IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
May 11, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007 or

o 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.)

19500 Jamboree Road, Irvine, California 92612
(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes o No x

There were 76,083,865 shares of common stock outstanding as of May 8, 2007.

IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

PART I. FINANCIAL INFORMATION

ITEM 1. **CONSOLIDATED FINANCIAL STATEMENTS**

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands, except share data)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 181,202	$ 179,677
Restricted cash	439	617
Securitized mortgage collateral	21,462,312	21,050,829
Finance receivables	262,667	306,294
Mortgages held-for-investment	1,156	1,880
Allowance for loan losses	(102,838)	(91,775)
Mortgages held-for-sale	857,222	1,561,919
Accrued interest receivable	116,974	115,054
Derivative assets	102,441	147,291
Real estate owned, net	251,943	161,538
Other assets	149,767	165,631
Total assets	$ 23,283,285	$ 23,598,955
LIABILITIES		
Securitized mortgage borrowings	$ 20,998,378	$ 20,526,369
Reverse repurchase agreements	1,233,334	1,880,395
Trust preferred securities	97,863	97,661
Other liabilities	94,882	85,000
Total liabilities	22,424,457	22,589,425
Minority interest	1,000	
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Series-A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued and outstanding as of March 31, 2007 and December 31, 2006, respectively		
Series-B 9.375% cumulative redeemable preferred stock, $0.01 par value; liquidation value $50,000; 2,000,000 shares authorized, 2,000,000 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively	20	20
Series-C 9.125% cumulative redeemable preferred stock, $0.01 par value; liquidation value $111,765; 5,500,000 shares authorized; 4,470,600 and 4,444,000 shares outstanding as of March 31, 2007 and December 31, 2006, respectively	45	44
Common stock, $0.01 par value; 200,000,000 shares authorized; 76,083,865 shares issued and outstanding as of March 31, 2007 and December 31, 2006	761	761
Additional paid-in capital	1,172,261	1,170,872
Accumulated other comprehensive income	1,294	2,357
Net accumulated deficit:		
Cumulative dividends declared	(792,743)	(762,382)
Retained earnings	476,190	597,858
Net accumulated deficit	(316,553)	(164,524)
Total stockholders equity	857,828	1,009,530
Total liabilities and stockholders equity	$ 23,283,285	$ 23,598,955

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31, 2007	2006
INTEREST INCOME:		
Mortgage assets	$ 340,771	$ 333,376
Other	2,050	1,828
Total interest income	342,821	335,204
INTEREST EXPENSE:		
Securitized mortgage borrowings	293,377	295,475
Reverse repurchase agreements	33,736	25,873
Other borrowings	2,253	2,382
Total interest expense	329,366	323,730
Net interest income	13,455	11,474
Provision for loan losses	29,374	150
Net interest (expense) income after provision for loan losses	(15,919)	11,324
NON-INTEREST INCOME:		
Realized gain from derivative instruments	37,459	40,136
Change in fair value of derivative instruments	(58,761)	51,429
Gain (loss) on sale of loans	(9,131)	14,193
Provision for repurchases	(11,828)	(10,336)
Gain (loss) on lower of cost or market writedown	(24,694)	3,496
Amortization and impairment of mortgage servicing rights	(209)	(351)
Gain on sale of other real estate owned	844	354
Provision for REO losses	(9,890)	
Other income	5,648	8,821
Total non-interest income	(70,562)	107,742
NON-INTEREST EXPENSE:		
Personnel expense	18,388	18,621
General and administrative and other expense	5,124	5,073
Professional services	2,693	2,317
Equipment expense	1,558	1,510
Occupancy expense	3,820	1,368
Data processing expense	1,738	1,366
Total non-interest expense	33,321	30,255
Net (loss) earnings before income taxes	(119,802)	88,811
Income tax expense	1,866	3,245
Net (loss) earnings	(121,668)	85,566
Cash dividends on cumulative redeemable preferred stock	(3,722)	(3,672)
Net (loss) earnings available to common stockholders	$ (125,390)	$ 81,894

See accompanying notes to consolidated financial statements.

