SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2005 or

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

For the transition period from __________ to __________.

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

There were 75,263,432 shares of common stock outstanding as of May 12, 2005.

IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands, except share data)
(unaudited)

	March 31, 2005	December 31, 2004
ASSETS		
Cash and cash equivalents	$ 228,461	$ 324,351
Restricted cash	1,779	253,360
CMO collateral	22,381,248	21,308,906
Mortgages held-for-investment	1,154,937	586,686
Finance receivables	435,884	471,820
Allowance for loan losses	(66,789)	(63,955)
Mortgages held-for-sale	1,065,056	587,745
Accrued interest receivable	104,566	97,617
Other assets	381,530	249,237
Total assets	$25,686,672	$23,815,767
LIABILITIES		
CMO borrowings	$21,991,768	$21,206,373
Reverse repurchase agreements	2,433,554	1,527,558
Accrued dividends payable	56,448	—
Other liabilities	45,800	37,761
Total liabilities	24,527,570	22,771,692
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Series A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued and outstanding as of March 31, 2005 and December 31, 2004	—	—
Series B 9.375% cumulative redeemable preferred stock, $0.01 par value; liquidation value $50,000; 2,000,000 shares authorized, issued and outstanding as of March 31, 2005 and December 31, 2004	20	20
Series C 9.125% cumulative redeemable preferred stock, $0.01 par value; liquidation value $107,500; 5,500,000 shares authorized; 4,300,000 shares issued and outstanding as of March 31, 2005 and December 31, 2004	43	43
Common stock, $0.01 par value; 200,000,000 shares authorized; 75,263,432 and 75,153,926 shares issued and outstanding as of March 31, 2005 and December 31, 2004, respectively	753	752
Additional paid-in capital	1,154,085	1,152,861
Accumulated other comprehensive income	1,243	979
Net accumulated surplus (deficit):		
Cumulative dividends declared	(573,525)	(513,453)
Retained earnings	576,483	402,873
Net accumulated surplus (deficit)	2,958	(110,580)
Total stockholders' equity	1,159,102	1,044,075
Total liabilities and stockholders' equity	$25,686,672	$23,815,767

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

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

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
INTEREST INCOME:		
Mortgage assets	$276,021	$133,816
Other assets	1,359	321
Total interest income	277,380	134,137
INTEREST EXPENSE:		
CMO borrowings	179,467	51,994
Reverse repurchase agreements	16,762	9,554
Other borrowings	45	66
Total interest expense	196,274	61,614
Net interest income	81,106	72,523
Provision for loan losses	6,074	9,725
Net interest income after provision for loan losses	75,032	62,798
NON-INTEREST INCOME:		
Gain (loss) on derivative instruments	117,591	(36,630)
Gain on sale of loans	12,851	2,502
Other income	5,078	210
Total non-interest income	135,520	(33,918)
NON-INTEREST EXPENSE:		
Personnel expense	18,880	13,668
Amortization of deferred tax charge	5,803	4,198
General and administrative and other expense	4,913	3,174
Provision for repurchases	3,714	(1,183)
Professional services	3,419	1,831
Equipment expense	1,147	784
Occupancy expense	1,145	841
Data processing expense	943	805
Amortization and impairment of mortgage servicing rights	289	406
Gain on sale of other real estate owned	(848)	(503)
Total non-interest expense	39,405	24,021
Net earnings before income taxes	171,147	4,859
Income tax benefit	(2,463)	(4,513)
Net earnings	173,610	9,372
Cash dividends on cumulative redeemable preferred stock	(3,624)	—
Net earnings available to common stockholders	$169,986	$ 9,372
OTHER COMPREHENSIVE EARNINGS:		
Net earnings	$173,610	$ 9,372
Net unrealized gains (losses) arising during period:		
Unrealized holding gains on securities	264	121
Reclassification of losses included in net earnings	—	(261)
Net unrealized gains (losses)	264	(140)
Comprehensive earnings	$173,874	$ 9,232
NET EARNINGS PER SHARE:		
Net earnings per share—basic	$ 2.26	$ 0.16
Net earnings per share—diluted	$ 2.23	$ 0.15

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

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

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 173,610	$ 9,372
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	6,074	9,725
Amortization of premiums and deferred securitization costs	65,062	24,907
Gain on sale of other real estate owned	(848)	(503)
Gain on sale of loans	(12,851)	(2,502)
Unrealized (gain) loss on derivative instruments	(131,318)	24,307
Purchase of mortgages held-for-sale	(4,664,116)	(3,469,082)
Sale and principal reductions on mortgages held-for-sale	4,192,581	3,257,945
Net change in deferred taxes	(1,990)	1,852
Gain on sale of investment securities available-for-sale	—	(291)
Change in deferred tax charge	(1,958)	(8,665)
Depreciation and amortization	1,069	755
Amortization and impairment of mortgage servicing rights	289	406
Net change in accrued interest receivable	(6,949)	(8,492)
Net change in restricted cash	251,581	(63)
Net change in other assets and liabilities	26,293	(167,059)
Net cash used in operating activities	(103,471)	(327,388)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in CMO collateral	(1,138,912)	(2,547,419)
Net change in finance receivables	35,936	103,634
Purchase of premises and equipment	(2,324)	(839)
Net change in mortgages held-for-investment	(572,795)	513,665
Sale of investment securities available-for-sale	—	2,800
Net change in mortgage servicing rights	(1,161)	2,261
Purchase of deferred investments	(207)	(613)
Net principal reductions on investment securities available-for-sale	430	548
Proceeds from the sale of other real estate owned, net	9,904	9,740
Net cash used in investing activities	(1,669,129)	(1,916,223)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in reverse repurchase agreements and other borrowings	905,996	(450,863)
Proceeds from CMO borrowings	2,557,477	3,342,580
Repayment of CMO borrowings	(1,784,370)	(700,179)
Dividends paid preferred	(3,624)	—
Proceeds from sale of common stock	—	106,280
Proceeds from sale of common stock via equity distribution agreement	—	10,729
Proceeds from exercise of stock options	1,231	645
Net cash provided by financing activities	1,676,710	2,309,192
Net change in cash and cash equivalents	(95,890)	65,581
Cash and cash equivalents at beginning of period	324,351	125,153
Cash and cash equivalents at end of period	$ 228,461	$ 190,734
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 176,560	$ 55,754
Taxes paid	1,546	797
NON-CASH TRANSACTIONS:		
Transfer of mortgages to other real estate owned	$ 15,178	$ 9,169
Dividends declared and unpaid	56,448	40,723
Net change in other comprehensive earnings	264	(140)

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data or as otherwise indicated)
(unaudited)

Note A—Summary of Business and Significant Accounting Policies

1. Financial Statement Presentation and Business Summary

Unless the context otherwise requires, the terms "Company," "we," "us," and "our" refer to Impac Mortgage Holdings, Inc. (IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), Impac Multifamily Capital Corporation (IMCC) and Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. (ISAC) and Novelle Financial Services, Inc. (Novelle).

The accompanying unaudited consolidated financial statements of IMH and our subsidiaries (as defined above) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

All significant inter-company balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current year presentation.

Management 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 GAAP. Management's estimates and assumptions include allowance for loan losses, valuation of derivative financial statements and repurchase liabilities related to sold loans, and the amortization of various mortgage loan premium and discounts due to prepayment estimates. Actual results could differ from those estimates.

2. Stock Options

No compensation cost has been recognized for stock-based awards to employees as the stock option exercise price is equal to the fair market value of the underlying common stock as of the stock option grant date. Summarized below are the pro forma effects on net earnings and net earnings per share as if the Company had elected to use the fair value approach to account for its employee stock-based compensation plans:

	For the Three Months Ended March 31,	
	2005	2004
Net earnings available to common stockholders	$169,986	$9,372
Total stock-based employee compensation expense using the fair value method	(546)	(291)
Pro forma net earnings	$169,440	$9,081
Net earnings per share as reported:		
Basic	$ 2.26	$ 0.16
Diluted	$ 2.23	$ 0.15
Pro forma net earnings per share:		
Basic	$ 2.25	$ 0.15
Diluted	$ 2.23	$ 0.15

3. Recent Accounting Pronouncements

In June 2004, the Financial Accounting Standards Board (FASB) reached consensus opinions detailed in EITF 3-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). Such consensuses require an investor to determine when an investment is considered impaired, evaluate whether that impairment is other than temporary, and, if the impairment is other than temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The impairment loss recognition and measurement guidance was to be applicable to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. In September 2004, the FASB proposed additional guidance related to debt securities that are impaired because of interest rate and/or sector spread increases, and delayed the effective date of EITF 03-01. The Company does not expect the adoption of EITF 03-01 to have a material effect on the financial condition, results of operations, or liquidity of the Company. EITF 03-01 also includes disclosure requirements for investments in an unrealized loss position for which other-than-temporary impairments have not been recognized.

In December 2004, the FASB issued Statement No. 123(R), "Share-Based Payment " (SFAS 123R). It requires all public companies to report share-based compensation expense at fair value at the grant date of the related share-based awards. The Company is required to adopt the provisions of the SFAS 123R effective for annual periods beginning after June 15, 2005. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123R in prior periods, the impact of SFAS 123R would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net earnings per share in Note A.2. Stock Options.

Note B—Reconciliation of Earnings Per Share

The following table presents the computation of basic and diluted net earnings per share including the dilutive effect of stock options and cumulative redeemable preferred stock outstanding for the periods indicated:

	For the Three Months Ended March 31,	
	2005	2004
Numerator for basic net earnings per share:		
Net earnings	$173,610	$ 9,372
Cash dividends on cumulative redeemable preferred stock	(3,624)	—
Net earnings available to common stockholders	$169,986	$ 9,372
Denominator for basic net earnings per share:		
Basic weighted average number of common shares outstanding	75,206	59,692
Denominator for diluted net earnings per share:		
Basic weighted average number of common shares outstanding	75,206	59,692
Net effect of dilutive stock options	1,039	1,120
Diluted weighted average number of common shares outstanding	76,245	60,812
Net earnings per share:		
Basic	$ 2.26	$ 0.16
Diluted	$ 2.23	$ 0.15

The anti-dilutive effects of stock options outstanding as of March 31, 2005 and 2004 were 1.4 million shares and none, respectively.

Note C—Segment Reporting

The following table presents reporting segments as of and for the three months ended March 31, 2005:

	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations	Inter-Company [(1)]	Consolidated
Balance Sheet Items:					
CMO collateral and mortgages held-for-investment	$23,666,532	$ —	$ —	$ (130,347)	$23,536,185
Mortgages held-for-sale	—	758	1,064,298	—	1,065,056
Finance receivables	—	2,595,401	—	(2,159,517)	435,884
Total assets	23,996,537	2,607,680	1,165,122	(2,082,667)	25,686,672
Total stockholders' equity	1,010,170	173,452	46,872	(71,392)	1,159,102
Income Statement Items:					
Net interest income	$ 52,119	$ 11,341	$ 1,974	$ 15,672	$ 81,106
Provision for loan losses	6,074	—	—	—	6,074
Non-interest income	114,994	2,027	49,673	(31,174)	135,520
Non-interest expense and income taxes	2,693	2,085	35,481	(3,317)	36,942
Net earnings (loss)	$ 158,346	$ 11,283	$ 16,166	$ (12,185)	$ 173,610

(1) Income statement items include inter-company loan sales transactions and the elimination of related gains.

The following table presents reporting segments as of and for the three months ended March 31, 2004:

	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations	Inter-Company [(1)]	Consolidated
Balance Sheet Items:					
CMO collateral and mortgages held-for-investment	$11,384,790	$ —	$ —	$ (83,159)	$11,301,631
Mortgages held-for-sale	—	—	611,072	—	611,072
Finance receivables	—	1,228,823	—	(702,427)	526,396
Total assets	11,775,991	1,240,748	691,909	(772,327)	12,936,321
Total stockholders' equity	431,380	122,144	35,071	(27,020)	561,575
Income Statement Items:					
Net interest income	$ 51,461	$ 8,417	$ 5,143	$ 7,502	$ 72,523
Provision for loan losses	4,285	5,440	—	—	9,725
Non-interest income	(39,151)	1,958	31,978	(28,703)	(33,918)
Non-interest expense and income taxes	1,744	1,521	25,583	(9,340)	19,508
Net earnings (loss)	$ 6,281	$ 3,414	$ 11,538	$ (11,861)	$ 9,372

(1) Income statement items include inter-company loan sales transactions and the elimination of related gains.

Note D—Mortgages Held-for-Sale

Mortgages held-for-sale for the periods indicated consisted of the following:

	At March 31, 2005	At December 31, 2004
Mortgages held-for-sale	$1,044,764	$ 576,777
Net premiums on mortgages held-for-sale	20,292	10,968
Total mortgages held-for-sale	$1,065,056	$ 587,745

Included in other liabilities as of March 31, 2005 and December 31, 2004 was an allowance for mortgage repurchases of $5.9 million and $2.2 million, respectively. The allowance for mortgage repurchases is maintained for the purpose of purchasing previously sold mortgages for various reasons, including early payment defaults or breach of representations or warranties, which may be subsequently sold at a loss. In determining the adequacy of the liability for mortgage repurchases, management considers such factors as specific requests for repurchase, known problem loans, underlying collateral values, recent sales activity of similar loans and other appropriate information. In the opinion of management, the potential exposure related to these representations and warranties will not have a material adverse effect on our financial condition and results of operations. Activity for provision for repurchases for the periods indicated was as follows:

	For the Three Months Ended, March 31,	
	2005	2004
Beginning balance	$2,183	$ 2,327
Provision for loan repurchases	3,714	(1,183)
Loss on sale of repurchased mortgages	—	(196)
Total provision for repurchases	$5,897	$ 948

Note E—CMO Collateral

CMO collateral for the periods indicated consisted of the following:

	At March 31, 2005	At December 31, 2004
Mortgages secured by single-family residential real estate	$ 21,387,712	$ 20,428,144
Mortgages secured by multi-family residential real estate	712,232	604,934
Net premiums on mortgages	281,304	275,828
Total CMO collateral	$ 22,381,248	$ 21,308,906

Note F—Allowance for Loan Losses

Activity for allowance for loan losses for the periods indicated was as follows:

	For the Three Months Ended, March 31,	
	2005	2004
Beginning balance	$63,955	$38,596
Provision for loan losses	6,074	9,725
Charge-offs, net of recoveries	(3,240)	(2,022)
Total allowance for loan losses (1)	$66,789	$46,299

(1) Includes a specific allowance for loan losses of $10.7 million as of March 31, 2005 and $6.0 million as of March 31, 2004 for warehouse advances deemed to be permanently impaired.

