United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended June 30, 2000

OR

[_] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _______________ to ______________

Commission File Number: 0-19861

Impac Mortgage Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

1401 Dove Street Newport Beach, CA	92660
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock $0.01 par value	American Stock Exchange

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

On August 10, 2000, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $65.9 million, based on the closing sales price of the Common Stock on the American Stock Exchange. For purposes of the calculation only, in addition to affiliated companies, all directors and executive officers of the registrant have been deemed affiliates. The number of shares of Common Stock outstanding as of August 10, 2000 was 21,400,906.

Documents incorporated by reference: None

IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

	June 30, 2000	December 31, 1999
ASSETS		
Cash and cash equivalents	$ 13,041	$ 20,152
Investment securities available-for-sale	41,612	93,206
Loan Receivables:		
CMO collateral	1,182,125	949,677
Finance receivables	296,380	197,119
Mortgage loans held-for-investment	126,229	363,435
Allowance for loan losses	(12,867)	(4,029)
Net loan receivables	1,591,867	1,506,202
Investment in Impac Funding Corporation	16,458	17,372
Due from affiliates	14,500	14,500
Accrued interest receivable	10,898	11,209
Other real estate owned	6,222	8,820
Other assets	5,521	3,969
Total assets	$ 1,700,119	$ 1,675,430
LIABILITIES AND STOCKHOLDERS' EQUITY		
CMO borrowings	$ 1,081,738	$ 850,817
Reverse repurchase agreements	400,100	539,687
Borrowings secured by investment securities available-for-sale	25,935	31,333
Senior subordinated debentures	6,838	6,691
Accrued dividends payable	3,356	3,570
Due to affiliates	--	2,945
Other liabilities	1,493	1,543
Total liabilities	1,519,460	1,436,586
Stockholders' Equity:		
Preferred stock; $.01 par value; 5,100,000 shares authorized; none issued or outstanding at June 30, 2000 and December 31, 1999, respectively	--	--
Series A junior participating preferred stock, $.01 par value; 2,500,000 shares authorized; none issued and outstanding at June 30, 2000 and December 31, 1999	--	--
Series B 10.5% cumulative convertible preferred stock, $.01 par value; $30,000 liquidation value; 1,200,000 shares authorized; none and 1,200,000 issued and outstanding at June 30, 2000 and December 31, 1999, respectively	--	12
Series C 10.5% cumulative convertible preferred stock, $.01 par value; $30,000 liquidation value; 1,200,000 shares authorized; 1,200,000 and none issued and outstanding at June 30, 2000 and December 31, 1999, respectively	12	--
Common stock; $.01 par value; 50,000,000 shares authorized; 21,400,906 shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	214	214
Additional paid-in capital	327,632	327,632
Accumulated other comprehensive earnings (loss)	2,189	(7,579)
Notes receivable from common stock sales	(900)	(905)
Accumulated deficit:		
Cumulative dividends declared	(99,830)	(93,080)
Retained earnings (accumulated deficit)	(48,658)	12,550
Net accumulated deficit	(148,488)	(80,530)
Total stockholders' equity	180,659	238,844
Total liabilities and stockholders' equity	$ 1,700,119	$ 1,675,430

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
and COMPREHENSIVE EARNINGS (LOSS)
(in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2000	1999	2000	1999
INTEREST INCOME:				
Mortgage Assets	$ 34,041	$ 29,900	$ 67,631	$ 59,586
Other interest income	489	433	1,039	1,146
Total interest income	34,530	30,333	68,670	60,732
INTEREST EXPENSE:				
CMO borrowings	20,578	16,377	39,710	33,458
Reverse repurchase agreements	7,489	5,032	14,842	9,479
Borrowings secured by investment securities available-for-sale	807	331	1,692	711
Senior subordinated debentures	316	271	630	278
Other borrowings	2	159	43	397
Total interest expense	29,192	22,170	56,917	44,323
Net interest income	5,338	8,163	11,753	16,409
Provision for loan losses	3,304	1,490	16,488	2,989
Net interest income after provision for loan losses	2,034	6,673	(4,735)	13,420
NON-INTEREST INCOME:				
Equity in net earnings (loss) of Impac Funding Corporation	(1,488)	1,409	(1,080)	2,499
Loan servicing fees	176	387	338	854
Other income	264	223	1,054	376
Total non-interest income (loss)	(1,048)	2,019	312	3,729
NON-INTEREST EXPENSE:				
Write-down on investment securities available-for-sale	29,426	1,256	53,404	1,678
Loss on disposition of other real estate owned	880	559	1,307	1,110
Professional services	458	559	1,087	1,370
General and administrative and other expense	377	271	680	630
Personnel expense	160	93	307	212
Total non-interest expense	31,301	2,738	56,785	5,000
Net earnings (loss)	(30,315)	5,954	(61,208)	12,149
Less: Cash dividends on cumulative convertible preferred stock	(788)	(788)	(1,575)	(1,676)
Net earnings (loss) available to common stockholders	(31,103)	5,166	(62,783)	10,473
Other comprehensive earnings (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	5,014	(3,767)	16,100	(1,662)
Less: Reclassification of losses included in earnings (loss)	(2,338)	(866)	(6,332)	(305)
Net unrealized gain (losses) arising during period	2,676	(4,633)	9,768	(1,967)
Comprehensive earnings (loss)	$ (27,639)	$ 1,321	$ (51,440)	$ 10,182
Net earnings (loss) per share--basic	$ (1.45)	$ 0.23	$ (2.93)	$ 0.44
Net earnings (loss) per share--diluted	$ (1.45)	$ 0.21	$ (2.93)	$ 0.41

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Six Months Ended June 30, 2000	1999
Cash flows from operating activities:		
Net earnings (loss)	$ (61,208)	$ 12,149
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Equity in net (earnings) loss of Impac Funding Corporation	1,080	(2,499)
Provision for loan losses	16,488	2,989
Amortization of loan premiums and securitization costs	8,393	9,219
Loss on disposition of other real estate owned	1,307	1,110
Write-down of investment securities available-for-sale	53,404	1,678
Net change in accrued interest receivable	311	(1,529)
Net change in other assets and liabilities	(4,547)	(6,636)
Net cash provided by operating activities	15,228	16,481
Cash flows from investing activities:		
Net change in CMO collateral	90,785	(30,003)
Net change in finance receivables	(99,807)	89,993
Net change in mortgage loans held-for-investment	(109,472)	(358)
Proceeds from sale of other real estate owned, net	9,239	5,936
Purchase of investment securities available-for-sale	--	(9,084)
Sale of investment securities available-for-sale	5,704	3,803
Net principal reductions on investment securities available-for-sale	2,088	2,869
Net cash provided by (used in) investing activities	(101,463)	63,156
Cash flows from financing activities:		
Net change in reverse repurchase agreements and other borrowings	(144,838)	(89,509)
Proceeds from CMO borrowings	451,950	298,076
Repayments of CMO borrowings	(221,029)	(291,421)
Dividends paid	(6,964)	(15,289)
Repurchase of common stock	--	(3,874)
Proceeds from dividend reinvestment and stock purchase plan	--	928
Advances to purchase common stock, net of principal reductions	5	11
Net cash provided by (used in) financing activities	79,124	(101,078)
Net change in cash and cash equivalents	(7,111)	(21,441)
Cash and cash equivalents at beginning of period	20,152	33,876
Cash and cash equivalents at end of period	$ 13,041	$ 12,435
Supplementary information:		
Interest paid	$ 52,086	$ 45,820
Non-cash transactions:		
Exchange of Series B preferred stock for Series C preferred stock	$ 28,658	$ --
Exchange of common stock for senior subordinated debentures	--	6,448
Transfer of mortgage loans held-for-investment to CMO collateral	337,016	--
Dividends declared and unpaid	3,356	3,515
Accumulated other comprehensive gain (loss)	9,768	(1,967)
Loans transferred to other real estate owned	7,948	8,512

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. and SUBSIDIARIES

Notes to Consolidated Financial Statements

(unaudited)

Unless the context otherwise requires, references herein to the "Company"' refer to Impac Mortgage Holdings, Inc. (IMH) and its subsidiaries, IMH Assets Corporation (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), IMH/ICH Dove St., LLC (Dove), and Impac Funding Corporation (together with its wholly-owned subsidiary, Impac Secured Assets Corporation, IFC), collectively. References to IMH refer to Impac Mortgage Holdings, Inc. as a separate entity from IMH Assets, IWLG, Dove and IFC.

1. Basis of Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles (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- and six-month periods ended June 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

The operations of IMH have been presented in the consolidated financial statements for the three- and six- months ended June 30, 2000 and 1999 and include the financial results of IMH's equity interest in net earnings (loss) of IFC and IMH Assets, IWLG and Dove as stand-alone entities. The financial results of Dove are only included in the three and six- months ended June 30, 1999. The results of operations of IFC, of which 99% of the economic interest is owned by IMH, are included in the results of operations of the Company as "Equity in net earnings (loss) of Impac Funding Corporation."

2. Organization

The Company is a mortgage real estate investment trust (Mortgage REIT) which, together with its subsidiaries and related companies, primarily operates three businesses: (1) the Long-Term Investment Operations, (2) the Mortgage Operations, and (3) the Warehouse Lending Operations. The Long-Term Investment Operations invests primarily in non-conforming residential mortgage loans and securities backed by such loans. The Mortgage Operations is comprised of the Conduit Operations, which primarily purchases and sells or securitizes non-conforming mortgage loans, and the Wholesale/Retail Lending Operations, which allows brokers and retail customers to access the Company directly to originate, underwrite and fund their loans. The Warehouse Lending Operations provides warehouse and repurchase financing to originators of mortgage loans. IMH is organized as a REIT for federal income tax purposes, which generally allows it to pass through qualified income to stockholders without federal income tax at the corporate level, provided that the Company distributes 95% of its taxable income to common stockholders.

Long-Term Investment Operations

The Long-Term Investment Operations, conducted by IMH and IMH Assets, invests primarily in non-conforming residential mortgage loans and mortgage-backed securities secured by or representing interests in such loans and, to a lesser extent, in second mortgage loans. Subsequent to 1997, the Long-Term Investment Operations investment strategy has been to only acquire or invest in investment securities that are secured by mortgage loans underwritten and purchased by IFC ("Impac Securities"). Non-conforming residential mortgage loans are residential mortgages that do not qualify for purchase by government-sponsored agencies such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The principal differences between conforming loans and non-conforming loans include applicable loan-to-value ratios, credit and income histories of the mortgagors, documentation required for approval of the mortgagors, type of properties securing the mortgage loans, loan sizes, and the mortgagors' occupancy status with respect to the mortgaged properties. Second mortgage loans are mortgage loans secured by a second lien on the property and made to borrowers owning single-family homes for the purpose of debt consolidation, home improvements, education and a variety of other purposes.

Mortgage Operations

The Conduit Operations, conducted by IFC, purchases primarily non-conforming mortgage loans and, to a lesser extent, second mortgage loans from its network of third party correspondents and other sellers. IFC subsequently securitizes or sells such loans to permanent investors, including the Long-Term Investment Operations. IMH owns 99% of the economic interest in IFC, while Joseph R. Tomkinson, Chairman and Chief Executive Officer, William S. Ashmore, President and Chief Operating Officer, and Richard J. Johnson, Executive Vice President and Chief Financial Officer, are the holders of all the outstanding voting stock of, and 1% of the economic interest in, IFC.

The Wholesale/Retail Lending Operations, conducted by Impac Lending Group ("ILG"), a division of IFC, markets, underwrites, processes and funds mortgage loans for both wholesale and retail customers. Through the wholesale division, ILG allows mortgage brokers to work directly with the Company to originate, underwrite and fund their mortgage loans. Many of the Company's wholesale customers cannot conduct business with the Conduit Operations as correspondent sellers because they do not meet the higher net worth requirements. Through the retail division, ILG markets mortgage loans directly to the public. Both the wholesale and retail divisions offer all of the loan programs that are offered by the Conduit Operations.

Warehouse Lending Operations

The Warehouse Lending Operations, conducted by IWLG, provides warehouse and repurchase financing to affiliated companies and to approved mortgage banks, most of which are correspondents of IFC, to finance mortgage loans during the time from the closing of the loans to their sale or other settlement with pre-approved investors.

3. Summary of Significant Accounting Policies

Method of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from those estimates.

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 1999 and for the three- and six-months ended June 30, 1999 may have been reclassified to conform to the 2000 presentation.

New Accounting Statements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which was subsequently amended by SFAS No. 137. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign-currency-denominated forecasted transaction.

Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk.

SFAS No. 137 delayed the implementation of SFAS No. 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. In June 2000, SFAS No. 133 was further amended by SFAS No. 138. SFAS No. 138 addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS No. 133. SFAS No. 138 also amends SFAS No. 133 for the decisions reached by the Derivatives Implementation Group Process. Management is currently evaluating the impact of implementation of SFAS 133 on the Company's financial position and results of operations.

4. Net Earnings per Share

The following table represents the computation of basic and diluted net earnings (loss) per share for the periods presented, as if all stock options and cumulative convertible preferred stock (Preferred Stock), if dilutive, were outstanding for these periods (in thousands, except per share data):

	For the Three Months Ended June 30, 2000	For the Three Months Ended June 30, 1999
Numerator:		
Numerator for basic earnings per share--		
Net earnings (loss)	$ (30,315)	$ 5,954
Less: Dividends paid to preferred stockholders	(788)	(788)
Net earnings (loss) available to common stockholders	$ (31,103)	$ 5,166
Denominator:		
Denominator for basic earnings per share--		
Weighted average number of common shares outstanding during the period	21,401	22,726
Impact of assumed conversion of cumulative convertible preferred stock	--	6,061
Net effect of dilutive stock options	--	27
Weighted average common and common equivalent shares	21,401	28,814
Net earnings (loss) per share--basic	$ (1.45)	$ 0.23
Net earnings (loss) per share--diluted	$ (1.45)	$ 0.21

The antidilutive effects of stock options outstanding as of June 30, 2000 and 1999 was 684 and none, respectively. The antidilutive effects of Preferred Stock outstanding as of June 30, 2000 and 1999 was 6,355,932 and none, respectively.

	For the Six Months Ended June 30, 2000	For the Six Months Ended June 30, 1999
Numerator:		
Numerator for basic earnings per share--		
Net earnings (loss)	$ (61,208)	$ 12,149
Less: Dividends paid to preferred stockholders	(1,575)	(1,676)
Net earnings (loss) available to common stockholders	$ (62,783)	$ 10,473
Denominator:		
Denominator for basic earnings per share--		
Weighted average number of common shares outstanding during the period	21,401	23,539
Impact of assumed conversion of cumulative convertible preferred stock	--	6,061
Net effect of dilutive stock options	--	27
Weighted average common and common equivalent shares	21,401	29,627
Net earnings (loss) per share--basic	$ (2.93)	$ 0.44
Net earnings (loss) per share--diluted	$ (2.93)	$ 0.41

The antidilutive effects of stock options outstanding as of June 30, 2000 and 1999 was 420 and none, respectively. The antidilutive effects of Preferred Stock outstanding as of June 30, 2000 and 1999 was 6,355,932 and none, respectively.

5. Mortgage Assets

Mortgage Assets consist of investment securities available-for-sale, mortgage loans held-for-investment, CMO collateral and finance receivables. At June 30, 2000 and December 31, 1999, Mortgage Assets consisted of the following (in thousands):

	June 30, 2000	December 31, 1999
Investment securities available-for-sale:		
Subordinated securities collateralized by mortgages	$ 39,212	$ 94,985
Subordinated securities collateralized by other loans	210	5,633
Net unrealized gains (losses)	2,190	(7,412)
Carrying value of investment securities available-for-sale	41,612	93,206
Loan Receivables:		
CMO collateral--		
CMO collateral, unpaid principal balance	1,141,198	908,987
Unamortized net premiums on loans	25,530	28,797
Securitization expenses	15,397	11,893
Carrying value of CMO collateral	1,182,125	949,677
Finance receivables--		
Due from affiliates	119,900	67,416
Due from other mortgage banking companies	176,480	129,703
Carrying value of finance receivables	296,380	197,119
Mortgage loans held-for-investment--		
Mortgage loans held-for-investment, unpaid principal balance	127,276	361,394
Unamortized net premiums (discounts) on loans	(1,047)	2,041
Carrying value of mortgage loans held-for-investment	126,229	363,435
Carrying value of Gross Loan Receivables	1,604,734	1,510,231
Allowance for loan losses	(12,867)	(4,029)
Carrying value of Net Loan Receivables	1,591,867	1,506,202
Total carrying value of Mortgage Assets	$ 1,633,479	$ 1,599,408

6. Segment Reporting

The basis for the Company's segments is to separate its entities as follows: segments that derive income from investment in long-term Mortgage Assets, segments that derive income by providing short-term financing and segments that derive income from the purchase and sale or securitization of mortgage loans.

The Company internally reviews and analyzes its segments as follows: (1) the Long-Term Investment Operations, conducted by IMH and IMH Assets, invests primarily in non-conforming residential mortgage loans and mortgage-backed securities secured by or representing interests in such loans and in second mortgage loans, (2) the Warehouse Lending Operations, conducted by IWLG, provides warehouse and repurchase financing to affiliated companies and to approved mortgage banks, most of which are correspondents of IFC, to finance mortgage loans, and (3) the Mortgage Operations, comprised of the Conduit Operations, conducted by IFC, which primarily purchases and sells or securitizes non-conforming mortgage loans, and the Wholesale/Retail Lending Operations, conducted by ILG, which allows brokers and retail customers to access the Company directly to originate, underwrite and fund their loans.

The following table shows the Company's reporting segments as of and for the six months ended June 30, 2000 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	Other (b)	Intercompany Elimination (c)	Consolidated
Balance Sheet Items:					
CMO collateral	$ 1,182,125	$ --	$ --	$ --	$ 1,182,125
Total assets	1,495,516	454,651	--	(250,048)	1,700,119
Total stockholders' equity	251,336	54,440	--	(125,117)	180,659
Income Statement Items:					
Interest income	$ 50,675	$ 21,265	$ --	$ (3,270)	$ 68,670
Interest expense	45,338	14,849	--	(3,270)	56,917
Equity interest in net loss of IFC (a)	--	--	--	(1,080)	(1,080)
Net earnings (loss)	(65,884)	5,756	--	(1,080)	(61,208)

The following table shows the Company's reporting segments for the three months ended June 30, 2000 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	Other (b)	Intercompany Elimination (c)	Consolidated
Income Statement Items:					
Interest income	$ 24,596	$ 10,333	$ --	$ (399)	$ 34,530
Interest expense	22,100	7,491	--	(399)	29,192
Equity interest in net loss of IFC (a)	--	--	--	(1,488)	(1,488)
Net earnings (loss)	(31,198)	2,371	--	(1,488)	(30,315)

The following table shows the Company's reporting segments as of and for the six months ended June 30, 1999 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	Other (b)	Intercompany Elimination (c)	Consolidated
Balance Sheet Items:					
CMO collateral	$ 1,183,306	$ --	$ --	$ --	$ 1,183,306
Total assets	1,418,232	258,596	15	(106,200)	1,570,643
Total stockholders' equity	290,103	43,972	--	(88,297)	245,778
Income Statement Items :					
Interest income	$ 49,206	$ 15,038	$ 21	$ (3,533)	$ 60,732
Interest expense	38,307	9,544	5	(3,533)	44,323
Equity interest in net earnings of IFC (a)	--	--	--	2,499	2,499
Net earnings	3,165	5,227	41	3,716	12,149

The following table shows the Company's reporting segments for the three months ended June 30, 1999 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	Other (b)	Intercompany Elimination (c)	Consolidated
Income Statement Items:					
Interest income	$ 24,327	$ 8,695	$ 4	$ (2,693)	$ 30,333
Interest expense	19,815	5,048	--	(2,693)	22,170
Equity interest in net earnings of IFC (a)	--	--	--	1,409	1,409
Net earnings (loss)	1,059	3,486	(1)	1,410	5,954

(a) The Mortgage Operations is accounted for using the equity method and is an unconsolidated subsidiary of the Company.
(b) Primarily includes the operations of Dove, of which the Company owned a 50% interest, and account reclassifications.
(c) Elimination of intersegment balance sheet and income statement items.

7. Investment in Impac Funding Corporation

The Company is entitled to 99% of the earnings or losses of IFC through its ownership of all of the non-voting preferred stock of IFC. As such, the Company records its investment in IFC using the equity method. Under this method, original investments are recorded at cost and adjusted by the Company's share of earnings or losses. Gain or loss on the sale of loans or securities by IFC to IMH are deferred and amortized or accreted over the estimated life of the loans or securities using the interest method. The following is financial information for IFC for the periods presented (in thousands):

BALANCE SHEETS

	June 30, 2000	December 31, 1999
ASSETS		
Cash	$ 15,036	$ 8,805
Investment securities available-for-sale	310	1,887
Mortgage loans held-for-sale	121,905	68,084
Mortgage servicing rights	13,916	15,621
Premises and equipment, net	4,367	3,575
Due from affiliates	--	4,307
Accrued interest receivable	354	48
Other assets	11,491	13,919
Total assets	$ 167,379	$ 116,246
LIABILITIES AND SHAREHOLDERS' EQUITY		
Borrowings from IWLG	$ 120,020	$ 66,125
Other borrowings	81	181
Due to affiliates	14,500	14,500
Deferred revenue	5,853	7,635
Accrued interest expense	1,241	843
Other liabilities	9,062	9,414
Total liabilities	150,757	98,698
Shareholders' Equity:		
Preferred stock	18,053	18,053
Common stock	182	182
Accumulated deficit	(1,613)	(520)
Accumulated other comprehensive loss	--	(167)
Total shareholders' equity	16,622	17,548
Total liabilities and shareholders' equity	$ 167,379	$ 116,246

STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2000	1999	2000	1999
Interest income	$ 7,107	$ 4,662	$ 12,052	$ 9,495
Interest expense	7,014	4,299	12,674	9,045
Net interest income (expense)	93	363	(622)	450
Gain on sale of loans	4,149	9,483	9,370	14,490
Loan servicing income	1,012	1,553	2,548	3,694
Other non-interest income	384	145	408	484
Total non-interest income	5,545	11,181	12,326	18,668
General and administrative and other expense	3,136	2,249	4,907	3,445
Personnel expense	2,259	1,561	4,581	3,351
Write-down on investment securities available-for-sale	1,537	3,666	1,537	4,225
Amortization of mortgage servicing rights	1,265	1,137	2,457	2,564
Provision for repurchases	7	159	71	179
Loss on sale of mortgage servicing rights	--	309	--	876
Total non-interest expense	8,204	9,081	13,553	14,640
Net earnings (loss) before income taxes	(2,566)	2,463	(1,849)	4,478
Income taxes	(1,060)	1,040	(756)	1,954
Net earnings (loss)	$ (1,506)	$ 1,423	$ (1,093)	$ 2,524

8. Stockholders' Equity

In February 2000, the Series B Preferred Stock was exchanged for Series C Preferred Stock and the conversion rate was adjusted to $4.72 per share convertible into 5.29661 shares of Common Stock or an aggregate of 6,355,932 shares of Common Stock.

On March 30, 2000, the Company declared a first quarter cash dividend on common stock of $2.6 million, or $0.12 per share. This dividend was paid on April 20, 2000 to common stockholders of record on April 10, 2000.

On March 30, 2000, the Company declared a first quarter cash dividend of $788,000 or $0.65625 per share to series C preferred stockholders. This dividend was paid on April 25, 2000.

On June 27, 2000, the Company declared a second quarter cash dividend on common stock of $2.6 million, or $0.12 per share. This dividend was paid on July 17, 2000 to common stockholders of record on July 6, 2000.

On June 27, 2000, the Company declared a second quarter cash dividend of $788,000 or $0.65625 per share to series C preferred stockholders. This dividend was paid on July 25, 2000.

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

Certain information contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "should," "anticipate," "estimate," or "believe" or the negatives thereof or other variations thereon or comparable terminology. The Company's actual results may differ materially from those contained in the forward-looking statements. Factors which may cause a difference to occur include the rate of growth and expansion of the Company's new divisions, the availability of suitable opportunities for potential acquisitions, ownership and disposition of Mortgage Assets (which depend on the type of Mortgage Asset involved) and yields available from time to time on such Mortgage Assets, interest rates, changes in estimates of book basis and tax basis earnings, fluctuations and increase in prepayment rates, the availability of suitable financing and investments, trends in the economy which affect confidence and demand on the Company's portfolio of Mortgage Assets and other factors referenced in this report and other reports filed by the Company with the SEC, including its Annual Report on Form 10-K.

