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 March 31, 2003 or

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

For the transition period from __________ to __________.

Commission File Number: 1-14100

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

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

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

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

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
Preferred Share Purchase Rights	American Stock Exchange

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

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

As of April 30, 2003 the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $647.7 million, based on the closing sales price of common stock on the American Stock Exchange on that date. For purposes of the calculation only, in addition to affiliated companies, all directors and executive officers of the registrant have been deemed affiliates. There were 49,196,734 shares of Common Stock outstanding as of April 30, 2003.

IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
- Consolidated Balance Sheets as of March 31, 2003 and December 31, 2002 1
- Consolidated Statements of Operations and Comprehensive Earnings, For the Three Months Ended March 31, 2003 and 2002 2
- Consolidated Statements of Cash Flows, For the Three Months Ended March 31, 2003 and 2002 3
- Notes to Consolidated Financial Statements 4

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 12
- Forward-Looking Statements 12
- Available Information 12
- General and Business Operations 12
- Critical Accounting Policies 13
- Financial Highlights for the First Quarter of 2003 14
- Results of Operations--Impac Mortgage Holdings, Inc 14
- Results of Operations--Impac Funding Corporation 22
- Liquidity and Capital Resources 24
- Risk Factors 28

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 42

ITEM 4. CONTROLS AND PROCEDURES 44

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS 44

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS......................... 44

ITEM 3. DEFAULTS UPON SENIOR SECURITIES................................... 44

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS............... 44

ITEM 5. OTHER INFORMATION... 44

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.................................. 44

SIGNATURES.. 46

CERTIFICATIONS.. 47

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)
(unaudited)

	March 31, 2003	December 31, 2002
ASSETS		
Cash and cash equivalents	$ 113,532	$ 113,345
Investment securities available-for-sale	25,211	26,065
Loans Receivable:		
CMO collateral	6,248,796	5,149,680
Finance receivables	831,535	1,140,248
Mortgages held-for-investment	72,932	57,536
Allowance for loan losses	(29,761)	(26,602)
Net loans receivable	7,123,502	6,320,862
Accrued interest receivable	29,455	28,287
Investment in Impac Funding Corporation	21,388	20,787
Derivative assets	19,232	14,931
Due from affiliates	14,500	14,500
Other real estate owned	14,052	11,116
Other assets	34,622	1,880
Total assets	$ 7,395,494	$ 6,551,773
LIABILITIES		
CMO borrowings	$ 6,151,048	$ 5,041,751
Reverse repurchase agreements	857,638	1,168,029
Borrowings secured by investment securities available-for-sale	5,132	7,134
Accumulated dividends payable	24,598	21,754
Other liabilities	6,229	9,617
Total liabilities	7,044,645	6,248,285
STOCKHOLDERS' EQUITY		
Preferred stock; $0.01 par value; 7,500,000 shares authorized; none outstanding at March 31, 2003 and December 31, 2002, respectively	--	--
Series A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none outstanding at March 31, 2003 and December 31, 2002	--	--
Common stock; $0.01 par value; 200,000,000 shares authorized; 49,196,734 and 45,320,517 shares outstanding at March 31, 2003 and December 31, 2002, respectively	492	453
Additional paid-in capital	521,562	479,298
Accumulated other comprehensive loss	(37,610)	(41,721)
Net accumulated deficit:		
Cumulative dividends declared	(225,552)	(200,954)
Retained earnings	91,957	66,412
Net accumulated deficit	(133,595)	(134,542)
Total stockholders' equity	350,849	303,488
Total liabilities and stockholders' equity	$ 7,395,494	$ 6,551,773

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE EARNINGS

(in thousands, except earnings per share data)
(unaudited)

	For the Three Months Ended March 31,	
	2003	2002
INTEREST INCOME:		
Mortgage Assets	$ 75,478	$ 42,426
Other interest income	681	642
Total interest income	76,159	43,068
INTEREST EXPENSE:		
CMO borrowings	41,684	22,406
Reverse repurchase agreements	6,790	4,290
Borrowings secured by investment securities available-for-sale	632	549
Other borrowings	251	176
Total interest expense	49,357	27,421
Net interest income	26,802	15,647
Provision for loan losses	6,484	3,707
Net interest income after provision for loan losses	20,318	11,940
NON-INTEREST INCOME:		
Equity in net earnings of Impac Funding Corporation	5,167	4,609
Other income	2,643	1,043
Total non-interest income	7,810	5,652
NON-INTEREST EXPENSE:		
Professional services	1,037	860
General and administrative expense	764	79
Personnel expense	692	401
Loss (gain) on disposition of other real estate owned	90	(436)
Write-down on investment securities available-for-sale	--	1,039
Total non-interest expense	2,583	1,943
Net earnings	25,545	15,649
OTHER COMPREHENSIVE EARNINGS:		
Unrealized holding losses on securities arising during period	--	(1,230)
Unrealized holding gains on hedging instruments arising during period	3,589	10,407
Reclassification of (gains) losses included in net earnings	522	(224)
Net unrealized gains arising during period	4,111	8,953
Other comprehensive earnings	$ 29,656	$ 24,602
NET EARNINGS PER SHARE:		
Basic	$ 0.54	$ 0.44
Diluted	$ 0.53	$ 0.43
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.50	$ 0.40

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

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

	For the Three Months Ended March 31, 2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 25,545	$ 15,649
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in net earnings of Impac Funding Corporation	(5,167)	(4,609)
Provision for loan losses	6,484	3,707
Amortization of loan premiums and securitization costs	14,299	7,306
Gain (loss) on disposition of other real estate owned	(90)	436
Write-down of investment securities available-for-sale	--	1,039
Net change in accrued interest receivable	(1,168)	(1,634)
Net change in other assets and liabilities	(40,431)	(1,299)
Net cash (used in) provided by operating activities	(528)	20,595
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in CMO collateral	(1,117,985)	(330,518)
Net change in finance receivables	308,622	(172,840)
Net change in mortgage loans held-for-investment	(18,971)	10,126
Proceeds from sale of other real estate owned, net	5,590	2,200
Dividend from Impac Funding Corporation	4,455	1,980
Net principal reductions on investment securities available-for-sale	1,551	1,347
Net cash used in investing activities	(816,738)	(487,705)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in reverse repurchase agreements and other borrowings	(312,393)	104,866
Proceeds from CMO borrowings	1,483,605	495,000
Repayments of CMO borrowings	(374,308)	(175,674)
Dividends paid	(21,754)	(14,081)
Proceeds from sale of common stock	37,778	56,968
Proceeds from sale of common stock via Sales Agency Agreement	4,083	--
Proceeds from exercise of stock options	442	51
Reductions on notes receivable-common stock	--	920
Net cash provided by financing activities	817,453	468,050
Net change in cash and cash equivalents	187	940
Cash and cash equivalents at beginning of period	113,345	51,887
Cash and cash equivalents at end of period	$ 113,532	$ 52,827
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 48,485	$ 27,534
NON-CASH TRANSACTIONS:		
Transfer of mortgages held-for-investment to CMO collateral	$ 1,436,221	$ 499,996
Transfer of mortgages to other real estate owned	8,436	1,488
Dividends declared and unpaid	24,598	15,766
Other comprehensive earnings	4,111	8,953

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1--Basis of Financial Statement Presentation

The accompanying consolidated financial statements of Impac Mortgage Holdings, Inc. (IMH) and subsidiaries, collectively, (the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002.

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with 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.

The Company's results of operations have been presented in the consolidated financial statements for the three-months ended March 31, 2003 and 2002 and include the financial results of equity interest in net earnings of Impac Funding Corporation (IFC). The results of operations of IFC, of which 100% of IFC's preferred stock and 99% of its economic interest is owned by IMH, are included in the results of operations as "Equity in net earnings of Impac Funding Corporation." Additionally, the Company's results of operations include the financial results of its subsidiaries, which are IMH Assets Corporation (IMH Assets), Impac Warehouse Lending Group (IWLG) and Impac Multifamily Capital Corporation (IMCC).

Note 2--Earnings Per Share

The following table presents the computation of basic and diluted net earnings per share as if all stock options were outstanding for the periods indicated (in thousands, except net earnings per share):

	For the Three Months Ended March 31,	
	2003	2002
Numerator for earnings per share:		
Net earnings	$ 25,545	$ 15,649
Denominator for earnings per share:		
Basic weighted average number of common shares outstanding	47,069	35,926
Net effect of dilutive stock options	827	473
Diluted weighted average common and common equivalent shares	47,896	36,399
Net earnings per share:		
Basic	$ 0.54	$ 0.44
Diluted	$ 0.53	$ 0.43

The Company had 20,000 and 1,500 stock options during the three months ended March 31, 2003 and 2002, respectively, that were not considered in the calculation of diluted weighted average common and common equivalent shares as the exercise price of the stock options were greater than the average market price during the periods.

Note 3--Stock Options

Stock options and awards may be granted to the directors, officers and key employees of the Company. The exercise price for any non-qualified stock option (NQSO) or incentive stock option (ISO) granted may not be less than 100% (or 110% in the case of ISOs granted to an employee who is deemed to own in excess of 10% of the outstanding common stock) of the fair market value of the shares of common stock at the time the NQSO or ISO is granted. Grants under stock option plans are made and administered by the board of directors. IMH currently has a 1995 Stock Option, Deferred Stock and Restricted Stock Plan (1995 Plan). During 2001 the board of directors and stockholders approved a new Stock Option, Deferred Stock and Restricted Stock Plan (2001 Plan), collectively, (the Stock Option Plans). Each Stock Option Plan provides for the grant of qualified incentive stock options (ISOs), options not qualified (NQSOs), deferred stock, and restricted stock, and, in the case of the 2001 Plan, dividend equivalent rights and, in the case of the 1995 Plan, stock appreciation rights and limited stock appreciation rights awards (Awards).

In December 2002 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148), an amendment of FASB Statement No. 123, "Accounting for Stock-Based Compensation," (SFAS 123). SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. On December 15, 2002 IMH adopted the disclosure requirements of SFAS 148. SFAS No. 123 established financial accounting standards for stock-based employee compensation plans, which permits management to choose either a fair value based method or an intrinsic value based method of accounting for its stock-based compensation arrangements in accordance with APB Opinion No. 25 (APB 25). SFAS 123 requires pro forma disclosures of net earnings (loss) computed as if the fair value based method had been applied in financial statements of companies that continue to follow the intrinsic value method in accounting for such arrangements under APB 25. SFAS 123 applies to all stock-based employee compensation plans in which an employer grants shares of its stock or other equity instruments to employees except for employee stock ownership plans. SFAS 123 also applies to plans in which the employer incurs liabilities to employees in amounts based on the price of the employer's stock, i.e., stock option plans, stock purchase plans, restricted stock plans and stock appreciation rights. The statement also specifies the accounting for transactions in which a company issues stock options or other equity instruments for services provided by non-employees or to acquire goods or services from outside suppliers or vendors.

As of March 31, 2003 the Company had fixed stock option plans, which it accounted for using the intrinsic value method in accordance with APB 25 and which did not require the recognition of compensation cost. However, if compensation cost for stock-based compensation plans had been recognized using the fair value based method consistent with SFAS 123, as amended by SFAS 148, net earnings and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands of dollars, except per share amounts):

	For the Three Months Ended March 31,	
	2003	2002
Net earnings as reported	$ 25,545	$ 15,649
Less: Total stock-based employee compensation expense using the fair value method	(136)	(77)
Pro forma net earnings	$ 25,409	$ 15,572
Net earnings per share as reported:		
Basic	$ 0.54	$ 0.44
Diluted	$ 0.53	$ 0.43
Pro forma net earnings:		
Basic	$ 0.54	$ 0.43
Diluted	$ 0.53	$ 0.43

There were no stock options granted during the first quarter of 2003, therefore, pro forma net earnings and net earnings per share reflect the amortization of previously granted stock options which are amortized as expense over the stock option life in determining the pro forma impact. The derived fair value of stock options granted during the first quarter of 2002 was approximately $0.70 per stock option, which is derived based on the stock option date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the Three Months Ended March 31, 2002
Risk-free interest rate........................	1.45%
Expected lives (in years)......................	3-10
Expected volatility............................	35.07%
Expected dividend yield........................	10.00%

Note 4--Segment Reporting

The Company internally reviews and analyzes its operating segments as follows:

- the long-term investment operations, conducted by IMH, IMH Assets and IMCC, invests primarily in non-conforming Alt-A residential mortgages (Alt-A mortgages) acquired from the mortgage operations, small-balance multi-family mortgages originated by IMCC and mortgage-backed securities secured by or representing interests in mortgages;

- the warehouse lending operations, conducted by IWLG, provides warehouse financing to affiliated companies and to approved mortgage bankers, some of which are correspondents of IFC, to finance mortgages; and

- the mortgage operations, conducted by IFC, acquires and originates primarily Alt-A mortgages and, to a lesser extent, sub-prime mortgages and second mortgages from its network of third party correspondents, mortgage brokers and retail customers.

