areas not designated as authorized for same.

5. Lessee shall not make, suffer or permit litter except in appropriate receptacles for that purpose.

6. Lessee shall not alter any lock or install new or additional locks or bolts.

7. Lessee shall be responsible for the inappropriate use of any toilet rooms, plumbing or other utilities. No foreign substances of any kind are to be inserted therein.

8. Lessee shall not deface the walls, partitions or other surfaces of the premises or Office Building Project.

9. Lessee shall not suffer or permit any thing in or around the Premises or Building that causes excessive vibration or floor loading in any part of the Office Building Project.

10. Furniture, significant freight and equipment shall be moved into or out of the building only with the Lessor's knowledge and consent, and subject to such reasonable limitations, techniques and timing, as may be designated by Lessor. Lessee shall be responsible for any damage to the Office Building Project arising from any such activity.

11. Lessee shall not employ any service or contractor for services or work to be performed in the Building, except as approved by Lessor.

12. Lessor reserves the right to close and lock the Building on Saturdays. Sundays and legal holidays, and on other days between the hours of ____ P.M. and ____ A.M. of the following day. If Lessee uses the Premises during such periods, Lessee shall be responsible for securely locking any doors it may have opened for entry.

13. Lessee shall return all keys at the termination of its tenancy and shall be responsible for the cost of replacing any keys that are lost.

14. No window coverings, shades or awnings shall be installed or used by Lessee.

15. No Lessee, emloyee or invitee shall go upon the roof of the Building.

16. Lessee shall not suffer or permit smoking or carrying of lighted cigars or cigarettes in areas reasonably designated by Lessor or by applicable governmental agencies as non-smoking areas.

17. Lessee shall not use any method of heating or air conditioning other than as provided by Lessor.

18. Lessee shall not install, maintain or operate any vending machines upon the Premises without Lessor's written consent.

19. The Premises shall not be used for lodging or manufacturing, cooking or food preparation.

20. Lessee shall comply with all safety, fire protection and evacuation regulations established by Lessor or any applicable governmental agency.

21. Lessor reserves the right to waive any one of these rules or regulations, and/or as to any particular Lessee, and any such waiver shall not constitute a waiver of any other rule or regulation or any subsequent application thereof to such Lessee.

22. Lessee assumes all risks from theft or vandalism and agrees to keep its Premises locked as may be required.

23. Lessor reserves the right to make such other reasonable rules and regulations as it may from time to time deem necessary for the appropriate operation and safety of the Office Building Project and its occupants. Lessee agrees to abide by these and such rules and regulations.

PARKING RULES

1. Parking areas shall be used only for parking by vehicles no longer than full size, passenger automobiles herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

2. Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

3. Parking stickers or identification devices shall be the property of Lessor and be returned to Lessor by the holder thereof upon termination of the holder's parking privileges. Lessee will pay such replacement charge as is reasonably established by Lessor for the loss of such devices.

4. Lessor reserves the right to refuse the sale of monthly identification devices to any person or entity that willfully refuses to comply with the applicable rules, regulations, laws and/or agreements.

5. Lessor reserves the right to relocate all or a part of parking spaces from floor to floor, within one floor, and/or to reasonably adjacent offsite location(s), and to reasonably allocate them between compact and standard size spaces, as long as the same complies with applicable laws, ordinances and regulations.

6. Users of the parking area will obey all posted signs and park only in the areas designated for vehicle parking.

7. Unless otherwise instructed, every person using the parking area is required to park and lock his own vehicle. Lessor will not be responsible for any damage to vehicles, injury to persons or loss of property, all of which risks are assumed by the party using the parking area.

8. Validation, if established, will be permissible only by such method or methods as Lessor and/or its licensee may establish at rates generally applicable to visitor parking.

9. The maintenance, washing, waxing or cleaning of vehicles in the parking structure or Common Areas is prohibited.

10. Lessee shall be responsible for seeing that all of its employees, agents and invitees comply with the applicable parking rules, regulations, laws and agreements.

11. Lessor reserves the right to modify these rules and/or adopt such other reasonable and non-discriminatory rules and regulations as it may deem necessary for the proper operation of the parking area.

12. Such parking use as is herein provided is intended merely as a license only and no ballment is intended or shall be created hereby.