Note G—Other Assets

Other assets for the periods indicated consisted of the following:

	At March 31, 2005	At December 31, 2004
Derivative assets	$240,607	$ 103,290
Deferred tax charge	50,169	48,211
Investment securities available-for-sale	25,261	25,427
Real estate owned	24,399	18,277
Prepaid and other assets	19,033	35,423
Premises and equipment	10,347	9,092
Deferred income taxes	7,318	5,328
Restricted investments	4,396	4,189
Total other assets	$381,530	$ 249,237

Premises Leases

In March 2005, we entered into a premises lease agreement under which our corporate headquarters will move from our present locations to a new and larger facility in Irvine, California, which will allow us to consolidate office space we are currently utilizing in multiple locations in Newport Beach. The premises lease agreement includes an option to lease another building and a right of first offer to lease additional buildings. The lease term is a period of ten years beginning after the completion of the first building and related tenant improvements, which is anticipated to be in the first quarter of 2006. The aggregate rent for the term of the lease for the first building is approximately $69 million over ten years, or approximately $6.9 million per year. Occupancy expense for the first quarter of 2005 was $1.1 million, or approximately $4.4 million on an annualized basis

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Note H—CMO Borrowings

Selected information on CMO borrowings for the periods indicated consisted of the following (dollars in millions):

Year of Issuance	Original Issuance Amount	CMOs Outstanding as of 3/31/05	CMOs Outstanding as of 12/31/04	Range of Fixed Interest Rates (%)	Range of Interest Rate Margins Over One-Month LIBOR (%)	Range of Interest Rate Margins After Adjustment Date (%)(1)(2)
2002	$ 3,876.1	$ 1,047.9	$ 1,237.3	5.25 -12.00	0.27 - 2.75	0.54 - 3.68
2003	5,966.1	3,127.7	3,615.8	4.34 -12.75	0.27 - 3.00	0.54 - 4.50
2004	17,710.7	15,293.7	16,407.5	3.58 - 5.56	0.25 - 2.50	0.50 - 3.75
2005	2,567.8	2,567.3	—	N/A	0.26 - 1.65	0.52 - 2.48
Sub-total CMO borrowings		22,036.6	21,260.6			
Accrued interest expense		20.4	12.9			
Unamortized securitization costs		(65.2)	(67.1)			
Total CMO borrowings		$21,991.8	$21,206.4			

(1) One-month LIBOR was 2.85% as of the last reset date prior to March 31, 2005.

(2) Interest rate margins are generally adjusted when the unpaid principal balance is 20%-25% of the original issuance amount.

Note I—Reverse Repurchase Agreements

We enter into reverse repurchase agreements with major brokerage firms to finance our warehouse lending operations and to fund the purchase of mortgages. Reverse repurchase agreements consist of uncommitted lines, which may be withdrawn at any time by the lender, and committed lines. During the first quarter of 2005 we added an additional $500.0 million to an existing warehouse facility to finance asset growth.

Generally, the reverse repurchase agreements require that the Company provide audited financial statements to the lending party within 90 to 120 days of year end. The Company has obtained a waiver of event of default from each of its lenders in the event that the audit of the annual financial statements is not completed within the time period specified in the lending arrangements.

Note J—Subsequent Events

Junior Subordinated Debt and Trust Preferred Securities

During April 2005, the Company formed two wholly-owned trust subsidiaries (Trusts) for the purpose of issuing an aggregate of $50.0 million of trust preferred securities (the Trust Preferred Securities). The proceeds from the sale thereof were invested in junior subordinated debt issued by the Company. All proceeds from the sale of the Trust Preferred Securities and the common securities issued by the Trusts are invested in junior subordinated notes, which are the sole assets of the Trusts. The Trusts pay dividends on the Trust Preferred Securities at the same rate as the distributions paid by the Company on the junior subordinated notes held by the Trusts.

The following table shows the Trust Preferred Securities issued during April 2005:

	Trust Preferred Securities	Common Securities	Junior Subordinated Debt	Stated Maturity Date	Optional Redemption Date
Impact Capital Trust #1(1)	$ 25,000	$ 780	$ 25,780	3/30/2035	3/30/2010(3)
Impac Capital Trust #2(2)	25,000	774	25,774	4/30/2035	4/30/2010(4)
Total	$ 50,000	$ 1,554	$ 51,554		

(1) Requires quarterly distributions initially at a fixed rate of 8.01% per annum through March 30, 2010 and thereafter at a variable rate of three-month LIBOR plus 3.75% per annum. Distributions are cumulative but after March 2006 may be deferred for a period of up to four consecutive quarterly interest payment periods if the Company exercises its right to defer the payment of interest on the Notes (Extension Period).

(2) Requires quarterly distributions initially at a fixed rate of 8.065% per annum through April 30, 2010 and thereafter at a variable rate of three-month LIBOR plus 3.75% per annum. Distributions are cumulative but after April 2006 may be deferred for a period of up to four consecutive quarterly interest payment periods if the Company exercises its right to defer the payment of interest on the Notes.

(3) Redeemable at par at any time after the date indicated.

(4) Redeemable at par at any time after the date indicated and before that date, under certain events, at a premium of 7.5 % of the outstanding amount.

During any Extension Period, the Company may not declare or pay dividend on its capital stock. If an event of default occurs (such as a payment default that is outstanding for 30 days, a default in performance, a breach of any covenant or representation, bankruptcy or insolvency of the Company or liquidation or dissolution of the Trust) either the trustee of the Notes or the holders of at least 25% of the aggregate principal amount of the outstanding Notes may declare the principal amount of, and all accrued interest on, all the Notes to be due and payable immediately, or if the holders of the Notes fail to make such declaration, the holders of at least 25% in aggregate liquidation amount of the Preferred Securities outstanding shall have a right to make such declaration.

Pursuant to the Junior Subordinated Indenture, dated April 1, 2005, between the Company and JPMorgan Chase Bank, N.A., as trustee (Trustee), under which the Notes were issued to Impac Capital Trust #1, it was an automatic event of default if (a) by May 5, 2005 the Company did not provide audited financial statements for the year ended December 31, 2004 and (b) failed to pay the principal and interest on the Notes by May 6, 2005. On May 4, 2005, the Company and the Trustee agreed to extend the dates so that if (a) the Company does not provide by May 20, 2005 audited financial statements or a certification of its compliance with the Sarbanes-Oxley Act of 2002 and (b) the Company fails to pay the principal and interest due and payable on the Notes on or before May 23, 2005 then it will be an automatic event of default under the Indenture.

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

Unless the context otherwise requires, the terms "Company," "we," "us," and "our" refer to Impac Mortgage Holdings, Inc. ("IMH"), a Maryland corporation incorporated in August 1995, and its wholly-owned subsidiaries, IMH Assets Corp., or "IMH Assets," Impac Warehouse Lending Group, Inc., or "IWLG," Impac Multifamily Capital Corporation, or "IMCC," and Impac Funding Corporation, or "IFC," together with its wholly-owned subsidiaries Impac Secured Assets Corp., or "ISAC," and Novelle Financial Services, Inc., or "Novelle."

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "likely," "should," "anticipate," or similar terms or variations on those terms or the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to, failure to achieve projected earnings levels; the ability to generate sufficient liquidity and conduct our operations as planned; the ability to access the equity markets; delays in raising, or the inability to raise, additional capital, either through equity offerings, lines of credit or otherwise as a result of, among other things, market conditions or the delay in providing audited financial statements and the auditor's report on our internal control over financial reporting for the fiscal year ended 2004; the ability to generate taxable income and to pay dividends; interest rate fluctuations and changes in expectations of future interest rates; changes in prepayment rates or effectiveness of prepayment penalties on our mortgages; the availability of financing and, if available, the terms of any financing; continued ability to access the securitization markets or other funding sources; risks related to our ability to maintain an effective system of internal control over financial reporting and disclosure controls and procedures due to reported, or potential, material weaknesses and the ability to remediate any material weaknesses; changes in markets which the Company serves; the effectiveness of risk management strategies; and changes in other general market and economic conditions. For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. We do not undertake, and specifically disclaim any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

General Overview

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

We operate three core businesses:

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

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

- credit and income histories of the mortgagor;

- documentation required for approval of the mortgagor; and
- loan balances in excess of maximum Fannie Mae and Freddie Mac lending limits.

For instance, Alt-A mortgages may not have certain documentation or verifications that are required by Fannie Mae and Freddie Mac and, therefore, in making our credit decisions, we are more reliant upon the borrower's credit score and the adequacy of the underlying collateral. We believe that Alt-A mortgages provide an attractive net earnings profile by producing higher yields without commensurately higher credit losses than other types of mortgages.

The long-term investment operations also originate and invest in multi-family mortgages that are primarily adjustable rate mortgages with initial fixed interest rate periods of two-, three-, five-, seven- and ten-years that subsequently adjust to adjustable rate mortgages, or "hybrid ARMs," with balances that generally range from $500,000 to $5.0 million. Multi-family mortgages have interest rate floors, which is the initial start rate, and prepayment penalty periods of three-, five-, seven- and ten-years. Multi-family mortgages provide greater asset diversification on our balance sheet as borrowers of multi-family mortgages typically have higher credit scores and multi-family mortgages typically have lower loan-to-value ratios, or "LTV ratios," and longer average term to payoff than Alt-A mortgages. As of March 31, 2005, we had no multi-family mortgages held as CMO collateral and held-for-investment on our consolidated financial statements that were delinquent. The long-term investment operations generate earnings primarily from net interest income earned on mortgages held for long-term investment, or "long-term mortgage portfolio." The long-term mortgage portfolio as reported on our consolidated balance sheet consists of mortgages held as collateralized mortgage obligations, or "CMO," and mortgages held-for-investment. Investments in Alt-A mortgages and multi-family mortgages are initially financed with short-term borrowings under reverse repurchase agreements that are subsequently converted to long-term financing in the form of CMO financing. Cash flow from the long-term mortgage portfolio and proceeds from the sale of capital stock also finance new Alt-A and multi-family mortgages.

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

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

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

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations and may require estimates and assumptions based on our judgment of changing market conditions and the performance of our assets and liabilities at any given time. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include allowance for loan losses, derivative financial instruments and securitization of financial assets as financing versus sale. These policies are described in further detail in our Annual Report on Form 10-K/A Amendment 2 for the year ended December 31, 2004.

Financial Highlights for the First Quarter of 2005

- Estimated taxable income per diluted share increased 10% to $0.75 compared to $0.68 for the fourth quarter of 2004 and $0.75 for the first quarter of 2004;
- Cash dividends declared per common share were $0.75 for the first quarter of 2005 and the fourth quarter of 2004 and $0.65 for the first quarter of 2004;
- Total assets increased to $25.7 billion as of March 31, 2005 from $23.8 billion as of December 31, 2004 and $12.9 billion as of March 31, 2004;
- Book value per share increased 13% to $13.31 as of March 31, 2005 compared to $11.80 as of December 31, 2004 and $8.96 as of March 31, 2004;
- Total market capitalization decreased to $1.4 billion as of March 31, 2005 compared to $1.7 billion as of December 31, 2004 and March 31, 2004;
- Dividend yield as of March 31, 2005 was 15.6%, based on annualized first quarter cash dividend of $0.75 per share and closing stock price of $19.18 per share;
- The mortgage operations acquired and originated $4.7 billion of primarily Alt-A mortgages compared to $6.4 billion for the fourth quarter of 2004 and $3.5 billion for the first quarter of 2004;
- The long-term investment operations retained $3.3 billion of primarily Alt-A mortgages compared to $4.8 billion for the fourth quarter of 2004 and $2.9 billion for the first quarter of 2004; and
- IMCC originated $165.3 million of multi-family mortgages compared to $123.4 million for the fourth quarter of 2004 and $94.5 million for the first quarter of 2004.

Taxable Income

After adjusting for differences between net earnings and estimated taxable income, estimated taxable income available to common stockholders was $56.8 million, or $0.75 per diluted common share, for the quarter ended March 31, 2005 as compared to $45.5 million, or $0.75 per diluted common share, for the quarter ended March 31, 2004. When we file our annual tax returns there are certain adjustments that we make to net earnings and taxable income due to differences in the nature and extent that revenues and expenses are recognized under the two methods. As an example, to calculate estimated taxable income we deduct actual loan losses as compared to the determination of net earnings which requires a deduction for estimated losses inherent in our mortgage portfolios in the form of a provision for loan losses. To maintain our REIT status, we are required to distribute a minimum of 90% of our annual taxable income to our stockholders. Because we pay dividends based on taxable income, dividends may be more or less than net earnings. As such, we believe that the disclosure of estimated taxable income available to common stockholders, which is a non-generally accepted accounting principle, or “GAAP,” financial measurement, is useful information for our investors. During the first quarter of 2005 we declared total regular cash dividends of $56.4 million, or $0.75 per common share. Upon the filing of our 2003 tax return, we had a federal net operating tax loss carry-forward of $18.7 million which expire in the year 2020 and which may or may not be used to offset taxable income in 2004 or in subsequent years. We expect to file our 2004 federal and state tax returns in September 2005 at which time changes to federal net operating loss carry-forwards, if any, will be determined.

The following table presents a reconciliation of net earnings to estimated taxable income available to common stockholders for the periods indicated (in thousands, except per share amounts):

	For the Three Months Ended March 31, 2005[1]	2004[1]
Net earnings	$ 173,610	$ 9,372
Adjustments to GAAP earnings:		
Loan loss provision	6,074	9,725
Tax deduction for actual loan losses	(3,240)	(2,022)
Anticipated partial worthlessness deduction on warehouse advances	—	(6,000)
Fair value of derivatives [2]	(128,878)	26,647
Dividends on preferred stock	(3,624)	—
Net earnings of IFC [3]	(16,166)	(11,538)
Dividend from IFC [4]	16,850	7,500
Elimination of inter-company loan sales transactions [5]	12,184	11,861
Estimated taxable income available to common stockholders [6]	$ 56,810	$ 45,545
Estimated taxable income per diluted common share [6]	$ 0.75	$ 0.75
Diluted weighted average shares outstanding	76,245	60,812

(1) Estimated taxable income includes estimates of book to tax adjustments and can differ from actual taxable income as calculated when we file our annual corporate tax return. Since estimated taxable income is a non-GAAP financial measurement, the reconciliation of estimated taxable income available to common stockholders to net earnings meets the requirement of Regulation G as promulgated by the SEC for the presentation of non-GAAP financial measurements.