SIGNIFICANT TRANSACTIONS

Exchange of Series B Cumulative Convertible Preferred Stock for Series C Cumulative Convertible Preferred Stock

In February 2000, all shares of Series B 10.5% Cumulative Convertible Preferred Stock ("Series B Preferred Stock") were exchanged for Series C 10.5% Cumulative Convertible Preferred Stock ("Series C Preferred Stock") and the conversion rate was adjusted to $4.72 per share convertible into 5.29661 shares of Common Stock or an aggregate of 6,355,932 shares of Common Stock. Other than the foregoing, the Series C Preferred Stock has the same rights, preferences and privileges as the Series B Preferred Stock.

Collateralized Mortgage Obligations ("CMOs")

The Company issued a CMO during the first six months of 2000 for $452.0 million, which was collateralized by $428.1 million of adjustable-rate mortgages and $27.6 million of fixed-rate mortgages. The issuance of CMOs provides the Company with immediate liquidity, a relatively stable net interest rate spread and eliminates the Company's exposure to margin calls on such loans.

Definitive Agreement to Acquire a California Thrift and Loan

In July of 2000, the Company withdrew its application to acquire a California Thrift and Loan ("Bank"). The decision to withdraw its application was based upon management's assessment that a mutually acceptable approval to operate the Bank was not likely. Management does not believe that the decision to withdraw its application will adversely affect the Company's future operations and profitability. The $10.0 million of capital, which had been set aside to capitalize the Bank upon approval of the application, will be redeployed in the Company's operating businesses and to further grow the Company's balance sheet. The Company may re-evaluate this decision in the future if there is a change in the regulatory environment regarding residential mortgage lending. All costs related to the acquisition of the Bank, which were incurred during the approval process, were written-off during the second quarter of 2000. Total capitalized expenses written-off by IFC during the second quarter of represented an after-tax charge of $862,000.

BUSINESS OPERATIONS

Long-Term Investment Operations: During the first six months of 2000, the Long-Term Investment Operations, conducted by IMH and IMH Assets, acquired $156.9 million of mortgages from IFC as compared to $283.0 million of mortgages acquired during the same period in 1999. Mortgages purchased by the Long-Term Investment Operations during the first six months of 2000 consisted of $149.9 million of adjustable-rate mortgages ("ARMs") secured by first liens on residential property and $7.0 million of fixed-rate mortgages ("FRMs") primarily secured by second trust deeds on residential property. During the first six months of 2000, IMH Assets issued CMOs totaling $452.0 million as compared to CMOs totaling $298.1

million during the same period in 1999. As of June 30, 2000, the Long-Term Investment Operations' portfolio of mortgage loans consisted of $1.2 billion of mortgage loans held in trust as collateral for CMOs and $126.2 million of mortgage loans held-for-investment, of which approximately 30% were FRMs and 70% were ARMs. The weighted average coupon of the Long-Term Investment Operations portfolio of mortgage loans was 9.24% at June 30, 2000 with a weighted average margin of 4.25%. The portfolio of mortgage loans included 81% of "A" credit quality, non-conforming mortgage loans and 19% of "B" and "C" credit quality, non-conforming mortgage loans, as defined by the Company. During the first six months of 2000, the Long-Term Investment Operations acquired no securities from IFC as compared to $9.1 million during the same period in 1999, as IFC sold all interests in its periodic issuances of real estate mortgage investment conduits ("REMICs") to third party investors. As of June 30, 2000, the Long-Term Investment Operations had $41.6 million of investment securities available-for-sale. The loan delinquency rate of the Long-Term Investment Operations portfolio which were 60 or more days past due, inclusive of foreclosures and delinquent bankruptcies, was 4.98% at June 30, 2000 as compared to 6.13% at June 30, 1999.

Conduit Operations: The Conduit Operations, conducted by IFC, continues to support the Long-Term Investment Operations of the Company by supplying IMH and IMH Assets with mortgages for IMH's long-term investment portfolio. In acting as the mortgage conduit for the Company, IFC's mortgage acquisitions increased 36% to $886.0 million during the first six months of 2000 as compared to $649.7 million of mortgages acquired during the same period in 1999. IFC sold whole loans to third party investors or securitized $621.6 million, which contributed to the gain on sale of loans of $9.4 million, during the first six months of 2000. This compares to whole loan sales or securitizations to third party investors of $439.8 million, resulting in gain on sale of loans of $14.5 million, during the same period in 1999. Of the $621.6 million of whole loan sales and securitizations during the first six months of 2000, IFC issued two REMIC's for $583.1 million. IFC had deferred income of $5.9 million at June 30, 2000 as compared to $7.6 million at December 31, 1999. Deferred income results from the sale of mortgages to IMH, which are deferred and amortized or accreted over the estimated life of the loans. During the first six months of 2000, IFC sold $155.2 million in principal balance of mortgages to IMH as compared to $287.6 million during the first six months of 1999. IFC's master servicing portfolio increased 15% to $3.0 billion at June 30, 2000 as compared to $2.6 billion at June 30, 1999. IFC had mortgage servicing rights of $13.9 million at June 30, 2000 as compared to $15.6 million at December 31, 1999. The loan delinquency rate of mortgages in IFC's servicing portfolio which were 60 or more days past due, inclusive of foreclosures and delinquent bankruptcies, was 4.15% at June 30, 2000 as compared to 4.33%, 4.37%, 5.28%, and 6.18% for the last four quarter-end periods.

Wholesale/Retail Lending Operations: The Wholesale/Retail Lending Operations, conducted by ILG, increased total loan originations by 212% to $60.5 million during the second quarter of 2000 as compared to $19.4 million during the first quarter of 2000. As of June 30, 2000, ILG approved mortgage brokers increased by 73% to 316 as compared to 183 at December 31, 1999 as ILG added sales staff.

Warehouse Lending Operations: At June 30, 2000, the Warehouse Lending Operations, conducted by IWLG, had $1.5 billion of warehouse lines of credit available to 56 borrowers, of which $296.4 million was outstanding thereunder, after elimination of borrowings to the Long-Term Investment Operations, including $119.9 million outstanding to IFC.

RESULTS OF OPERATIONS--IMPAC MORTGAGE HOLDINGS, INC.

For the Three Months Ended June 30, 2000 as compared to the Three Months Ended June 30, 1999

Results of Operations

The Company recorded a net loss of $(30.3) million, or $(1.45) per diluted common share, during the second quarter of 2000 as compared to net earnings of $6.0 million, or $0.21 per diluted common share, during the second quarter of 1999. During the second quarter of 2000, the Company recognized charges of $33.6 million, of which $29.2 million was related to write-downs on investment securities available-for-sale ("investment securities") and $2.6 million was provided for additional increases in the Company's allowance for loan losses related to its high loan-to-value ("HLTV") second trust deed portfolio. Due to the continued deterioration in the performance of collateral supporting specific investment securities, which were partially written-down during the first quarter of

2000, the Company wrote-off substantially all remaining book value on these investment securities during the second quarter of 2000. Charges recorded during the second quarter of 2000 include the write-off of substantially all investment securities secured by HLTV second trust deeds, investment securities secured by franchise mortgage receivables and certain sub-prime subordinated securities all of which were acquired from third parties prior to 1998. Subsequent to 1997, the Company's investment strategy has been to only acquire or invest in investment securities that are secured by Impac Securities. Additionally, IFC wrote off substantially all of its remaining investment securities portfolio, which was secured by franchise mortgage receivables, during the second quarter of 2000, which resulted in an after-tax charge to the Company of $1.0 million. Prior to the recognition of these charges, the Company's operating earnings were $3.3 million, or $0.12 per diluted common share, as compared to net earnings of $6.0 million, or $0.21 per diluted common share, during the second quarter of 1999. The decrease in operating earnings was primarily the result of a $2.8 million decrease in net interest income due to interest rate compression on the Company's portfolio of Mortgage Assets. Mortgage Assets are comprised of mortgage loans held-for-investment, CMO collateral, finance receivables and investment securities available-for-sale. During the second quarter of 2000, net interest margin decreased to 1.20% as compared to 2.02% during the second quarter of 1999 as the increase in short-term interest rates during the second quarter of 2000 resulted in a more rapid increase in variable-rate CMO financing than variable-rate CMO collateral, which is restricted by periodic and lifetime interest rate cap limitations. Refer to "Net Interest Income" for additional information.

Total average outstanding finance receivables of the warehouse lending operations increased 35% to $395.9 million during the second quarter of 2000 as compared to $292.5 million during the second quarter of 1999. The majority of the increase in average outstanding finance receivables was with non-affiliated companies which increased 88% to $129.0 million during the second quarter of 2000 as compared to $68.7 million during the second quarter of 1999. During the second quarter of 2000, IWLG's contribution to earnings and earnings per diluted share was approximately $2.3 million and $0.11, respectively, as compared to approximately $1.6 million and $0.06, respectively, during the second quarter of 1999.

Total assets were $1.7 billion at June 30, 2000 as compared to $1.675 billion at December 31, 1999. The Company's ratio of debt to equity ("Leverage Ratio") increased to 8.4:1 at June 30, 2000 as compared to 6.0:1 at December 31, 1999 as stockholders' equity decreased to $180.7 million as compared to $238.8 million, respectively. Stockholders' equity decreased as the Company recorded $68.9 million of non-cash charges during the first and second quarters of 2000. Excluding these charges for the first six months of 2000, diluted book value (calculated by including preferred stock conversion rights of 6.4 million common shares) increased 5% to $9.02 per common share at June 30, 2000 as compared to $8.60 per common share at December 31, 1999. The recognition of non-cash charges decreased diluted book value by 15% to $6.51 per common share at June 30, 2000 as compared to diluted book value of $7.63 per common share at March 31, 2000. The combined liquidity of the Company and IFC was $28.1 million at June 30, 2000 as compared to $29.0 million at December 31, 1999.

Net Interest Income

Net interest income decreased 35% to $5.3 million during the second quarter of 2000 as compared to $8.2 million during the second quarter of 1999. The decrease in net interest income was primarily the result of higher CMO borrowing costs due to an increase in one-month LIBOR, which is the index used to reprice the Company's adjustable-rate CMO borrowings, as the Federal Reserve Bank increased short-term interest rates to slow economic growth. During the second quarter of 2000, one-month LIBOR averaged 6.47% as compared to 4.96% during the second quarter of 1999, which caused CMO borrowing costs to rise to 7.21% as compared to 6.22%, respectively. While CMO borrowing costs increased 99 basis points between the second quarters of 2000 and 1999, the yield on CMO collateral increased to 7.13% during the second quarter of 2000 as compared to 6.72% during the second quarter of 1999, an increase of 41 basis points. The 58 basis point decrease in net interest spread on CMO collateral was the result of adjustable-rate CMO borrowings re-pricing upwards more quickly than adjustable-rate CMO collateral, which are restricted to periodic and lifetime cap limitations. Net interest income was also negatively affected by the non-recognition of interest income on investment securities that were written-off during the first and second quarters of 2000. During the first six months of 2000, the Company wrote-off $52.6 million of investment securities. The decrease in net interest income from compression of interest rate spreads and the write-off of investment securities was partially offset by an increase in average Mortgage Assets which increased 6% to $1.7 billion as compared to $1.6 billion, respectively.

The increase in average Mortgage Assets during the second quarter of 2000 was primarily the result of an increase in average finance receivables and average CMO collateral of $103.4 million and $84.0 million, respectively. Average finance receivables increased during the second quarter of 2000 as the Warehouse Lending Operations, IWLG, expanded its business. As of June 30, 2000, IWLG had approved warehouse lines available to 55 non-affiliated customers totaling $373.6 million as compared to 39 customers totaling $264.0 million as of June 30, 1999. For the month of June 2000, IWLG's average outstanding finance receivables was $145.0 million, which was an all-time high since inception of the Warehouse Lending Operations in November of 1995. The increase in average CMO collateral was due to the completion of a $452.0 million CMO in January of 2000, which was collateralized by $455.7 million of mortgage loans.