	For the Three Months Ended March 31, 2007			2006		
Net (loss) earnings	$	(121,668	)	$	85,566	
Net unrealized gains (losses) on securities:						
Unrealized holding gains (losses) arising during year	(1,063		)	264		
Reclassification of losses included in net earnings				(853		)
Net unrealized losses	(1,063		)	(589		)
Comprehensive (loss) earnings	$	(122,731	)	$	84,977	
Net (loss) earnings per share:						
Basic	$	(1.65	)	$	1.08	
Diluted	$	(1.65	)	$	1.07	
Dividends declared per common share	$	0.10		$	0.25	

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Three Months Ended March 31, 2007	2006 restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	$ (121,668)	$ 85,566
Adjustments to reconcile net earnings to net cash used in operating activities:		
Provision for loan losses	29,374	150
Amortization of deferred charge, net	4,101	5,096
Amortization of premiums, securitization costs and debt issuance costs	42,499	62,742
Gain on sale of other real estate owned	(844)	(354)
(Gain) loss on sale of loans	9,131	(14,193)
Provision for repurchases	11,828	10,336
Loss (gain) on lower of cost or market writedown	24,694	(3,496)
Change in fair value of derivative instruments	58,761	(51,429)
Purchase of mortgages held-for-sale	(2,503,337)	(2,335,169)
Sale and principal reductions on mortgages held-for-sale	731,955	2,910,149
Net change in deferred taxes	20,060	84
Stock-based compensation	869	666
Depreciation and amortization	1,451	1,309
Amortization and impairment of mortgage servicing rights	209	351
Net change in accrued interest (receivable) payable	(1,920)	12,046
Net change in restricted cash	178	(245)
Net change in other assets and liabilities	(25,983)	4,907
Net cash used in operating activities	(1,718,642)	(688,516)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	1,853,081	2,260,335
Finance receivable advances to customers	(1,107,857)	(991,768)
Repayments of finance receivables	1,151,484	1,050,035
Purchase of premises and equipment	(1,107)	(980)
Minority interest	1,000	
Net change in mortgages held-for-investment	346	26,330
Sale of investment securities available-for-sale		5,022
Distribution of deferred compensation plan benefits		8,041
Net principal reductions on investment securities available-for-sale	593	(638)
Proceeds from the sale of other real estate owned	29,952	14,175
Net cash provided by used in investing activities	1,927,492	2,370,552
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash disbursements under reverse repurchase agreements	(4,016,885)	(5,278,171)
Cash receipts from reverse repurchase agreements	3,369,824	3,840,624
Proceeds from securitized mortgage borrowings	2,384,131	919,932
Repayment of securitized mortgage borrowings	(1,918,567)	(2,434,672)
Common stock dividends paid	(22,714)	(15,225)
Preferred stock dividends paid	(3,722)	(3,672)
Proceeds from sale of cumulative redeemable preferred stock	608	272
Net cash used in financing activities	(207,325)	(2,970,912)

Net change in cash and cash equivalents	1,525	88,156
Cash and cash equivalents at beginning of period	179,677	146,621
Cash and cash equivalents at end of period	$ 181,202	$ 234,777

See accompanying notes to consolidated financial statements.

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	For the Three Months Ended March 31, 2007	2006 restated
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 387,072	$ 202,787
Taxes paid	81	32
NON-CASH TRANSACTIONS:		
Accumulated other comprehensive loss	$ (1,063)	$ (589)
Dividends declared but unpaid	7,608	19,028
Transfer of mortgages to other real estate owned	11,761	1,456
Transfer of securitized mortgage collateral to other real estate owned	111,316	27,921
Transfer of loans held-for-sale to securitized mortgage collateral	2,430,042	694,336
Transfer of loans held-for-investment to securitized mortgage collateral		225,764
Transfer of securitized mortgage collateral to loans held-for-investment		114,358

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Note A Summary of Business and Significant Accounting Policies

1. Business Summary and Financial Statement Presentation

Business Summary

Impac Mortgage Holdings, Inc. (the Company or IMH), is a Maryland corporation incorporated in August 1995, and has the following subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), and Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. (ISAC), and Impac Commercial Capital Corporation (ICCC).