The following table presents business segments as of and for the three months ended March 31, 2003 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	Inter-Company Eliminations (1)	Consolidated
Balance Sheet Items:				
CMO collateral and mortgages held-for-investment	$ 6,321,728	$ --	$ --	$ 6,321,728
Finance receivables	--	893,907	(62,372)	831,535
Total assets	6,800,997	957,636	(363,139)	7,395,494
Total stockholders' equity	554,507	96,999	(300,657)	350,849
Income Statement Items:				
Net interest income	$ 20,732	$ 6,070	$ --	$ 26,802
Provision for loan losses	5,889	595	--	6,484
Non-interest income (2)	1,283	1,360	5,167	7,810
Non-interest expense	1,485	1,098	--	2,583
Net earnings	$ 14,641	$ 5,737	$ 5,167	$ 25,545

The following table presents business segments as of and for the three months ended March 31, 2002 (in thousands):

	Long-Term Investment Operations	Warehouse Lending Operations	Inter-Company Eliminations (1)	Consolidated
Balance Sheet Items:				
CMO collateral and mortgages held-for-investment	$ 2,572,380	$ 123	$ --	$ 2,572,503
Finance receivables	--	639,489	--	639,489
Total assets	2,885,218	655,436	(191,426)	3,349,228
Total stockholders' equity	385,686	75,880	(191,426)	270,140
Income Statement Items:				
Net interest income	$ 12,475	$ 3,172	$ --	$ 15,647
Provision for loan losses	3,438	269	--	3,707
Non-interest income (2)	66	977	4,609	5,652
Non-interest expense	1,180	763	--	1,943
Net earnings	$ 7,923	$ 3,117	$ 4,609	$ 15,649

(1) Elimination of inter-company balance sheet and income statement items.

(2) Non-interest income in the inter-company eliminations column is equity in net earnings of IFC, which is an unconsolidated qualified REIT subsidiary of IMH and is accounted for using the equity method.

Note 5--Allowance for Loan Losses

An allowance is maintained for losses on mortgages held-for-investment, mortgages held as CMO collateral and finance receivables at an amount that management believes is sufficient to provide adequate protection against inherent losses in the mortgage loan investment portfolio. A provision is recorded for loans deemed to be uncollectible thereby increasing the allowance for loan losses. Subsequent recoveries on mortgages previously charged off are credited back to the allowance. The provision for estimated loan losses is primarily based on a migration analysis based on historical loss statistics, including cumulative loss percentages and loss severity, of similar mortgages in our mortgage loan investment portfolio. The loss percentage is used to determine the estimated inherent losses in the mortgage loan investment portfolio. Provision for loan losses is also determined based on the following:

- management's judgment of the net loss potential of mortgages in our mortgage loan investment portfolio based on prior loan loss experience;
- changes in the nature and volume of the mortgage loan investment portfolio;
- value of the collateral;
- delinquency trends; and
- current economic conditions that may affect the borrowers' ability to pay.

The following table presents activity for allowance for loan losses for the periods shown (in thousands):

	For the Three Months Ended	
	March 31, 2003	December 31, 2002
Beginning balance	$ 26,602	$ 21,564
Provision for loan losses	6,484	6,546
Charge-offs, net of recoveries	(3,325)	(1,508)
Ending balance	$ 29,761	$ 26,602

Note 6--Derivative Instruments and Hedging Activities

Management follows a hedging program intended to limit its exposure to changes in interest rates primarily associated with cash flows on CMO borrowings. Management's primary objective is to hedge exposure to the variability in future

cash flows attributable to the variability of one-month LIBOR, which is the underlying index of adjustable rate CMO borrowings. Management also monitors on an ongoing basis the prepayment risks that arise in fluctuating interest rate environments. Management's hedging program is formulated with the intent to offset the potential adverse effects of changing interest rates on cash flows on CMO borrowings resulting from the following:

- interest rate adjustment limitations on CMO collateral due to periodic and lifetime interest rate cap features; and
- mismatched interest rate adjustment periods between mortgages held as CMO collateral and CMO borrowings.

To mitigate exposure to the effect of changing interest rates on cash flows on CMO borrowings, IMH purchases derivatives in the form of interest rate cap agreements (Caps) interest rate floor agreements (Floors) and interest rate swap agreements (Swaps). A Cap or Floor is a contractual agreement for which IMH pays a fee. If prevailing interest rates reach levels specified in the Cap or Floor agreement IMH may either receive or pay cash. A Swap is generally a contractual agreement that obligates one party to receive or make cash payments based on an adjustable rate index and the other party to receive or make cash payments based on a fixed rate. Swaps have the effect of fixing borrowing costs on a similar amount of Swaps and, as a result, can reduce the interest rate variability of borrowings. Management's objective is to lock in a reliable stream of cash flows when interest rates fall below or rise above certain levels. For instance, when interest rates rise, borrowing costs may increase at greater speeds than the underlying collateral supporting the borrowings. These derivatives hedge the variability of forecasted cash flows attributable to CMO borrowings and protect net interest income by providing cash flows at certain triggers during changing interest rate environments. In all hedging transactions counter-parties must have a highly rated credit rating as determined by various credit rating agencies.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138, collectively, (SFAS 133), established accounting and reporting standards for derivative instruments, including a number of 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 specific conditions are met, a derivative may be specifically designated as (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) 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.

On January 1, 2001 IMH adopted SFAS 133 and the fair value of derivatives were reflected in financial condition and results of operations. On August 10, 2001 the Derivatives Implementation Group (DIG) of the FASB published DIG G20, which further interpreted SFAS 133. On October 1, 2001 IMH adopted the provisions of DIG G20 and net income and accumulated other comprehensive income were adjusted by the amount needed to reflect the cumulative impact of adopting the provisions of DIG G20.

Caps qualify as derivatives under provisions of SFAS 133. The hedging instrument is the specific LIBOR Cap that is hedging the LIBOR based CMO borrowings. The nature of the risk being hedged is the variability of the cash flows associated with the LIBOR borrowings. Prior to the adoption of DIG G20 management assessed the hedging effectiveness of its Caps utilizing only the intrinsic value of the Caps. DIG G20 allows management to utilize the terminal value of the Caps to assess effectiveness. DIG G20 also allows for amortization of the initial fair value of the Caps over the life of the Caps based on the maturity date of the individual caplets. Upon adoption of DIG G20 net income and accumulated other comprehensive income were adjusted by the amount needed to reflect the cumulative impact of adopting the provisions of DIG G20. Subsequent to the adoption of DIG G20 Caps are considered effective hedges and are marked to market each reporting period with the entire change in market value being recognized in accumulated other comprehensive income.

Floors and Swaps qualify as cash flow hedges under the provisions of SFAS 133. The hedging instrument is the specific LIBOR Floor or Swap that is hedging the LIBOR based CMO borrowings. The nature of the risk being hedged is the variability of the cash flows associated with the LIBOR borrowings. Prior to DIG G20 these derivatives were marked to market with the entire change in the market value of the intrinsic component recognized in accumulated other comprehensive income each reporting period. The time value component of these agreements were marked to market and recognized in non-interest expense in the statement of operations. Subsequent to the adoption of DIG G20 these derivatives are marked to market with the entire change in the market value recognized in accumulated other comprehensive income.

Effectiveness of derivatives is measured by the fact that the hedged item, CMO borrowings, and the derivative is based on one-month LIBOR. As both instruments are tied to the same index, the hedge is expected to be highly effective both at inception and on an ongoing basis. Management assesses the effectiveness and ineffectiveness of the hedging instruments at the inception of the hedge and at each reporting period. Based on the fact that, at inception, the critical terms of the hedges and forecasted CMO borrowings are the same, management has concluded that the changes in cash flows attributable to the risk being hedged are expected to be completely offset by the derivatives, subject to subsequent assessments that the critical terms have not changed.

The following table presents certain information related to derivatives and the related component in the financial statements as of March 31, 2003 (dollars in thousands):

	Fair Value of Derivatives	Index	Related Amount in OCI	Unamortized Derivative Instruments	Related Amount in Derivative Asset Account	Related Amount in CMO Collateral
Derivatives not associated with CMOs	$ (10,875)	1 mo. LIBOR	$ (6,193)	$ (4,682)	$ (10,875)	$ --
Cash in margin account	30,107	N/A	--	--	30,107	--
Derivatives associated with CMOs	(31,951)	1 mo. LIBOR	(39,343)	7,392	--	(31,951)
99% OCI activity at IFC	--	Fannie Mae	(1,131)	--	--	--
Totals	$ (12,719)		$ (46,667)	$ 2,710	$ 19,232	$ (31,951)

The following table presents certain information related to derivatives and the related component in the financial statements as of December 31, 2002 (dollars in thousands):

	Fair Value of Derivatives	Index	Related Amount in OCI	Unamortized Derivative Instruments	Related Amount in Derivative Asset Account	Related Amount in CMO Collateral
Derivatives not associated with CMOs	$ (15,515)	1 mo. LIBOR	$ (9,693)	$ (5,822)	$ (15,515)	$ --
Cash in margin account	30,446	N/A	--	--	30,446	--
Derivatives associated with CMOs.	(30,332)	1 mo. LIBOR	(39,464)	9,132	--	(30,332)
99% of OCI activity at IFC	--	Fannie Mae	(1,035)	--	--	--
Totals	$ (15,401)		$ (50,192)	$ 3,310	$ 14,931	$ (30,332)

Note 7--Income Taxes

The Company operates so as to qualify as a REIT under the requirements of the Internal Revenue Code (the Code). Requirements for qualification as a REIT include various restrictions on ownership of IMH's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% must be distributed within the taxable year in order to avoid the imposition of an excise tax and the remaining balance may extend until timely filing of its tax return in its subsequent taxable year. Qualifying distributions of its taxable income are deductible by a REIT in computing its taxable income. If in any tax year the Company should not qualify as a REIT, it would be taxed as a corporation and distributions to the stockholders would not be deductible in computing taxable income. If the Company were to fail to qualify as a REIT in any tax year, it would not be permitted to qualify for that year and the succeeding four years. As of December 31, 2002 the Company had estimated federal and state net operating loss tax carry-forwards of approximately $16.7 million, which expire in the year 2020 and 2010, respectively, that are available to offset future taxable income.

Note 8--Investment in Impac Funding Corporation

The Company is entitled to 99% of the earnings or losses of IFC through its ownership of 100% of the non-voting preferred stock of IFC. As such, the Company records its investment in IFC using the equity method. Under this method, original investments are recorded at cost and adjusted by the Company's share of earnings or losses. The following tables present unaudited consolidated financial information for interim periods and audited consolidated financial information as of December 31, 2002 for Impac Funding Corporation (in thousands):

BALANCE SHEETS

	March 31, 2003	December 31, 2002
ASSETS		
Cash and cash equivalents	$ 30,303	$ 22,773
Securities available-for-sale	127	129
Mortgages held-for-sale	344,987	495,877
Mortgage and master servicing rights	7,811	8,274
Premises and equipment, net	5,271	4,948
Accrued interest receivable	875	430
Other assets	41,245	43,155
Total assets	$ 430,619	$ 575,586
LIABILITIES		
Borrowings from IWLG	$ 339,962	$ 491,383
Due to affiliates	14,500	14,500
Deferred revenue	6,713	5,088
Accrued interest expense	758	1,068
Other liabilities	47,081	42,550
Total liabilities	409,014	554,589
SHAREHOLDERS' EQUITY		
Preferred stock	18,053	18,053
Common stock	182	182
Retained earnings	31,187	25,968
Cumulative dividends declared	(26,484)	(21,984)
Accumulated other comprehensive loss	(1,333)	(1,222)
Total shareholders' equity	21,605	20,997
Total liabilities and shareholders' equity	$ 430,619	$ 575,586

STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2003	2002
Net interest income:		
Total interest income	$ 8,764	$ 6,646
Total interest expense	5,575	4,975
Net interest income	3,189	1,671
Non-interest income:		
Gain on sale of loans	22,033	16,158
Loan servicing expense	(634)	(357)
Other non-interest income	19	1,735
Total non-interest income	21,418	17,536
Non-interest expense:		
Personnel expense	8,063	5,573
General and administrative expense	5,324	4,090
Amortization and impairment of mortgage and master servicing rights	1,997	1,499
Provision for repurchases	356	435
Mark-to-market gain - SFAS 133	(165)	(448)
Total non-interest expense	15,575	11,149
Net earnings before income taxes	9,032	8,058
Income taxes	3,813	3,403
Net earnings	5,219	4,655
Less: Cash dividends on preferred stock	(4,455)	(1,980)
Net earnings available to common shareholders	$ 764	$ 2,675

Note 9--Recent Accounting Pronouncements

In June 2001 the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), which requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs as a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company also records a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company was required to adopt SFAS No. 143 on January 1, 2003. The adoption of SFAS 143 did not have a material effect on the Company's financial statements.

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" (SFAS 145). SFAS 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of SFAS 145 related to the rescission of SFAS 4 was applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of SFAS 145 related to SFAS 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS 145 did not have a material effect on the Company's financial statements.

In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. The adoption of SFAS 146 did not have a material effect on the Company's financial statements.