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

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

(4) Dividends of $11.9 million were paid to IMH during April 2005 from IFC's first quarter estimated taxable income.

(5) Includes the elimination of the tax effect of inter-company loan sales and the amortization of tax expense, or amortization of deferred charge on the consolidated financial statements, of loan sales between IFC and IMH.

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

Results of Operations and Financial Condition

Results of Operations
For the Three Months Ended March 31, 2005 compared to the Three Months Ended March 31, 2004

Condensed Statements of Operations Data
(dollars in thousands, except share data)

	2005	2004	Increase (Decrease)	% Change
Interest income	$277,380	$134,137	$143,243	107%
Interest expense	196,274	61,614	134,660	219
Net interest income	81,106	72,523	8,583	12
Provision for loan losses	6,074	9,725	(3,651)	(38)
Net interest income after provision for loan losses	75,032	62,798	12,234	19
Total non-interest income (expense)	135,520	(33,918)	169,438	500
Total non-interest expense	39,405	24,021	15,384	64
Income taxes	(2,463)	(4,513)	2,050	45
Net earnings	$173,610	$ 9,372	$164,238	1,752%
Net earnings per share—diluted	$ 2.23	$ 0.15	$ 2.08	1,387%
Dividends declared per common share	$ 0.75	$ 0.65	$ 0.10	15%

Net Interest Income

We earn interest income primarily on mortgage assets which include CMO collateral, mortgages held-for-investment, mortgages held-for-sale, finance receivables and investment securities available-for-sale, or collectively, “mortgage assets,” and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings on mortgage assets, which include CMO borrowings and reverse repurchase agreements. The following table summarizes average balance, interest and weighted average yield on mortgage assets and borrowings on mortgage assets for the periods indicated (dollars in thousands):

	For the Three Months Ended March 31,					
	2005			2004		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
MORTGAGE ASSETS						
Investment securities available-for-sale	$ 25,193	$ 331	5.26%	$ 30,228	$ 1,026	13.58%
CMO collateral [1]	22,042,801	244,375	4.43	9,477,767	106,207	4.48
Mortgages held-for-investment and mortgages held-for-sale	1,682,170	26,228	6.24	1,436,617	21,486	5.98
Finance receivables	384,166	5,087	5.30	454,252	5,097	4.49
Total mortgage assets	$24,134,330	$276,021	4.57%	$11,398,864	$133,816	4.70%
BORROWINGS						
CMO borrowings	$21,742,654	$179,467	3.30%	$ 9,301,426	$ 51,994	2.24%
Reverse repurchase agreements	1,872,872	16,762	3.58	1,744,596	9,554	2.19
Total borrowings on mortgage assets	$23,615,526	$196,229	3.32%	$11,046,022	$ 61,548	2.23%
Net interest spread [2]			1.25%			2.47%
Net interest margin [3]			1.32%			2.54%
Net interest income on mortgage assets		$ 79,792	1.32%		$ 72,268	2.54%
Less: Accretion of loan discounts [4]		(17,032)	(0.28)		(8,176)	(0.29)
Less: Net cash payments on derivatives [5]		(13,727)	(0.23)		(12,323)	(0.43)
Adjusted net interest margin [6]		$ 49,033	0.81%		$ 51,769	1.82%
Effect of amortization of loan premiums and CMO securitization costs [7]		$ 65,062	1.08%		$ 24,907	0.87%

(1) Interest includes amortization of acquisition cost on mortgages acquired from the mortgage operations and accretion of loan discounts, which represents the amount allocated to MSRs when MSRs are sold to third parties and mortgages are transferred from the mortgage operations to the long-term investment operations and retained for long-term investment.

(2) Net interest spread on mortgage assets is calculated by subtracting the weighted average yield on total borrowings on mortgage assets from the weighted average yield on total mortgage assets.

(3) Net interest margin on mortgage assets is calculated by subtracting interest expense on total borrowings on mortgage assets from interest income on total mortgage assets and then dividing by total mortgage assets.

(4) Yield represents income from the accretion of loan discounts, as defined in (1), divided by total average mortgage assets.

(5) Yield represents net cash payments on derivatives divided by total average mortgage assets.

(6) Adjusted net interest margin on mortgage assets is calculated by subtracting interest expense on total borrowings on mortgage assets, accretion of loan discounts and net cash payments on derivatives from interest income on total mortgage assets and dividing by total average mortgage assets. Net cash payments on derivatives are a component of gain (loss) on derivatives on the consolidated statements of operations. Adjusted net interest margins on mortgage assets is a non-GAAP financial measurement, however, the reconciliation provided in this table meets the requirements of Regulation G as promulgated by the SEC for the presentation of non-GAAP financial measurements. We believe that the presentation of adjusted net interest margin on mortgage assets is useful information for our investors as it more closely reflects the true economics of net interest margins on mortgage assets.

(7) The amortization of loan premiums and CMO securitization costs are components of interest income and interest expense, respectively. Yield represents the cost of amortization of net loan premiums and CMO securitization costs divided by total average mortgage assets.

The quarter-over-quarter increase in net interest income was primarily due to an increase in average mortgage assets, which increased to $24.1 billion for the first quarter of 2005 compared to $11.4 billion for the first quarter of 2004 as the long-term investment operations acquired $17.3 billion of primarily Alt-A mortgages from the mortgage operations and

$529.3 million of multi-family mortgages originated by IMCC since the end of the first quarter of 2004. The long-term investment operations primarily acquire Alt-A mortgages from the mortgage operations and multi-family mortgages originated by IMCC that fit within our investment criteria. Alt-A and multi-family mortgages are primarily ARMs and, to a lesser extent, FRMs with good credit profiles and mortgage insurance enhancements, when required, that generally have prepayment penalty features and are primarily purchase money transactions.

Net interest income was negatively impacted by a decline in net interest margins on mortgage assets. Net interest margins on mortgage assets declined by 122 basis points to 1.32% for the first quarter of 2005 as compared to 2.54% for the first quarter of 2004. Net interest margins on mortgage assets compressed as one-month LIBOR, which is the interest rate index used to price borrowing costs on CMO and reverse repurchase borrowings, rose 178 basis points since the end of the first quarter of 2004 while mortgage assets over the same period did not re-price upward as quickly. Net interest margins on mortgage assets are susceptible to changes in interest rates due to mismatched interest rate adjustments between mortgage assets and borrowings on mortgage assets as follows:

- interest rate adjustment limitations on mortgages held in our long-term mortgage portfolio that have periodic and lifetime interest rate cap features which are not in effect on our CMO and warehouse borrowings;
- mismatched interest rate adjustment periods between mortgages held in our long-term mortgage portfolio and CMO and warehouse borrowings; and
- mismatched interest rate indices on mortgages held in our long-term mortgage portfolio and CMO and warehouse borrowings.

Examples of interest rate mismatches include the following (addressed in the same order as above):

- interest rates on ARMs, which are primarily indexed to six-month LIBOR, adjust on a six-month cycle by a maximum of generally 1.00% as compared to adjustable rate CMO and warehouse borrowings which adjust monthly and daily, respectively, and are not limited to maximum interest rate adjustments;
- hybrid ARMs have initial fixed interest rate periods of two- to seven years as compared to adjustable rate CMO and warehouse borrowings which are generally indexed to one-month LIBOR and adjust on a monthly and daily basis, respectively; and
- the interest rate index used for six-month LIBOR ARMs adjusts unequally in relation to one-month LIBOR which is the interest rate index used for adjustable rate CMO and warehouse borrowings.

In addition to net interest margin compression on mortgage assets due to mismatched interest rate adjustments, net interest margins on mortgage assets also compressed due to the following:

- higher mortgage premium and CMO securitization cost amortization rates; and
- use of higher leverage on CMOs completed during the second half of 2004.

Due to higher mortgage prepayments during the first quarter of 2005, amortization of mortgage premiums and CMO securitization costs increased by 21 basis points to 108 basis points of total average mortgage assets as compared to 87 basis points of total average mortgage assets during the first quarter of 2004. Along with an increase in short-term interest rates, our expectation, based on past experience, was that a corresponding decline in mortgage prepayment rates would follow. However, mortgage prepayment rates accelerated during the latter part of 2004 and during the first quarter of 2005. There is mortgage industry evidence which documents that the increase in home appreciation rates over the last three years was a significant factor affecting Alt-A borrowers refinance decisions during 2004. Borrowers appear willing to use equity to pay a loan prepayment penalty in order obtain lower monthly payments by refinancing into other mortgage products, including interest-only and high loan-to-value mortgage products. However, we collected prepayment penalty charges of $5.3 million, or 9 basis points of total average mortgage assets, during the first quarter of 2005 as compared to $1.2 million, or 4 basis points of total average mortgage assets, during the first quarter of 2004 which partially offset the increase in amortization costs caused by the prepayment of mortgages.

Because of the uncertainty surrounding our ability to raise capital last year during the process of restating our consolidated financial statements, we utilized CMO structures during the second half of 2004 which allowed us to preserve existing capital through the use of higher leverage. Higher leverage CMOs were structured to require a lower level of initial capital investment than for CMOs completed prior to July 2004. Capital invested in higher leverage CMOs have been, and will continue to be, deposited into those specific CMO trusts from monthly excess cash flows on mortgages securing the CMOs until the required level of capital investment is attained. The use of higher leverage CMOs contributed to compressed net interest margins on total mortgage assets.

During the first quarter of 2005, adjusted net interest margins on mortgage assets, which is a non-GAAP financial measurement as indicated in the yield table above, decreased by 101 basis points as compared to a decline of 122 basis points on net interest margins on mortgage assets. Adjusted net interest margins on mortgage assets did not decline as much as net interest margins on mortgage assets primarily due to a 20 basis point decline in cash payments on derivatives relative to total average mortgage assets. Lower derivative costs relative to total average mortgage assets partially offset the compression of net interest margins on mortgage assets which was caused by the factors described above. Our interest rate risk management policies are formulated with the intent to offset the potential adverse effects of changing interest rates on mortgage assets and borrowings on mortgage assets which may result in variability in net interest margins.

For further information on our interest rate risk management policies refer to Item 3. “Quantitative and Qualitative Disclosures About Market Risk.”

Provision for Loan Losses

Provision for loan losses decreased to $6.1 million during the first quarter of 2005 as compared to $9.7 million during the first quarter of 2004. However, provision for loan losses during the first quarter of 2004 includes a $6.0 million specific impairment that was recorded for warehouse advances that were deemed to be permanently impaired as compared to no specific impairments during the first quarter of 2005. The increase in provision for loan losses, other than specific loan impairments, was primarily due to the growth of our long-term mortgage portfolio. Actual losses on mortgages were $3.2 million and $2.0 million for the first quarter of 2005 and 2004, respectively. For further information on delinquencies in our long-term investment portfolio and non-performing assets refer to “Financial Condition—Credit Risk.”

Non- Interest Income

Changes in Non-Interest Income
(dollars in thousands)

	2005	2004	Increase	% Change
Gain (loss) on derivative instruments	$117,591	$(36,630)	$154,221	421%
Gain on sale of loans	12,851	2,502	10,349	414
Other income	5,078	210	4,868	2,318
Total non-interest income (expense)	$135,520	$(33,918)	$169,438	500%

Gain (Loss) on Derivative Instruments. Mark-to-market gain on derivatives includes unrealized mark-to-market gain or loss on derivative instruments and net cash payments or receipts on derivatives. Unrealized mark-to-market gain (loss) on derivative instruments increased to $131.3 million during the first quarter of 2005 as compared to $(24.3) million during the first quarter of 2004. The increase in unrealized mark-to-market gain was the result of an increase in actual short-term interest rates, which resulted in a 178 basis point increase in one-month LIBOR since the end of the first quarter of 2004, in addition to an expectation that interest rates will rise in the future. Generally, we utilize interest rate swaps whereby we agree to pay cash payments based on a fixed interest rate and receive cash payments on a variable interest rate. As short-term interest rates increased and long term interest rates did not change significantly on a quarter-over-quarter basis, the value of the interest rate swap agreements increased. We enter into derivative contracts to offset the various risks associated with certain specific CMO liabilities. In our consolidated financial statements, we record a market valuation adjustment for derivatives, including certain forward purchase commitments on mortgages, as current period expense or revenue. Unrealized mark-to-market gain or loss on derivatives is not included as an addition or deduction for purposes of calculating taxable income as shown in the reconciliation table of net earnings to estimated taxable income in the “Taxable Income” table. Cash payments on derivatives increased to $13.7 million during the first quarter of 2005 as compared to $12.3 million during the first quarter of 2004. However, cash payments on derivatives declined to 23 basis points of total average mortgage assets during the first quarter of 2005 as compared to 43 basis points of total average mortgage assets during the first quarter of 2004. Cash payments on derivatives are recorded as current period expense or revenue on our consolidated financial statements and are included in the calculation of taxable income.

Gain (Loss) on Sale of Loans. The quarter-over-quarter increase in gain on sale of loans was primarily due to an increase in the value of derivatives that were used to protect the market value of mortgages with rate-lock commitments. We use derivatives to protect the market value of mortgages when we have established a rate-lock commitment on a particular mortgage prior to its close and eventual sale or securitization. Any changes in interest rates on mortgages that we have committed to acquire at a particular rate until we sell or securitize the mortgage generally results in an increase or decrease in the market value of that mortgage. During the first quarter of 2005, the value of these derivatives resulted in a $5.1 million gain as compared to a loss of $9.3 million during the first quarter of 2004. Additionally, the mortgage operations sold $887.8 million of loans to third party investors during the first quarter of 2005 as compared to $628.6 million of mortgages sold to third party investors during the first quarter of 2004. All inter-company loan sales between the mortgage operations and the long-term investment operations are eliminated on our consolidated financial statements.