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

We operate four core businesses:

- the Long-Term Investment operations conducted by IMH and IMH Assets;
- the Mortgage Operations conducted by IFC and ISAC;
- the Commercial Operations conducted by ICCC; and
- the Warehouse Lending Operations conducted by IWLG.

The long-term investment operations and the warehouse lending operations are conducted by IMH and IWLG at the REIT. The mortgage operations and commercial operations, which are a taxable REIT subsidiary (TRS), are conducted by IFC and ICCC, respectively.

The long-term investment operations generate earnings primarily from net interest income earned on mortgages held as securitized mortgage collateral and mortgages held-for-investment collectively (long-term mortgage portfolio) and associated hedging derivative cash flows. The long-term mortgage portfolio as reported on the Company s consolidated balance sheet consists of mortgages held as securitized mortgage collateral and mortgages held-for-investment. Investments in Alt-A mortgages and commercial mortgages are initially financed with short-term borrowings supported by reverse repurchase agreements that are subsequently converted to long-term financing in the form of securitized mortgage borrowings. Cash flows from the long-term mortgage portfolio, proceeds from the sale of capital stock and the issuance of trust preferred securities also finance the acquisitions of new Alt-A and commercial mortgages.

The mortgage operations acquire, originate, sell and securitize primarily Alt-A adjustable rate mortgages (ARMs) and fixed rate mortgages (FRMs) from correspondents, mortgage brokers and retail customers. Correspondents originate and close mortgages under our mortgage programs and then sell the closed mortgages to the mortgage operations on a flow (loan-by-loan basis) or through bulk sale commitments. Correspondents include savings and loan associations, commercial banks and mortgage bankers. The mortgage operations generate income by securitizing and selling mortgages to permanent investors, including the long-term investment operations. These operations also earn revenue from fees associated with master servicing rights and interest income earned on mortgages held-for-sale. The mortgage operations use warehouse facilities provided by the warehouse lending operations to finance the acquisition and origination of mortgages.

The commercial operations originate commercial mortgages, that are primarily adjustable rate mortgages with initial fixed interest rate periods of two-, three-, five-, seven- and ten-years that subsequently convert to adjustable rate mortgages, or hybrid ARMs, with balances that generally range from $500,000 to $5.0 million or by additional underwriting exception up to $10 million. Commercial mortgages have an interest rate floor, which is the initial start rate and in some circumstances have lock out periods, and prepayment penalty periods of three-, five-, seven- and ten-years. These mortgages provide greater asset diversification on our balance sheet as commercial mortgage borrowers typically have higher credit scores, typically have lower loan-to-value ratios, or LTV ratios, and the mortgages have longer average lives than residential mortgages.

The warehouse lending operations provide short-term financing to mortgage loan originators, including the mortgage and commercial operations, by funding mortgages from their closing date until sale to pre-approved investors. This business earns fees from warehouse transactions as well as net interest income from the difference between its cost of borrowings and the interest earned on warehouse advances, both of which are tied to the one-month London Inter-Bank Offered Rate (LIBOR) rate.

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and our subsidiaries (as defined above) have been prepared in accordance with 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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

All significant inter-company balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods consolidated financial statements have been reclassified to conform to the current year presentation. The ownership interest in consolidated subsidiaries from non-controlling shareholders is reflected as minority interest.

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements in conformity with GAAP. The items affected by management s estimates and assumptions include allowance for loan losses, valuation of derivative financial instruments, repurchase liabilities related to sold loans and the amortization of various loan premiums and discounts due to prepayment estimates. Actual results could differ from those estimates.