In November 2002 the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34 (FIN 45). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002.

In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148), an amendment of SFAS No. 123 "Accounting for Stock-Based Compensation," (SFAS 123). SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. Certain portions of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements. The Company has adopted the disclosure requirement of SFAS 148 and will continue to account for stock options using the intrinsic value method.

In January 2003 the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" (FIN 46). FIN 46 addresses the consolidation by business enterprises of variable interest entities as defined in FIN 46. FIN 46 applies immediately to variable interests in variable interest entities created after January 31, 2003 and to variable interests in variable interest entities obtained after January 31, 2003. For nonpublic enterprises, such as IFC, with a variable interest in a variable interest entity created before February 1, 2003 FIN 46 is applied to the enterprise no later than the end of the first reporting period beginning after June 15, 2003. IMH is subject to a majority of the risk of loss from IFC and will therefore need to be included as a consolidated entity upon adoption of FIN 46. The result of this consolidation would be the elimination of certain inter-company balances and certain gains or losses. The adoption of FIN 46 will likely be immaterial on the results of operations of the Company as 99% of the earnings or losses of IFC are currently included in the Company's financial statements through its ownership of all of the non-voting preferred stock of IFC. However, the Company's balance sheet will reflect IFC's assets, net of inter-company eliminations, when consolidated.

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

Forward-Looking Statements

This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "plan," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements, including, among other things, failure to achieve projected earning levels, the timely and successful implementation of strategic initiatives, the ability to generate sufficient liquidity, the ability to access the capital markets, interest rate fluctuations on our assets that differ from those on our liabilities, increase in prepayment rates on our mortgage assets, changes in assumptions regarding estimated loan losses or interest rates, the availability of financing and, if available, the terms of any financing, changes in estimations of acquisition and origination and resale pricing of mortgages, changes in markets which we serve, including the market for Alt-A mortgages, changes in general market and economic conditions and other factors described in this quarterly report. For a discussion of the risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements see "Risk Factors" in this quarterly report. We do not undertake, and specifically disclaim any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Available Information

Our Internet website address is www.impaccompanies.com. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statement for our annual shareholders' meetings, as well as any amendments to those reports, available free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or "SEC." You can learn more about us by reviewing our SEC filings on our website by clicking on "Investor Relations" located on our home page. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including the Company.

General and Business Operations

Unless the context otherwise requires, the terms "we," "us," and "our" refer to Impac Mortgage Holdings, Inc., a Maryland corporation incorporated in August 1995, and its subsidiaries, IMH Assets Corp., or "IMH Assets," Impac Warehouse Lending Group, Inc., or "IWLG," Impac Multifamily Capital Corporation, or "IMCC," and its affiliate Impac Funding Corporation, or "IFC." References to Impac Mortgage Holdings, Inc., or "IMH," are made to differentiate IMH, the publicly traded company, as a separate entity from IMH Assets, IWLG, IMCC and IFC.

We are a mortgage real estate investment trust, or "REIT." Together with our subsidiaries and affiliate we are a nationwide acquirer and originator of non-conforming Alt-A mortgages, or "Alt-A mortgages." Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines, but have loan characteristics that make them non-conforming under those guidelines. Some of the principal differences between mortgages purchased by Fannie Mae and Freddie Mac and Alt-A mortgages are as follows:

- credit and income histories of the mortgagor;
- documentation required for approval of the mortgagor; and
- applicable loan-to-value ratios.

For instance, Alt-A mortgages that we acquire may have higher loan-to-value, or "LTV," ratios than allowable under Fannie Mae or Freddie Mac guidelines, although, some Alt-A mortgages that we acquire may include private mortgage insurance when appropriate. Furthermore, Alt-A mortgages that we acquire and originate may not have certain documentation or verifications that are required by Fannie Mae and Freddie Mac. Therefore, in making our credit decisions, we are more reliant upon the borrower's credit score and the adequacy of the underlying collateral. We believe that Alt-A mortgages provide an attractive net earnings profile by producing higher yields without commensurately higher

credit losses than other types of mortgages. Since 1999 we have acquired and originated primarily Alt-A mortgages. We also provide warehouse and repurchase financing to originators of mortgages. Our goal is to generate consistent reliable income for distribution to our stockholders primarily from earnings generated by our mortgage loan investment portfolio. We operate the following core businesses:

- long-term investment operations;
- mortgage operations; and
- warehouse lending operations.

The long-term investment operations invest primarily in adjustable and fixed rate Alt-A mortgages that are acquired and originated by our mortgage operations and small-balance multi-family mortgages originated by IMCC. This business primarily generates net interest income from its mortgage loan investment portfolio and, to a lesser extent, its investment securities portfolio. Our investment in Alt-A mortgages and small-balance multi-family mortgages, or "multi-family mortgages," is financed with cash flow from the mortgage loan investment portfolio, collateralized mortgage obligations, or "CMO," financing, short-term borrowings under reverse repurchase agreements and proceeds from the sale of capital stock.

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

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

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations and require estimates and assumptions based on our judgment of changing market conditions and the performance of our assets and liabilities at any given time. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations including the following:

- allowance for loan losses; and
- investment securities.

Allowance for loan losses. In evaluating the adequacy of the allowance for loan losses management takes several items into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. It is analyzed for loss performance and prepayment performance by product type, origination year and securitization deal. The results of that analysis are then applied to the current mortgage loan investment portfolio and an estimate is created. In accordance with Statement of Financial Accounting Standards No. 5, management believes that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the allowance for loan losses. In addition, management acknowledges that there are mortgages in the mortgage loan investment portfolio that were acquired and not underwritten within the mortgage operations specific guidelines. As such, management does not have historical loss performance data in which to capture and make a specific allowance for those mortgages. Therefore, management must include an additional allowance for loan losses for those mortgages not underwritten to our specific guidelines.

Management also recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring potential impairment in the mortgage loan investment portfolio. These items include, but are not limited to, economic indicators that may affect the borrower's ability to pay, political factors and industry statistics. From an industry

standpoint, there is a wide range of allowance for loan loss levels that are maintained by our competitors. For additional information regarding provision for loan losses refer to "Results of Operations--Impac Mortgage Holdings, Inc.--Provision for Loan Losses" below.

Investment securities. Investment securities consist primarily of subordinated mortgage-backed securities that are classified as available-for-sale and are therefore recorded at fair value. Any changes in the fair market value of these investment securities are reported as a component of accumulated other comprehensive income in stockholders' equity. To determine the fair value of investment securities available-for-sale, management must estimate future rates of mortgage prepayments, prepayment penalties to be received, delinquency rates, constant default rates and default loss severity and their impact on estimated cash flows. Estimates are based on historical loss data for comparable mortgages. Management estimates mortgage prepayments by evaluating historical prepayment performance of comparable mortgages and trends in the industry. Management determines the estimated fair value of the residuals by discounting the expected cash flows using a discount rate, which it believes is commensurate with the risks involved. If management's estimates and assumptions used in determining future cash flows on mortgage-backed securities vary significantly from actual cash flows, we may be required to record impairment on the mortgage-backed securities, which would require us to write-down the carrying amount of the mortgage-backed securities through earnings.

Financial Highlights for the First Quarter of 2003

- Earnings per share increased to $0.53 compared to $0.50 for the fourth quarter of 2002 and $0.43 for the first quarter of 2002;
- Estimated taxable income per share was $0.58 compared to $0.58 for the fourth quarter of 2002 and $0.44 for the first quarter of 2002;
- Cash dividends declared per share increased to $0.50 compared to $0.48 for the fourth quarter of 2002 and $0.40 for the first quarter of 2002;
- Total assets increased to $7.4 billion as of March 31, 2003 from $6.6 billion as of December 31, 2002 and $3.3 billion as of March 31, 2002;
- Book value per share increased to $7.13 as of March 31, 2003 compared to $6.70 as of December 31, 2002 and $6.85 as of March 31, 2002;
- Total market capitalization increased to $639.1 million as of March 31, 2003 compared to $521.2 million as of December 31, 2002 and $371.4 million as of March 31, 2002;
- Dividend yield as of March 31, 2003 was 15.40%, based on annualized first quarter cash dividend of $0.50 per share and closing stock price of $12.99 per share;
- Return on average assets and equity was 1.48% and 31.69% as compared to 1.49% and 31.37% for the fourth quarter of 2002 and 2.02% and 26.72% during the first quarter of 2002;
- IFC, the mortgage operations, acquired and originated $1.8 billion of primarily Alt-A mortgages compared to $1.7 billion during the fourth quarter of 2002 and $1.2 billion during the first quarter of 2002;
- The long-term investment operations acquired $1.4 billion of primarily Alt-A mortgages from IFC compared to $1.2 billion during the fourth quarter of 2002 and $491.8 million during the first quarter of 2002; and
- IMCC originated and retained for long-term investment $42.1 million of multi-family mortgages compared to $25.8 million during the fourth quarter of 2002.

Results of Operations--Impac Mortgage Holdings, Inc.

Net Earnings

Net earnings increased 63% to $25.5 million, or $0.53 per diluted share, for the first quarter of 2003 compared to $15.6 million, or $0.43 per diluted share, for the first quarter of 2002. The quarter-over-quarter increase in net earnings of $9.9 million was primarily due to the following:

- $11.2 million increase in net interest income;

- $558,000 increase in equity in net earnings of IFC; and

- partially offset by a $2.8 million increase in provision for loan losses.

The 2003 quarter-over-quarter variances are discussed in further detail below.

Taxable Income

When we file our annual tax returns there are certain adjustments that we make to net earnings and taxable income due to differences in the nature and extent that revenues and expenses are recognized under the two methods. For instance, to calculate taxable income we can only deduct loan loss provisions to the extent that we incurred actual loan losses as compared to net earnings, which allows for a complete deduction of loan loss provisions to derive net earnings. To maintain REIT status, we are required to distribute a minimum of 90% of our annual taxable income to our stockholders. Because we pay dividends based on taxable income, dividends may be more or less than net earnings. Therefore, management believes that the disclosure of taxable income, which is a non-GAAP financial measurement, is useful information for our investors.

After adjusting for our estimates of the differences between net earnings and taxable income, estimated taxable income was $28.0 million, or $0.58 per diluted share, for the first quarter of 2003 compared to $16.1 million, or $0.44 per diluted share, for the first quarter of 2002. We declared cash dividends of $0.50 per share for the first quarter of 2003. As of December 31, 2002 estimated federal and state net operating tax loss carry-forwards were approximately $16.7 million, which expire in the year 2020 and 2010, respectively, that are available to offset future taxable income. Actual net operating tax loss carry-forwards, which may be used to offset future taxable income, will be determined when we file our 2002 tax return.

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

	For the Three Months Ended March 31,	
	2003	2002
Net earnings	$ 25,545	$ 15,649
Adjustments to net earnings:		
Provision for loan losses	6,484	3,707
Dividend from IFC	4,455	1,980
Tax deduction for actual loan losses	(3,325)	(635)
Equity in net earnings of IFC	(5,167)	(4,609)
Estimated taxable income (1)	$ 27,992	$ 16,092
Estimated taxable income per diluted share (1)	$ 0.58	$ 0.44

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

Net Interest Income

We earn interest income primarily on mortgage assets, which include CMO collateral, mortgages held-for-investment, finance receivables and investment securities available-for-sale, or collectively, "Mortgage Assets," and, to a lesser extent, interest income earned on cash and cash equivalents and due from affiliates. Interest expense is primarily interest paid on borrowings on Mortgage Assets, which include CMO borrowings, reverse repurchase agreements and borrowings on investment securities available-for-sale, and, to a lesser extent, interest expense paid on due to affiliates. We also receive or make cash payments on derivative instruments as an adjustment to the yield on Mortgage Assets or borrowings on Mortgage Assets depending on whether certain specified contractual interest rate levels are reached.

The following table summarizes average balance, interest and weighted average yield on Mortgage Assets and borrowings on Mortgage Assets for the first quarters of 2003 and 2002 and include interest income on Mortgage Assets and interest expense related to borrowings on Mortgage Assets only (dollars in thousands):

	For the Three Months Ended March 31, 2003			For the Three Months Ended March 31, 2002		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
MORTGAGE ASSETS						
Investment securities available-for-sale	$ 25,536	$ 753	11.80%	$ 32,364	$ 433	5.35%
Loans Receivable:						
CMO collateral	5,533,475	60,051	4.34	2,340,187	34,451	5.89
Mortgages held-for-investment (1)	180,912	3,251	7.19	14,979	(31)	(0.83)
Finance receivables:						
Affiliated	464,636	4,685	4.03	385,813	4,290	4.45
Non-affiliated	523,182	6,738	5.15	239,579	3,283	5.48
Total finance receivables	987,818	11,423	4.63	625,392	7,573	4.84
Total Loans Receivable	6,702,205	74,725	4.46	2,980,558	41,993	5.64
Total Mortgage Assets	$6,727,741	$ 75,478	4.49%	$3,012,922	$ 42,426	5.63%
BORROWINGS						
CMO borrowings	$5,417,690	$ 41,684	3.08%	$2,261,902	$ 22,406	3.96%
Reverse repurchase agreements	1,129,251	6,790	2.41	581,247	4,290	2.95
Borrowings secured by investment securities (2)	6,233	632	40.56	12,345	549	17.79
Total borrowings on Mortgage Assets	$6,553,174	$ 49,106	3.00%	$2,855,494	$ 27,245	3.82%
Net Interest Spread (3)			1.49%			1.82%
Net Interest Margin (4)			1.57%			2.02%

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(1) Interest income includes amortization of acquisition costs and net cash payments or receipts on derivative instruments not allocated to specific CMOs.