Non-Interest Expense

Changes in Non-Interest Expense
(dollars in thousands)

	2005	2004	Increase (Decrease)	% Change
Personnel expense	$18,880	$13,668	$ 5,212	38%
General and administrative and other expense	4,913	3,174	1,739	55
Professional services	3,419	1,831	1,588	87
Equipment expense	1,147	784	363	46
Occupancy expense	1,145	841	304	36
Data processing expense	943	805	138	17
Total operating expense (1)	30,447	21,103	9,344	44
Amortization of deferred tax charge	5,803	4,198	1,605	38
Provision for repurchases	3,714	(1,183)	4,897	414
Amortization and impairment of mortgage servicing rights	289	406	(117)	(29)
Gain on sale of other real estate owned	(848)	(503)	(345)	(69)
Total non-operating expense (2)	8,958	2,918	6,040	207
Total non-interest expense	$39,405	$24,021	$ 15,384	64%

(1) Operating expenses are primarily from the mortgage operations, which employ the majority of the personnel within the organization, and generally fluctuate in conjunction with increases or decreases in mortgage acquisition and origination volumes.

(2) Non-operating expenses generally relate to existing assets and liabilities and are generally not a function of increases or decreases in mortgage acquisition or origination volumes.

Operating Expense. The quarter-over-quarter increase in operating expense was primarily due to the following:

- increase in personnel and personnel-related expenses;
- expansion of our wholesale mortgage operations; and
- costs related to compliance with Section 404 of the Sarbanes-Oxley Act, or “SOX 404.”

Total operating expense increased on a quarter-over-quarter basis as acquisitions and originations from the mortgage operations increased 34% to $4.7 billion during the first quarter of 2005 as compared to $3.5 billion during the first quarter of 2004. In addition, originations of multi-family mortgages increased 75% to $165.3 million for the first quarter of 2005 as compared to $94.5 million during the first quarter of 2004. The increase in acquisitions and originations resulted in an increase in personnel, which were hired to manage the growth of our operations, and personnel-related costs.

Operating costs also increased during the first quarter of 2005 due to the expansion of our wholesale mortgage operations into the Midwest and East Coast including the hiring of mortgage professionals and the assumption of certain premises and operating leases. The expansion of our wholesale mortgage operations gives us penetration into areas of the country where we were not generating a significant volume of mortgage originations during 2004.

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Compliance with SOX 404 further increased operating costs as we hired additional accounting, finance, tax and internal audit professionals subsequent to the first quarter of 2004. SOX 404 related fees from our external auditors and third party consultants totaled approximately $1.3 million during the first quarter of 2005 as compared to consulting fees of approximately $32,000 during the first quarter of 2004.

We believe that our efficient operating structure and our web-based automated underwriting system, iDASLg2, allows us to maintain our position as a low cost nationwide acquirer and originator of Alt-A mortgages. In addition, a higher percentage of bulk mortgage acquisitions during the first quarter of 2005 as compared to the first quarter of 2004 (as seen in the table below) contributed to lower per loan acquisition costs as bulk mortgage acquisitions generally require less staffing and lower operating costs than mortgages acquired on a flow, or loan-by-loan, basis. The decrease in per loan operating costs from bulk mortgage acquisitions is generally offset by higher premium costs which are amortized over the estimated life of the mortgage.

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

	For the Three Months Ended March 31,			
	2005		2004	
	Principal Balance	%	Principal Balance	%
By Production Channel:				
Correspondent acquisitions:				
Flow	$2,377,608	49	$2,171,424	61
Bulk	1,676,726	35	782,746	22
Total correspondent acquisitions	4,054,334	84	2,954,170	83
Wholesale and retail originations	488,907	10	371,578	10
Novelle Financial Services, Inc.	120,875	3	143,334	4
Total mortgage operations acquisitions and originations	4,664,116	97	3,469,082	97
Impac Multifamily Capital Corporation	165,304	3	94,500	3
Total acquisitions and originations	$4,829,420	100	$3,563,582	100

Results of Operations by Business Segment
For the Three Months Ended March 31, 2005 compared to the Three Months Ended March 31, 2004

Long-Term Investment Operations

Condensed Statements of Operations Data
(dollars in thousands)

	2005	2004	Increase	% Change
Net interest income	$ 52,119	$ 51,461	$ 658	1%
Provision for loan losses	6,074	4,285	1,789	42
Non-interest income	114,994	(39,151)	154,145	394
Non-interest expense and income taxes	2,693	1,744	949	54
Net earnings	$158,346	$ 6,281	$152,065	2,421%

The quarter-over-quarter increase in net earnings was primarily due to an increase in unrealized mark-to-market gain (loss) on derivatives which increased by $155.5 million to $128.9 million for the first quarter of 2005 as compared to $(26.6) million for the first quarter of 2004. Unrealized mark-to-market gain (loss) on derivatives increased as increases in actual and future expectations of short-term rates positively affected the fair value of derivatives.

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Mortgage Operations

Condensed Statements of Operations Data
(dollars in thousands)

	2005	2004	Increase	% Change
Net interest income	$ 1,974	$ 5,143	$ (3,169)	(62)%
Non-interest income	49,673	31,978	17,695	55
Non-interest expense and income taxes	35,481	25,583	9,898	39
Net earnings	$16,166	$11,538	$ 4,628	40%

The quarter-over-quarter increase in net earnings was primarily due to an increase in gain on sale of loans which increased to $43.2 million for the first quarter of 2005 as compared to $30.4 million for the first quarter of 2004 as the mortgage operations sold a higher volume of loans. The mortgage operations use derivatives to protect the market value of mortgages when it establishes a rate-lock commitment on a particular mortgage prior to its close and eventual sale or securitization. Any changes in interest rates on mortgages that the mortgage operations has committed to acquire at a particular rate to the time it sells or securitizes the mortgage generally results in an increase or decrease in the market value of that mortgage. During the first quarter of 2005, gain on sale of these derivatives resulted in a $5.1 million gain as compared to a loss of $9.3 million during the first quarter of 2004. Additionally, during the first quarter of 2005 the mortgage operations sold $3.3 billion of mortgages to the long-term investment operations and $887.8 million of mortgage to third party investors as compared to $2.9 billion and $628.6 million, respectively, during the first quarter of 2004. The mortgage operations is reflected as a stand-alone entity for segment financial reporting purposes, however, on the consolidated financial statements inter-company loan sales and related gains are eliminated. The increase in gain on sale of loans was partially offset by an increase in non-interest expense due to an increase in personnel and related personnel costs required to manage the increase in mortgage acquisitions and originations, operating costs associated with the expansion of our wholesale mortgage business and SOX 404 related costs, including the hiring of additional professional staff, as previously noted.

Warehouse Lending Operations

Condensed Statements of Operations Data
(dollars in thousands)

	2005	2004	Increase (Decrease)	% Change
Net interest income	$11,341	$8,417	$ 2,924	35%
Provision for loan losses	—	5,440	(5,440)	(100)
Non-interest income	2,027	1,958	69	4
Non-interest expense and income taxes	2,085	1,521	564	37
Net earnings	$11,283	$3,414	$ 7,869	230%

The quarter-over-quarter increase in net earnings was primarily due to a decrease in provision for loan losses and an increase in net interest income. Provision for loan losses declined as the warehouse lending operations discovered fraudulent mortgages during the first quarter of 2004 that were deemed to be permanently impaired which required a corresponding increase in allowance for loan losses as compared to no specific provision for loan losses required during the first quarter of 2005. The increase in net interest income was the result of an increase in average finance receivables which rose to $2.0 billion during the first quarter of 2005 as compared to $1.8 billion during the first quarter of 2004 as the mortgage operations acquired and originated higher mortgage volumes. The warehouse lending operations is reflected as a stand-alone entity for segment financial reporting purposes. However, on the consolidated financial statements inter-company borrowings are eliminated.

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Financial Condition

Condensed Balance Sheet Data
(dollars in thousands)

	March 31, 2005	December 31, 2004	Increase (Decrease)	% Change
CMO collateral	$22,381,248	$21,308,906	1,072,342	5%
Mortgages held-for-investment	1,154,937	586,686	568,251	97
Finance receivables	435,884	471,820	(35,936)	(8)
Allowance for loan losses	(66,789)	(63,955)	2,834	4
Mortgages held-for-sale	1,065,056	587,745	477,311	81
Other assets	716,336	924,565	(208,229)	(23)
Total assets	$25,686,672	$23,815,767	1,870,905	8
CMO borrowings	$21,991,768	$21,206,373	785,395	4
Reverse repurchase agreements	2,433,554	1,527,558	905,996	59
Other liabilities	102,248	37,761	64,487	171
Total liabilities	24,527,570	22,771,692	1,755,878	8
Total stockholder's equity	1,159,102	1,044,075	115,027	11
Total liabilities and stockholder's equity	$25,686,672	$23,815,767	1,870,905	8%

Total assets grew quarter-over-quarter as the long-term investment operations retained $3.3 billion of primarily Alt-A mortgages and multi-family mortgages during the first quarter of 2005. The retention of mortgages (less early mortgage prepayments) during the first quarter of 2005 resulted in a 5% increase in mortgages held as CMO collateral to $22.4 billion as of March 31, 2005 as compared to $21.3 billion as of December 31, 2004.

The following table presents selected information about mortgages held as CMO collateral as of the dates indicated:

	As of		
	March 31, 2005	December 31, 2004	March 31, 2004
Percent of Alt-A mortgages	99	99	99
Percent of ARMs	90	90	88
Percent of FRMs	10	10	12
Percent of hybrid ARMs	71	70	55
Percent of interest-only	65	63	41
Weighted average coupon	5.69	5.62	5.53
Weighted average margin	3.63	3.61	3.19
Weighted average original LTV	76	76	78
Weighted average original credit score	696	696	695
Percent with active prepayment penalty	76	76	80
Prior 3-month CPR	28	29	25
Prior 12-month CPR	28	29	31
Lifetime prepayment rate	22	21	27
Percent of mortgages in California	61	62	64
Percent of purchase transactions	59	60	59
Percent of owner occupied	81	81	86
Percent of first lien	99	99	99

The following table presents selected financial data as of the dates indicated (dollars in thousands, except per share data):

	As of and For the Quarter Ended,		
	March 31, 2005	December 31, 2004	March 31, 2004
Book value per share	$ 13.31	$ 11.80	$ 8.96
Return on average assets	2.81%	2.02%	0.32%
Return on average equity	65.06%	47.50%	7.36%
Assets to equity ratio	22.16:1	22.81:1	23.04:1
Debt to equity ratio	21.07:1	21.77:1	21.83:1
Mortgages owned 60+ days delinquent	$437,088	$ 381,290	$192,464
60+ day delinquency of mortgages owned	1.94%	1.74%	1.62%

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

- credit risk;
- prepayment risk;
- liquidity risk; and
- interest rate risk.

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

We believe that by improving the overall credit quality of our long-term mortgage portfolio we can consistently generate stable future cash flow and net earnings. As of March 31, 2005, the original weighted average credit score of mortgages held as CMO collateral was 696 and the original weighted average LTV ratio was 76%. During the first quarter of 2005, the long-term investment operations acquired $3.3 billion of primarily adjustable and fixed rate Alt-A mortgages that were acquired or originated by the mortgage operations with an original weighted average credit score of 694 and an original weighted average LTV ratio of 74%. In addition, during the first quarter of 2005, the long-term investment operations acquired $1.3 billion of mortgages that were acquired on a bulk basis by the mortgage operations with an original weighted average credit score of 690 and an original weighted average LTV ratio of 77%. IMCC also originated $165.3 million of multi-family mortgages with a weighted average credit score of 732 and an original weighted average LTV of 69%.

We monitor our sub-servicers to make sure that they perform loss mitigation, foreclosure and collection functions according to our servicing guide. This includes an effective and aggressive collection effort in order to minimize the number of mortgages from becoming seriously delinquent. However, when resolving delinquent mortgages, sub-servicers are required to take timely and aggressive action. The sub-servicer is required to determine payment collection under various circumstances, which will result in maximum financial benefit. This is accomplished by either working with the borrower to bring the mortgage current or by foreclosing and liquidating the property. We perform ongoing review of mortgages that display weaknesses and believe that we maintain adequate loss allowance on the mortgages. When a borrower fails to make required payments on a mortgage and does not cure the delinquency within 60 days, we generally record a notice of default and commence foreclosure proceedings. If the mortgage is not reinstated within the time permitted by law for reinstatement, the property may then be sold at a foreclosure sale. At foreclosure sales, we generally acquire title to the property. As of March 31, 2005, our long-term mortgage portfolio included 1.94% of mortgages that were 60 days or more delinquent compared to 1.74% as of December 31, 2004.

The following table summarizes mortgages in our long-term mortgage portfolio that were 60 or more days delinquent for the periods indicated (in thousands):

	At March 31, 2005	At December 31, 2004
60-89 days delinquent	$164,534	$ 139,872
90 or more days delinquent	126,102	68,877
Foreclosures	111,768	157,867
Delinquent bankruptcies	34,684	14,674
Total 60 or more days delinquent	$437,088	$ 381,290

Seriously delinquent assets consist of mortgages that are 90 days or more delinquent, including loans in foreclosure and delinquent bankruptcies. When real estate is acquired in settlement of loans, or "other real estate owned," the mortgage is written-down to a percentage of the property's appraised value or broker's price opinion. As of March 31, 2005, seriously delinquent assets and other real estate owned as a percentage of total assets was 1.16% as compared to 1.09% as of December 31, 2004. The following table summarizes mortgages in our long-term mortgage portfolio that were seriously delinquent and other real estate owned for the periods indicated (in thousands):

	At March 31, 2005	At December 31, 2004
90 or more days delinquent	$272,554	$ 241,418
Other real estate owned	24,399	18,277
Total	$296,953	$ 259,695

Prepayment Risk. As of March 31, 2005, 76% of mortgages held as CMO collateral had prepayment penalty features as compared to 76% as of December 31, 2004. 73% of Alt-A mortgages acquired by the long-term investment operations during the first quarter of 2005 had prepayment penalty features ranging from two to seven years as compared to 75% during the first quarter of 2004. Mortgages held as CMO collateral had a 28% 12-month CPR as of March 31, 2005 as compared to 31% 12-month CPR as of March 31, 2004.