EXHIBIT B

EXHIBIT 10.18

May 28, 1998

Mr. Ron Morrison
14501 Heights Drive
Tustin, CA. 92780

Dear Mr. Morrison:

This is to confirm our offer and your acceptance of the position of General Counsel, Corporate Secretary for The Impac Companies (IMH & ICH) in our Santa Ana Heights office. The terms of our offer are:

- A start date of July 20, 1998.
- Your title will be General Counsel, Corporate Secretary.
- You will receive a bi-weekly salary of $6,923.08, which computes on an annualized basis to $180,000.00.
- You will be eligible to receive an annual discretionary bonus of up to 20% of your annual base salary based upon performance and corporate profitability objectives set forth by Executive Management. Your bonus may be pro-rated for your first year of employment.
- You will be eligible to receive 10,000 shares of IMH stock options and 10,000 shares of ICH stock options in accordance with the current plan in effect and subject approval by the Board of Directors. The Board approved stock options will vest at a rate of one-third annually over a three-year period.
- A monthly car allowance of $416.67.
- You will receive up to $10,000.00 in expense reimbursements for previous lease obligations. All requests for reimbursement must be signed and approved by Mr. William Ashmore prior to submission for payment.
- If you are terminated by The Impac Companies for any reason other than for "Cause" during the first 18 months of your employment, you may receive severance pay in the form of salary continuation for one year.

"Cause" means:

(1) you engage in any act of theft, embezzlement, falsification of records, misappropriation of funds or property, or fraud against, or with respect to the business of The Impac Companies;

(2) current use of illegal drugs on or off the job or current addiction to alcohol, unless you voluntarily request accommodation for rehabilitation before such time as The Impac Companies notifies you that it suspects your use of illegal drugs or addiction to alcohol;

(3) you commit a breach of any material term of this Agreement or any other material legal obligation to The Impac Companies and, if such breach is capable of being cured, fail to cure such breach within two (2) weeks of written notice of such breach from The Impac Companies;

(4) you are convicted of, or plead guilty or nolo contendere to a felony or a crime involving moral turpitude, breach of trust or dishonesty;

(5) you intentionally cause, either by your action or by failing to take reasonable and appropriate action to prevent, any material injury to the financial condition or business reputation of The Impac Companies; however, this shall not apply to any act of The Impac Companies by any other employee thereof except to the extent that such intentional act is committed at your direction, or with your knowledge;

(6) you cease to devote your full time and attention and best efforts to your duties hereunder.

Termination of employment for Cause shall be preceded by written notice to you from The Impac Companies describing in detail the acts or omissions that are the basis for the termination and you shall be given at least a two (2) week period to cure those acts or omissions. Notwithstanding any other provision of this agreement, disagreements regarding investment decisions (purchases, sales, hedging strategies, etc.) shall not constitute Cause.

Your vacation will begin to accrue upon the completion of 90 days of employment with The Impac Companies. Vacation is accrued at the rate of 6.16 hours per pay period which computes on an annualized basis to four weeks. Should your employment terminate, the calculation of your unused accrued vacation will be based on established company procedures in effect at the time of your termination.

Should you elect coverage under our available Medical and Dental plans, benefits provisions will become effective upon the first day of the month following your completing 30 days of employment. Noncontributory insurance coverage (including Life Insurance, Accidental Death and Dismemberment and Long Term Disability) are available and become effective based upon the provisions of the policies in effect at the time.

You will be eligible to participate in our 401(k) Plan at the first enrollment date after six months of employment.

In order to clarify The Impac Companies position regarding your proposed employment with The Impac Companies and if hired by The Impac Companies to ensure there is no conflict with your previous employer:

A. You represent that performance of all the terms of employment by The Impac Companies do not, and will not, breach any agreement by you to keep in confidence proprietary information of third parties acquired by you in confidence or in trust prior to employment by The Impac Companies.

You have not brought and will not bring to The Impac Companies, or use in the performance of your responsibilities at The Impac Companies any materials, documents or other information of a former employer that are not generally available to the public.

You also acknowledge that, in your employment with The Impac Companies, you are not to breach any obligation of confidentially that you have to former employers, and you agree to fulfill all such obligations during employment with The Impac Companies.

B. You are not a party to or otherwise bound by any agreement or arrangement, or subject to any judgment, decree or order of any court or administrative agency (I) that would conflict with your obligation to diligently promote and further the interest of The Impac Companies, or (ii) that would conflict with The Impac Companies' business as now conducted or as proposed to be conducted.

C. You agree that you will not contact any employees of your previous employer for job opportunities at The Impac Companies . However, if employees of your previous employer contact you on their own you may refer them to The Impac Companies. A log must be kept indicating the name, date and time for any employee who does contact you regarding opportunities at The Impac Companies.