(2) Payments and excess cash flows received from the securities collateralizing this loan are used to pay down the outstanding borrowings. The payments are received from a collateral base that is in excess of the borrowings. Therefore, while the payment amounts should remain relatively stable the average balance of the borrowings will continue to decrease.

(3) Net interest spread is calculated by subtracting the weighted average yield on total borrowings on Mortgage Assets from the weighted average yield on total Mortgage Assets.

(4) Net interest margin is calculated by subtracting interest expense on total borrowings on Mortgage Assets from interest income on total Mortgage Assets and then dividing by the total average balance for Mortgage Assets.

Net interest income was $26.8 million for the first quarter of 2003 compared to $15.6 million for the first quarter of 2002. The quarter-over-quarter increase in net interest income was primarily due to an increase in average Mortgage Assets, which increased to $6.7 billion for the first quarter of 2003 compared to $3.0 billion for the first quarter of 2002 as the long-term investment operations acquired $4.8 billion of primarily Alt-A mortgages from the mortgage operations and originated $66.9 million of multi-family mortgages since the end of the first quarter of 2002. We acquire mortgage loans from the mortgage operations that fit within our criteria, which are primarily Alt-A ARMs and FRMs with good credit profiles, with insurance enhancements, when required, prepayment penalty features and purchase money transactions.

The following table summarizes the principal balance of mortgages acquired by the long-term investment operations from the mortgage operations by loan characteristic for the periods indicated (in thousands):

	For the Three Months Ended March 31,			
	2003		2002	
	Principal Balance	%	Principal Balance	%
Volume by Type:				
Adjustable rate	$ 866,253	60	$ 491,781	100
Fixed rate	567,986	40	--	0
Total Mortgage Acquisitions	$1,434,239		$ 491,781	
Volume by Product:				
Six-month LIBOR indexed ARMs	$ 491,241	34	$ 322,933	66
Six-month LIBOR indexed hybrids (1)	375,011	26	168,848	34
Fixed rate first trust deeds	564,639	39	--	0
Fixed rate second trust deeds	3,348	1	--	0
Total Mortgage Acquisitions	$1,434,239		$ 491,781	
Volume by Credit Quality:				
Alt-A loans	$1,427,484	100	$ 489,927	100
B/C loans	6,755	0	1,854	0
Total Mortgage Acquisitions	$1,434,239		$ 491,781	
Volume by Purpose:				
Purchase	$ 611,529	43	$ 290,019	59
Refinance	822,710	57	201,762	41
Total Mortgage Acquisitions	$1,434,239		$ 491,781	
Volume by Prepayment Penalty:				
With prepayment penalty	$1,163,745	81	$ 301,525	61
Without prepayment penalty	270,494	19	190,256	39
Total Mortgage Acquisitions	$1,434,239		$ 491,781	

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(1) Mortgages are fixed rate for initial two to five year periods and subsequently adjust to the indicated index plus a margin.

The increase in net interest income due to an increase in average Mortgage Assets was offset, in part, by a decrease in net interest margins on Mortgage Assets, which declined to 1.57% for the first quarter of 2003 compared to 2.02% for the first quarter of 2002. The overall decrease in net interest margins was primarily the result of a decline in net interest margins on CMO collateral, which declined 67 basis points to 1.26% for the first quarter of 2003 as compared to 1.93% for the first quarter of 2002. This decline was due to a number of factors, some of which were affected by a decrease in short-term interest rates since the end of the first quarter of 2002, as follows:

- interest rate adjustments on mortgages;
- early principal prepayment of higher coupon mortgages;
- net cash payments on derivative instruments; and
- higher composition of FRMs.

Interest rate adjustments on mortgages. Interest rates on seasoned LIBOR ARMs, which secure adjustable rate CMO borrowings and are subject to periodic interest rate caps, have reset lower over the last year as a result of short-term interest rate reductions by the Federal Reserve Bank since the end of the first quarter of 2002 which have, in effect, "caught up" to interest rate reductions on adjustable rate CMO borrowings, which are not subject to periodic interest rate caps. The result is that the interest rate spread differential between LIBOR ARMs, which are primarily indexed to six-month LIBOR, and adjustable rate CMO borrowings, which are primarily indexed to one-month LIBOR, has narrowed or compressed. In addition, many seasoned hybrid ARMs with initial fixed interest rate periods subsequently converted to LIBOR ARMs, which are primarily indexed to six-month LIBOR. This resulted in those mortgages resetting to lower adjustable interest rates.

Early principal prepayment of higher coupon mortgages. Record refinancing activity during 2002, which continued during the first quarter of 2003, resulted in the early principal payment of mortgages with higher interest rates than interest rates on new mortgages that were acquired by the long-term investment operations. As a result of interest rate resets and the early principal prepayment of higher coupon mortgages, the weighted average coupon of mortgages held as CMO collateral was 6.29% as of March 31, 2003 compared to 7.53% as of March 31, 2002. However, we believe that the high concentration of mortgages held as CMO collateral with prepayment penalty features helps to mitigate future mortgage prepayments. As of March 31, 2003, 78% of mortgages held as CMO collateral had active prepayment penalty features compared to 52% as of March 31, 2002.

Net cash payments on derivative instruments. The notional amount of derivative instruments rose as we acquired derivative instruments as interest rate hedges for CMO borrowings, which were used to finance the acquisition and origination of $4.8 billion of mortgages by the long-term investment operations since the end of the first quarter of 2002. The increase in the notional amount of derivative instruments combined with the decline of short-term interest rates during the first quarter of 2003 increased net cash payments made on derivative instruments. We acquire derivative instruments to offset possible increased CMO borrowing costs from rising interest rates. However, as short-term interest rates decline, net interest margin compression may occur as the interest rate spread differential between the interest rate index, i.e. one-month LIBOR, and the contractual interest rate level, or strike price, which one-month LIBOR needs to reach in order for us to receive cash payments, widens. As a result of these factors, net cash payments on derivative instruments were $11.8 million for the first quarter of 2003 compared to $6.5 million for the first quarter of 2002. Excluding the impact of derivative instruments, net interest margins on Mortgage Assets would have been 2.20% for the first quarter of 2003 as compared to 2.90% for the first quarter of 2002. The goal of our interest rate hedging policy is to provide stable net interest margins and cash flows to our investors in various interest rate environments. We believe that our interest rate hedging policy is sound and net interest margins will remain relatively stable when and if interest rates rise.

Higher composition of FRMs. We generally earn smaller net interest margins on FRMs financed with fixed rate CMOs than on ARMs financed with adjustable rate CMOs. In order to compensate CMO bondholders for investing in fixed rate CMOs, which generally have longer lives than adjustable rate CMOs and are fixed over the life of the investment, we must pay a higher yield on the bonds in much the same way that longer term certificates of deposit generally have higher yields than shorter term certificates of deposit. In other words, we are compensating fixed rate CMO bondholders for the risk that market interest rates may rise while interest rates on the CMO bonds will remain fixed. Therefore, overall net interest margins on CMO collateral declined during the first quarter of 2003 compared to the first quarter of 2002, in part, because we acquired and retained more FRMs, which were financed with fixed rate CMO financing. As of March 31, 2003 21% of mortgages held as CMO collateral were FRMs compared to 8% of FRMs held as CMO collateral as of March 31, 2002. However, we believe that FRMs, which generally have longer lives than ARMs, may generate cash flows over a longer time horizon and produce a comparable return on average equity over time as average return on equity on ARMs.

Provision for Loan Losses

Provision for loan losses were $6.5 million for the first quarter of 2003 compared to $3.7 million for the first quarter of 2002. The provision for estimated loan losses are primarily based on a migration analysis based on historical loss statistics, including cumulative loss percentages and loss severity, of similar mortgages in our mortgage loan investment portfolio. The loss percentage is used to determine the estimated inherent losses in the mortgage loan investment portfolio. Provision for loan losses is also determined based on the following:

- management's judgment of the net loss potential of mortgages in our mortgage loan investment portfolio based on prior loan loss experience;
- changes in the nature and volume of the mortgage loan investment portfolio;
- value of the collateral;
- delinquency trends; and
- current economic conditions that may affect the borrowers' ability to pay.

For additional information regarding actual loss rates and delinquencies of mortgages in our mortgage loan investment portfolio refer to "Financial Condition" below.

Non-Interest Income

Non-interest income primarily consists of equity in net earnings of IFC, net warehouse fees from warehouse advances made by IWLG and other revenue. Equity in net earnings of IFC results as IMH records 99% of the earnings or losses from IFC due to IMH's ownership of 100% of IFC's preferred stock, which represents 99% of the economic interest in IFC.

Non-interest income increased to $7.8 million for the first quarter of 2003 compared to $5.7 million for the first quarter of 2002. The quarter-over-quarter increase of $2.1 million in non-interest income was primarily due to a $1.6 million gain on sale of mortgages in addition to a $558,000 increase in equity in net income of IFC during the first quarter of 2003. For additional information and detail regarding IFC's financial condition and results of operations refer to "Results of Operations--Impac Funding Corporation" below.

Non-Interest Expense

Non-interest expense was $2.6 million for the first quarter of 2003 compared to $1.9 million for the first quarter of 2002. The quarter-over-quarter increase of $700,000 in non-interest expense was primarily due to the following:

- $1.2 million increase in operating expenses;
- $526,000 decrease in gain on disposition of other real estate owned; and
- partially offset by a $1.0 million decrease in write-down on investment securities available-for-sale.

The increase in operating expenses, which include professional services, general and administrative expense and personnel expense, was primarily due to the growth of our operating businesses, which resulted in a 124% increase in total assets since the end of the first quarter of 2002. In addition, general and administrative expense for the first quarter of 2002 reflects a $395,000 tax refund of a previous alternative minimum tax payment. The $526,000 decrease in gain on disposition of other real estate owned was the result of estimates of write-downs on foreclosed property to a percentage of appraised value or a real estate broker's price opinion which were more in line with actual results upon the sale of the foreclosed property during the first quarter of 2003 than during the first quarter of 2002. The $1.0 million decrease in write-down of investment securities available-for-sale was due to write-downs recorded during the first quarter of 2002 to reflect current market conditions, including prepayment experience and loss expectations, of mortgage-backed securities that remain in our investment securities portfolio. Write-downs on investment securities recorded during the first quarter of 2002 were primarily taken on investment securities secured by mortgages not underwritten and created by our mortgage operations. However, since 1998 our investment strategy has been to only acquire or invest in securities underwritten and created by our mortgage operations.

Financial Condition

Total assets grew 12% to $7.4 billion as of March 31, 2003 compared to $6.6 billion as of December 31, 2002 as the long-term investment operations acquired $1.4 billion of primarily adjustable and fixed rate Alt-A mortgages from the mortgage operations and retained $42.1 million of multi-family mortgages originated by IMCC during the first quarter of 2003. The acquisition and retention of Alt-A mortgages increased CMO collateral and mortgages held-for-investment to $6.3 billion as of March 31, 2003 compared to $5.2 billion as of December 31, 2002.

The following table presents selected information about mortgages held as CMO collateral for the periods indicated:

	As of and For the Quarter Ended,		
	March 31, 2003	December 31, 2002	March 31, 2002
Percent of Alt-A mortgages	99	99	99
Percent of ARMs	79	85	92
Percent of hybrid ARMs	31	35	61
Weighted average coupon	6.29	6.57	7.53
Weighted average margin	2.99	3.01	3.31
Weighted average original LTV	80	82	83
Weighted average original credit score	687	683	672
Percent with active prepayment penalty	78	76	52
Percent of mortgages in California	62	63	63
Percent of purchase transactions	57	62	66
Percent of owner occupied	91	93	95
Percent of first lien	99	99	99

Our investment securities portfolio was $25.2 million, or 0.34% of total assets, as of March 31, 2003, which included positive mark-to-market fair value adjustments of $8.8 million. Finance receivables declined to $831.5 million as of March 31, 2003 compared to $1.1 billion as of December 31, 2002 as customer mortgage inventory declined by quarter-end as a result of large bulk loan sales. However, total average finance receivables increased to $987.8 million for the first quarter of 2003 compared to $952.1 million for the fourth quarter of 2002.