The following table summarizes average balance, interest and weighted average yield on Mortgage Assets and borrowings on Mortgage Assets for the second quarters of 2000 and 1999 and includes interest income on Mortgage Assets and interest expense related to borrowings on Mortgage Assets only (dollars in thousands):

	For the Three Months Ended June 30, 2000			For the Three Months Ended June 30, 1999		
	Average Balance	Interest	Weighted Avg. Yield	Average Balance	Interest	Weighted Avg. Yield
MORTGAGE ASSETS						
Investment securities available-for-sale:						
Securities collateralized by mortgages	$ 64,007	$ 1,511	9.44 %	$ 91,275	$ 3,213	14.08 %
Securities collateralized by other loans	5,673	70	4.94	10,779	213	7.90
Total investment securities available-for-sale	69,680	1,581	9.08	102,054	3,426	13.43
Loan receivables:						
CMO collateral	1,243,379	22,153	7.13	1,159,345	19,489	6.72
Mortgage loans held-for-investment	17,881	402	8.99	58,088	1,104	7.60
Finance receivables:						
Affiliated	266,910	6,540	9.80	223,773	4,340	7.76
Non-affiliated	128,952	3,365	10.44	68,717	1,541	8.97
Total finance receivables	395,862	9,905	10.01	292,490	5,881	8.04
Total Loan Receivables	1,657,122	32,460	7.84	1,509,923	26,474	7.01
Total Mortgage Assets	$ 1,726,802	$ 34,041	7.89 %	$1,611,977	$ 29,900	7.42 %
BORROWINGS						
CMO borrowings	$ 1,141,240	$ 20,578	7.21 %	$1,053,205	$ 16,377	6.22 %
Reverse repurchase agreements - mortgages	393,431	7,489	7.61	328,034	5,032	6.14
Borrowings secured by investment securities Available-for-sale	27,549	807	11.72	20,727	331	6.39
Total borrowings on Mortgage Assets	$ 1,562,220	$ 28,874	7.39 %	$1,401,966	$ 21,740	6.20 %
Net Interest Spread			0.50 %			1.22 %
Net Interest Margin			1.20 %			2.02 %

Interest Income on Mortgage Assets

Interest income on CMO collateral increased 14% to $22.2 million during the second quarter of 2000 as compared to $19.5 million during the second quarter of 1999 as average CMO collateral increased to $1.243 billion as compared to $1.159 billion, respectively. Average CMO collateral increased as the Long-Term Investment Operations issued CMOs totaling $452.0 million during the first quarter of 2000, which was partially offset by total principal prepayments on CMO collateral of $374.3 million since the end of the second quarter of 1999. During the second quarter of 2000, constant prepayment rates ("CPR") on CMO collateral was 26% CPR as compared to 41% CPR during the second quarter of 1999. An increase in mortgage rates during 2000 and an increase in loans acquired from IFC with prepayment penalties contributed to greater stability in prepayments. Due to IFC's correspondent agreements and increased levels of prepayment penalties, subsequent CMO collateral acquired by the Long-Term Investment Operations from IFC should continue to contribute to a reduction in prepayment rates and stability of earnings. The weighted average yield on CMO collateral increased to 7.13% during the second quarter of 2000 as compared to 6.72% during the second quarter of 1999 primarily due to an increase in interest rates, which affect variable-rate CMO collateral.

Interest income on mortgage loans held-for-investment decreased to $402,000 during the second quarter of 2000 as compared to $1.1 million during the second quarter of 1999 as average mortgage loans held-for-investment decreased to $17.9 million as compared to $58.1 million, respectively. Average mortgage loans held-for-investment decreased primarily as the Long-Term Investment Operations acquired $156.9 million of mortgage loans near the end of the second quarter of 2000. The weighted average yield on mortgage loans held-for-investment increased to 8.99% during the second quarter of 2000 as compared to 7.60% during the second quarter of 1999. The increase in the weighted average yield was primarily due to the acquisition of higher-yielding mortgage loans from IFC, which reflected an increase in mortgage rates.

Interest income on finance receivables increased 68% to $9.9 million during the second quarter of 2000 as compared to $5.9 million during the second quarter of 1999 as average finance receivables increased 35% to $395.9 million as compared to $292.5 million, respectively. Average finance receivables to affiliated companies increased 19% to $266.9 million during the second quarter of 2000 as compared to $223.8 million during the second quarter of 1999 as IFC's mortgage loan acquisitions increased to $427.3 million as compared to $395.9 million, respectively. As such, interest income on finance receivables to affiliates increased 51% to $6.5 million during the second quarter of 2000 as compared to $4.3 million during the second quarter of 1999. The weighted average yield on affiliated finance receivables increased to 9.80% during the second quarter of 2000 as compared to 7.76% during the second quarter of 1999 primarily due to an increase in Bank of America's prime rate ("prime"), which is the index used to determine interest rates on finance receivables.

Interest income on finance receivables to non-affiliated mortgage banking companies increased 127% to $3.4 million during the second quarter of 2000 as compared to $1.5 million during the second quarter of 1999 as average finance receivables outstanding to non-affiliated mortgage banking companies increased 88% to $129.0 million as compared to $68.7 million, respectively. Average finance receivables to non-affiliates increased during the second quarter of 2000 as compared to the second quarter of 1999 primarily due to IWLG's business expansion. The weighted average yield on non-affiliated finance receivables increased to 10.44% during the second quarter of 2000 as compared to 8.97% during the second quarter of 1999 primarily due to an increase in prime. Average prime increased to 9.25% during the second quarter of 2000 as compared to 7.75% during the second quarter of 1999.

Interest income on investment securities available-for-sale decreased 53% to $1.6 million during the second quarter of 2000 as compared to $3.4 million during the second quarter of 1999 as average investment securities available-for-sale, net of securities valuation allowance, decreased 31% to $69.7 million as compared to $102.1 million, respectively. Average securities available-for-sale decreased as the Company wrote-off $24.0 million of investment securities during the first quarter of 2000, which affected the average for the second quarter of 2000. The write-off of investment securities during the second quarter of 2000 occurred at the end of the second quarter and therefore did not materially affect the average for the second quarter of 2000. The weighted average yield on investment securities available-for-sale decreased to 9.08% during the second quarter of 2000 as compared to 13.43% during the second quarter of 1999 due to actual realized losses experienced on investment securities written-off during the second quarter of 2000.

Interest Expense on Mortgage Assets

Interest expense on CMO borrowings increased 26% to $20.6 million during the second quarter of 2000 as compared to $16.4 million during the second quarter of 1999 as average borrowings on CMO collateral increased 8% to $1.141 billion as compared to $1.053 billion, respectively. Interest expense on CMO borrowings rose as one-month LIBOR, which is the index used to reprice the Company's adjustable-rate CMO borrowings, increased as a result of the Federal Reserve Bank increasing short-term interest rates to slow economic growth. During the second quarter of 2000, one-month LIBOR averaged 6.47% as compared to 4.96% during the second quarter of 1999, which caused CMO borrowing costs to rise to 7.21% as compared to 6.22%, respectively.

Interest expense on reverse repurchase agreements used to fund the acquisition of mortgage loans and finance receivables increased 50% to $7.5 million during the second quarter of 2000 as compared to $5.0 million

during the second quarter of 1999 as average reverse repurchase agreements increased 20% to $393.4 million as compared to $328.0 million, respectively. The increase in interest expense on reverse repurchase agreements was primarily the result of an increase in one-month LIBOR, which is the index used to re-price reverse repurchase agreements, and in average finance receivables made to non-affiliates due to the expansion of business by the Warehouse Lending Operations. The weighted average yield on reverse repurchase agreements increased to 7.61% during the second quarter of 2000 as compared 6.14% during the second quarter of 1999.

The Company also uses mortgage-backed securities as collateral to borrow and fund the purchase of mortgage assets and to act as an additional source of liquidity for the Company's operations. Interest expense on borrowings secured by investment securities available-for sale increased 144% to $807,000 during the second quarter of 2000 as compared to $331,000 during the second quarter of 1999 as the average balance on these borrowings increased 33% to $27.5 million as compared to $20.7 million, respectively. The weighted average yield of these borrowings increased to 11.72% during the second quarter of 2000 as compared 6.39% during the second quarter of 1999 primarily as the Company re-securitized a portion of its investment securities available-for-sale portfolio with long-term financing, as opposed to short-term reverse repurchase financing which is subject to margin calls. The Company did not have any short-term reverse repurchase financing outstanding at June 30, 2000 and December 31, 1999.

Provision for Loan Losses

The Company's total allowance for loan losses expressed as a percentage of Gross Loan Receivables, which includes loans held-for-investment, CMO collateral and finance receivables, increased 196% to 0.80% at June 30, 2000 as compared to 0.27% at December 31, 1999. The Company recorded net loan loss provisions of $3.3 million during the second quarter of 2000 as compared to $1.5 million during the second quarter of 1999. Net loan loss provisions during the second quarter of 2000 includes an additional $2.6 million provision for loan losses to increase the Company's allowance for loan losses to adequately provide for losses within what remains of the HLTV portfolio. Management's decision to further increase allowance for loan losses is based upon increased levels of charge-offs and delinquencies that occurred during the second quarter of 2000.

The charges related to HLTV second trust deeds underlying CMO collateral were calculated based upon management's estimate of the inherent losses in the HLTV portfolio. The Company has written these assets down and provided allowances to absorb expected losses. The allowance for loan losses is determined primarily on the basis of management's judgment of net loss potential, including specific allowances for known impaired loans, changes in the nature and volume of the portfolio, the value of the collateral and current economic conditions that may affect the borrowers' ability to pay.

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

	For the Three Months Ended June 30, 2000	For the Three Months Ended March 31, 2000	For the year ended December 31, 1999
Balance, beginning of period	$ 12,768	$ 4,029	$ 6,959
Provision for loan losses	3,304	13,184	5,547
Charge-offs, net of recoveries	(3,205)	(4,445)	(7,152)
Loss on sale of delinquent loans	--	--	(1,325)
Balance, end of period	$ 12,867	$ 12,768	$ 4,029

Non-Interest Income (Loss)

Non-interest income (loss) includes equity in net earnings (loss) of IFC and other non-interest income, primarily including loan servicing fees and fees associated with the Company's Warehouse Lending Operations. During the second quarter of 2000, non-interest income (loss) was $(1.0) million as compared to $2.0 million during the second quarter of 1999. The decrease in non-interest income (loss) during the second quarter of 2000 was primarily due to a decrease of $2.9 million in equity in net earnings (loss) of IFC. The Company records 99% of the earnings or losses from IFC as the Company owns 100% of IFC's preferred stock, which represents 99% of the economic interest in IFC. Equity in net earnings (loss) of IFC decreased to $(1.5) million during the second quarter of 2000 as compared to $1.4 million during the second quarter of 1999 as IFC's net earnings decreased primarily due to a decrease in gain on sale of loans, an increase in personnel expense and the write-off of Bank related charges. Refer to "Results of Operations--Impac Funding Corporation" for additional information.

Non-Interest Expense

During the second quarter of 2000, non-interest expense increased to $31.3 million as compared to $2.7 million during the second quarter of 1999. However, after excluding write-down on investment securities, non-interest expense increased to $1.9 million during the second quarter of 2000 as compared to $1.5 million during the second quarter of 1999 primarily due to a $321,000 increase in loss on disposition of real estate owned.

RESULTS OF OPERATIONS-- IMPAC FUNDING CORPORATION

For the Three Months Ended June 30, 2000 as compared to the Three Months Ended June 30, 1999

Results of Operations

IFC recorded a net loss of $(1.5) million during the second quarter of 2000 as compared to net earnings of $1.4 million during the second quarter of 1999. However, total loan production at IFC remained strong as production increased 8% to $427.3 million during the second quarter of 2000 as compared to $395.9 million during the second quarter of 1999. This increase compares favorably to a 28% decline in national mortgage originations of 1-to-4 family properties for the second quarter of 2000, as forecasted by the Mortgages Bankers Association, due to a decline in mortgage refinance activity. Since IFC has historically generated a more significant volume of purchase money transactions, as opposed to refinance transactions, the decrease in forecasted national originations has not affected IFC as severely as other mortgage loan originators.

Net Interest Income (Loss)

IFC's net interest income (loss) decreased to $93,000 during the second quarter of 2000 as compared to income of $363,000 during the second quarter of 1999 primarily as a result of an increase in borrowing costs due to an increase in prime and the spread charged by IWLG. Average prime increased to 9.25% during the second quarter of 2000 as compared to 7.75% during the second quarter of 1999.

Non-Interest Income

During the second quarter of 2000, non-interest income decreased to $5.5 million as compared to $11.2 million during the second quarter of 1999. However, after excluding a $4.1 million reduction of mark-to-market allowances recorded during the second quarter of 1999, non-interest income decreased to $5.5 million during the second quarter of 2000 as compared to $7.1 million during the second quarter of 1999. This decrease is primarily due to a $1.3 million decrease in gain on sale of loans, after excluding reduction of mark-to-market allowances during the second quarter of 1999, and a $541,000 decrease in loan servicing income.