Premiums, discounts and securitization costs associated with the securitized mortgage collateral and securitized mortgage borrowing are amortized or accreted into interest income/expense over the projected lives of the securitized mortgage collateral and securitized mortgage borrowings using the interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, market prepayment speeds, and current conditions. If our estimate of prepayments is incorrect, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

2. Restated Consolidated Cash Flows for 2006 Interim Periods, and Reclassifications

Certain interim amounts in the 2006 Consolidated Statement of Cash Flows have been restated to properly reflect specific intercompany activities related to cash receipts from loan sales and cash disbursements for loan purchases between consolidated companies. Such intercompany loan sale and purchase transaction activities had the effect of presenting separate cash inflows and outflows even though there was no cash inflow or outflow on a consolidated basis. This restatement serves to eliminate this intercompany activity from its Consolidated Statements of Cash Flows and present them as non-cash transactions.

The correction of the error increases cash used in operating activities and increases cash provided by investing activities. The restatement of these transactions does not change total cash and cash equivalents as previously reported. Furthermore, the restatement has no effect on the Company s Consolidated Statements of Operations and Comprehensive Earnings, Consolidated Balance Sheets or Consolidated Statements of Changes in Stockholders Equity.

The Company has reclassified the presentation of the Consolidated Statement of Operations and Comprehensive Income to reflect Amortization and impairment of mortgage servicing rights, Write-down on investment securities available-for-sale, and Loss(gain) on disposition of real estate as other non-interest income rather than non-interest expense, for the first quarter of 2006 to conform to the current period presentation. In addition, the Amortization of deferred charge for 2006 was reclassified as income tax expense (benefit) rather than non-interest expense.

Please refer to the Company s Form 10-K for the year ended December 31, 2006, for more information regarding these reclassifications.

3. Stock Options

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS 123R). This Statement requires companies to

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expense the estimated fair value of stock options and similar equity instruments issued to employees over the requisite service period. SFAS 123R eliminates the alternative to use the intrinsic method of accounting provided for in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), which generally resulted in no compensation expense recorded in the financial statements related to the grant of stock options to employees if certain conditions were met.

Effective for the first quarter of fiscal 2006, we adopted SFAS 123R using the modified prospective method, which required us to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remained outstanding at the date of adoption.

We continue using both the Black-Scholes-Merton option-pricing formula and straight-line amortization of compensation expense over the requisite service period of the grant. We will reconsider use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate for the Company, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model.

The following table presents a summary of option activity during the first quarter under the Company s stock option plans:

	Number of Shares
Options outstanding at December 31, 2006	7,048,755
Options granted	
Options exercised	
Options forfeited / cancelled	(161,000)
Options outstanding at March 31, 2007	6,887,755

4. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) which provides reporting entities an option to report selected financial assets, including investment securities designated as available for sale, and liabilities, including most insurance contracts, at fair value. SFAS No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard also requires additional information to aid financial statement users understanding of a reporting entity s choice to use fair value on its earnings and also requires entities to display on the face of the balance sheet the fair value of those assets and liabilities which the reporting entity has chosen to measure at fair value. SFAS No. 159 is effective as of the beginning of a reporting entity s first fiscal year beginning after November 15, 2007. The Company is currently assessing the effect that SFAS 159 will have on the consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 was issued to address diversity in practice in quantifying financial statement misstatements. SAB 108 is currently effective and did not have an effect on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the effect that SFAS 157 will have on the consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* (FIN 48) which expands on the accounting guidance of FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation by the Company has not had a significant effect on the consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140* (SFAS 156). This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt this statement as of the beginning of its first fiscal year that begins after September 15, 2006. The Company has adopted this statement which has not had a material effect on the consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments , an amendment of FASB Statements No. 133 and SFAS No. 140* (SFAS 155). This statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips and principal-only strips are not subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of this statement has not had a material effect on the consolidated financial statements.