The following table presents selected financial data for the periods indicated (dollars in thousands, except per share data):

	As of and For the Quarter Ended,		
	March 31, 2003	December 31, 2002	March 31, 2002
Book value per share	$ 7.13	$ 6.70	$ 6.85
Return on average assets	1.48%	1.49%	2.02%
Return on average equity	31.69%	31.37%	26.72%
Assets to equity ratio	21.07:1	21.59:1	12.40:1
Debt to equity ratio	19.98:1	20.48:1	11.32:1
Allowance for loan losses as a percentage of Loans Receivable	0.42%	0.42%	0.46%
Mortgages 90+ days delinquent and other real estate owned	$ 155,597	$ 130,614	$ 80,403
Mortgages 90+ days delinquent and other real estate owned to total assets	2.10%	1.99%	2.40%
Mortgages owned 60+ days delinquent	$ 190,003	$ 161,260	$ 94,219
60+ day delinquency of mortgages owned	3.17%	3.22%	3.85%

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

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

Credit Risk. We manage credit risk by acquiring for long-term investment high credit quality Alt-A mortgages with conservative LTV ratios that are acquired and originated by our mortgage operations, adequately providing for loan losses and actively managing delinquencies and defaults. We believe that by improving the overall credit quality of our mortgage loan investment portfolio we can consistently generate stable future cash flow and earnings. During the first quarter of 2003 we acquired primarily adjustable and fixed rate Alt-A mortgages from the mortgage operations with an original weighted average credit score of 701 and an original weighted average LTV ratio of 75%. Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines,

but that have loan characteristics that make them non-conforming under those guidelines. We primarily acquire non-conforming "A" or "A-" credit quality mortgages, collectively, Alt-A mortgages. As defined by us, A credit quality mortgages generally have a credit score of 640 or better and A- credit quality mortgages generally have a credit score of between 600 and 639. As a comparison, Fannie Mae and Freddie Mac generally purchase conforming mortgages with credit scores greater than 620. As of March 31, 2003 the original weighted average credit score of mortgages held as CMO collateral was 687 and the original weighted average LTV ratio was 80%.

In addition to acquiring mortgages from our mortgage operations, the long-term investment operations originated $42.1 million of multi-family mortgages through IMCC. IMCC was formed to primarily originate small balance multi-family mortgages with high credit quality, conservative LTV ratios and adjustable rate mortgages with balances ranging from $250,000 to $1.5 million. Multi-family mortgages provide greater asset diversification on our balance sheet as multi-family mortgages typically have higher interest rate spreads and longer lives than residential mortgages. All multi-family mortgages originated during the first quarter of 2003 had interest rate floors with prepayment penalty periods ranging from three to five.

We believe that we have adequately provided for loan losses by maintaining a ratio of allowance for loan losses to total loans receivable, which includes CMO collateral, finance receivables, and mortgages held-for-investment, of 42 basis points as of March 31, 2003 as allowance for loan losses increased to $29.8 million. However, as mortgages held as CMO collateral season, there is generally a historical upward curve whereby some mortgages will move through the delinquency cycle with the expectation that some of the delinquent mortgages will eventually be acquired through foreclosure proceedings and sold at a gain or loss. Although mortgage delinquency rates as a percentage of the mortgage loan investment portfolio declined since the end of the first quarter of 2002, actual loan losses increased to $3.3 million for the first quarter of 2003 compared to $635,000 for the first quarter of 2002 as mortgages acquired during 2001 and 2000 reflect the movement of mortgages through the delinquency cycle to acquisition via foreclosure proceedings to eventual disposition. Mortgages held as CMO collateral that were acquired during 2003 and 2002 are unseasoned mortgages and have not experienced material losses as of March 31, 2003 while CMOs issued prior to 2000 include seasoned mortgages, which have not experienced a significant increase in losses.

We monitor our sub-servicers to make sure that they perform loss mitigation, foreclosure and collection functions according to our servicing guide. This includes an effective and aggressive collection effort in order to minimize mortgages from becoming seriously delinquent. However, when resolving delinquent mortgages, sub-servicers are required to take timely and aggressive action. The sub-servicer is required to determine payment collection under various circumstances, which will result in maximum financial benefit. This is accomplished by either working with the borrower to bring the mortgage current or by foreclosing and liquidating the property. We perform ongoing review of mortgages that display weaknesses and believe that we maintain adequate loss allowance on the mortgages. When a borrower fails to make required payments on a mortgage and does not cure the delinquency within 60 days, we generally record a notice of default and commence foreclosure proceedings. If the mortgage is not reinstated within the time permitted by law for reinstatement, the property may then be sold at a foreclosure sale. In foreclosure sales, we generally acquire title to the property. As of March 31, 2003 our mortgage loan investment portfolio included 3.17% of mortgages that were 60 days or more delinquent compared to 3.22% as of December 31, 2002.

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

	At March 31, 2003	At December 31, 2002
60-89 days delinquent	$ 48,458	$ 41,762
90 or more days delinquent	30,845	33,822
Foreclosures	102,919	74,597
Delinquent bankruptcies	7,781	11,079
Total 60 or more days delinquent	$ 190,003	$ 161,260

Seriously delinquent assets consist of mortgages that are 90 days or more delinquent, including loans in foreclosure and delinquent bankruptcies. When real estate is acquired in settlement of loans, referred to as other real estate owned, the mortgage is written-down to a percentage of the property's appraised value or broker's price opinion. As of March 31, 2003 seriously delinquent assets and other real estate owned as a percentage of total assets was 2.10% compared to 1.99% as of December 31, 2002.

The following table summarizes mortgages in our long-term mortgage loan investment portfolio that were seriously delinquent and other real estate owned for the periods indicated (in thousands):

	At March 31, 2003	At December 31, 2002
90 or more days delinquent..................	141,545	119,498
Other real estate owned.....................	14,052	11,116
Total....................................	$ 155,597	$ 130,614

Prepayment Risk. 81% of Alt-A mortgages acquired from the mortgage operations during the first quarter of 2003 had prepayment penalty features ranging from two to five years and as of March 31, 2003, 78% of mortgages held as CMO collateral had active prepayment penalties compared to 52% as of March 31, 2002.

Liquidity Risk. We employ a leveraging strategy to increase assets by financing our mortgage loan investment portfolio primarily with CMO borrowings, reverse repurchase agreements and capital and then using cash proceeds to acquire additional mortgage assets. We acquire adjustable and fixed rate mortgages from the mortgage operations and finance the acquisition of those mortgages, during this accumulation period, with reverse repurchase agreements. After accumulating a pool of adjustable and fixed rate mortgages, generally between $200 million and $600 million, we securitize the mortgages in the form of CMOs. Our strategy is to securitize our mortgages every 30 to 45 days in order to reduce the accumulation period that mortgages are outstanding on short-term warehouse or reverse repurchase facilities, which reduces our exposure to margin calls on these facilities. CMOs are classes of bonds that are sold to investors in mortgage-backed securities and as such are not subject to margin calls. In addition, CMOs generally require a smaller initial cash investment as a percentage of mortgages financed than does interim warehouse and reverse repurchase financing.

Because of the historically favorable prepayment and loss rates of our high credit quality Alt-A mortgages, we have received favorable credit ratings on our CMOs from credit rating agencies, which has reduced our required initial capital investment as a percentage of mortgages securing CMO financing. The ratio of total assets to total equity, or "leverage ratio," was 21.07 to 1 as of March 31, 2003 compared to 12.40 to 1 as of March 31, 2002. However, after excluding CMO collateral and CMO borrowings, leverage on all other assets was 4.53 to 1 as of March 31, 2003 compared to 4.43 to 1 as of March 31, 2002. With increased leverage, we have been able to grow our balance sheet by efficiently using available capital. We continually monitor our leverage ratio and liquidity levels to insure that we are adequately protected against adverse changes in market conditions. For additional information regarding liquidity refer to "Liquidity and Capital Resources" below.

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

Results of Operations--Impac Funding Corporation

Net earnings were $5.2 million for the first quarter of 2003 compared to $4.7 million for the first quarter of 2002. The quarter-over-quarter increase was primarily due to the following:

- $3.9 million increase in non-interest income;
- $1.5 million increase in net interest income; and
- partially offset by a $4.8 million increase in non-interest expense and income taxes.

The 2003 quarter-over-quarter variances are discussed in further detail below.

Net Interest Income

Net interest income was $3.2 million for the first quarter of 2003 compared to $1.7 million for the first quarter of 2002. The quarter-over-quarter increase in net interest income was primarily due to an increase in average mortgages held-for-sale, which increased to $489.4 million for the first quarter of 2003 compared to $390.2 million for the first quarter of 2002 as the mortgage operations acquired $1.8 billion of primarily Alt-A mortgages during the first quarter of 2003. The increase in net interest income was also due to an increase in net interest margins on mortgages held-for-sale, which rose to 2.89% for the first quarter of 2003 compared to 1.90% for the first quarter of 2002. Net interest margins improved for the

first quarter of 2003 as the mortgage operations acquired a higher percentage of FRMs and six-month LIBOR hybrids, which generally have higher interest rates than interest rates on six-month LIBOR ARMs.

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

	For the Three Months Ended March 31,			
	2003		2002	
	Principal Balance	%	Principal Balance	%
By Loan Type:				
Fixed rate first trust deed	$ 894,427	50	$ 362,806	31
Fixed rate second trust deed	28,896	2	13,496	1
Adjustable rate:				
Six-month LIBOR indexed ARMs	500,067		523,731	
Six-month LIBOR indexed hybrids (1)	347,965		284,352	
Total adjustable rate	848,032	48	808,083	68
Total Mortgage Acquisitions and Originations	$1,771,355	100	$1,184,385	100
By Production Channel:				
Correspondent acquisitions:				
Flow	$1,042,306	59	$ 832,177	70
Bulk	317,409	18	45,565	4
Total correspondent acquisitions	1,359,715	77	877,742	74
Wholesale and retail originations	305,090	17	235,417	20
Novelle Financial Services, Inc.	106,550	6	71,226	6
Total Mortgage Acquisitions and Originations	$1,771,355	100	$1,184,385	100
By Credit Quality:				
Alt-A	$1,656,908	94	$1,107,650	94
B/C (2)	114,447	6	76,735	6
Total Mortgage Acquisitions and Originations	$1,771,355	100	$1,184,385	100
By Purpose:				
Purchase	$ 764,032	43	$ 648,230	55
Refinance	1,007,323	57	536,155	45
Total Mortgage Acquisitions and Originations	$1,771,355	100	$1,184,385	100
By Prepayment Penalty:				
With prepayment penalty	$1,471,904	83	$ 817,251	69
Without prepayment penalty	299,451	17	367,134	31
Total Mortgage Acquisitions and Originations	$1,771,355	100	$1,184,385	100

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(1) Mortgages are fixed rate for initial two to five year periods and subsequently adjust to the indicated index plus a margin.

(2) The first quarter of 2003 and 2002 includes $106.6 million and $71.2 million, respectively, of B/C mortgages originated by Novelle Financial Services, Inc., a subsidiary of IFC, that are subsequently sold to third party investors for cash gains.

Non-Interest Income

Non-interest income was $21.4 million for the first quarter of 2003 compared to $17.5 million for the first quarter of 2002. The quarter-over-quarter increase was primarily due to a $5.8 million increase in gain on sale of loans. Gain on sale of loans increased to $22.0 million during the first quarter of 2003 compared to gain on sale of loans of $16.2 million during the first quarter of 2002. Gain on sale of loans includes the difference between the price we acquire and originate mortgages and the price we receive on loan sale or securitization and direct mortgage origination revenue and cost, i.e. loan and underwriting fees, commissions, appraisal review fees, document expense, etc.

Gain on sale of loans was 114 basis points on total loan sales volume of $1.9 billion for the first quarter of 2003 compared to 167 basis points on total loan sales volume of $969.4 million for the first quarter of 2002. All mortgages were sold by the mortgage operations on a servicing released basis during the first quarters of 2003 and 2002, which results in 100% cash gains upon sale or securitization. In order to minimize risks associated with the accumulation of our mortgages,

we seek to securitize our mortgages more frequently by creating smaller securitizations, thereby reducing our exposure to interest rate risk and price volatility during the accumulation period of mortgages.

The following table summarizes the principal balance of mortgage sales by the mortgage operations for the periods indicated:

	For the Three Months Ended March 31,	
	2003	2002
REMIC	$ 287,500	$ 393,381
Whole loan sales to third party investors	214,932	84,206
Loan sales to the long-term investment operations	1,434,239	491,781
Total sales	$1,936,671	$ 969,368

Non-Interest Expense

Non-interest expense and income taxes was $19.4 million for the first quarter of 2003 compared to $14.6 million for the first quarter of 2002. The quarter-over-quarter increase in non-interest expense of $4.8 million was primarily due to the following:

- $3.7 million increase in operating costs;
- $410,000 increase in income taxes; and
- $498,000 increase in amortization and impairment of mortgage and master servicing rights.

The $3.7 million increase in operating costs, which include personnel expense, professional services, equipment expense, occupancy expense, data processing expense and general and administrative expense, was primarily due to loan production growth. Operating costs increased 38% to $13.4 million for the first quarter of 2003 compared to $9.7 million for the first quarter of 2002 while mortgage acquisition and origination growth increased 50% quarter-over-quarter. We believe that our efficient centralized operating structure and our web-based automated underwriting system, iDASLg2, allows us to maintain our position as a low cost nationwide acquirer and originator of Alt-A mortgages.