The decrease in gain on sale of loans was primarily due to a $1.7 million decrease in amortization of deferred gains. Amortization of deferred gains results from the sale of mortgage loans from IFC to IMH, an affiliated transaction. Because of the affiliated nature of the transaction, IFC defers income from loan sales over the estimated life of the mortgage loans. Due to lower mortgage prepayments during the second quarter of 2000 as compared to the second quarter of 1999, amortization of deferred income was lower. The decrease in loan servicing income was primarily due to a decrease in the size of IFC's servicing portfolio, as IFC sold loans on a servicing released basis and sold mortgage servicing rights during 1999 and the first six months of 2000.

Non-Interest Expense

During the second quarter of 2000, non-interest expense decreased to $8.2 million as compared to $9.1 million during the second quarter of 1999. However, after excluding write-down on investment securities, non-interest expense increased to $6.7 million during the second quarter of 2000 as compared to $5.4 million during the second quarter of 1999. Non-interest expense increased by $1.3 million during the second quarter of 2000, primarily due to a $1.4 million write-off of Bank related charges including contract expenses, fixed assets and acquisition costs.

RESULTS OF OPERATIONS-- IMPAC MORTGAGE HOLDINGS, INC.

For the Six Months Ended June 30, 2000 as compared to the Six Months Ended June 30, 1999

Results of Operations

The Company recorded a net loss of $(61.2) million, or $(2.93) per diluted common share, during the first six months of 2000 as compared to net earnings of $12.1 million, or $0.41 per diluted common share, during the same period of 1999. During the six months ended June 30, 2000, the Company recognized of $68.9 million, of which $52.6 million was related to write-downs on its investment securities portfolio and $14.5 million was provided for additional increases in the Company's allowance for loan losses related to its HLTV second trust deed portfolio. Due to the continued deterioration in the performance of collateral supporting specific investment securities, which were partially written-down during the first quarter of 2000, the Company wrote-off substantially all remaining book value on these investment securities during the second quarter of 2000. Charges recorded during the first six months of 2000 include the write-off of substantially all investment securities secured by HLTV second trust deeds, investment securities secured by franchise mortgage receivables and certain sub-prime subordinated securities all of which were acquired prior to 1998. Subsequent to 1997, the Company's investment strategy has been to only acquire or invest in Impac Securities. Additionally, IFC wrote off substantially all of its remaining investment securities portfolio, which was secured by franchise mortgage receivables, during the first six months of 2000, which resulted in an after-tax charge to the Company of $1.0 million. Prior to the recognition of these charges, the Company's operating earnings during the first six months of 2000 was $7.7 million, or $0.28 per diluted common share, as compared to net earnings of $12.1 million, or $0.41 per diluted common share, during the same period of 1999. The decrease in operating earnings was primarily the result of a $4.6 million decrease in net interest income due to interest rate compression on the Company's portfolio of Mortgage Assets. During the first six months of 2000, net interest margin decreased to 1.32% as compared to 2.00% during the same period of 1999 as the increase in short-term interest rates during the first six months of 2000 resulted in a more rapid increase in variable-rate CMO financing than variable-rate CMO collateral, which is restricted by periodic and lifetime interest rate cap limitations. Refer to "Net Interest Income" for additional information.

Total average outstanding finance receivables of the Warehouse Lending Operations increased 31% to $357.1 million during the first six months of 2000 as compared to $273.4 million during the same period of 1999. The majority of the increase in average outstanding finance receivables was with non-affiliated companies which increased 73% to $119.3 million during the first six months of 2000 as compared to $69.1 million during the same period of 1999. IWLG continued to provide a consistent contribution to net earnings and earnings per share during the first six months of 2000. During the first six months of 2000, IWLG's contribution to earnings and earnings per diluted share was approximately $4.9 million and $0.23, respectively, as compared to approximately $3.4 million and $0.12, respectively, during the same period of 1999.

Net Interest Income

Net interest income decreased 28% to $11.8 million during the first six months of 2000 as compared to $16.4 million during the same period of 1999. The decrease in net interest income during the first six months of 2000 was primarily the result of higher CMO borrowing costs due to an increase in one-month LIBOR, which is the index used to re-price the Company's adjustable-rate CMO borrowings. During the first six months of 2000, one-month LIBOR increased as a result of the Federal Reserve Bank increasing short-term interest rates to slow economic growth. One-month LIBOR averaged 6.19% during the first six months of 2000 as compared to 4.96% during the same period of 1999, which caused CMO borrowing costs to rise to 7.08% as compared to 6.28%, respectively. While CMO borrowing costs increased 80 basis points between the first six months of 2000 and 1999, the yield on CMO collateral increased to 6.91% during the first six months of 2000 as compared to 6.76% during the same period of 1999, an increase of 15 basis points. The 65 basis point decrease in net interest spread on CMO collateral was the result of adjustable-rate CMO borrowings repricing upwards more quickly than adjustable-rate CMO collateral, which are restricted to periodic and lifetime cap limitations. Net interest income was also negatively effected by the non-recognition of interest income on investment securities that were written-off during the first and second quarters of 2000. During the first six months of 2000, the Company wrote-off $52.6 million of investment securities. The decrease in net interest income from compression of interest rate spreads and the

write-off of investment securities was partially offset by an increase in average Mortgage Assets which increased 6% to $1.7 billion as compared to $1.6 billion, respectively. The increase in average Mortgage Assets during the first six months of 2000 was primarily the result of an increase in average finance receivables and average CMO collateral of $83.7 million and $56.0 million, respectively. Average finance receivables increased during the first six months of 2000 as the Warehouse Lending Operations, IWLG, expanded its business. The increase in average CMO collateral was due to the completion of a $452.0 million CMO in January of 2000, which was collateralized by $455.7 million of mortgage loans.

The following table summarizes average balance, interest and weighted average yield on Mortgage Assets and borrowings on Mortgage Assets for the six months ended June 30, 2000 and 1999 and includes interest income on Mortgage Assets and interest expense related to borrowings on Mortgage Assets only (dollars in thousands):

	For the Six Months Ended June 30, 2000			For the Six Months Ended June 30, 1999		
	Average Balance	Interest	Weighted Avg. Yield	Average Balance	Interest	Weighted Avg. Yield
MORTGAGE ASSETS						
Investment securities available-for-sale:						
Securities collateralized by mortgages	$ 75,942	$ 4,390	11.56 %	$ 90,392	$ 6,315	13.97 %
Securities collateralized by other loans	5,665	273	9.64	9,352	436	9.32
Total investment securities available-for-sale	81,607	4,663	11.43	99,744	6,751	13.54
Loan receivables:						
CMO collateral	1,224,099	42,307	6.91	1,168,051	39,497	6.76
Mortgage loans held-for-investment	68,879	2,737	7.95	55,745	1,906	6.84
Finance receivables:						
Affiliated	237,818	11,716	9.85	204,296	8,323	8.15
Non-affiliated	119,272	6,208	10.41	69,103	3,109	9.00
Total finance receivables	357,090	17,924	10.04	273,399	11,432	8.36
Total Loan Receivables	1,650,068	62,968	7.63	1,497,195	52,835	7.06
Total Mortgage Assets	$ 1,731,675	$ 67,631	7.81 %	$ 1,596,939	$59,586	7.46 %
BORROWINGS						
CMO borrowings	$ 1,121,569	$ 39,709	7.08 %	$ 1,065,930	$33,458	6.28 %
Reverse repurchase agreements - mortgages	404,615	14,842	7.34	305,100	9,479	6.21
Borrowings secured by investment securities available-for-sale	28,910	1,692	11.71	21,853	711	6.51
Total borrowings on Mortgage Assets	$ 1,555,094	$ 56,243	7.23 %	$ 1,392,883	$ 43,648	6.27 %
Net Interest Spread			0.58 %			1.19 %
Net Interest Margin			1.32 %%			2.00 %%

Interest Income on Mortgage Assets

Interest income on CMO collateral increased 7% to $42.3 million during the first six months of 2000 as compared to $39.5 million during the same period of 1999 as average CMO collateral increased to $1.224 billion as compared to $1.168 billion, respectively. Average CMO collateral increased as the Long-Term Investment Operations issued CMOs totaling $452.0 million during the first quarter of 2000, which was partially offset by total principal prepayments on CMO collateral of $374.3 million since the end of the second quarter of 1999. During the first six months of 2000, constant prepayment rates ("CPR") on CMO collateral was 26% CPR as compared to 37% CPR during the same period of 1999. An increase in mortgage rates during 2000 and an increase in loans acquired from IFC with prepayment penalties contributed to greater stability in prepayments. Due to IFC's correspondent agreements and increased levels of prepayment penalties, subsequent CMO collateral acquired by the Long-Term Investment Operations from IFC should continue to contribute to a reduction in prepayment rates and stability of earnings. The weighted average yield on CMO collateral increased to 6.91% during the first six months of 2000 as compared to 6.76% during the same period of 1999 primarily due to an increase in interest rates, which affect variable-rate CMO collateral.

Interest income on mortgage loans held-for-investment increased to $2.7 million during the first six months of 2000 as compared to $1.9 million during the same period of 1999 as average mortgage loans held-for-investment increased to $68.9 million as compared to $55.7 million, respectively. Average mortgage loans held-for-investment increased primarily as mortgage loans acquired by the Long-Term Investment Operations were held onto longer before being placed into CMO's. The weighted average yield on mortgage loans held-for-investment increased to 7.95% during the first six months of 2000 as compared to 6.84% during the same period of 1999. The increase in the weighted average yield was primarily due to the acquisition of higher-yielding mortgage loans from IFC, which reflected an increase in mortgage rates.

Interest income on finance receivables increased 57% to $17.9 million during the first six months of 2000 as compared to $11.4 million during the same period of 1999 as average finance receivables increased 31% to $357.1 million as compared to $273.4 million, respectively. Average finance receivables to affiliated companies increased 16% to $237.8 million during the first six months of 2000 as compared to $204.3 million during the same period of 1999 as IFC's mortgage loan acquisitions increased to $886.0 million as compared to $649.7 million, respectively. As such, interest income on finance receivables to affiliates increased 41% to $11.7 million during the first six months of 2000 as compared to $8.3 million during the same period of 1999. The weighted average yield on affiliated finance receivables increased to 9.85% during the first six months of 2000 as compared to 8.15% during the same period of 1999 primarily due to an increase in prime, which is the index used to determine interest rates on finance receivables.

Interest income on finance receivables to non-affiliated mortgage banking companies increased 100% to $6.2 million during the first six months of 2000 as compared to $3.1 million during the same period of 1999 as average finance receivables outstanding to non-affiliated mortgage banking companies increased 73% to $119.3 million as compared to $69.1 million, respectively. Average finance receivables to non-affiliates increased during the first six months of 2000 as compared to the first six months of 1999 primarily due to IWLG's business expansion. The weighted average yield on non-affiliated finance receivables increased to 10.41% during the first six months of 2000 as compared to 9.00% during the same period of 1999 primarily due to an increase in prime. Average prime increased to 8.96% during the first six months of 2000 as compared to 7.75% during the same period of 1999.

Interest income on investment securities available-for-sale decreased 31% to $4.7 million during the first six months of 2000 as compared to $6.8 million during the same period of 1999 as average investment securities available-for-sale, net of securities valuation allowance, decreased 18% to $81.6 million as compared to $99.7 million, respectively. Average securities available-for-sale decreased as the Long-Term Investment Operations did not purchase and retain mortgage-backed securities during the first six months of 2000 as compared to $9.1 million during the same period of 1999. In addition, average securities available-for-sale decreased during the first six months of 2000 due to the write-off investment securities. The weighted average yield on investment securities available-for-sale decreased to 11.43% during the first six months of 2000 as compared to 13.54% during the same period of 1999 primarily due to actual realized losses experienced on investment securities written-off during the first six months of 2000.

Interest Expense on Mortgage Assets

Interest expense on CMO borrowings increased 19% to $39.7 million during the first six months of 2000 as compared to $33.5 million during the first six months of 1999 as average borrowings on CMO collateral increased 5% to $1.122 billion as compared to $1.066 billion, respectively. Interest expense on CMO borrowings rose as one-month LIBOR, which is the index used to re-price the Company's adjustable-rate CMO borrowings, increased as a result of the Federal Reserve Bank increasing short-term interest rates to slow economic growth. During the first six months of 2000, one-month LIBOR averaged 6.19% as compared to 4.96% during the same period of 1999, which caused CMO borrowing costs to rise to 7.08% as compared to 6.28%, respectively.