5. Legal Proceedings

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

Note B Reconciliation of Earnings Per Share

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

	For the Three Months Ended March 31, 2007	**2006**
Numerator for basic earnings per share:		
Net (loss) earnings	$ (121,668)	$ 85,566
Less: Cash dividends on cumulative redeemable preferred stock	(3,722)	(3,672)
Net (loss) earnings available to common stockholders	$ (125,390)	$ 81,894
Denominator for basic earnings per share:		
Basic weighted average number of common shares outstanding during the period	76,084	76,113
Denominator for diluted earnings per share:		
Diluted weighted average number of common shares outstanding during the period	76,084	76,113
Net effect of dilutive stock options		266
Diluted weighted average common shares	76,084	76,379
Net (loss) earnings per share:		
Basic	$ (1.65)	$ 1.08
Diluted	$ (1.65)	$ 1.07

For the three month periods ended March 31, 2007 and 2006, stock options to purchase 6.9 million and 4.4 million shares, respectively, were outstanding but not included in the above weighted average calculations because they were anti-dilutive.

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Note C Segment Reporting

The following tables present reporting segments for the three month periods ended March 31, 2007 and 2006:

	Reporting Segments as of and for the Three Months Ended March 31, 2007					
	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter-Company (1)	Consolidated
Balance Sheet Items:						
Securitized mortgage collateral and mortgages held-for-investment	$ 21,505,411	$	$ 94,160	$	$ (136,103)	$ 21,463,468
Mortgages held-for-sale			719,938	137,284		857,222
Finance receivables		1,075,582			(812,915)	262,667
Total assets	22,006,915	1,296,544	857,049	129,539	(1,006,762)	23,283,285
Total stockholders equity	735,062	256,314	22,424	(9,688)	(146,284)	857,828
Income Statement Items:						
Net interest income	$ (1,627)	$ 8,451	$ (4,331)	$ (314)	$ 11,276	$ 13,455
Provision for loan losses	28,849	(287)	812			29,374
Realized gain from derivatives	36,624		740	95		37,459
Change in fair value of derivatives	(54,623)		(2,549)	(1,589)		(58,761)
Other non-interest income	(9,985)	740	(26,161)	(38)	(13,816)	(49,260)
Non-interest expense and income taxes	5,199	2,294	21,033	2,674	(3,987)	35,187
Net (loss) earnings	$ (63,659)	$ 7,184	$ (54,146)	$ (4,520)	$ (6,527)	$ (121,668)

(1) Corporate overhead expenses are allocated to the segments based on percentage of time devoted to the segment, headcount, loan production, or other relevant measures. Income statement items include inter-company loan sale transactions and the elimination of related gains.

	Reporting Segments as of and for the Three Months Ended March 31, 2006					
	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter-Company (1)	Consolidated
Balance Sheet Items:						
Securitized mortgage collateral and mortgages held-for-investment	$ 23,106,162	$	$	$ 120	$ (127,956)	$ 22,978,326
Mortgages held-for-sale			712,632	88,466		801,098
Finance receivables		1,063,883			(771,933)	291,950
Total assets	23,384,829	1,193,782	837,754	92,607	(666,674)	24,842,298
Total stockholders equity	1,030,473	225,023	107,464	1,385	(149,424)	1,214,921
Income Statement Items:						
Net interest income	$ (12,088)	$ 7,691	$ 1,277	$ 134	$ 14,460	$ 11,474
Provision for loan losses	150					150
Realized from derivatives	40,136					40,136
Change in fair value of derivatives	46,963		3,625	841		51,429
Other non-interest income	90	797	19,355	1,036	(5,101)	16,177
Non-interest expense and income taxes	4,392	1,874	22,004	2,410	2,820	33,500
Net earnings (loss)	$ 70,559	$ 6,614	$ 2,253	$ (399)	$ 6,539	$ 85,566

(1) Corporate overhead expenses are allocated to the segments based on percentage of time devoted to the segment, headcount, loan production, or other relevant measures. Income statement items include inter-company loan sale transactions and the elimination of related gains.