The following table summarizes fully-loaded mortgage production costs to acquire or originate a single mortgage by production channel for the periods indicated (in basis points of mortgage acquisition or origination):

		For the Three Months Ended March 31,	
Production Channel	Company	2003	2002
Correspondent acquisitions	Impac Funding Corporation	65.42	71.58
Wholesale/retail originations	Impac Lending Group	105.80	103.44
B/C originations	Novelle Financial Services, Inc.	258.00	292.71
Total Weighted Average Cost......................................		83.96	91.21

Fully-loaded cost to acquire or originate a single mortgage is based on mortgage production costs, including sales commissions which are a component of gain on sale of loans in the financial statements, and corporate administrative costs, including human resources, accounting, management information systems, corporate administration and marketing. Mortgage production costs exclude other non-production related expenses, including amortization and impairment of mortgage servicing rights, mark-to-marked gain (loss) from SFAS 133 and write-down of investment securities.

Liquidity and Capital Resources

We recognize the need to have funds available for our operating businesses and our customers' demands for obtaining short-term warehouse financing until the settlement or sale of mortgages with us or with other investors. It is our policy to have adequate liquidity at all times to cover normal cyclical swings in funding availability and mortgage demand and to allow us to meet abnormal and unexpected funding requirements. We plan to meet liquidity through normal operations

with the goal of avoiding unplanned sales of assets or emergency borrowing of funds. Toward this goal, our Asset/Liability Committee, or "ALCO," is responsible for monitoring our liquidity position and funding needs.

ALCO is comprised of the senior executives of the mortgage operations and warehouse lending operations. ALCO meets on a weekly basis to review current and projected sources and uses of funds. ALCO monitors the composition of the Company's balance sheet for changes in the liquidity of our assets. Our liquidity consists of cash and cash equivalents, short-term and marketable investment securities rated AAA through BBB and maturing mortgages, or "liquid assets." Our policy is to maintain a liquidity threshold of 5% of liquid assets to warehouse borrowings, reverse repurchase agreements, dividends payable and other short-term liabilities. During the first quarter of 2003 we were in compliance with this policy, which ALCO reports to the board of directors at least quarterly.

We believe that current liquidity levels, available financing facilities and liquidity provided by operating activities will adequately provide for our projected funding needs and asset growth. However, any future margin calls and, depending upon the state of the mortgage industry, terms of any sale of mortgage assets may adversely affect our ability to maintain adequate liquidity levels or may subject us to future losses. Our operating businesses primarily use available funds as follows:

- acquisition and origination of mortgages;
- provide short-term warehouse advances to affiliates and non-affiliates; and
- pay common stock dividends.

Acquisition and origination of mortgages. During the first quarter of 2003 the mortgage operations acquired and originated $1.8 billion of primarily Alt-A mortgages. Initial capital invested in mortgages includes premiums paid when mortgages are acquired and originated. The mortgage operations paid weighted average premiums of 1.75% on the principal balance of mortgages acquired during the first quarter of 2003. Capital invested in mortgages is outstanding until we sell or securitize mortgages, which is one of the reasons we attempt to sell or securitize mortgages every 30 to 45 days.

The long-term investment operations acquired $1.4 billion of primarily Alt-A mortgages from the mortgage operations and originated $42.1 million of multi-family mortgages for long-term investment. Initial capital invested in mortgages includes premiums paid upon acquisition of mortgages and the equity required to finance mortgages with short-term reverse repurchase agreements. Equity requirements to finance Alt-A mortgages with reverse repurchase agreements generally range from between 2% and 5% of the principal balance of the mortgage depending on the collateral provided. Equity requirements to finance multi-family mortgages with reverse repurchase agreements is approximately 15% of the principal balance of the mortgage depending on the collateral provided. When the long-term investment operations accumulate a pool of mortgages, generally ranging from $200.0 million to $600.0 million, the mortgages are financed through the issuance of CMOs. When we complete CMOs our total initial capital investment in CMOs ranges from approximately 3% to 5% of the principal balance of mortgages, depending on premiums paid upon acquisition of mortgages, costs paid for completion of CMOs, costs to acquire derivative instruments and initial capital investment in CMOs required to achieve desired credit ratings. Therefore, we also attempt to securitize our mortgages through CMO financing every 30 to 45 days as total capital invested in CMOs is generally less than cash required for reverse repurchase financing.

Provide short-term warehouse advances to affiliates and non-affiliates. We utilize uncommitted warehouse facilities with various lenders to provide short-term warehouse financing to affiliates and external customers of the warehouse lending operations. The warehouse lending operations provide short-term financing to external customers from the closing of the mortgages to their sale or other settlement with investors. The warehouse lending operations finances between 95% and 98% of the fair market value of mortgages, which equates to a cash requirement of between 2% and 5%, at prime rate plus a spread. As of March 31, 2003 the warehouse lending operations had $638.0 million of approved warehouse lines available to non-affiliates, of which $515.2 million was outstanding.

Affiliates had $21.0 million in pledge accounts with the warehouse lending operations as of March 31, 2003, which allows them to finance 100% of the fair market value of their mortgages at prime minus 0.50%. The mortgage operations has uncommitted warehouse line agreements to obtain financing of up to $600.0 million from the warehouse lending operations to provide interim mortgage financing during the period that the mortgage operations accumulates mortgages until the mortgages are securitized or sold. As of March 31, 2003 the warehouse lending operations had $340.0 million in outstanding warehouse advances to the mortgage operations, excluding pledge balances.

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

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

Pay common stock dividends. We made common stock dividend payments of $21.8 million during the first quarter of 2003.

Our operating businesses are primarily funded as follows:

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

CMO borrowings and reverse repurchase agreements. We use reverse repurchase agreements and CMO borrowings to fund substantially all of our warehouse advances to affiliates and non-affiliates, the acquisition of mortgages to be held for long-term investment and, prior to 1999, the acquisition of investment securities. Since 1999 we have not acquired any investment securities.

As we accumulate mortgages for long-term investment, we finance the acquisition of mortgages primarily through borrowings on reverse repurchase agreements with third party lenders. Since 1995 we have primarily used an uncommitted repurchase facility with a major investment bank to finance substantially all warehouse advances to affiliates and non-affiliates and mortgages acquired for long-term investment, as needed. However, during 2002 we added $650.0 million of new uncommitted warehouse facilities with other lenders to finance asset growth. The new warehouse facilities provide us with a higher aggregate credit limit to fund the acquisition and origination of mortgages at terms comparable to those we have received in the past and the flexibility of having financial relationships with a larger cross-section of financial institutions. As of March 31, 2003 the warehouse lending operations had $857.6 million outstanding on warehouse facilities with various lenders.

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

In order to mitigate the liquidity risk associated with reverse repurchase agreements, we attempt to securitize our mortgages between 30 and 45 days. Although securitizing mortgages more frequently adds operating and securitization costs, we believe the added cost is offset as more liquidity is provided with less interest rate and price volatility, as the accumulation and holding period of mortgages is shortened. When we have accumulated a sufficient amount of mortgages, we issue CMOs and convert short-term advances under reverse repurchase agreements to long-term CMO borrowings. The use of CMOs provides the following benefits:

- allows us to lock in our financing cost over the life of the mortgages securing the CMO borrowings; and

- eliminates margin calls on the borrowings that are converted from reverse repurchase agreements to CMO financing.

During the first quarter of 2003 we completed $1.5 billion of CMOs, of which $921.7 million was adjustable rate CMOs and $561.9 million was fixed rate CMOs, to provide long-term financing for the acquisition and origination of $1.5 billion of Alt-A and multi-family mortgages. Because of the credit profile, historical loss performance and prepayment characteristics of our mortgages, we have been able to borrow a higher percentage against mortgages held as CMO collateral, which means that we have to provide less initial capital upon completion of CMOs. Equity in the CMOs is established at the time CMOs are issued at levels sufficient to achieve desired credit ratings on the securities from credit rating agencies. Total credit loss exposure is limited to the capital invested in the CMOs at any point in time. As of March 31, 2003 total equity invested in mortgages held as CMO collateral was $129.7 million, which includes premiums paid when mortgages are acquired from the mortgage operations, costs incurred to complete CMO borrowings, costs incurred to acquire derivative instruments and the required initial capital investment in CMOs. We also determine the amount of equity invested in CMOs based upon the anticipated return on equity as compared to estimated proceeds from additional debt issuance. By decreasing the amount of capital we are required to invest in our CMOs to maintain desired credit ratings, we have been able to effectively utilize available cash to acquire additional mortgage assets.

Cash flows from our mortgage loan investment portfolio. During the first quarter of 2003 mortgages held as CMO collateral, which is the majority of the mortgage loan investment portfolio, generated excess principal and interest cash flows of $34.2 million. We receive excess principal and interest cash flows on mortgages held as CMO collateral after distributions are made to investors in CMOs to the extent cash or other collateral required to maintain desired credit ratings on the CMOs is fulfilled. Excess principal and interest cash flows represent the difference between principal and interest payments on the mortgages less the following:

- interest paid to bondholders;

- pro-rata early principal prepayments paid to bondholders;

- servicing fees paid to mortgage servicers;

- premiums paid to mortgage insurers; and

- actual losses incurred on disposition of real estate acquired in settlement of mortgages.

Sale and securitization of mortgages. When the mortgage operations accumulates a sufficient amount of mortgages, generally between $100.0 million and $300.0 million, it sells or securitizes the mortgages. The mortgage operations sold $1.4 billion of mortgages to the long-term investment operations during the first quarter of 2003, $214.9 million of mortgages to third party investors and $287.5 million was securitized as REMICs. The mortgage operations sold mortgage servicing rights on substantially all mortgages during the first quarter of 2003. The sale of mortgage servicing rights generated substantially all cash gains, which was used to acquire and originate additional mortgages. In order to mitigate interest rate and market risk, the mortgage operations attempts to sell and securitize mortgages between 30 and 45 days. Since we rely significantly upon sales and securitizations to generate cash proceeds to repay borrowings and to create credit availability, any disruption in our ability to complete sales and securitizations may require us to utilize other sources of financing, which, if available at all, may be on unfavorable terms. In addition, delays in closing sales and securitizations of our mortgages increase our risk by exposing us to credit and interest rate risk for this extended period of time.

Cash proceeds from the issuance of securities. In December 2001, we filed with the SEC a shelf registration statement that allows us to sell up to $300.0 million of securities, including common stock, preferred stock, debt securities and warrants. During the three months ended March 31, 2003 we issued approximately 3.4 million shares of common stock from our shelf registration statement, in the form of a public offering, and received net cash proceeds of approximately $37.8 million. Pursuant to an amended and restated equity distribution with UBS Warburg, LLC, we also sold 358,386 shares of common stock from our shelf registration statement during the three months ended March 31, 2003 and received net proceeds of approximately $4.1 million. During the three months ended March 31, 2003 UBS Warburg, LLC received a commission of 3% of the gross sales price per share of the shares of common stock sold pursuant to the amended and restated equity distribution agreement, which amounted to an aggregate commission of $126,000. As of March 31, 2003,

approximately $129.7 million in securities were available for issuance under our shelf registration statement. By issuing new shares periodically throughout the year we believe that we were able to utilize new capital more efficiently and profitably.

Cash Flows

Operating Activities - Net cash used in operating activities was $528,000 during the first quarter of 2003 compared to net cash provided by operating activities of $20.6 million during the first quarter of 2002. Net earnings of $25.5 million provided most of the cash flows from operating activities during the first quarter of 2003.

Investing Activities - Net cash used in investing activities was $816.7 million during the first quarter of 2003 compared to $487.7 million during the first quarter of 2002. Net cash flows of $809.4 million were used in investing activities to acquire and originate mortgages, net of mortgage principal repayments.

Financing Activities - Net cash provided by financing activities was $817.5 million during the first quarter of 2003 compared to $468.1 million during the first quarter of 2002. Net cash flows of $1.1 billion provided by CMO financing, net of debt reduction, was primarily provided by financing activities.

Inflation

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

Risk Factors

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

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

Terrorist attacks or military action may adversely affect our financial results.

The effects that terrorist attacks in the United States or other incidents and related military action may have on the mortgage operations' ability to acquire or originate mortgages, the performance of the mortgages held by the long-term investment operations or on the values of mortgaged properties cannot be determined at this time. As a result of terrorist activity or military action, there may be a reduction in new mortgages, which will adversely affect our ability to expand our mortgage portfolio. In addition, a decline in new mortgage activity will likely result in reduced activity for our warehouse lending operations and our long-term investment operations. Mortgages held by our long-term investment operations may experience higher rates of delinquency, default and prepayment. These potential consequences of terrorist attacks or military action will have an adverse affect on our financial results. Federal agencies and non-government lenders have, and may continue to, defer, reduce or forgive payments and delay foreclosure proceedings in respect of loans to borrowers affected in some way be recent and possible future events. In addition, activation of a substantial number of U.S. military

reservists or members of the National Guard may significantly increase the proposition of mortgages whose mortgage rates are reduced by application of the Soldiers' and Sailors' Civil Relief Act of 1940 or similar state laws, and neither the master servicers nor the servicers will be required to advance for any interest shortfall caused by any such reduction. Interest payable to senior and subordinate certificate holders will be reduced on a pro rata basis by any reductions in the amount of interest collectible as a result of application of the Soldiers' and Sailors' Civil Relief Act of 1940 or similar state laws.