Interest expense on reverse repurchase agreements used to fund the acquisition of mortgage loans and finance receivables increased 56% to $14.8 million during the first six months of 2000 as compared to $9.5 million during the same period of 1999 as average reverse repurchase agreements increased 33% to $404.6 million as compared to $305.1 million, respectively. This increase was primarily the result of an increase in finance receivables made to non-affiliates due to the expansion of business by the Warehouse Lending Operations. The weighted average yield on reverse repurchase agreements increased to 7.34% during the first six months of 2000 as compared 6.21% during the same period of 1999 due to an increase in one-month LIBOR, which is the interest rate index of these instruments.

The Company also uses mortgage-backed securities as collateral to borrow and fund the purchase of mortgage assets and to act as an additional source of liquidity for the Company's operations. Interest expense on borrowings secured by investment securities available-for-sale increased 139% to $1.7 million during the first six months of 2000 as compared to $711,000 during the same period of 1999 as the average balance on these borrowings increased 32% to $28.9 million as compared to $21.9 million, respectively. The weighted average yield of these borrowings increased to 11.71% during the first six months of 2000 as compared 6.51% during the same period of 1999 primarily as the Company re-securitized a portion of its investment securities available-for-sale portfolio with long-term financing, as opposed to short-term reverse repurchase financing which is subject to margin calls. The Company did not have any short-term reverse repurchase financing outstanding at June 30, 2000 and December 31, 1999.

Provision for Loan Losses

As a result of the negative performance of the Company's HLTV portfolio during the first six months of 2000, the Company significantly increased its provision for loan losses. The Company recorded net loan loss provisions of $16.5 million during the first six months of 2000 as compared to $3.0 million during the same period of 1999. Net loan loss provisions during the first six months of 2000 includes an additional $14.5 million provision to increase the Company's allowance for loan losses and to provide for losses within the HLTV portfolio.

Non-Interest Income (Loss)

Non-interest income (loss) includes equity in net earnings (loss) of IFC and other non-interest income, primarily including loan servicing fees and fees associated with the Company's Warehouse Lending Operations. During the first six months of 2000, non-interest income (loss) was $312,000 as compared to $3.7 million during the same period of 1999. The decrease in non-interest income (loss) during the first six months of 2000 was primarily due to a decrease of $3.6 million in equity in net earnings (loss) of IFC. The Company records 99% of the earnings or losses from IFC as the Company owns 100% of IFC's preferred stock, which represents 99% of the economic interest in IFC. Equity in net earnings (loss) of IFC decreased to $(1.1) million during the first six months of 2000 as compared to $2.5 million during the same period of 1999 as IFC's net earnings decreased primarily due to a decrease in gain on sale of loans and loan servicing income, an increase in personnel expense and the write-off of Bank related charges. Refer to "Results of Operations--Impac Funding Corporation" for more information.

Non-Interest Expense

During the first six months of 2000, non-interest expense increased to $ 56.8 million as compared to $5.0 million during the same period of 1999. However, after excluding write-down on investment securities of $52.6 million, non-interest expense decreased to $4.2 million during the first six months of 2000 as compared to $5.0 million during the same period of 1999.

RESULTS OF OPERATIONS-- IMPAC FUNDING CORPORATION

For the Six Months Ended June 30, 2000 as compared to the Six Months Ended June 30, 1999

Results of Operations

IFC recorded a net loss of $(1.1) million during the first six months of 2000 as compared to net earnings of $2.5 million during the same period of 1999. However, total loan production at IFC remained strong as production increased 36% to $886.0 million during the first six months of 2000 as compared to $649.7 million during the same period of 1999. IFC exceeded production goals for the first six months of 2000 and, absent any significant market changes, the Company expects that it will meet production goals for the remainder of the year. The roll out of IFC's automated underwriting and loan approval system, called IDASL, to IFC's customers during 2000 is intended to further enhance IFC's production capacity without increasing current staff levels.

Net Interest Income (Loss)

IFC's net interest income (loss) decreased to a loss of $(622,000) during the first six months of 2000 as compared to income of $450,000 during the same period of 1999 primarily as a result of an increase in borrowing costs due to an overall increase in prime and the spread charged by IWLG. Average prime increased to 8.96% during the first six months of 2000 as compared to 7.75% during the same period of 1999.

Non-Interest Income

During the first six months of 2000, non-interest income decreased to $12.3 million as compared to $18.7 million during the same period of 1999. However, after excluding a $4.1 million reduction of mark-to-market allowances recorded during the second quarter of 1999, non-interest income decreased to $12.3 million during the first six months of 2000 as compared to $14.6 million during the same period of 1999. This decrease is primarily due to a $1.2 million decrease in loan servicing income and a $1.0 million decrease in gain on sale of loans, after excluding reduction of mark-to-market allowances during the second quarter of 1999.

The decrease in loan servicing income was primarily due to a decrease in the size of IFC's servicing portfolio, as IFC sold loans on a servicing released basis and sold mortgage servicing rights during 1999 and the first six months of 2000. The decrease in gain on sale of loans was primarily due to a decrease in amortization of deferred gains. Amortization of deferred gains results from the sale of mortgage loans from IFC to IMH, an affiliated transaction. Because of the affiliated nature of the transaction, IFC defers income from loan sales over the estimated life of the mortgage loans. Due to lower mortgage prepayments during the first six months of 2000 as compared to the second quarter of 1999, amortization of deferred income was lower.

Non-Interest Expense

During the first six months of 2000, non-interest expense increased to $12.0 million as compared to $10.4 million during the first six months of 1999, after excluding write-down on investment securities. Non-interest expense increased by $1.6 million during the first six months of 2000, primarily due to $1.4 million write-off of Bank related charges including contract expenses, fixed assets and acquisition costs.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, the Company's business operations are primarily funded from monthly interest and principal payments from its mortgage loan and investment securities portfolios, adjustable- and fixed-rate CMO financing, reverse repurchase agreements secured by mortgage loans, borrowings secured by mortgage-backed securities, proceeds from the sale of mortgage loans and the issuance of REMICs and proceeds from the issuance of Common Stock through secondary stock offerings, Dividend Reinvestment and Stock Purchase Plan ("DRSPP"), and its structured equity shelf program ("SES Program"). The acquisition of mortgage loans and mortgage-backed securities by the Long-Term Investment Operations are primarily funded from monthly principal and interest
payments, reverse repurchase agreements, CMO financing, and proceeds from the sale of Common Stock. The issuance of CMO financing provides the Long-Term Investment Operations with immediate liquidity, a relatively stable interest rate spread and eliminates the Company's exposure to margin calls on such loans. Presently, the Company has suspended both the DRSPP and SES Program and has issued no new shares of Common Stock through these programs or through secondary stock offerings during the first six months of 2000. The acquisition of mortgage loans by the Conduit Operations are funded from reverse repurchase agreements, the sale of mortgage loans and mortgage-backed securities and the issuance of REMICs. Short-term warehouse financing, finance receivables, provided by the Warehouse Lending Operations are primarily funded from reverse repurchase agreements.

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

investments, and the relative attractiveness of alternative investment or lending opportunities. The Company believes that current liquidity levels, available financing facilities and additional liquidity provided by operating activities will adequately provide for the Company's projected funding needs, asset growth and the payment of dividends for the near term. The Company is continuously exploring alternatives for increasing liquidity and monitors current and future cash requirements through its asset/liability committee ("ALCO"). However, no assurances can be given that such alternatives will be available, or if available, under comparable rates and terms as currently exist.

Long-Term Investment Operations

Primary Source of Funds

The Long-Term Investment Operations uses CMO borrowings to finance substantially its entire mortgage loan portfolio. Terms of the CMO borrowings require that an independent third party custodian hold the mortgages. The maturity of each class is directly affected by the rate of principal prepayments on the related collateral. Equity in the CMOs is established at the time the CMOs are issued at levels sufficient to achieve desired credit ratings on the securities from rating agencies. The amount of equity invested in CMOs by the Long-Term Investment Operations is also determined by the Company based upon the anticipated return on equity as compared to the estimated proceeds from additional debt issuance. Total credit loss exposure is limited to the equity invested in the CMOs at any point in time. For the first six months of 2000, the Company issued a CMO totaling $452.0 million that was collateralized by $455.7 million of residential mortgages. At June 30, 2000, the Long-Term Investment Operations had $1.1 billion of CMO borrowings used to finance $1.2 billion of CMO collateral.

The Long-Term Investment Operations may pledge mortgage-backed securities as collateral to borrow funds under reverse repurchase agreements. The terms under these reverse repurchase agreements are generally for 30 days with interest rates ranging from the one-month LIBOR plus a spread depending on the type of collateral provided. As of June 30, 2000, the Long-Term Investment Operations had no amounts outstanding under reverse repurchase agreements secured by investment securities available-for-sale.

Primary Use of Funds

During the first six months of 2000, the Long-Term Investment Operations acquired $155.2 million in principal balance of mortgage loans from IFC.

During the first six months of 2000, the Company paid common and preferred stock dividends of $6.7 million.

Warehouse Lending Operations

Primary Source of Funds

The Warehouse Lending Operations finances the acquisition of mortgage loans by the Long-Term Investment Operations and Conduit Operations primarily through borrowings on reverse repurchase agreements with third party lenders. IWLG has obtained reverse repurchase facilities from major investment banks to provide financing as needed. Terms of the reverse repurchase agreements require that the mortgages be held by an independent third party custodian giving the Warehouse Lending Operations the ability to borrow against the collateral as a percentage of the outstanding principal balance. The borrowing rates vary from 85 basis points to 200 basis points over one-month LIBOR, depending on the type of collateral provided. The advance rate on the reverse repurchase agreements are based on the type of mortgage collateral used and generally range from 75% to 101% of the fair market value of the collateral. At June 30, 2000, the Warehouse Lending Operations had $222.4 million outstanding on uncommitted reverse repurchase agreements at a rate of one-month LIBOR plus 0.85% to 2.00%.

Primary Use of Funds

During the first six months of 2000, the Warehouse Lending Operations increased outstanding finance receivables by $99.8 million.

Mortgage Operations

Primary Source of Funds

The Mortgage Operations has entered into reverse repurchase agreements to obtain financing of up to $1.1 billion from the Warehouse Lending Operations to provide IFC mortgage loan financing during the period that IFC accumulates mortgage loans and until the mortgage loans are securitized and sold. The margins on the reverse repurchase agreements are based on the type of collateral provided and generally range from 95% to 100% of the fair market value of the collateral. Interest rates on the borrowings were indexed to prime plus 1.00%, which was 9.50% at June 30, 2000. At June 30, 2000, the Conduit Operations had $101.2 million outstanding under the reverse repurchase agreements.

During the first six months of 2000, the Mortgage Operations sold $621.6 million in principal balance of mortgage loans to third party investors. In addition, IFC sold $155.2 million in principal balance of mortgage loans to the Long-Term Investment Operations during the first six months of 2000. By securitizing and selling loans on a periodic and consistent basis the reverse repurchase agreements were sufficient to handle IFC's liquidity needs during the six-months ended June 30, 2000.

Primary Use of Funds

During the first six months of 2000, the Mortgage Operations acquired $886.0 million of mortgage loans.

Cash Flows

Operating Activities - During the first six months of 2000, net cash provided by operating activities was $15.2 million.

Investing Activities - During the first six months of 2000, net cash used in investing activities was $101.5 million. Cash used in investing activities was primarily due to an increase in finance receivables of $99.8 million as the Warehouse Lending Operations expanded its business.

Financing Activities - During the first six months of 2000, net cash provided by financing activities was $79.1 million. Cash provided by financing activities was primarily due to proceeds from CMO borrowings of $452.0 million, which was partially offset by repayment of CMO borrowings and reverse repurchase agreements of $365.8 million.

Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Securitizations/Sales - Hedging Interest Rate Risk. The most significant variable in the determination of gain on sale in a securitization is the spread between the weighted average coupon on the securitized loans and the pass-through interest rate. In the interim period between loan origination or purchase and securitization or sale of such loans, the Company is exposed to interest rate risk. The majority of loans are securitized or sold within 90 days of origination of purchase. However, a portion of the loans are held-for-sale or securitization for as long as 12 months (or longer, in very limited circumstances) prior to securitization or sale. If interest rates rise during the period that the mortgage loans are held, in the case of a securitization, the spread between the weighted average interest rate on the loans to be securitized and the pass-through interest rates on the securities to be sold (the latter having increased as a result of market rate movements) would narrow. Upon securitization or sale, this would result in a reduction of the Company's related gain or an increase in the Company's loss on sale.