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Note D Mortgages Held-for-Sale

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

	At March 31, 2007	At December 31, 2006
Mortgages held-for-sale - residential	$ 757,591	$ 1,384,136
Mortgages held-for-sale - commercial	136,439	177,619
Change in fair value of mortgages held-for-sale	(43,796)	(18,717)
Net premiums on mortgages held-for-sale - residential	6,550	18,024
Net premiums on mortgages held-for-sale - commercial	438	857
Total mortgages held-for-sale	$ 857,222	$ 1,561,919

Mortgage loans held-for-sale are recorded at the lower of cost or market determined on an aggregate basis. The change in fair value of the loans held-for-sale is recorded as an increase or decrease to non-interest income.

During the first quarter of 2007 the Company recorded a charge to earnings for the change in fair value of loans held-for-sale primarily due to an increase in non-performing loans held-for-sale to $92.7 million from $66.2 million at year end, primarily related to the amount of non-performing loans and the reduction in market prices of non-performing loans during the first quarter.

Note E Securitized Mortgage Collateral

Securitized mortgage collateral consisted of the following:

	At March 31, 2007	At December 31, 2006
Mortgages secured by single-family residential real estate	$ 19,334,022	$ 19,118,064
Mortgages secured by commercial real estate	1,920,707	1,728,240
Net unamortized premiums on mortgages - residential	180,753	186,563
Net unamortized premiums on mortgages - commercial	26,830	17,962
Total securitized mortgage collateral	$ 21,462,312	$ 21,050,829

Note F Allowance for Loan Losses

The allowance for loan losses is comprised of the following:

	At March 31, 2007	At December 31, 2006
Securitized mortgage collateral and mortgages held-for-investment	$ 90,465	$ 71,993
Specific reserve for securitized mortgage collateral	1,501	
Specific reserve for finance receivables	3,055	10,598
Specific reserve for mortgage operations	2,794	3,492
Specific reserve for estimated hurricane losses	5,023	5,692
Total allowance for loan losses	$ 102,838	$ 91,775

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

	At March 31, 2007	At March 31, 2006
Beginning balance	$ 91,775	$ 78,514
Provision for loan losses	29,374	150
Charge-offs, net of recoveries	(18,311)	(4,406)
Total allowance for loan losses	$ 102,838	$ 74,258

During the first quarter of 2007 the Company received settlement funds related to a specific finance receivable reserve, in which it collected $0.3 million in excess of the $3.5 million net receivable at December 31, 2006. As of December 31, 2006 the specific finance receivable balance was $11.2 million before the valuation allowance of $7.7 million. Charge-offs, net of recoveries, includes this $7.7 million.

Note G Other Assets

Other assets for the periods indicated consisted of the following:

	At March 31, 2007	At December 31, 2006
Deferred charge, net	$ 48,285	$ 52,272
Investment securities available-for-sale	29,976	31,628
Prepaid and other assets	35,664	24,395
Cash margin balances	18,087	19,112
Premises and equipment, net	15,178	15,526
Deferred income taxes, net		20,060
Investment in Impac Capital Trusts	2,577	2,638
Total other assets	$ 149,767	$ 165,631

Note H Real Estate Owned (REO)

Real estate owned, which consists of residential real estate acquired in satisfaction of loans, is carried at net realizable value less estimated selling and holding costs, offset by expected mortgage insurance proceeds to be received. Adjustments to the loan carrying value required at the time of foreclosure are charged to the allowance for loan losses. Gains or losses from the ultimate disposition of real estate owned are recorded as (gain) loss on sale of other real estate owned in the consolidated statements of operations. The Company maintains an allowance against the REO for any changes in the value of the real estate subsequent to the initial transfer to REO. As of March 31, 2007, the Company maintained an allowance of $15.7 million, compared to $8.5 million at December 31, 2006. The allowance for changes in the net realizable value of the real estate owned is included in the REO balance. As of March 31, 2007, $7.4 million of REO s were not financed and approximately $20.7 million that were not part of the securitized mortgage collateral.