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

If we cannot generate sufficient liquidity, we will be unable to continue to grow our operations, grow our asset base, maintain our current hedging policy and pay dividends. We have traditionally derived our liquidity from four primary sources:

- financing facilities provided to us by others to acquire or originate mortgage assets;
- whole loan sales and securitizations of acquired or originated mortgages;
- our issuance of equity and debt securities; and
- earnings from operations.

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

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

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

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

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

Our financing facilities were short-term borrowings and due to the turmoil in the mortgage industry during the latter part of 1998 many traditional providers of financing facilities were unwilling to provide facilities on favorable terms, or at

all. Our current financing facilities continue to be short-term borrowings and we expect this to continue. If we cannot renew or replace maturing borrowings, we may have to sell, on a whole loan basis, the loans securing these facilities, which, depending upon market conditions, may result in substantial losses.

We incurred losses for fiscal years 1997, 1998 and 2000 and may incur losses in the future.

During the year ended December 31, 2000 we experienced a net loss of $54.2 million. The net loss incurred during 2000 included accounting charges of $68.9 million. The accounting charges were the result of write-downs of non-performing investment securities secured by mortgages and additional increases in the provision for loan losses to provide for the deterioration of the performance of collateral supporting specific investment securities. During the year ended December 31, 1998 we experienced a net loss of $5.9 million primarily as the mortgage industry experienced substantial turmoil as a result of a lack of liquidity in the secondary markets which caused us to sell mortgages at losses to meet margin calls on our warehouse facilities. During the year ended December 31, 1997 we experienced a net loss of $16.0 million. The net loss incurred during 1997 included an accounting charge of $44.4 million that was the result of expenses related to the termination and buyout of our management agreement with Imperial Credit Advisors, Inc. We cannot be certain that revenues will remain at current levels or improve or that we will be profitable in the future, which could prevent us from effectuating our business strategy.

If we are unable to complete securitizations, we would face a liquidity shortage which would adversely affect our operating results.

We rely significantly upon securitizations to generate cash proceeds to repay borrowings and to create credit availability. Any reduction in our ability to complete securitizations may require us to utilize other sources of financing, which, if available at all, may be on unfavorable terms. In addition, delays in closing securitizations of our mortgages increase our risk by exposing our Company to credit and interest rate risks for this extended period of time. Furthermore, gains on sales from our securitizations represent a significant portion of our earnings. Several factors could affect our ability to complete securitizations of our mortgages, including:

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

If we are unable to profitably securitize a significant number of our mortgages in a particular financial reporting period, then we could experience lower income or a loss for that period. As a result of turmoil in the securitization market during the latter part of 1998, many mortgage lenders, including our Company, were required to sell mortgages on a whole loan basis under adverse market conditions in order to generate liquidity. Many of these sales were made at prices lower than our carrying value of the mortgages and we experienced substantial losses. We cannot assure you that we will be able to continue to profitably securitize or sell our loans on a whole loan basis, or at all.

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

Our borrowings and use of substantial leverage may cause losses.

Our use of collateralized mortgage obligations may expose our operations to credit losses.

To grow our investment portfolio, we borrow a substantial portion of the market value of substantially all of our investments in mortgages in the form of CMOs. Historically, we have borrowed approximately 98% of the market value of such investments. There are no limitations on the amount we may borrow, other than the aggregate value of the underlying

mortgages. We currently use CMOs as financing vehicles to increase our leverage, since mortgages held for CMO collateral are retained for investment rather than sold in a secondary market transaction.

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

The cost of our borrowings may exceed the return on our assets.

The cost of borrowings under our financing facilities corresponds to a referenced interest rate plus or minus a margin. The margin varies depending on factors such as the nature and liquidity of the underlying collateral and the availability of financing in the market. We will experience net interest losses if the returns on our assets financed with borrowed funds fail to cover the cost of our borrowings, and we did not implement any applicable financial hedges.

If we default under our financing facilities, we may be forced to liquidate the collateral at prices less than the amount borrowed.

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

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

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

Interest rate fluctuations may adversely affect our operating results.

Our operations, as a mortgage loan acquirer and originator or a warehouse lender, may be adversely affected by rising and falling interest rates. Higher interest rates may discourage potential borrowers from refinancing mortgages, borrowing to purchase homes or seeking second mortgages. This may decrease the amount of mortgages available to be acquired or originated by our mortgage operations and decrease the demand for warehouse financing provided by our warehouse lending operations. If short-term interest rates exceed long-term interest rates, there is a higher risk of increased loan prepayments, as borrowers may seek to refinance their fixed and adjustable rate mortgages at lower long-term fixed interest rates. Increased loan prepayments could lead to a reduction in the number of loans in our investment portfolio and reduce our net interest income.

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

We may experience losses if our liabilities re-price at different rates than our assets.

Our principal source of revenue is net interest income or net interest spread from our investment portfolio, which is the difference between the interest we earn on our interest earning assets and the interest we pay on our interest bearing liabilities. The rates we pay on our borrowings are independent of the rates we earn on our assets and may be subject to more frequent periodic rate adjustments. Therefore, we could experience a decrease in net interest income or a net interest loss because the interest rates on our borrowings could increase faster than the interest rates on our assets. If our net interest spread becomes negative, we will be paying more interest on our borrowings than we will be earning on our assets and we will be exposed to a risk of loss.

Additionally, the rates paid on our borrowings and the rates received on our assets may be based upon different indices. If the index used to determine the rate on our borrowings, typically one-month LIBOR, increases faster than the indices used to determine the rates on our assets, such as six-month LIBOR or the prime rate, we will experience a declining net interest spread, which will have a negative effect on our profitability, and may result in losses.

An increase in our adjustable interest rate borrowings may decrease the net interest margin on our adjustable rate mortgages.

Our long-term investment portfolio includes mortgages that are hybrid ARMs. These are mortgages with fixed interest rates for an initial period of time, after which they begin bearing interest based upon short-term interest rate indices and adjust periodically. We generally fund mortgages with adjustable interest rate borrowings having interest rates that are indexed to short-term interest rates and adjust periodically at various intervals. To the extent that there is an increase in the interest rate index used to determine our adjustable interest rate borrowings and that increase is not offset by a corresponding increase in the rates at which interest accrues on our assets or by various interest rate hedges that we have in place at any given time, our net interest margin will decrease or become negative. We may suffer a net interest loss on our adjustable rate mortgages that have interest rate caps if the interest rates on our related borrowings increase.

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

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

Mortgage prepayments generally increase on our adjustable rate mortgages when fixed mortgage interest rates fall below the then-current interest rates on outstanding adjustable rate mortgages. Prepayments on mortgages are also affected by the terms and credit grades of the mortgages, conditions in the housing and financial markets and general economic conditions. If we acquire mortgages at a premium and they are subsequently repaid, we must expense the unamortized premium at the time of the prepayment. We could possibly lose the opportunity to earn interest at a higher rate over the expected life of the mortgage. Also, if prepayments on our adjustable rate mortgages increase when interest rates are declining, our net interest income may decrease if we cannot reinvest the prepayments in mortgage assets bearing comparable rates. Prepayments on fixed rate mortgages will also decrease our net interest income when interest rates are declining.

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

The value of our portfolio of mortgage-backed securities may be adversely affected by unforeseen events.

Our prior investments in residual interest and subordinated debt investments exposed us to greater risks as compared to those associated with senior mortgage-backed securities.

Prior to 1998, we invested in mortgage-backed securities known as interest-only, principal-only, residual interest or other subordinated securities. Investments in residual interest and subordinated securities are much riskier than investments in senior mortgage-backed securities because these subordinated securities bear all credit losses prior to the related senior

securities. The risk associated with holding residual interest and subordinated securities is greater than that associated with holding the underlying mortgages directly due to the concentration of losses attributed to the subordinated securities.

If the projected value of our portfolio of residual interest and subordinated debt instruments is incorrect we would have to write down the value of these securities.

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

In addition, we may not obtain our anticipated yield or we may incur losses if the credit support available within certain mortgage-backed securities is inadequate due to unanticipated levels of losses, or due to difficulties experienced by the credit support provider. Delays or difficulties encountered in servicing mortgages securing mortgage-backed securities may cause greater losses than anticipated and, therefore, we may have a higher rate of mortgage insurance claims than were originally anticipated. This may cause a rating agency to downgrade certain classes of our mortgage-backed securities and cause a reduction of the value of the security.

We undertake additional risks by acquiring and investing in mortgages.

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

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

Alt-A mortgages expose us to greater credit risks.

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

Lending to Alt-A borrowers may expose us to a higher risk of delinquencies, foreclosures and losses.

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

Further, any material decline in real estate values increases the loan-to-value ratios of mortgages previously made by us, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a borrower default. Any sustained period of increased delinquencies, foreclosures or losses after the mortgages are sold could adversely affect the

pricing of our future loan sales and our ability to sell or securitize our mortgages in the future. In the past, certain of these factors have caused revenues and net income of many participants in the mortgage industry, including us, to fluctuate from quarter to quarter.

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

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

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

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

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

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

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

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

We face conflicts of interests based on the ownership of the voting stock of Impac Funding Corporation by certain officers and directors of Impac Mortgage Holdings, Inc.

We are subject to conflicts of interest arising from our relationship with Impac Mortgage Holdings, Inc., our long-term investment operations, Impac Funding Corporation, our mortgage operations, and their officers and directors. Our long-term investment operations acquires Alt-A mortgages from our mortgage operations. Impac Mortgage Holdings, Inc. owns

all of the preferred stock, and 99% of the economic interest in, Impac Funding Corporation. Joseph R. Tomkinson, our Chairman and Chief Executive Officer, William S. Ashmore, our Chief Operating Officer, President and a director, and Richard J. Johnson, our Executive Vice President and Chief Financial Officer, are holders of all of the outstanding voting stock of, and 1% of the economic interest in, Impac Funding Corporation. They have the right to elect all directors of Impac Funding Corporation and the ability to control the outcome of all matters for which the consent of the holders of the common stock of Impac Funding Corporation is required. Messer's Tomkinson, Ashmore and Johnson are also the sole directors of Impac Funding Corporation. Decisions made by these officers at one company may be at conflict with and have an adverse affect on the operations of the other. We are currently negotiating with management to purchase the common shares of Impac Funding Corporation, however, we cannot assure you that terms will be agreed upon or that a transaction will be completed.

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

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

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

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

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

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

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

The intense competition in the Alt-A mortgage industry has also led to rapid technological developments, evolving industry standards and frequent releases of new products and enhancements. As mortgage products are offered more widely

through alternative distribution channels, such as the Internet, we may be required to make significant changes to our current retail and wholesale structure and information systems to compete effectively. Our inability to continue enhancing our current Internet capabilities, or to adapt to other technological changes in the industry, could have a material adverse effect on our business, financial condition, liquidity and results of operations.

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

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

As a warehouse lender, we lend money to mortgage bankers on a secured basis and we are subject to the risks associated with lending to mortgage bankers, including the risks of fraud, borrower default and bankruptcy, any of which could result in credit losses for us. Our claims as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay.

We may not pay dividends to stockholders.

REIT provisions of the Internal Revenue Code generally require that we annually distribute to our stockholders at least 90% of all of our taxable income. These provisions restrict our ability to retain earnings and thereby renew capital for our business activities. We may decide at a future date to terminate our REIT status, which would cause us to be taxed at the corporate levels and cease paying regular dividends.

In addition, for any year that we do not generate taxable income, we are not required to declare and pay dividends to maintain our REIT status. For instance, due to losses incurred in 2000, we did not declare any dividends from September 2000 until September 2001.

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

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

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

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

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

Delayed mortgage loan sales or securitization closings could have a material adverse affect on our operations.

A delay in closing a particular mortgage sale or securitization would increase our exposure to interest rate fluctuations by lengthening the period during which our variable rate borrowings under our warehouse facilities are outstanding. Any disruption in our ability to complete securitizations may require us to utilize other sources of financing, which, if available at all, may be on unfavorable terms. If we were unable to sell a sufficient number of mortgages at a premium during a particular reporting period, our revenues for that period would decline, which could have a material adverse affect on our operations.

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

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

- the amount of dividends paid;
- availability of liquidity in the securitization market;
- loan sale pricing;
- calls by warehouse lenders or changes in warehouse lending rates;
- unanticipated fluctuations in our operating results;
- prepayments on mortgages;
- valuations of securitization related assets;
- cost of funds; and
- general market conditions.

In addition, significant price and volume fluctuations in the stock market have particularly affected the market prices for the common stock of mortgage REIT companies such as ours. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. If our results of operations fail to meet the expectations of securities analysts or investors in a future quarter, the market price of our common stock could also be materially adversely affected and we may experience difficulty in raising capital.