Interest- and Principal-Only Strips. The Company had interest- and principal-only strips of $8.7 million and $35.7 million outstanding at June 30, 2000 and December 31, 1999, respectively. These instruments are carried at the lower of amortized cost or market value at June 30, 2000 and December 31, 1999. The Company values these assets based on the present value of future cash flow streams net of expenses using various assumptions.

These assets are subject to risk of accelerated mortgage prepayment or losses in excess of assumptions used in valuation. Ultimate cash flows realized from these assets would be reduced should prepayments or losses exceed assumptions used in the valuation. Conversely, cash flows realized would be greater should prepayments or losses be below expectations.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

Not applicable.

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.4 (d) Amendment dated October 1, 1999 to lease between The Realty Associates Fund V and Impac Mortgage Holdings, Inc.

27 Financial Data Schedule.

(b) Reports on Form 8-K:

None.

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.

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

Date: August 11, 2000

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6-MOS
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JAN-01-2000
JUN-30-2000
13,041
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351,033
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1,700,119
403,456
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12
214
180,433
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56,785
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SECOND AMENDMENT TO LEASE

This Second Amendment to Lease (the "Second Amendment") is entered into as of this 1st day of October, 1999 by and between The Realty Associates Fund V, L.P., a Delaware limited partnership ("Lessor"), and IMPAC Mortgage Holdings, Inc., a Maryland corporation ("IMH") and IMPAC Funding Corporation, a California corporation (collectively, "Lessee"), with reference to the following recitals.

RECITALS:

A. In or about June of 1998, IMH/ICH Dove Street, LLC ("Dove Street") and Lessee entered into a Standard Office Lease - Gross (the "Original Lease") for the lease of floors one through six (the "Premises") of an office building (the "Building") located on a larger parcel of real property located at 1401 Dove Street, Newport Beach, California (the "Property"). The Premises does not include the real property and improvements owned by Lessor which are outside the exterior walls of the Premises.

B. Dove Street assigned all of its right, title and interest under the Lease to IMPAC Commercial Holdings, Inc. ("ICH").

C. In or about May of 1999, ICH and Lessee entered into a First Amendment to Standard Office Lease - Gross (the "First Amendment"). The Original Lease and the First Amendment are hereinafter collectively referred to as the "Lease." Prior to the execution of the First Amendment, Dove Street, ICH and IMPAC Mortgage Holdings, Inc. ("IMPAC") entered into a Contract of Sale relating to the Property (the "Contract").

D. Pursuant to Section 2 of the First Amendment, ICH and Lessee agreed to collectively fund on a pro rata basis up to $1,922,830.00 (i.e., $961,415.00 each) to finance the construction of certain improvements at the Building (the "Improvement Allowance"). As of the date of this Second Amendment, ICH and Lessee have paid a total of $207,415.41 of the Improvement Allowance. Of this $207,415.41, ICH has paid $103,707.70 and Lessee has paid $103,707.71. As of the date of this Second Amendment, $1,715,414.59 of the Improvement Allowance remains unpaid. Of this $1,715,414.59, Lessor is obligated to pay $857,707.29 of additional Improvement Allowance and Lessee is obligated to pay $857,707.30 of additional Improvement Allowance.

E. ICH has sold the Property to Lessor and, as part of the sale, ICH has assigned all of its right, title and interest under the Lease to Lessor.

F. Lessor may elect to construct another building on the real property adjacent to the Building (the "Additional Building"). Lessee has caused certain plans and specifications to be prepared for the construction of a building and has obtained certain entitlements and approvals with respect to the construction of the building (the "Plans and Approvals"). The Plans and Approvals include, but are not necessarily limited to, Lessee's right, title and interest in all architectural, structural, mechanical, electrical, plumbing, landscape, civil engineering and soils engineering plans, specifications and calculations obtained by Lessee and relating to the building.

G. Portions of the fifth floor of the Building are now leased to Bankers Preferred, Hotel Partners, Inc., Quinlivan & Kaniewski and Colbert, Eichinger & Co., LLC (the "Fifth Floor Tenants"). The Fifth Floor Tenants occupy portions of the fifth floor (the "Fifth Floor Premises") pursuant to written leases (the "Fifth Floor Leases") originally entered into with Ken Development Corporation, a previous owner of the Building. Following the execution of the Fifth Floor Leases, Dove Street leased to Lessee the Premises, which includes the entire fifth floor of the Building. True, correct and complete copies of the Fifth Floor Leases are attached hereto as Exhibit "A."

H. Lessor and Lessee wish to amend the Lease on the terms and conditions set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1 . Assignment. Lessee hereby acknowledges and agrees that Lessor shall have no obligation to Lessee or to any other person or entity under the Contract and no term or condition of the Contract shall be binding on Lessor.

2. Right of First Offer. Section 8 of the First Amendment gives Lessee a right of first offer to purchase the Property. Lessee hereby represents and warrants that it has previously waived any rights it may have under Section 8 with respect to the sale of the Property to Lessor.

3. Improvements.

(a) Use of Improvement Allowance. The Improvement Allowance shall be used to fund the construction of the improvements described on Schedule 1 of the First Amendment and in this Second Amendment (the "Improvements").

(b) Building Systems Work. Lessor and Lessee agree to reserve not less than One Hundred Eighty-Nine Thousand Seven Hundred Dollars ($189,700.00) of the Improvement Allowance (the "Building Systems Allowance") for the HVAC Controller and Core Work and the rehabilitation of the mechanical elements of the Building's existing elevators (the "Elevator Work"), all as more particularly described in Exhibit "B" attached hereto. The HVAC Controller and Core Work and the Elevator Work is hereinafter collectively referred to as the

"Building Systems Work." Lessee shall complete the Building Systems Work using contractors, methods and procedures approved by Lessor and Lessee, in their reasonable discretion. The Building Systems Work shall be completed in accordance with the terms and conditions of the Work Letter Agreement attached hereto as Exhibit "C" and incorporated herein by this reference (the "Work Letter Agreement"). Lessee shall use commercially reasonable efforts to complete the Building Systems Work on or before November 1, 2000. To the extent the cost of the Building Systems Work exceeds the Building Systems Allowance ("Excess Costs"), Lessee shall pay such Excess Costs at Lessee's sole cost and expense; provided, however, if after all other Improvements have been completed and paid for, and unused monies remain in the Improvement Allowance, Lessee shall be entitled to use such monies to reimburse Lessee for such Excess Costs. . It is expressly agreed by Lessor and Lessee that Lessor's obligation to pay for the cost of the Building Systems Work and the cost of the Floor Improvements (as defined below) shall in no event exceed in total $857,707.29.

(c) Floor Improvements. The portion of the Improvement Allowance not reserved to pay for Building Systems Work (i.e., $1,525,714.59) shall be used to construct tenant improvements on the fourth, fifth and sixth floors of the Building (collectively the "Floor Improvements") and for no other purpose. The Floor Improvements shall be constructed in accordance with the terms and conditions of the Work Letter Agreement including, but not limited to, the allocation requirements of Section 2.1 of the Work Letter Agreement. Lessee shall pay, at Lessee's sole expense, amounts in excess of $1,525.714.59 needed to complete the Floor Improvements. Lessor makes no representation or warranty that $1,525.714.59 will be sufficient to complete the Floor Improvements, and under no circumstances shall Lessor be obligated to fund more than $762,857.30 towards the completion of the Floor Improvements. Notwithstanding the foregoing, if after all Building Systems Work is completed and paid for, it is determined that the cost of the Building Systems Work was less than $189,700, the difference between the actual cost of the Building Systems Work and $189,700 shall be available to pay the cost of constructing Floor Improvements (or to reimburse Lessor and Lessee for such costs

if previously incurred). Notwithstanding anything to the contrary in this Second Amendment or in the First Amendment, under no circumstances shall Lessor be obligated to fund any portion of the Improvement Allowance for any purpose other than the completion of the Building Systems Work and the Floor Improvements, and Lessee shall not be entitled to a credit or other benefit due to the fact that all of the Improvement Allowance is not used to pay for the Building Systems Work and the Floor Improvements. The Floor Improvements shall include for each floor (i) removal (not encapsulation) of all asbestos in accordance with all applicable laws, (ii) installation of fire sprinklers, (iii) installation of new restrooms and (iv) a buildout consistent with improvements previously constructed for Lessee on the second and third floors of the Building. The first Floor Improvements to be completed on a floor shall be asbestos removal and the installation of fire sprinklers, and any other work associated with the completion of such items. Lessee shall complete the Floor Improvements in accordance with the Work Letter Agreement. The Floor Improvements shall be completed by Lessee no later than October 1, 2004 subject to Force Majeure Delays. As used herein, "Force Majeure Delays" shall mean any actual delay beyond the reasonable control of Lessee in the construction of the Floor Improvements, which is caused by, without limitation, any one or more of the following: (i) strikes or labor disturbances; (b) war; (c) fire; (d) earthquake, flood or other natural disaster; (e) unusual or unforeseeable delay not within the reasonable control of Lessee or Contractor (as defined in the Work Letter Agreement) or its Contractors subcontractors (excluding financial inability) in transportation of materials or equipment and the unavailability of reasonable substitutes therefor; (f) casualties; or (g) governmental action or inaction (including failure, refusal or delay in issuing permits, approvals and/or authorizations), or injunction, permit appeal or court order requiring cessation of construction taking place in the Building and/or the Premises. Lessee's lack of financial resources shall not constitute a Force Majeure Delay

4. Additional Building. Lessor and Lessee shall cooperate with each other in coordinating the construction of the Additional Building in a way that does not unnecessarily interfere with Lessee's use of the Building. However, Lessee acknowledges and agrees that the construction of the Additional Building may necessitate the relocation of some of the Building's parking area to a reasonable temporary offsite location pursuant to paragraph 5 of the First Amendment. Lessee acknowledges and agrees that the design, location and construction of the Additional Building shall be determined by Lessor, in Lessor's sole discretion. Lessee hereby assigns to Lessor its entire right, title and interest in the Plans and Approvals without representation or warranty of any kind other than as set forth herein and agrees to deliver the Plans and Approvals to Lessor concurrently with its execution of this Second Amendment. Such assignment shall not obligate Lessor to pay any cost or expense or to incur any liability with respect to such Plans and Approvals.

5. Fifth Floor Tenancies.

(a) Concurrently with the execution of this Second Amendment by the parties hereto, Lessor, Lessee, on the one hand, and Quinlivan & Kaniewski and Hotel Partners, Inc., on the other hand, shall execute the agreements attached hereto as Exhibit "D" and incorporated herein by this reference (the "Sublease Agreements

(b) The Lease is hereby amended to eliminate from the Premises the space being occupied by Bankers Preferred Mortgage, Inc. (the "Direct Tenant") and, except as provided in (c) below, the space being occupied by the Direct Tenant (the "Eliminated Space") shall no longer be subject to the terms and conditions of the Lease. The reduction of the size of the Premises by the removal of the Eliminated Space shall not reduce the Base Rent payable by Lessee under the Lease, Lessee's share of Operating Expense increases (i.e., Lessee's share shall remain 100%) or any other payment obligation of Lessee under the Lease. Lessor shall have the right to collect all rent and other charges from the Direct Tenant. All rent and operating expense payments received by Lessor from the Direct Tenant shall be credited towards the payment of amounts due from Lessee to Lessor under the Lease for the calendar month following the calendar month in which Lessor receives a payment from the Direct Tenant. Lessor shall

notify Lessee of its receipt of a payment from the Direct Tenant within ten (10) days after it receives such payment. Lessor shall have no obligation to commence a legal action against the Direct Tenant for non-payment of monies due under the Direct Tenant's lease or for any other reason. Notwithstanding the foregoing, if the Direct Tenant fails to pay rent or operating expense payments to Lessor and such failure is a breach of the Direct Tenant's lease, upon Lessee's written request, and subject to Lessee reimbursing Lessor on a monthly basis for all costs and expenses incurred by Lessor (including, but not limited to, attorneys' fees and court costs), Lessor shall file a legal action against the Direct Tenant to recover the rent and/or operating expense payments. Any monies recovered by Lessor in the legal action shall be applied first to reimburse Lessor for any unpaid costs and expenses associated with the legal action, and the remainder shall be credited to the next Base Rent payable by Lessee under the Lease. Lessee's obligations under the Lease are in no way conditioned or contingent upon the payment of rent or other amounts by the Direct Tenant, and the failure of the Direct Tenant to perform any of its obligations under its lease shall in no way reduce or otherwise modify Lessee's obligations under the Lease.