This letter supersedes any and all discussions or communications and any future modifications or amendments must be in writing and signed by both you and the Company. This letter, however, does not create a contractual relationship between you and The Impac Companies.

Should you accept this offer the relationship between you and The Impac Companies is and at all times will be an "at will" relationship; either you or The Impac Companies may terminate employment, and its accompanying compensation and benefits at any time with or without cause, and with or without notice.

Further, the terms and conditions of your employment are within The Impac Companies sole and absolute discretion and may be modified at any time as the Company deems necessary to the operation of its business.

You and The Impac Companies, in order to obtain a prompt determination as to rights and avoid the lengthy delay in court actions, agree to binding arbitration of any claims or controversies arising out of or related to the employee's employment or termination thereof, weather sounding in contract, tort or statute, in accordance with the them effective rules of the American Arbitration Association. The consideration for this agreement is the mutual exchange of promises to arbitrate.

You and The Impac Companies consent to the jurisdiction of the Superior or Municipal Courts of Los Angeles and of the United States District Court for the Central District of California for all purposes in connection with the arbitration. You and The Impac Companies agree to incorporate Section 1283.05 of the California Code of Civil Procedure, as that statute exists as of the date of execution of this letter, into this letter. Notwithstanding said incorporation of Section 1283.05, this agreement shall be governed by the provisions of the Federal Arbitration Act (9 U.S.C. Section 1et seq.) You and The Impac Companies
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consent that any process, notice of motion, or other application to any courts and any paper in connection with arbitration may be served by certified mail, return receipt requested or by personal delivery to the other side provided a reasonable time for appearance is allowed.

You and The Impac Companies further agree that arbitration proceedings must be instituted within one year after the claim or breach occurs and that the failure to institute arbitration proceedings within one year shall constitute an absolute bar to the institution of any proceedings and waiver of all claims. You acknowledge your agreement to and waiver of all claims.

By signing this offer letter you authorize The Impac Companies, at any time during the term of my employment, to conduct a thorough background check which may include employment, criminal, civil and DMV.

You will be provided with a brief orientation at your respective location upon reporting to work. At this time, you will be asked to complete all new hire information and receive insurance enrollment forms. Be sure to bring employment eligibility verification (i.e., valid driver's license and social security card, or U. S. Passport). This information must be received by Human Resources within 3 days of employment.

Please acknowledge your understanding of the above terms and conditions and return the signed offer letter and contract to Human Resources within five business days:

Cindy Rosenbush
Human Resources
Imperial Credit Industries, Inc.
23550 Hawthorne Boulevard, Ste. 230
Irvine, CA 90505

Ron, we are pleased to have you join us and we are confident you will make an important contribution to our Company. Should you have any questions, please feel free to give me a call at ((310) 791-8075.

Sincerely,

Cindy Rosenbush
VP/Employment & Staffing

_____________________________ ____________________________
Ron Morrison Date

CR/vb

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Impac Warehouse Lending Group, Inc.

Impac Funding Corporation (100% of the non-voting preferred stock owned by the Registrant) (Impac Funding Corporation owns 100% of the Common Stock of Impac Secured Assets Corporation)

IMH Assets Corp.

IMH/ICH Dove Street, LLC

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Impac Mortgage Holdings, Inc.:

We consent to incorporation by reference in the registration statements (No. 333-12025) on Form S-8 and registration statements (No. 333-34137 and No. 333-52335) each on Form S-3 of Impac Mortgage Holdings, Inc. of our report dated February 11, 1999, except note R to the consolidated financial statements which is as of February 24, 1999, relating to the consolidated balance sheets of Impac Mortgage Holdings, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of operations and comprehensive earnings (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Impac Mortgage Holdings, Inc.

KPMG LLP

Orange County, California
March 12, 1999

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Impac Funding Corporation:

We consent to incorporation by reference in the registration statements (No. 333-12025) on Form S-8 and registration statements (No. 333-34137 and No. 333-52335) each on Form S-3 of Impac Mortgage Holdings, Inc. of our report dated February 11, 1999, relating to the consolidated balance sheets of Impac Funding Corporation as of December 31, 1998 and 1997, and the related consolidated statements of operations and comprehensive earnings (loss), changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Impac Mortgage Holdings, Inc.

KPMG LLP

Orange County, California
March 12, 1999

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