Liquidity Risk. We employ a leverage strategy to increase assets by financing our long-term mortgage porfolio primarily with CMO borrowings, reverse repurchase agreements and capital and then using cash proceeds to acquire additional mortgage assets. The long-term investment operations acquires ARMs and FRMs that are acquired and originated by the mortgage operations and finances the acquisition of those mortgages, during this accumulation period, with reverse repurchase agreements. After accumulating a pool of mortgages, generally between $200 million and $2.0 billion, we securitize the mortgages in the form of CMOs. Our strategy is to securitize our mortgages every 15 to 45 days in order to reduce the accumulation period that mortgages are outstanding on short-term warehouse or reverse repurchase facilities, which reduces our exposure to margin calls on these facilities. CMOs are classes of bonds that are sold to investors in mortgage-backed securities and as such are not subject to margin calls. In addition, CMOs generally require a smaller initial cash investment as a percentage of mortgages financed than does interim warehouse and reverse repurchase financing. We continually monitor our leverage ratios and liquidity levels to insure that we are adequately protected against adverse changes in market conditions. For additional information regarding liquidity refer to "Liquidity and Capital Resources" below.

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

For additional information regarding credit, prepayment, liquidity and interest rate risks, as well as other risk factors to be considered refer to "Risk Factors" below.

Liquidity and Capital Resources

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

ALCO participants include senior executives of the mortgage operations and warehouse lending operations. ALCO meets on a weekly basis to review current and projected sources and uses of funds. ALCO monitors the composition of the balance sheet for changes in the liquidity of our assets. Our primary liquidity consists of cash and cash equivalents and maturing mortgages, or “liquid assets.”

We believe that current cash balances, currently available financing facilities, capital raising capabilities and excess cash flows generated from our long-term mortgage portfolio will adequately provide for projected funding needs and asset growth. However, if we are unable to raise capital in the future, we may not be able to grow as planned. Refer to “Risk Factors” for additional information regarding risks that could adversely affect our liquidity.

Our operating businesses primarily use available funds as follows:

- acquisition and origination of mortgages by the mortgage and long-term investment operations;
- long-term investment in mortgages by the long-term investment operations;
- provide short-term warehouse advances by the warehouse lending operations;
- pay interest on debt; and
- distribute common and preferred stock dividends.

Acquisition and origination of mortgages by the mortgage and long-term investment operations. During the first quarter of 2005, the mortgage operations acquired $4.7 billion of primarily Alt-A mortgages, of which $3.3 billion was acquired by the long-term investment operations for long-term investment. Capital invested in mortgages is outstanding until we sell or securitize mortgages, which is one of the reasons we attempt to sell or securitize mortgages between 15 to 45 days of acquisition or origination. Initial capital invested in mortgages includes premiums paid when mortgages are acquired and originated and our capital investment, or “haircut,” required upon financing, which is generally determined by the type of collateral provided. The mortgage operations acquired and originated mortgages at a weighted average price of 102.12 during the first quarter of 2005, which were financed with warehouse borrowings from the warehouse lending operations at a haircut generally between 2% to 10% of the outstanding principal balance of the mortgages. In addition, IMCC originated $165.3 million of multi-family mortgages at a weighted average price of 100.183 which were initially financed with short-term warehouse financing from the warehouse lending operations at a haircut generally between 3% to 10% of the outstanding principal balance of the mortgages.

Long-term investment in mortgages by the long-term investment operations. The long-term investment operations acquires primarily Alt-A mortgages from the mortgage operations and finances them with warehouse borrowings from the warehouse lending operations at substantially the same terms as the mortgage operations. When the long-term investment operations finances mortgages with long-term CMO borrowings, short-term warehouse financing is repaid. Then, depending on credit ratings from national credit rating agencies on our CMOs, we are generally required to provide an over-collateralization, or “OC,” of 0.35% to 1% of the principal balance of mortgages securing CMO financing as compared to a haircut of 2% to 10% of the principal balance of mortgages securing short-term warehouse financing. Our total capital investment in CMOs generally ranges from approximately 2% to 5% of the principal balance of mortgages securing CMO borrowings which includes premiums paid upon acquisition of mortgages from the mortgage operations, costs paid for completion of CMOs, costs to acquire derivatives and OC required to achieve desired credit ratings. Multi-family mortgages are financed on a long-term basis with CMO borrowings at substantially the same rates and terms as Alt-A mortgages.

Provide short-term warehouse advances by the warehouse lending operations. We utilize committed and uncommitted warehouse facilities with various lenders to provide short-term warehouse financing to affiliates and non-affiliated clients of the warehouse lending operations. The warehouse lending operations provides short-term financing to the mortgage operations, long-term investment operations and non-affiliated clients from the closing of mortgages to their sale or other settlement with investors. The warehouse lending operations generally finances between 90% and 98% of the fair market value of the principal balance of mortgages, which equates to a haircut requirement of between 2% and 10%, at one-month LIBOR, plus a spread. The mortgage operations and long-term investment operations have uncommitted warehouse line agreements to obtain financing from the warehouse lending operations at one-month LIBOR plus a spread during the period that the mortgage and long-term investment operations accumulates mortgages until the mortgages are securitized or sold. As of March 31, 2005, the mortgage and long-term investment operations had $1.0 billion and $1.1 billion, respectively, of warehouse advances outstanding with the warehouse lending operations. In addition, as of March 31, 2005, the warehouse lending operations had $705.2 million of approved warehouse lines available to non-affiliated clients, of which $435.9 million was outstanding.

Our ability to meet liquidity requirements and the financing needs of our customers is subject to the renewal of our credit and repurchase facilities or obtaining other sources of financing, if required, including additional debt or equity from time to time. Any decision our lenders or investors make to provide available financing to us in the future will depend upon a number of factors, including:

- our compliance with the terms of our existing credit arrangements;
- our financial performance;
- industry and market trends in our various businesses;
- the general availability of, and rates applicable to, financing and investments;
- our lenders or investors resources and policies concerning loans and investments; and
- the relative attractiveness of alternative investment or lending opportunities.

Distribute common and preferred stock dividends. We are required to distribute a minimum of 90% of our taxable income to our stockholders in order to maintain our REIT status, exclusive of the application of any tax loss carry forwards that may be used to offset current period taxable income. Because we pay dividends based on taxable income, dividends may be more or less than net earnings. We declared cash dividends of $0.75 per outstanding common share during the first quarter of 2005 on estimated taxable income of $0.75 per diluted common share. In addition, we paid cash dividends of $3.6 million on preferred stock during the first quarter of 2005.

A portion of dividends paid to IMH's stockholders come from dividend distributions from the mortgage operations, our taxable REIT subsidiary, to IMH. During the first quarter of 2005 and during April of 2005, the mortgage operations provided a dividend distribution of $16.9 million to IMH which was related to estimated taxable income earned during the first quarter of 2005. However, because the mortgage operations may seek to retain earnings to fund the acquisition and origination of mortgages or to expand the mortgage operations, the board of directors may decide that the mortgage operations should cease making dividend distributions in the future. This could reduce the amount of taxable income that would be distributed to IMH stockholders in the form of dividends.

Our operating businesses are primarily funded as follows:

- CMO borrowings and reverse repurchase agreements;
- excess cash flows from our long-term mortgage portfolio;
- sale and securitization of mortgages; and
- cash proceeds from the issuance of securities.

CMO borrowings and reverse repurchase agreements. We use CMO borrowings and reverse repurchase agreements to fund substantially all warehouse financing to affiliates and non-affiliated clients and for the acquisition and origination of Alt-A and multi-family mortgages. As we accumulate mortgages, we finance the acquisition of mortgages primarily through borrowings on reverse repurchase agreements with third party lenders. We primarily use uncommitted and committed repurchase facilities with major investment banks to finance substantially all warehouse financing, as needed. During the first quarter of 2005 we added an additional $500.0 million to an existing warehouse facility to finance asset growth. The new warehouse facilities provide us with a higher aggregate credit limit to fund the acquisition and origination of mortgages at terms comparable to those we have received in the past. These reverse repurchase agreements may have certain covenant tests which we continue to satisfy. During 2005 we received waivers from our lenders for the delay in issuing our 2004 audited financial statements, which our lenders previously required. Audited consolidated financial statements for 2004 were filed with the SEC on May 13, 2005 and will be provided to our lenders. As of March 31, 2005, the warehouse lending operations had $3.6 billion of uncommitted and committed repurchase facilities with various lenders of which $2.4 billion was outstanding. From time to time, we may also receive additional uncommitted interim financing from our lenders in excess of our permanent borrowing limits to finance mortgages during the accumulation phase and prior to securitizations or whole loan sales.

From time to time, we may also utilize term reverse repurchase financing provided to us by underwriters who underwrite some of our securitizations. The term reverse repurchase financing funds mortgages that are specifically allocated to securitization transactions, which allows us to reduce overall borrowings outstanding on reverse repurchase agreements with other lenders during the period immediately prior to the settlement of the securitization. Terms and interest rates on the term reverse repurchase facilities are generally lower than on other reverse repurchase agreements. Term reverse repurchase financing are generally repaid with 30 days from the date funds are advanced.

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

In order to mitigate the liquidity risk associated with reverse repurchase agreements, we attempt to sell or securitize our mortgages between 15 to 45 days from acquisition or origination. Although securitizing mortgages more frequently adds operating and securitization costs, we believe the added cost is offset as liquidity is provided more frequently with less interest rate and price volatility, as the accumulation and holding period of mortgages is shortened. When we have accumulated a sufficient amount of mortgages, generally between $200 million and $2.0 billion, we seek to issue CMOs and convert short-term advances under reverse repurchase agreements to long-term CMO borrowings. The use of CMO borrowings provides the following benefits:

- allows us to lock in our financing cost over the life of the mortgages securing the CMO borrowings; and
- eliminates margin calls on the borrowings that are converted from reverse repurchase agreements to CMO borrowings as well as associated derivatives used to manage interest rate risks on CMO borrowings.

During the first quarter of 2005 we completed $2.6 billion of adjustable rate CMOs to provide long-term financing for the retention of primarily Alt-A mortgages and the origination of multi-family mortgages. Because of the credit profile, historical loss performance and prepayment characteristics of our Alt-A mortgages, we have been able to borrow a higher percentage against the principal balance of mortgages held as CMO collateral, which means that we have to provide less initial capital upon completion of CMOs. Capital investment in the CMOs is established at the time CMOs are issued at levels sufficient to achieve desired credit ratings on the securities from credit rating agencies.

Excess cash flows from our long-term mortgage portfolio. We receive excess cash flows on mortgages held as CMO collateral after distributions are made to investors on CMO borrowings to the extent cash or other collateral required to maintain desired credit ratings on the CMOs is fulfilled and can be used to provide funding for some of the long-term investment operations' activities. Excess cash flows represent the difference between principal and interest payments on the underlying mortgages less the following:

- servicing and master servicing fees paid;
- premiums paid to mortgage insurers;
- cash payments on derivatives;
- interest paid on CMO borrowings;
- pro-rata early principal prepayments paid on CMO borrowings;
- OC requirements;
- actual losses, net of any gains incurred upon disposition of other real estate owned or acquired in settlement of defaulted mortgages;

- unpaid interest shortfall;
- basis risk shortfall;
- bond writedowns reinstated; and
- residual cashflow.

Sale and securitization of mortgages. When the mortgage operations accumulate a sufficient amount of mortgages, generally between $100 million and $1.0 billion, that are intended to be deposited into a CMO, it sells the mortgages to the long-term investment operations. When selling mortgages on a whole loan basis, the mortgage operations will accumulate generally between $50 million and $200 million of mortgages and enter into sales transactions with third party investors on a monthly basis. When the mortgage operations enter into a REMIC securitization, it generally accumulates between $200 million and $2.0 billion of mortgages and sells these loans on a monthly basis.

The mortgage operations sold $3.3 billion of mortgages to the long-term investment operations during the first quarter of 2005 and sold $887.8 million of mortgages as whole loan sales. The mortgage operations sold mortgage servicing rights on substantially all mortgages sold during the first quarter of 2005. The sale of mortgage servicing rights generated substantially all cash, which was used to acquire and originate additional mortgage assets.

Since we rely significantly upon sales and securitizations to generate cash proceeds to repay borrowings and to create credit availability, any disruption in our ability to complete sales and securitizations may require us to utilize other sources of financing, which, if available at all, may be on less favorable terms. In addition, delays in closing sales and securitizations of our mortgages increase our risk by exposing us to credit and interest rate risk for this extended period of time.

Premises Leases

In March 2005, we entered into a premises lease agreement under which our corporate headquarters will move from our present locations to a new and larger facility in Irvine, California, which will allow us to consolidate office space we are currently utilizing in multiple locations in Newport Beach. The premises lease agreement includes an option to lease another building and a right of first offer to lease additional buildings. The lease term is a period of ten years beginning after the completion of the first building and related tenant improvements, which is anticipated to be in the first quarter of 2006. The aggregate rent for the term of the lease for the first building is approximately $69 million over ten years, or approximately $6.9 million per year. Occupancy expense for the first quarter of 2005 was $1.1 million, or approximately $4.4 million on an annualized basis

Cash Flows

Operating Activities—Net cash used in operating activities was $103.5 million for the first quarter of 2005 as compared to $327.4 million for the first quarter of 2004. During the first quarter of 2005, net cash flows of $471.5 million were used in operating activities to primarily acquire and originate mortgages, net of loan sales.

Investing Activities—Net cash used in investing activities was $1.7 billion for the first quarter of 2005 as compared to $1.9 billion for the first quarter of 2004. During the first quarter of 2005, net cash flows of $1.7 billion were used in investing activities to primarily invest in mortgages, net of principal repayments.

Financing Activities—Net cash provided by financing activities was $1.7 billion for the first quarter of 2005 as compared to $2.3 billion for the first quarter of 2004. During the first quarter of 2005, net cash flows of $773.1 million were provided by financing activities primarily from CMO financing, net of principal repayments.

Inflation

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

Risk Factors

Some of the following risk factors relate to a discussion of our assets. For additional information on our asset categories refer to Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Note D—Mortgages Held-for-Sale," "Note E—CMO Collateral" and "Note H—CMO Borrowings" in the accompanying notes to the consolidated financial statements.