If actual prepayments or defaults with respect to mortgages serviced occurs more quickly than originally assumed, the value of our mortgage servicing rights would be subject to downward adjustment.

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

Our operating results may be adversely affected by the results of our hedging activities.

To offset the risks associated with our mortgage operations, we enter into transactions designed to hedge our interest rate risks. To offset the risks associated with our long-term investment operations, we attempt to match the interest rate sensitivities of our adjustable rate mortgage assets held for investment with the associated financing liabilities. Our management determines the nature and quantity of the hedging transactions based on various factors, including market conditions and the expected volume of mortgage loan purchases. We do not limit management's use of certain instruments in such hedging transactions. While we believe that we properly hedge our interest rate risk, we may not, and in some cases

will not, be permitted to use hedge accounting as established by FASB under the provisions of SFAS 133 to account for our hedging activities. The effect of our hedging strategy may result in some volatility in our quarterly earnings as interest rates go up or down. It is possible that there will be periods during which we will incur losses after the accounting for our hedging activities. In addition, if the counter parties to our hedging transactions are unable to perform according to the terms of the contracts, we may incur losses. While we believe we properly hedge our interest rate risk, we cannot assure you that our hedging transactions will offset the risk of adverse changes in net interest margins.

A reduction in the demand for residential mortgages and our Alt-A loan products may adversely affect our operations.

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

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

If our mortgage purchases decrease, we will have:

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

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

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

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

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

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

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

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

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

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

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

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

After July 1, 2003 we may no longer be able to rely on the Alternative Mortgage Transactions Parity Act to preempt certain state law restrictions on prepayment penalties, which may cause us to be unable to compete effectively with financial institutions that are exempt from such restrictions on ARMs.

The value of a mortgage depends, in part, upon the expected period of time that the mortgage will be outstanding. If a borrower pays off a mortgage in advance of this expected period, the holder of the mortgage does not realize the full value expected to be received from the mortgage. A prepayment penalty payable by a borrower who repays a mortgage earlier than expected helps discourage such a prepayment or helps offset the reduction in value resulting from the early payoff. Prepayment penalties are an important feature on the mortgages we acquire or originate.

Certain state laws restrict or prohibit prepayment penalties on mortgages. We have historically relied on the federal Alternative Mortgage Transactions Parity Act, or the "Parity Act," and related regulations issued by the Office of Thrift Supervision, or "OTS," to preempt state limitations on prepayment penalties on ARMs. The Parity Act was enacted to extend to financial institutions other than federally chartered depository institutions the federal preemption which federally chartered depository institutions enjoy. However, on September 25, 2002, the OTS issued final regulations that reduce the scope of the Parity Act preemption. The OTS subsequently delayed the effective date of the final regulations until July 1, 2003. The National Home Equity Mortgage Association has filed a lawsuit against the OTS challenging the OTS's authority to issue the regulations. Unless the court determines prior to July 1, 2003 that the regulations were not validly issued on that date, we will no longer be able to rely on the Parity Act to preempt state restrictions on prepayment penalties.

The elimination of this federal preemption could have a material adverse affect on our ability to compete effectively with financial institutions that will continue to enjoy federal preemption of state restrictions on prepayment penalties on ARMs.

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

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

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

If we conduct future offerings the market price of our securities may be adversely affected.

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

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

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

To sustain our growth strategy we intend to raise capital through the sale of equity. The sale or the proposed sale of substantial amounts of our common stock in the public market could materially adversely affect the market price of our common stock or other outstanding securities. In December 2001 we filed a shelf registration statement with the SEC, which allows us to sell up to $300.0 million of securities, including common stock, preferred stock, debt securities and warrants. As of March 31, 2003, we have sold approximately $170.3 million (gross proceeds) worth of common stock from our shelf registration statement and we may sell additional securities worth approximately $129.7 million (gross proceeds) from our shelf registration statement in the future. We have also registered an aggregate of 2,120,069 shares of common stock in connection with our 2001 Stock Option, Deferred Stock and Restricted Stock Plan, and pursuant to the terms of the plan, approved an increase of 1,500,000 authorized shares, which we plan to register. As of March 31, 2003, our 1995 Stock Option, Deferred Stock and Restricted Stock Plan had 67,390 shares reserved and available for issuance and that were registered. The sale of a large amount of shares or the perception that such sales may occur, could adversely affect the market price for our common stock or other outstanding securities.

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

The regulatory environments in which we operate have an impact on the activities in which we may engage, how the activities may be carried out, and the profitability of those activities. Therefore, changes to laws, regulations or regulatory policies can affect whether and to what extent we are able to operate profitably. For example, proposed state and federal legislation targeted at predatory lending could have the unintended consequence of raising the cost or otherwise reducing the availability of mortgage credit for those potential borrowers with less than prime- quality credit histories, thereby resulting in a reduction of otherwise legitimate Alt-A lending opportunities. We cannot provide any assurance that these proposed laws, rules and regulations, or other similar laws, rules or regulations, will not be adopted in the future. Adoption

of these laws and regulations could have a material adverse impact on our business by substantially increasing the costs of compliance with a variety of inconsistent federal, state and local rules, or by restricting our ability to charge rates and fees adequate to compensate us for the risk associated with certain loans.

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

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

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

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

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

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

(a) the price paid by the owner;

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

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

Limitations on acquisition and change in control ownership limit.

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We focus on effectively managing the various operational and market risks associated with our businesses. We believe that the most critical of those risks are:

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

We manage credit risk by acquiring high-credit quality Alt-A mortgages from the mortgage operations with favorable credit profiles and by acquiring mortgages with conservative loan-to-value ratios with mortgage insurance enhancements, when required, which reduces our effective loan-to-value ratio. Our belief is that high-credit quality Alt-A mortgages will result in favorable foreclosure rates and conservative loan-to-value ratios will result in favorable loss rates. We also believe that we maintain an adequate allowance for loan losses to provide for future loan losses. We manage mortgage prepayment risk by acquiring Alt-A mortgages from the mortgage operations with prepayment penalty features. We manage liquidity risk by frequently securitizing or selling our mortgages. We securitize mortgages through the issuance of CMOs and REMICs every 30 to 45 days. By frequently securitizing our mortgages, we reduce the volume of mortgages that are financed with short-term reverse repurchase agreements at any given time. The issuance of CMOs convert short-term reverse repurchase borrowings, which are subject to margin calls if the value of the mortgages collateralizing reverse repurchase borrowings decline, to long-term CMO financing that are not subject to margin calls. By securitizing mortgages as REMICs or selling mortgages as whole loan sales, ownership of the mortgages transfers to the trust in the case of REMICs and to the buyer in the case of whole loan sales. For additional information regarding these risks refer to Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

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

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

- interest rate adjustment limitations on mortgages held as CMO collateral due to periodic and lifetime interest rate cap features; and

- mismatched interest rate adjustment periods between mortgages held as CMO collateral and CMO borrowings.

We acquire for long-term investment six-month LIBOR ARMs and hybrid ARMs. Six-month LIBOR ARMs are generally subject to periodic and lifetime interest rate caps. This means that the interest rate of each ARM is limited to upwards or downwards movements on its periodic interest rate adjustment date, generally six months, or over the life of the mortgage. Periodic caps limit the maximum interest rate change, which can occur on any interest rate change date to generally a maximum of 1% per semiannual adjustment. Also, each ARM has a maximum lifetime interest rate cap. Generally, borrowings are not subject to the same periodic or lifetime interest rate limitations. During a period of rapidly increasing or decreasing interest rates, financing costs would increase or decrease at a faster rate than the periodic interest rate adjustments on mortgages would allow, which could affect net interest income. In addition, if market rates were to exceed the maximum interest rates of our ARMs, borrowing costs would increase while interest rates on ARMs would remain constant.

We also acquire hybrid ARMs that have initial fixed interest rate periods generally ranging from two to three years and, to a lesser extent, five years, which subsequently convert to six-month LIBOR ARMs. During a rapidly increasing or decreasing interest rate environment financing costs would increase or decrease more rapidly than would interest rates on mortgages, which would remain fixed until their next interest rate adjustment date. In order to provide some protection against any resulting basis risk shortfall on the related liabilities, we purchase derivative instruments. Derivative instruments are based upon the principal balance that would result under assumed prepayment speeds.

We measure the sensitivity of our net interest income to changes in interest rates affecting interest sensitive assets and liabilities using simulations. As part of various interest rate simulations, we calculate the effect of potential changes in interest rates on our interest-earning assets and interest-bearing liabilities and their affect on overall earnings. The simulations assume instantaneous and parallel shifts in interest rates and to what degree those shifts affect net interest income. First, we estimate our net interest income for the next twelve months using period-end balance sheet data and 12-month projections of the following:

- future interest rates using forward yield curves, which are market consensus estimates of future interest rates;

- acquisition of derivative instruments;

- mortgage prepayment rate assumptions; and

- mortgage acquisitions.

We refer to this 12-month projection of net interest income as the "base case." Once the base case has been established, we "shock" the base case with instantaneous and parallel shifts in interest rates in 100 basis point increments upward and downward. Calculations are made for each of the defined instantaneous and parallel shifts in interest rates over or under the forward yield curve used to determine the base case and include any associated changes in projected mortgage prepayment rates caused by changes in interest rates. The results of each 100 basis point change in interest rates are then compared against the base case to determine the estimated change to net interest income. The simulations consider the affect of interest rate changes on interest sensitive assets and liabilities as well as derivative instruments. The simulations also consider the impact that instantaneous and parallel shift in interest rates has on prepayment rates and the resulting affect of accelerating or decelerating amortization rates of premium and securitization costs on net interest income.

The use of derivative instruments to hedge changes in interest rates is an integral part of our strategy to limit interest rate risk. Therefore, net interest income may be significantly impacted by cash payments we are required to make or cash payments we receive on derivative instruments. The amount of cash payments or cash receipts on derivative instruments is determined by (1) the notional amount of the derivative instrument and (2) current interest rate levels in relation to the various strike prices of derivative instruments during a particular time period.

We believe our quantitative risk has not materially changed since our disclosures under Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our annual report on Form 10-K for the year ended December 31, 2002.

ITEM 4: CONTROLS AND PROCEDURES

As of March 31, 2003 the Chief Executive Officer, or "CEO," and Chief Financial Officer, or "CFO," performed an evaluation of the effectiveness and the operation of the Company's disclosure controls and procedures as defined in Rule 13a - 14c under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of March 31, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2003.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

With respect to the complaint captioned Deborah Searcy, Shirley Walker, et al. vs. Impac Funding Corporation, Impac Mortgage Holdings, Inc. et. al., which is described in IMH's annual report on Form 10-K for the year ended December 31, 2002, in March 2003, the plaintiffs filed an amended complaint adding certain defendants, including an Impac-related entity, and dropping others, including certain Impac-related entities, and we have been served with the amended complaint. Please refer to IMH's annual report on Form 10-K for the year ended December 31, 2002 regarding the Searcy action. The Company believes that it has meritorious defenses to this complaint and intends to defend it vigorously. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuit and can express no opinion as to its ultimate outcome.

The Company is a party to other litigation and claims, which are normal in the course of its operations. While the results of such other litigation and claims cannot be predicted with certainty, the Company believes the final outcome of such other matters will not have a material adverse effect on the Company.

Please refer to IMH's annual report on Form 10-K for the year ended December 31, 2002 regarding other litigation and claims.

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

99.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

IMH filed a Current Report on Form 8-K, dated January 29, 2003, reporting Items 5, 7 and 9, relating to the issuance of a press release announcing fourth quarter 2002 results.

IMH filed a Current Report on Form 8-K, dated February 19, 2003, reporting Items 5 and 7, relating to the Company's Consolidated Statements of Cash Flows for the year ended December 31, 2002.

IMH filed a Current Report on Form 8-K, dated February 20, 2003, reporting Items 5 and 7, relating to the Company entering into an underwriting agreement for the sale of 3,000,000 shares of its common stock.

IMH filed a Current Report on Form 8-K, dated February 28, 2003, reporting item 9, relating to a monthly fact sheet.

SIGNATURES

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

IMPAC MORTGAGE HOLDINGS, INC.

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

Date: May 2, 2003

CERTIFICATION

I, Joseph R. Tomkinson, certify that:

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

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

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

4. The registrant's other certifying officer's and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Joseph R. Tomkinson
Joseph R. Tomkinson
Chief Executive Officer
May 2, 2003

CERTIFICATION

I, Richard J. Johnson, certify that:

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

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

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

4. The registrant's other certifying officer's and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Richard J. Johnson
Richard J. Johnson
Chief Financial Officer
May 2, 2003

Exhibit 99.1

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

In connection with the quarterly report of Impac Mortgage Holdings, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

/s/ Joseph R. Tomkinson
Joseph R. Tomkinson
Chief Executive Officer
May 2, 2003

/s/ Richard J. Johnson
Richard J. Johnson
Chief Financial Officer
May 2, 2003

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