Note I Securitized Mortgage Borrowings

The following is selected information on securitized mortgage borrowings for the periods indicated (dollars in millions):

Year of Issuance	Original Issuance Amount	Securitized mortgage borrowings outstanding as of March 31, 2007	December 31, 2006	Range of Percentages: Fixed Interest Rates	Interest Rate Margins over One-Month LIBOR (1)	Interest Rate Margins after Adjustment Date (2)
2002	$ 3,876.1	$ 48.7	$ 52.0	5.25 - 12.00	0.27 - 2.75	0.54 - 3.68
2003	5,966.1	809.3	906.7	4.34 - 12.75	0.27 - 3.00	0.54 - 4.50
2004	17,710.7	4,496.5	5,230.8	3.58 - 5.56	0.25 - 2.50	0.50 - 3.75
2005	13,387.7	7,746.5	8,578.1		0.24 - 2.90	0.48 - 4.35
2006	6,079.1	5,553.5	5,794.7	6.25	0.10 - 2.75	0.20 - 4.125
2007	2,385.0	2,371.6			0.06 - 2.00	0.12 - 3.00
Subtotal securitized mortgage borrowings		21,026.1	20,562.3			
Accrued interest expense		21.3	22.8			
Unamortized securitization costs		(49.0)	(58.7)			
Total securitized mortgage borrowings		$ 20,998.4	$ 20,526.4			

(1) One-month LIBOR was 5.3195% as of March 31, 2007.

(2) Interest rate margins are generally adjusted when the unpaid principal balance is reduced to less than 10-20% of the original issuance amount.

Note J Reverse Repurchase Agreements

Reverse repurchase facilities are entered into to finance our warehouse lending operations and to fund and purchase mortgages by the mortgage operations. During the first quarter of 2007, these facilities amounted to $6.0 billion, of which $1.2 billion of borrowings were outstanding at March 31, 2007. These facilities consist of uncommitted lines, which may be withdrawn at any time by the lender, and committed lines. At March 31, 2007, the Company obtained required waivers of non-compliance with the financial covenants related to GAAP earnings in three of the reverse repurchase agreements. One reverse repurchase facility which provides borrowings of up to $1.5 billion and was set to expire in March 2007, was extended until March 2008.

Note K Repurchase Reserve

The liability for mortgage repurchases is maintained for the purpose of repurchasing previously sold mortgages, for various reasons, including early payment defaults or breach of representations or warranties. The repurchase reserve is to provide for losses from repurchased loans when they are subsequently resold or repriced. In determining the adequacy of the reserve for mortgage repurchases, management considers such factors as specific requests for repurchase, known problem loans, underlying collateral values, recent sales activity of similar loans and other appropriate information. The repurchase requests were $126.7 million at March 31, 2007 as compared to $182.0 million at December 31, 2006. For the quarter ended March 31, 2007, the Company recorded a provision for repurchases of $11.8 million compared to a provision of $10.3 million for the same period in 2006, included in non-interest income. The provision for repurchases increased as a result of an increase in estimated losses associated with outstanding repurchase requests.

During the quarter ended March 31, 2007, the Company sold $709.7 million in whole loan sales compared to $2.8 billion during the same period in 2006. The Company maintains a $17.1 million reserve related to the representations and warranties, associated with these sales as of March 31, 2007 compared to $15.3 million at December 31, 2006, which is included in other liabilities.