Risks Related To Our Businesses

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

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

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

If we cannot generate sufficient liquidity, we may be unable to continue to grow our operations, grow our asset base, maintain our current interest rate risk management policies and pay dividends. We have traditionally derived our liquidity from the following primary sources:

- financing facilities provided to us by others to acquire or originate mortgage assets;

- whole loan sales and securitizations of acquired or originated mortgages;
- our issuance of equity and debt securities;
- excess cash flow from our long-term mortgage portfolio; and
- earnings from operations.

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

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

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

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

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

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

We face risks related to our recent accounting restatements.

On July 22, 2004, we publicly announced that we had discovered accounting inaccuracies in previously reported financial statements. As a result, following consultation with our auditors, we decided to restate our financial statements for the three months ended March 31, 2004 and 2003, the three and six months ended June 30, 2003, the three and nine months ended September 30, 2003 and for each of the years ended December 31, 2003, 2002 and 2001. The restatements relate to a correction to our revenue recognition policy with respect to the cash sales of mortgage servicing rights to unrelated third parties when the mortgage loans are retained, our accounting for derivatives and interest rate risk management activities, the accounting for loan purchase commitments as derivatives and selected elimination entries to consolidate IFC with that of

IMH. We also corrected a clerical error in the calculation of earnings per share for the six months ended June 30, 2004. The effect of this restatement on net earnings (loss) and the correction of basic and diluted earnings per share were as follows:

Net Effect of Restatement on Net Earnings (Loss)
(in millions)

	Change in Net Earnings (Loss)
For the three months ended March 31, 2004	$ (36.7)
For the year ended December 31, 2003	21.7
For the nine months ended September 30, 2003	12.8
For the three months ended September 30, 2003	11.2
For the six months ended June 30, 2003	1.7
For the three months ended June 30, 2003	2.4
For the three months ended March 31, 2003	(0.7)
For the year ended December 31, 2002	(34.6)
For the year ended December 31, 2001	(35.4)

Net Effect of Correction on Earnings per Share

	Change in	
	Basic EPS	Diluted EPS
For the six months ended June 30, 2004	$0.14	$ 0.13

The restatement of our financial statements could lead to litigation claims and/or regulatory proceedings against us. The defense of any such claims or proceedings may cause the diversion of management's attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation or regulatory proceeding, even if resolved in our favor, could cause us to incur significant legal and other expenses. We also may have difficulty raising equity capital or obtaining other financing, such as lines of credit or otherwise. We may not be able to effectuate our current operating strategy, including the ability to originate, acquire or securitize mortgage loans for retention or sale at projected levels. We may be subject to resignation of our current external auditors which may, among other things, cause a delay in the preparation of future financial statements and increase expenditures related to the retention of new external auditors and the lead time required to become familiar with our operations. The process of retaining new external auditors may limit our access to the capital markets for an extended period of time. Moreover, we may be the subject of negative publicity focusing on the financial statement inaccuracies and resulting restatement and negative reactions from our stockholders, creditors or others with which we do business. The occurrence of any of the foregoing could harm our business and reputation and cause the price of our securities to decline, and could result in a delisting of our securities from the New York Stock Exchange.

Since we are reporting in this annual report and may report in the future that our system of internal control over financial reporting and disclosure controls and procedures are ineffective, we may not be able to accurately report our financial results or prevent fraud, which could adversely affect the trading price of our securities or our ability to raise capital.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As a result, current and potential stockholders could lose confidence in our financial reporting which would harm our business and the trading price of our securities. We are reporting in this annual report, and may discover in the future, areas of our disclosure controls and procedures and internal control over financial reporting that need improvement. We have identified material weaknesses in our internal control over financial reporting which we believe require remediation.

Furthermore, in connection with the restatement of our consolidated financial statements, we noted, and our auditors noted in a letter to management and the audit committee, certain matters involving internal controls and operations that we considered to be a material weakness, as defined by the Public Company Accounting Oversight Board, or "PCAOB." We needed to improve the evaluation and documentation of accounting policies and procedures for complex transactions, such as transfers of financial assets, derivatives and hedge accounting and allowance for credit losses. We did not have a sufficient amount or type of staff in the financial reporting and accounting departments. Furthermore, we also noted significant deficiencies in that our internal audit function did not provide an adequate or effective monitoring of our controls and we needed to evaluate whether we have appropriate internal resources to manage and monitor work performed by our outsourced tax compliance function.

We cannot be certain that our efforts to improve our internal control over financial reporting and disclosure controls and procedures will be successful or that we will be able to maintain adequate controls over our financial processes and reporting in the future. Any failure to develop or maintain effective controls or difficulties encountered in their implementation or other effective improvement of our internal control over financial reporting and disclosure controls and procedures could harm our operating results, or cause us to fail to meet our reporting obligations. If we are unable to adequately establish or improve our internal control over financial reporting, our external auditors will not be able to issue an unqualified opinion on the effectiveness of our internal control over financial reporting. Due to the reported material weaknesses in management's assessment of our internal control over financial reporting and the conclusion that that our internal control over financial reporting is not effective as of December 31, 2004, our external auditors issued an adverse opinion on the effectiveness of our internal control over financial reporting. Ineffective internal control over financial reporting and disclosure controls and procedures and any material weakness in our internal control over financial reporting could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities or could affect our ability to access the capital markets and which could result in regulatory proceedings against us by, among others, the SEC. For a further discussion of our material weaknesses, please refer to "Item 4-Controls and Procedures."

In addition, a material weakness in internal control over financial reporting, which may lead to deficiencies in the preparation of financial statements, could lead to litigation claims and/or regulatory proceedings against us. The defense of any such claims or proceedings may cause the diversion of management's attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation or regulatory proceeding, even if resolved in our favor, could cause us to incur significant legal and other expenses. Such events could harm our business, affect our ability to raise capital and adversely affect the trading price of our securities.

Our failure to include audited financial statements and our reports on our internal control over financial reporting in our previously filed annual report may subject us to regulatory or litigation proceedings, may adversely impact our ability to obtain financing or raise capital and could adversely affect the trading price of our securities.

We are required under the Exchange Act, and the regulations promulgated thereunder, to include audited financial statements and an audit report of a registered public accounting firm on such financial statements in our annual reports on Form 10-K. On March 31, 2005, we filed with the SEC our annual report on Form 10-K with unaudited financial statements and without management's assessment of the effectiveness of internal control over financial reporting and the audit report thereon. As a result, we may be subject to regulatory action by, among others, the SEC. Our failure to previously file these required items have caused us to lose our eligibility to use a registration statement on Form S-3 until that date which is twelve months from the date of this amendment. Such loss of eligibility could adversely affect our ability to generate liquidity through the public issuance of our equity and debt securities on a rapid basis, which could have a negative impact on our business activities, although we may be able to raise capital through other means. We contacted the SEC regarding our S-3 eligibility and are intending to seek relief from the SEC in this regard; however, we may not be successful in obtaining such relief. Current and potential stockholders could lose confidence in our financial reporting and operations as a result of our failure to include audited financial statements in our previously filed annual report or any loss of our Form S-3 eligibility. Such loss of confidence may adversely affect the trading price of our securities and our ability to access the capital markets for additional funding.

We incurred net losses in accordance with GAAP for fiscal years 1997, 1998, 2000 and 2001 and may incur losses in the future.

During the years ended December 31, 2001 and 2000, we experienced a net loss of $2.2 million and $54.5 million. The 2001 loss was related to a loss on derivatives and the 2000 loss was the result of write-downs of non-performing investment securities secured by mortgages and additional increases in the provision for loan losses to provide for the deterioration of the performance of collateral supporting specific investment securities for 2000. During the year ended December 31, 1998, we experienced a net loss of $5.9 million primarily as the mortgage industry experienced substantial turmoil as a result of a lack of liquidity in the secondary markets, which caused us to sell mortgages at losses to meet margin calls on our financing facilities. During the year ended December 31, 1997, we experienced a net loss of $16.0 million. The net loss incurred during

1997 included an accounting charge of $44.4 million that was the result of expenses related to the termination and buyout of our management agreement with Imperial Credit Advisors, Inc. We cannot be certain that revenues will remain at current levels or improve or that we will generate net earnings in the future, which could prevent us from effectuating our business strategy.

If we are unable to complete securitizations or if we experience delayed mortgage loan sales or securitization closings, we could face a liquidity shortage which would adversely affect our operating results.

We rely significantly upon securitizations to generate cash proceeds to repay borrowings and replenish our borrowing capacity. If there is a delay in a securitization closing or any reduction in our ability to complete securitizations we may be required to utilize other sources of financing, which, if available at all, may not be on similar terms. In addition, delays in closing mortgage sales or securitizations of our mortgages increase our risk by exposing us to credit and interest rate risks for this extended period of time. Furthermore, gains on sales from certain of our securitizations represent a significant portion of the taxable income dividend up from our taxable REIT subsidiary, IFC. Several factors could affect our ability to complete securitizations of our mortgages, including:

- conditions in the securities and secondary markets;
- credit quality of the mortgages acquired or originated through our mortgage operations;
- volume of our mortgage loan acquisitions and originations;
- our ability to obtain credit enhancements; and
- lack of investors purchasing higher risk components of the securities.

If we are unable to sell a sufficient number of mortgages at a premium or profitably securitize a significant number of our mortgages in a particular financial reporting period, then we could experience lower net earnings or a loss for that period, which could have a material adverse affect on our operations. We cannot assure you that we will be able to continue to profitably securitize or sell our loans on a whole loan basis, or at all.

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

Our borrowings and use of substantial leverage may cause losses.

Our use of CMOs may expose our operations to credit losses.

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

Retaining mortgages as collateral for CMOs exposes our operations to greater credit losses than does the use of other securitization techniques that are treated as sales because as the equity holder in the security, we are allocated losses from the liquidation of defaulted loans first prior to any other security holder. Although our liability under a collateralized mortgage obligation is limited to the collateral used to create the collateralized mortgage obligation, we generally are required to make a cash equity investment to fund collateral in excess of the amount of the securities issued in order to obtain the appropriate credit ratings for the securities being sold, and therefore obtain the lowest interest rate available, on the CMOs. If we experience greater credit losses than expected on the pool of loans subject to the CMO, the value of our equity investment will decrease and we may have to increase the allowance for loan losses on our financial statements.

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

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

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

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

Interest rate fluctuations may adversely affect our operating results.

Our operations, as a mortgage loan acquirer and originator, an investor in mortgage loans or a warehouse lender, may be adversely affected by rising and falling interest rates. Interest rates have been low over the past few years; however increases in interest rates may discourage potential borrowers from refinancing mortgages, borrowing to purchase homes or seeking second mortgages. This may decrease the amount of mortgages available to be acquired or originated by our mortgage operations and decrease the demand for warehouse financing provided by our warehouse lending operations, which could adversely affect our operating results. If short-term interest rates exceed long-term interest rates, there is a higher risk of increased loan prepayments, as borrowers may seek to refinance their fixed and adjustable rate mortgages at lower long-term fixed interest rates. Increased loan prepayments could lead to a reduction in the number of loans in our long-term mortgage portfolio and reduce our net interest income. Rising interest rates may also increase delinquencies, foreclosures and losses on our adjustable rate mortgages.

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

We may experience reduced net earnings or losses if our liabilities reprice at different rates than our assets.

Our principal source of revenue is net interest income or net interest spread from our long-term mortgage portfolio, which is the difference between the interest we earn on our interest earning assets and the interest we pay on our interest bearing liabilities. The rates we pay on our borrowings are independent of the rates we earn on our assets and may be subject to more frequent periodic rate adjustments. Therefore, we could experience a decrease in net earnings or a loss because the interest rates on our borrowings could increase faster than the interest rates on our assets, if the increased borrowing costs are not offset by reduced cash payments on derivatives recorded in other non-interest income. If our net interest spread becomes negative, we will be paying more interest on our borrowings than we will be earning on our assets and we will be exposed to a risk of loss.

Additionally, the rates paid on our borrowings and the rates received on our assets may be based upon different indices. Our long-term mortgage portfolio includes mortgages that are one-, three- and six-month LIBOR and one-year LIBOR hybrid ARMs. These are mortgages with fixed interest rates for an initial period of time, after which they begin bearing interest based upon short-term interest rate indices and adjust periodically. We generally fund mortgages with adjustable interest rate borrowings having interest rates that are indexed to short-term interest rates, typically one-month LIBOR, and adjust periodically at various intervals. To the extent that there is an increase in the interest rate index used to determine our adjustable interest rate borrowings and it increases faster than the indices used to determine the rates on our assets (i.e., the increase is not offset by a corresponding increase in the rates at which interest accrues on our assets) or by various cash payments on interest rate derivatives that we have in place at any given time, our net earnings will decrease or result in losses.

ARMs typically have interest rate caps, which limit interest rates charged to the borrower during any given period. Our borrowings are not subject to similar restrictions. As a result, in a period of rapidly increasing interest rates, the interest rates we pay on our borrowings could increase without limitation, while the interest rates we earn on our ARMs would be capped. If this occurs, our net interest spread could be significantly reduced or we could suffer a net interest loss if not offset by a decrease in the cash payments on interest rate derivatives that we have in place at any given time.

Our operating results will be affected by the results of our interest rate risk management activities.

To mitigate risks associated with our mortgage and long-term investment operations, we enter into transactions designed to limit our exposure to interest rate risks. To mitigate the risks associated with adjustable rate borrowings, we attempt to match the interest rate sensitivities of our ARMs with the associated financing liabilities. Management determines the nature and quantity of derivative transactions based on various factors, including market conditions and the expected volume of mortgage acquisitions. While we believe that we properly manage our interest rate risk on an economic and tax basis, we have elected not to achieve hedge accounting, as established by the Financial Accounting Standards Board, or FASB," under the provisions of Statement of Financial Accounting Standards No. 133, or "SFAS 133," for our interest rate risk management activities in our financial statements. The effect of not applying hedge accounting means that our interest rate risk management activities may result in significant volatility in our quarterly net earnings as interest rates go up or down. It is possible that there will be periods during which we will incur losses on derivative transactions that may result in net losses, as was the case in 2001 after the restatement of our consolidated financial statements. In addition, if the counter parties to our derivative transactions are unable to perform according to the terms of the contracts, we may incur losses. While we believe we prudently manage interest rate risk, our derivative transactions may not offset the risk of adverse changes in our net interest margins.