(c) Lessor shall not voluntarily extend the term of the Direct Tenant's lease or expand the space being occupied by the Direct Tenant. Upon the termination of the Direct Tenant's lease and the return of possession of the premises being occupied by the Direct Tenant to Lessor (the "Returned Space"), the Lease shall automatically be deemed amended to make the Returned Space a part of the Premises, as if the Returned Space had always been a part of the Premises. The increase in the size of the Premises by the addition of the Returned Space shall not increase the Base Rent payable by Lessee under the Lease or Lessee's share of Operating Expense increases. At Lessors' request, Lessee shall execute an amendment to the Lease confirming the addition of the Returned Space to the Premises. After the Direct Tenant's Lease has terminated, Lessee shall have the right to sublease space to the Direct Tenant in accordance with the requirements of Paragraph 12 of the Lease.

(d) Lessee represents and warrants to Lessor that, to the best of Lessee's actual knowledge, the Direct Tenant's lease and the lease of Colbert, Eichinger & Co., LLC ("Colbert") attached hereto as Exhibit "A" (collectively, the "Direct Tenant Leases") are true, correct and complete copies of the Direct Tenant Leases, that the Direct Tenant Leases are the only written agreements with the Direct Tenant and Colbert and that there are no oral agreements with the Direct Tenant or Colbert. Lessee further represents and warrants to Lessor that, to the best of Lessee's actual knowledge, Ken Development Corporation, Dove Street, ICH and any other person or entity that has been the "Lessor" under the Direct Tenant Leases, has never failed to perform any of its obligations under the Direct Tenant Leases and that the Direct Tenants have not failed to perform any of their obligations under the Direct Tenant Leases. Lessee further represents and warrants that, to the best of Lessee's actual knowledge, except for Lessee, the Direct Tenant and Colbert, there are no other persons or entities with the right to use or occupy space in the Building. Lessee shall indemnify, defend and hold Lessor harmless from and against any cost, loss, liability, damage or expense (including, but not limited to, attorneys fees and court costs) incurred by Lessor because the foregoing representations and warranties are untrue in whole or in part. To the best of Lessee's actual knowledge shall mean to the actual knowledge of Ronald Morrison without duty of investigation.

6. Option to Extend - Paragraph 51 of the Original Lease is hereby deleted in its entirety and shall be of no further force or effect. Lessor hereby grants to Lessee the option to extend the term of the Lease for two (2) consecutive five (5)-year periods (the "Extension Options") commencing when the initial lease term expires (i.e., June 1, 2008) and when the first option term expires (i.e., June 1, 2013) upon each and all of the following terms and conditions:

(a) Lessee shall give to Lessor on a date which is prior to the date that the applicable option period would commence (if exercised) by at least one hundred eighty (180) days and not more than two hundred seventy (270) days, a

written notice of the exercise of the option to extend the Lease for said additional term, time being of the essence. Such notice shall be given in accordance with the requirements of the Original Lease. If notification of the exercise of an option is not so given and received, all options granted hereunder shall automatically expire.

(b) The provisions of section 39 of the Original Lease apply to the option granted hereunder.

(c) All of the terms and conditions of the Lease except where specifically modified by this section shall apply to each option term.

(d) The Base Rent payable during each option term shall be the Market Rate on the date the option is exercised pursuant to (a) above.

(e) The term "Market Rate" shall mean the annual amount per rentable square foot that a willing, comparable renewal tenant would pay and a willing, comparable landlord of a similar office building (with tenant improvements in similar condition) would accept at arm's length for similar space, giving appropriate consideration to the following matters: (i) annual rental rates per rentable square foot; (ii) the type of escalation clauses (including, but without limitation, operating expense, real estate taxes, and CPI) and the extent of liability under the escalation clauses (i.e., whether determined on a "net lease" basis or by increases over a particular base year or base dollar amount); (iii) rent abatement provisions reflecting free rent and/or no rent during the lease term; (iv) length of lease term; (v) size and location of premises being leased; and (vi) other generally applicable terms and conditions of tenancy for similar space; provided, however, Lessee shall not be entitled to any tenant improvement or refurbishment allowance. The Market Rate may also designate periodic rental increases, a new Base Year and similar economic adjustments. The Market Rate may also include fair market value charges for parking if similar single-tenant offices are charging for parking.

(f) If Lessee exercises the Extension Option, Lessor shall determine the Market Rate by using its good faith judgment. Lessor shall provide Lessee with written notice of such amount within fifteen (15) days after Lessee exercises an Extension Option. Lessee shall have fifteen (15) days ("Lessee's Review Period") after receipt of Lessors notice of the new rental within which to accept such rental. In the event Lessee fails to accept in writing such rental proposal by Lessor, then such proposal shall be deemed rejected, and Lessor and Lessee shall attempt to agree upon such Market Rate, using their best good faith efforts. If Lessor and Lessee fail to reach agreement within fifteen (15) days following Lessee's Review Period ("Outside Agreement Date"), then each party shall place in a separate sealed envelope their final proposal as to the Market Rate, and such determination shall be submitted to arbitration in accordance with subsections (i) through (v) below. In the event that Lessor fails to timely generate the initial notice of Lessor's opinion of the Market Rate, then Lessee may commence such negotiations by providing the initial notice, in which event Lessor shall have fifteen (15) days ("Lessor's Review Period") after receipt of Lessee's notice of the new rental within which to accept such rental. In the event Lessor fails to accept in writing such rental proposed by Lessee, then such proposal shall be deemed rejected, and Lessor and Lessee shall attempt in good faith to agree upon such Market Rate, using their best good faith efforts. If Lessor and Lessee fail to reach agreement within fifteen (15) days following Lessor's Review Period (which shall be, in such event, the "Outside Agreement Date" in lieu of the above definition of such date), then each party shall place in a separate sealed envelope their final proposal as to Market Rate, and such determination shall be submitted to arbitration in accordance with subsections (i) through (v) below.

ARBITRATION OF DISPUTES

(i) LESSOR AND LESSEE SHALL MEET WITH EACH OTHER WITHIN FIVE (5) BUSINESS DAYS AFTER THE OUTSIDE AGREEMENT DATE AND EXCHANGE THEIR SEALED ENVELOPES AND THEN OPEN SUCH ENVELOPES IN EACH OTHER'S PRESENCE. IF LESSOR AND LESSEE DO NOT MUTUALLY AGREE UPON THE MARKET RATE WITHIN ONE (1) BUSINESS DAY OF THE EXCHANGE AND OPENING OF ENVELOPES, THEN, WITHIN TEN (10) BUSINESS DAYS OF THE EXCHANGE AND OPENING OF ENVELOPES, LESSOR AND LESSEE SHALL AGREE UPON AND JOINTLY APPOINT A SINGLE ARBITRATOR WHO SHALL BY PROFESSION BE A REAL ESTATE BROKER OR AGENT WHO SHALL HAVE BEEN ACTIVE OVER THE FIVE (5) YEAR PERIOD ENDING ON THE DATE OF SUCH APPOINTMENT IN THE LEASING OF COMMERCIAL OFFICE BUILDINGS SIMILAR TO THE PREMISES IN THE GEOGRAPHICAL AREA OF THE PREMISES. NEITHER LESSOR NOR LESSEE SHALL CONSULT WITH SUCH BROKER OR AGENT AS TO HIS OR HER OPINION AS TO THE MARKET RATE PRIOR TO THE APPOINTMENT. THE DETERMINATION OF THE ARBITRATOR SHALL BE LIMITED SOLELY TO THE ISSUE OF WHETHER LESSOR'S OR LESSEE'S SUBMITTED MARKET RATE FOR THE PREMISES IS THE CLOSEST TO THE ACTUAL MARKET RATE FOR THE PREMISES AS DETERMINED BY THE ARBITRATOR, TAKING INTO ACCOUNT THE REQUIREMENTS FOR DETERMINING MARKET RATE SET FORTH HEREIN. SUCH ARBITRATOR MAY HOLD SUCH HEARINGS AND REQUIRE SUCH BRIEFS AS THE ARBITRATOR, IN HIS OR HER SOLE DISCRETION, DETERMINES IS NECESSARY. IN ADDITION, LESSOR OR LESSEE MAY SUBMIT TO THE ARBITRATOR WITH A COPY TO THE OTHER PARTY WITHIN FIVE (5) BUSINESS DAYS AFTER THE APPOINTMENT OF THE ARBITRATOR ANY MARKET DATA AND ADDITIONAL INFORMATION SUCH PARTY DEEMS RELEVANT TO THE DETERMINATION OF THE MARKET RATE ("RR DATA"), AND THE OTHER PARTY MAY SUBMIT A REPLY IN WRITING WITHIN FIVE (5) BUSINESS DAYS AFTER RECEIPT OF SUCH RR DATA.

(ii) THE ARBITRATOR SHALL, WITHIN THIRTY (30) DAYS OF HIS OR HER APPOINTMENT, REACH A DECISION AS TO WHETHER THE PARTIES SHALL USE LESSOR'S OR LESSEE'S SUBMITTED MARKET RATE AND SHALL NOTIFY LESSOR AND LESSEE OF SUCH DETERMINATION.

(iii) THE DECISION OF THE ARBITRATOR SHALL BE FINAL AND BINDING UPON LESSOR AND LESSEE.

(iv) IF LESSOR AND LESSEE FAIL TO AGREE UPON AND APPOINT AN ARBITRATOR, THEN THE APPOINTMENT OF THE ARBITRATOR SHALL BE MADE BY THE PRESIDING JUDGE OF THE ORANGE COUNTY SUPERIOR COURT, OR, IF HE OR SHE REFUSES TO ACT, BY ANY JUDGE HAVING JURISDICTION OVER THE PARTIES.

(v) THE COST OF THE ARBITRATION SHALL BE PAID BY THE PARTY WHOSE MARKET RATE IS NOT SELECTED BY THE ARBITRATOR.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

/s/ MR	/s/ RM
(Lessor initials)	(Lessee initials)

7. Building Services. Notwithstanding anything to the contrary contained in the Lease, Building services shall be provided Monday through Friday from 6:00 a.m. to 6:00 p.m. and Saturdays from 9:00 a.m. to 1:00 p.m. Janitorial services shall be provided Sunday through Thursday, except on holidays. HVAC and other Building services shall not be provided at other times or on nationally recognized holidays. Nationally recognized holidays shall include New Years Day, Martin Luther King Jr. Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Lessor shall use its best efforts to provide HVAC to Lessee at times other than those set forth above subject to the payment by Lessee of the actual cost of providing HVAC after hours.

8. Parking. Lessor shall have the right to gate the parking areas used by Lessee. In addition, Lessor shall have the right to require Lessee to participate in any reasonable parking control or security measures adopted by Lessor. Lessor shall have the right to require the employees of Lessee to use a parking card or similar device to gain entry to the parking area and to pay the reasonable cost of replacing any lost or stolen parking card or similar device.

9. Brokers. Lessee and Lessor each represent and warrant to the other that neither have had any dealings with any person, firm or broker in connection with the negotiation of this Second Amendment and/or consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity is entitled to any commission or finder's fee in connection with this Second Amendment. Lessee and Lessor hereby agree to indemnify, defend, protect and hold harmless the other from and against liability for compensation or charges which may be claimed by any broker, finder or other similar party by reason of any dealings or actions of the indemnifying party, including any costs, expenses or attorneys' fees reasonably incurred with respect thereto.

10. General. Except as modified by this Second Amendment, all terms and conditions of the Lease shall remain unmodified and in full force and effect. Unless otherwise defined herein, capitalized terms used in this Second Amendment shall have the same meaning as capitalized terms used in the Lease.

11. Counterparts. This Second Amendment may be executed in counterparts. Each counterpart shall be deemed an original, and all counterparts shall be deemed the same instrument with the same effect as if all parties hereto had signed the same signature page.

IN WITNESS WHEREOF, the parties hereby execute this Second Amendment as of the date first written above.

LESSOR	LESSEE
THE REALTY ASSOCIATES FUND V, L.P., a Delaware limited partnership By: Realty Associates Fund V LLC, a	IMPAC MORTGAGE HOLDINGS, INC ., a Maryland corporation

Massachusetts limited liability company,
general partner

By: /s/ Ronald Morrison

Its: Secretary

By: Realty Associates Advisors LLC,
a Delaware limited liability company,
Manager

IMPAC FUNDING CORPORATION
California corporation

By: Realty Associates Advisors
Trust, a Massachusetts
business trust, sole member

By: /s/ Ronald Morrison

Its: Secretary

By: /s/ Michael Ruane

Officer