Increased levels of early prepayments of mortgages may accelerate our expenses and decrease our net income.

Mortgage prepayments generally increase on our ARMs when fixed mortgage interest rates fall below the then-current interest rates on outstanding ARMs. Prepayments on mortgages are also affected by the terms and credit grades of the mortgages, conditions in the financial markets, housing appreciation and general economic conditions. If we acquire mortgages at a premium and they are subsequently repaid, we must expense the unamortized premium at the time of the prepayment. We could possibly lose the opportunity to earn interest at a higher rate over the expected life of the mortgage. Also, if prepayments on mortgages increase when interest rates are declining, our net interest income may decrease if we cannot reinvest the prepayments in mortgage assets bearing comparable net interest margins. If prepayment rates differ from our projections, we may experience a change in net earnings due to a change in the ratio of derivatives to loans being interest rate risk managed. This may result in a reduction of cash flows from our mortgage loans net of financing costs as we have a higher percentage of derivatives costs related to these loans than originally projected.

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

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

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

Our mortgage products expose us to greater credit risks.

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

Lending to our type of borrowers may expose us to a higher risk of delinquencies, foreclosures and losses.

Our market includes borrowers who may be unable to obtain mortgage financing from conventional mortgage sources. Mortgages made to such borrowers generally entail a higher risk of delinquency and higher losses than mortgages made to borrowers who utilize conventional mortgage sources. Delinquency, foreclosures and losses generally increase during economic slowdowns or recessions. The actual risk of delinquencies, foreclosures and losses on mortgages made to our borrowers could be higher under adverse economic conditions than those currently experienced in the mortgage lending industry in general.

Further, any material decline in real estate values increases the LTV ratios of mortgages previously made by us, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a borrower default. Any sustained period of increased delinquencies, foreclosures or losses after the mortgages are sold could adversely affect the pricing of our future loan sales and our ability to sell or securitize our mortgages in the future. In the past, certain of these factors have caused revenues and net earnings of many participants in the mortgage industry, including us, to fluctuate from quarter to quarter.

Our multi-family mortgages expose us to increased lending risks.

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

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

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

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

We do not set limitations on the percentage of our long-term mortgage portfolio composed of properties located in any one area (whether by state, zip code or other geographic measure). Concentration in any one area increases our exposure to the economic and natural hazard risks associated with that area. Historically, a majority of our mortgage acquisitions and originations, long-term mortgage portfolio and finance receivables were secured by properties in California and, to a lesser extent, Florida. For instance, certain parts of California have experienced an economic downturn in past years and California and Florida have suffered the effects of certain natural hazards. Declines in those residential real estate markets may reduce the values of the properties collateralizing the mortgages, increase foreclosures and losses and have material adverse effect on our results of operations or financial condition.

Furthermore, if borrowers are not insured for natural disasters, which are typically not covered by standard hazard insurance policies, then they may not be able to repair the property or may stop paying their mortgages if the property is damaged. This would cause increased foreclosures and decrease our ability to recover losses on properties affected by such disasters. This would have a material adverse effect on our results of operations or financial condition.

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

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

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

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

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

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

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

Competition for mortgages is intense and may adversely affect our operations.

We compete in acquiring and originating Alt-A, B/C and multi-family mortgages and issuing mortgage-backed securities with other mortgage conduit programs, investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers and brokers, insurance companies, other lenders, and other entities purchasing mortgage assets.

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

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

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

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

As a warehouse lender, we lend money to mortgage bankers on a secured basis and we are subject to the risks associated with lending to mortgage bankers, including the risks of fraud, borrower default and bankruptcy, any of which could result in credit losses for us. Fraud risk may include, but is not limited to, the financing of nonexistent loans or fictitious mortgage loan transactions or the delivery to us of fraudulent collateral that could result in the loss of all sums we have advanced to the borrower. For example, during 2004, the warehouse lending operations had a specific allowance for loan losses of $10.7 million for impaired warehouse advances. Also, our claims as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay.

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

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

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

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

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

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

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

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

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

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

Regulatory Risks

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

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

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

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

- the Federal Truth-in-Lending Act and Regulation Z promulgated there under, which require certain disclosures to the borrowers regarding the terms of the loans;
- the Equal Credit Opportunity Act and Regulation B promulgated there under, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- the Fair Housing Act, which prohibits discrimination in housing on the basis of race, color, national origin, religion, sex, familial status, or handicap, in housing-related transactions;

- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;
- the Fair and Accurate Credit Transaction Act, which regulates credit reporting and use of credit information in making unsolicited offers of credit;
- the Gramm-Leach-Bliley Act, which imposes requirements on all lenders with respect to their collection and use of nonpublic financial information and requires them to maintain the security of that information;
- the Real Estate Settlement Procedures Act, which requires that consumers receive disclosures at various times and outlaws kickbacks that increase the cost of settlement services;
- the Home Mortgage Disclosure Act, which requires the reporting of public loan data;
- the Telephone Consumer Protection Act and the Can Spam Act, which regulate commercial solicitations via telephone, fax, and the Internet;
- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and
- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

Violations of certain provisions of these federal and state laws may limit our ability to collect all or part of the principal of or interest on the loans and in addition could subject us to damages and could result in the mortgagors rescinding the loans whether held by us or subsequent holders of the loans. In addition, such violations may cause us to be in default under our credit and repurchase facilities and could result in the loss of licenses held by us.

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

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

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

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

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

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

Furthermore, various federal and state laws impose significant privacy or customer information security obligations which may subject us to additional costs and legal risks and we cannot assure you that we will not be subject to lawsuits or compliance actions under such requirements. Similarly various state and federal laws have been enacted to restrict unsolicited advertising using telephones, facsimile machines and electronic means of transmission. These laws and regulations could have a material adverse impact on our business by substantially increasing the costs of compliance or by subjecting us to lawsuits or compliance actions.

Risks Related To Our Status As A REIT

We may not pay dividends to stockholders.

REIT provisions of the Internal Revenue Code generally require that we annually distribute to our stockholders at least 90% of all of our taxable income, exclusive of the application of any tax loss carry forwards that may be used to offset current period taxable income. These provisions restrict our ability to retain earnings and thereby generate capital from our operating activities. We may decide at a future date to terminate our REIT status, which would cause us to be taxed at the corporate levels and cease paying regular dividends. In addition, for any year that we do not generate taxable income, we are not required to declare and pay dividends to maintain our REIT status. For instance, due to losses incurred in 2000, we did not declare any dividends from September 2000 until September 2001.

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

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

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

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

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

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (the “2004 Act”), which, among other things, amends the rules applicable to REIT qualification. In particular, the 2004 Act provides that a REIT that fails the quarterly asset tests for one or more quarters will not lose its REIT status as a result of such failure if either (i) such failure is regarded as a de minimis failure under standards set out in the 2004 Act, or (ii) the failure is greater than a de minimis failure but is attributable to reasonable cause and not willful neglect. In the case of a greater than de minimis failure, however, the REIT must pay a tax and must remedy the failure within 6 months of the close of the quarter in which such failure occurred. In addition, the 2004 Act provides relief for failures of other tests imposed as a condition of REIT qualification, as long as such failures are attributable to reasonable cause and not willful neglect. A REIT would be required to pay a penalty of $50,000, however, in the case of each such failure. The above-described changes apply for taxable years of REITs beginning after the date of enactment.

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

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

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

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

- not be allowed to be offset by a stockholder's net operating losses;
- be subject to a tax as unrelated business income if a stockholder were a tax-exempt stockholder;
- be subject to the application of federal income tax withholding at the maximum rate (without reduction for any otherwise applicable income tax treaty) with respect to amounts allocable to foreign stockholders; and
- be taxable (at the highest corporate tax rate) to us, rather than to our stockholders, to the extent the excess inclusion income relates to stock held by disqualified organizations (generally, tax-exempt companies not subject to tax on unrelated business income, including governmental organizations).

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

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

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

- will consider the transfer to be null and void;
- will not reflect the transaction on our books;

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

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

(a) the price paid by the owner;

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

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

Notwithstanding the above, our charter contains a provision which provides that nothing in the charter will preclude the settlement of transactions entered into through the facilities of the NYSE.

Limitations on acquisition and change in control ownership limit.

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

Risks Related To Ownership of Our Securities

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

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

- the amount of dividends paid;
- availability of liquidity in the securitization market;
- loan sale pricing;
- termination of financing agreements;
- margin calls by warehouse lenders or changes in warehouse lending rates;
- unanticipated fluctuations in our operating results;
- prepayments on mortgages;
- valuations of securitization related assets;
- the effect of the restatement of our financial condition and results of operations;
- mark to market adjustments related to the fair value of derivatives;
- 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 securities of mortgage REIT companies such as ours. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. If our results of operations fail to meet the expectations of securities analysts or investors in a future quarter, the market price of our securities could also be materially adversely affected and we may experience difficulty in raising capital.

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

To sustain our growth strategy we intend to raise capital through the sale of equity. The sale or the proposed sale of substantial amounts of our common stock in the public market could materially adversely affect the market price of our common stock or other outstanding securities. We do not know the actual or perceived effect of these offerings, the timing of these offerings, the potential dilution of the book value or earnings per share of our securities then outstanding and the effect on the market price of our securities then outstanding. For example, during 2004 we raised approximately $366.3 million and $152.2 million of net proceeds through offerings of our common and preferred stock, respectively. We also have shares reserved for future issuance under our stock plans. The sale of a large amount of shares or the perception that such sales may occur, could adversely affect the market price for our common stock or other outstanding securities.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General Overview

Although we manage credit, prepayment and liquidity risk in the normal course of business, we consider interest rate risk to be a significant market risk, which could potentially have the largest material impact on our financial condition and results of operations. Since a significant portion of our revenues and earnings are derived from net interest income, we strive to manage our interest-earning assets and interest-bearing liabilities to generate what we believe to be an appropriate contribution from net interest income. When interest rates fluctuate, profitability can be adversely affected by changes in the fair market value of our assets and liabilities and by the interest spread earned on interest-earning assets and interest-bearing liabilities. We derive income from the differential spread between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Any change in interest rates affects income received and income paid from assets and liabilities in varying and typically in unequal amounts. Changing interest rates may compress our interest rate margins and adversely affect overall earnings.

Interest rate risk management is the responsibility of ALCO, which reports results of interest rate risk analysis to the board of directors on at least a quarterly basis. ALCO establishes policies that monitor and coordinate sources, uses and pricing of funds. ALCO also attempts to reduce the volatility in net interest income by managing the relationship of interest rate sensitive assets to interest rate sensitive liabilities. In addition, various modeling techniques are used to value interest sensitive mortgage-backed securities, including interest-only securities. The value of investment securities available-for-sale is determined using a discounted cash flow model using prepayment rate, discount rate and credit loss assumptions. Our investment securities portfolio is available-for-sale, which requires us to perform market valuations of the securities in order to properly record the portfolio. We continually monitor interest rates of our investment securities portfolio as compared to prevalent interest rates in the market. We do not currently maintain a securities trading portfolio and are not exposed to market risk as it relates to trading activities.

Changes in Interest Rates

ALCO follows interest rate risk management policies intended to limit our exposure to changes in interest rates primarily associated with cash flows on our adjustable rate CMO borrowings. Our primary objective is to limit our exposure to the variability in future cash flows attributable to the variability of one-month LIBOR, which is the underlying index of our adjustable rate CMO borrowings. We also monitor on an ongoing basis the prepayment risks that arise in fluctuating interest rate environments. Our interest rate risk management policies are formulated with the intent to offset the potential adverse effects of changing interest rates on cash flows on adjustable rate CMO borrowings.

We primarily acquire for long-term investment ARMs and hybrid ARMs and, to a lesser extent, FRMs. ARMs are generally subject to periodic and lifetime interest rate caps. This means that the interest rate of each ARM is limited to upwards or downwards movements on its periodic interest rate adjustment date, generally six months, or over the life of the mortgage. Periodic caps limit the maximum interest rate change, which can occur on any interest rate change date to generally a maximum of 1% per semiannual adjustment. Also, each ARM has a maximum lifetime interest rate cap. Generally, borrowings are not subject to the same periodic or lifetime interest rate limitations. During a period of rapidly increasing or decreasing interest rates, financing costs could increase or decrease at a faster rate than the periodic interest rate adjustments on mortgages would allow, which could affect net interest income. In addition, if market rates were to exceed the maximum interest rate limits of our ARMs, borrowing costs could increase while interest rates on ARMs would remain constant. We also acquire hybrid ARMs that have initial fixed interest rate periods generally ranging from two to seven years which subsequently convert to ARMs. During a rapidly increasing or decreasing interest rate environment financing costs would increase or decrease more rapidly than would interest rates on mortgages, which would remain fixed until their next interest rate adjustment date. In order to provide protection against potential resulting basis risk shortfall on the related liabilities, we purchase derivatives.

We measure the sensitivity of our net interest income to changes in interest rates affecting interest sensitive assets and liabilities using various simulations. These simulations take into consideration changes that may occur in investment and financing strategies, the forward yield curve, interest rate risk management strategies, mortgage prepayment speeds and the volume of mortgage acquisitions and originations. As part of various interest rate simulations, we calculate the effect of potential changes in interest rates on our interest-earning assets and interest-bearing liabilities and their affect on overall earnings. The simulations assume instantaneous and parallel shifts in interest rates and to what degree those shifts affect net interest income.

We estimate net interest income along with net cash flows on derivatives for the next twelve months using balance sheet data and the notional amount of derivatives as of February 28, 2005 and 12-month projections of the following primary drivers affecting net interest income:

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

We refer to the 12-month projection of net interest income along with the 12-month projection of net cash flows on derivatives as the “base case.” For financial reporting purposes, net cash flows on derivative instruments are included in gain (loss) on derivative instruments on the consolidated financial statements. However, for purposes of interest rate risk analysis we include net cash flows on derivatives in our base case simulations as we acquire derivatives to offset the effect that changes in interest rates have on variable borrowing costs, such as CMO and warehouse borrowings. We believe that including net cash flows on derivatives in our interest rate risk analysis presents a more useful simulation of the effect of changing interest rates on net cash flows generated by our long-term mortgage portfolio.

Once the base case has been established, we “shock” the base case with instantaneous and parallel shifts in interest rates in 100 basis point increments upward and downward. Calculations are made for each of the defined instantaneous and parallel shifts in interest rates over or under the forward yield curve used to determine the base case and include any associated changes in projected mortgage prepayment rates caused by changes in interest rates. The results of each 100 basis point change in interest rates are then compared against the base case to determine the estimated dollar and percentage change to base case. The simulations consider the affect of interest rate changes on interest sensitive assets and liabilities as well as derivatives. The simulations also consider the impact that instantaneous and parallel shift in interest rates have on prepayment rates and the resulting affect of accelerating or decelerating amortization of premium and securitization costs.

In the following table, the up 100 basis point scenario as of February 28, 2005 represents our projection of the net change from base case net interest income, which is derived from assumptions as previously discussed, if market interest rates were to immediately rise by 100 basis points. This means that we increase interest rates at all data points along our projected forward yield curve by 100 basis points and recalculate our projection of net interest income over the next 12 months. In addition, based on changes in interest rates, or changes in our forward yield curve, our model adjusts mortgage prepayment rates and recalculates amortization of acquisition and securitization costs and net cash receipts or payments on derivatives as part of the calculation of net interest income. Thus, if a 100 basis point interest rate increase occurred, the projected volatility to net interest income is negatively impacted by $10.1 million, or a decrease of 4% relative to projected base case net interest income.

Over the past year, the interest rate risk profile of our balance sheet shifted from modestly asset sensitive to modestly liability sensitive. This occurred as part of a deliberate and long-term optimization strategy as mortgages having marginally longer duration than that of CMO borrowings were added to our balance sheet during 2004 and the first quarter of 2005. Other factors contributing to the shift in the interest rate risk profile include the increase in the overall level of interest rates, the flattening of the yield curve and slower expected prepayment behavior. However, since our estimates are based upon numerous assumptions, actual sensitivity to interest rate changes could vary if actual experience differs from the assumptions used.

The following table estimates the financial impact to base case, including net cash flow from derivatives, from various instantaneous and parallel shifts in interest rates based on both our on-balance sheet structure and off-balance sheet structure, which refers to the notional amount of derivatives that are not recorded on our balance sheet as of February 28, 2005 (dollar amounts in millions):

	Changes in base case as of February 28, 2005[1]				
	Base case, excluding net cash flow on derivatives		Net cash flow on derivatives	Base case, including net cash flow on derivatives	
	($)	(%)	($)	($)	(%)
Instantaneous and Parallel Change in Interest Rates[2]					
Up 300 basis points, or 3%[3]	(399.5)	(119)	347.2	(52.3)	(18)
Up 200 basis points, or 2%	(265.1)	(79)	231.7	(33.4)	(12)
Up 100 basis points, or 1%	(125.8)	(37)	115.7	(10.1)	(4)
Down 100 basis points, or 1%	121.0	36	(115.9)	5.1	2
Down 200 basis points, or 2%	n/a	n/a	n/a	n/a	n/a

(1) The dollar and percentage changes represent base case for the next twelve months versus the change in base case using various instantaneous and parallel interest rate change simulations, excluding the effect of amortization of loan discounts to base case.

(2) Instantaneous and parallel interest rate changes over and under the projected forward yield curve.

(3) This simulation was added to our analysis as it is relevant in light of the interest rate environment as of February 28, 2005 and the projected forward yield curve for 2005 and 2006.

The use of derivatives to manage risk associated with changes in interest rates is an integral part of our strategy. The amount of cash payments or cash receipts on derivatives is determined by (1) the notional amount of the derivative and (2) current interest rate levels in relation to the various strikes or coupons of derivatives during a particular time period. As of March 31, 2005 and December 31, 2004, we had notional balances of interest rate swaps of $17.3 billion and $14.4 billion, respectively, with unrealized mark-to-market gains of $221.3 million and $92.9 million, respectively, and interest rate caps and interest floors with notional balances of $754.2 million and $724.6 million, respectively, with unrealized mark-to-market gains (losses) of $91,000 and $(463,000), respectively. By using derivatives, we attempt to minimize the effect of both upward and downward interest rate changes on our long-term mortgage portfolio. Our goal is to minimize significant changes to base case net interest income, including net cash flows from derivatives, as interest rates change. We primarily acquire swaps to essentially convert our adjustable rate CMO borrowings into fixed rate borrowings. For instance, we receive one-month LIBOR on swaps, which offsets interest expense on adjustable rate CMO borrowings, and we pay a fixed interest rate.

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ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) is properly recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include processes to accumulate and communicate relevant information to management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosures.

As of March 31, 2005, our CEO and CFO, with the participation of other management of the Company, evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15(d)-15(e) promulgated under the Exchange Act, and based upon that evaluation, our CEO and CFO concluded that these disclosure controls and procedures were not effective as a result of the identification of two material weaknesses as of December 31, 2004, which have not yet been sufficiently remediated and are further discussed below.

Material Weaknesses

The Company’s management identified the following material weaknesses in internal control over financial reporting as of December 31, 2004 which have not yet been sufficiently remediated as of March 31, 2005:

1) The Company’s internal controls intended to ensure the proper accounting and reporting for certain complex transactions and financial reporting matters were not designed or operating effectively as of March 31, 2005. For these purposes, complex transactions and financial reporting matters include those relating to the transfer of financial assets, derivative financial instruments, state income tax exposure items, and the income tax effect of intercompany transfers of financial assets between taxable and non-taxable operating segments. Specifically, as previously disclosed in our 2004 Form 10-K/A, the Company did not employ an adequate number of personnel in its accounting and finance departments with appropriate skills and expertise to ensure that the accounting and reporting for certain complex transactions and financial reporting matters included in the Company’s financial statements were in accordance with U.S. generally accepted accounting principles. As a result of these ineffective controls, the Company had previously incorrectly recorded gains on sales of

mortgage servicing rights when the related mortgage loans were sold to its parent company, the REIT. These gains on sales of mortgage servicing rights should have been recorded as an adjustment to the carrying value of the retained mortgage loans and recognized as a yield adjustment over the remaining term of the loans. In addition, the Company previously did not identify certain loan purchase commitments as derivative financial instruments. Lastly, the Company did not prepare and maintain sufficient documentation of certain derivative financial instrument transactions to support hedge accounting. As a result, the Company did not previously reflect fluctuations in the estimated fair value of these derivative financial instruments in earnings in the period of change, as required by U.S. generally accepted accounting principles. The Company restated its financial statements in 2004 to correct these material errors in accounting for the years ended December 31, 2003, 2002 and 2001, and three months ended March 31, 2004 and 2003, the three and six months ended June 30, 2004 and 2003, and the three and nine months ended September 30, 2003.

2) The Company's internal control over financial reporting intended to ensure adequate access and change control over end-user computing spreadsheets were not designed properly as of March 31, 2005. In addition, the information technology general controls related to access and program changes were deficient as March 31, 2005, resulting in a potential lack of reliability and integrity of the financial information which is used in these spreadsheets. As a result, although no actual misstatement was identified, there is a more than remote likelihood that financial statements and related footnote disclosures could be materially misstated. Specifically, there is the potential that an error could be reflected in the financial reporting and related disclosure of the allowance for loan losses, asset sales and securitizations and related yield adjustments on retained interests, and mortgage loan characteristics tables as a result of this material weakness in internal control over financial reporting.

Internal Control Over Financial Reporting

Changes to Internal Control Over Financial Reporting

During the quarter ended March 31, 2005 the following changes in our internal control over financial reporting has materially affected, or is reasonably likely to materially affect, our internal control over financing reporting:

1. The Company continued its remediation efforts in regard to the two December 31, 2004 material weaknesses in Internal Control Over Financial Reporting as discussed below in the “Remediation Efforts Related to the Material Weaknesses in Internal Control over Financial Reporting” section of this report.

Remediation Efforts Related to the Material Weakness in Internal Control Over Financial Reporting

During 2004, we began implementing the following actions to address the two identified material weaknesses which have assisted us in our remediation efforts throughout the first quarter of 2005:

- we reviewed the material weaknesses with our Audit Committee and senior management;
- we enhanced our documentation of critical accounting policies;
- we hired outside consultants to assist our internal audit group in documenting our accounting and business processes and identifying areas that require control or process improvement;
- we established new internal control processes based on discussions with our consultants and our own management team seeking to remedy any deficiencies;
- we hired a Director of Internal Audit whose primary responsibilities are to perform risk assessment and monitoring of our system of internal controls and, in addition, to oversee the establishment of formal policies and procedures throughout our organization;
- we began hiring additional personnel, totaling six additional staff as of the current date, to support the internal audit department in their primary responsibilities, as discussed above;
- we have instituted new control procedures around our quarterly reporting processes for accounting for significant or complex transactions, which are discussed and documented, reviewed with our Audit Committee, formally approved by our management and given timely effect in our books and records;
- we hired a new Controller;
- we have hired additional resources in the accounting and finance areas with expertise in technical accounting, SEC reporting and the design and assessment of internal controls over financial reporting; and

- we began implementation of policies and procedures with respect to authorization and monitoring of user access and with respect to the authorization and documentation requirements for program changes in order to ensure the effectiveness of these IT general controls.

During the first quarter of 2005, we have also taken the following actions:

- we appointed an Executive Vice President, Chief Accounting Officer;
- we hired a Tax Manager to assist the Company in planning and managing the Company's outside tax professionals; and
- we are evaluating and plan to implement an automated end-user computing tool to ensure proper access and data integrity and to address the material weakness related to end-user computing spreadsheets we utilized for the aggregation, analysis and reporting of data.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

Please refer to IMH's report on Form 10-K/A Amendment 2 for the year ended December 31, 2004 regarding litigation and claims.

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

(a) Exhibits:

4.1	First Supplemental Indenture, dated as of May 4, 2005, between the Company and JPMorgan Chase Bank, National Association, as Trustee.
31.1	Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMPAC MORTGAGE HOLDINGS, INC.

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

Date: May 13, 2005

First Supplemental Indenture (this "*Supplemental Indenture*"), dated as of May 4, 2005, between Impac Mortgage Holdings, Inc., a Maryland corporation (the "*Company*"), and JPMorgan Chase National Bank, National Association, a national banking association, as Trustee (in such capacity, the "*Trustee*"). Capitalized terms used herein and not defined shall have the meanings given to them in the Indenture (as defined below).

RECITALS

WHEREAS, the Company and the Trustee have heretofore executed and delivered a junior subordinated indenture (the "*Indenture*"), dated as of April 1, 2005;

WHEREAS, Section 6(l) of the Purchase Agreement has been amended so that the Company will pay to the Trustee the whole amount due and payable on the Securities for principal and interest and, in addition thereto, all amounts owing to the Trustee under <u>Section 6.6</u> of the Indenture (collectively, the "*Payment*") on or before May 23, 2005 if the Company does not (a) provide to the Purchaser audited financial statements audited by KPMG LLP in form and substance reasonably satisfactory to the Purchaser in all material respects for the fiscal year ended December 31, 2004 or (b) certify to the Purchaser that it is in full compliance under the Sarbanes-Oxley Act of 2002 (the "*Covenant*"), by no later than May 20, 2005;

WHEREAS, the parties to the Indenture desire to hereby amend Section 5.1(g) of the Indenture to reflect such amendment to the Purchase Agreement;

WHEREAS, Section 9.2 of the Indenture, permit, with the consent of Holders of not less than a majority in aggregate principal amount of the Outstanding Securities, by Act of said Holders, the Company and the Trustee the execution of supplemental indentures changing in any manner provisions of the Indenture.

WHEREAS, pursuant to Section 9.2 of the Indenture, each of the Company, the Trustee and JPMorgan Chase Bank, National Association, not in its individual capacity, but solely as Property Trustee for Impac Capital Trust #1, as Holder of 100% in aggregate principal amount of the Outstanding Securities, wish to hereby consent to the execution of this supplemental indenture.

NOW THEREFORE, this First Supplemental Indenture Witnesseth:

For and in consideration of the foregoing, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities as follows:

1. <u>Amendment of Section 5.1(g) of the Indenture</u>. Section 5.1(g) of the Indenture is hereby deleted in its entirety and replaced with the following:

"(g) default of the obligation of the Company set forth under Section 6(l) of the Purchase Agreement. For the avoidance of doubt, the Company acknowledges that the failure to pay to the Trustee the whole amount due and payable on the Securities for principal and interest and, in addition thereto, all amounts owing the Trustee under <u>Section 6.6</u> on or before May 23, 2005 if the Company does not a) provide audited financials statements audited by KPMG LLP in form and substance reasonably satisfactory to the Purchaser in all material respects for the fiscal year ended December 31, 2004 or b) certify to the Purchaser that it is in full compliance under the Sarbanes-Oxley Act of 2002, by May 20, 2005 will result in an Event of Default without any right to a written notice or cure period of the default."

2. Consent. Pursuant to Section 9.2 of the Indenture, each of the Company, the Trustee and JPMorgan Chase Bank, National Association, not in its individual capacity, but solely as Property Trustee for Impac Capital Trust #1, as Holder of 100% in aggregate principal amount of the Outstanding Securities, hereby consents to the execution of this supplemental indenture.

3. Miscellaneous. Sections 1.7 through 1.13 of the Indenture are herein incorporated by this reference, including, but not limited to, the sections regarding Governing Law.

* * * *

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

* * * *

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed, all as of the date first above written.

IMPAC MORTGAGE HOLDINGS, INC.

By: /s/ Richard J. Johnson
Name: Richard J. Johnson
Title: Executive Vice President and Chief Financial Officer

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, as Trustee

By: /s/ Maria D. Calzado
Name: Maria D. Calzado
Title: Vice President

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, not in its individual capacity, but solely as Property Trustee for Impac Capital Trust #1

By: /s/ Maria D. Calzado
Name: Maria D. Calzado
Title: Vice President

Exhibit 31.1

CERTIFICATION

I, Joseph R. Tomkinson, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the registrant and have:

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

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

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

May 13, 2005

CERTIFICATION

I, Richard J. Johnson, certify that:

1. I have reviewed this report on Form 10-Q of Impac Mortgage Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

May 13, 2005

Exhibit 32.1

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

In connection with the report of Impac Mortgage Holdings, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

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

May 13, 2005

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

May 13, 2005

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