Note L Income Taxes

During the quarter ended March 31, 2007, income tax expense was $1.9 million as compared to $3.2 million during the same period in 2006. The amount of income tax expense for quarter ended March 31, 2007 was primarily due to the recognition of $4.1 million of tax expense related to the amortization of the beginning of the year deferred charge balance plus a $0.9 million increase in the valuation allowance for deferred tax assets, partially offset by a $3.1 million tax benefit arising from the refund of taxes paid attributable to the carryback of the 2007 net operating losses. The Company makes an estimate of the effective tax rate expected to be applicable for the fiscal year when providing for income tax expense. The Company has reserved all tax benefits that cannot be utilized by carrying losses back to years in which tax payments were made. During the quarter ended March 31, 2007 the total amount of benefits that have not been recognized totalled $27.3 million, based on the Company s combined effective tax rate. Management has determined these benefits do not meet the more-likely-than-not recognition threshold under FIN 48 and this tax benefit has not been recognized in the Company s financial statements. Additionally the Company paid $9 thousand and $43 thousand of interest and penalties related to taxes during the first quarter of fiscal 2007 and 2006, respectively, included in other expenses.

Note M Subsequent Events

In April 2007, the Company entered into a preliminary agreement to settle the pending federal and state derivative class action cases against the Company. The settlement is subject to certain conditions including the execution of a definitive agreement and court approval. Under the settlement, all claims asserted against the officers and directors named as defendants in those actions will be dismissed, with no admission of wrongdoing on the part of any defendant and the Company will agree to certain corporate governance practices. In addition, the proposed settlement will provide for an aggregate cash payment of up to $300,000 in attorney s fees subject to the plaintiff s application to and approval by the court. There are no other fees the Company expects to incur to settle these cases This amount will be paid by the Company s insurance carriers and will have no effect on the Company s consolidated statement of operations or consolidated statement of financial position.

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

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

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, likely, should, could, anticipate, or similar terms or variations on those terms or the negative of those ter forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to, failure to achieve projected earnings levels; unexpected or greater than anticipated increases in credit and bond spreads; the ability to generate sufficient liquidity; the ability to access the equity markets; increased operating expenses and mortgage origination or purchase expenses that reduce current liquidity position more than anticipated; continued increase in price competition; risks of delays in raising, or the inability to raise on acceptable terms, additional capital, either through equity offerings, lines of credit or otherwise; the ability to generate taxable income and to pay dividends; interest rate fluctuations on our assets that unexpectedly differ from those on our liabilities; unanticipated interest rate fluctuations; changes in expectations of future interest rates; unexpected increase in our loan repurchase obligations; unexpected increase in prepayment rates on our mortgages; changes in assumptions regarding estimated loan losses or an increase in loan losses; continued ability to access the securitization markets or other funding sources, the availability of financing and, if available, the terms of any financing; changes in markets which the Company serves, such as mortgage refinancing activity and housing price appreciation; the inability to agree upon or the court s rejection of any proposed settlement in pending federal and state derivative class action cases against the Company; the Company s or plaintiff s inability or unwillingness to satisfy conditions to the proposed settlement; the adoption of new laws that affect our business or the business of people with whom we do business; changes in laws that affect our products and our business; and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the period ended December 31, 2006, the other reports we file under the Securities and Exchange Act of 1934, and the additional risk factors set forth below in this quarterly report. This document speaks only as of its date and 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.

The Mortgage Banking Industry and Discussion of Relevant Fiscal Periods

The mortgage banking industry is continually subject to current events that occur in the financial services industry. Such events include changes in economic indicators, government regulation, interest rates, price competition, geographic shifts, disposable income, market anticipation, and customer perception as well as others. The factors that affect the industry change rapidly.

In this environment, mortgage banking companies generally anticipate the future marketplace, engage in hedging activities and continuously reassess business plans and strategies to effectively position themselves in the marketplace.

As a result, current events can diminish the relevance of quarter over quarter and year-to-date over year-to-date comparisons of financial information. In such instances, the Company intends to present financial information in its Management Discussion and Analysis that is the most relevant to its financial information.

General Overview

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

We operate four core businesses:

- the Long-Term Investment Operations conducted by IMH and IMH Assets;
- the Mortgage Operations conducted by IFC and ISAC;
- the Commercial Operations conducted by ICCC; and
- the Warehouse Lending Operations conducted by IWLG.

The REIT (IMH) is comprised of the long-term investment operations and the warehouse lending operations. The Taxable REIT Subsidiaries (TRS) include the Mortgage Operations and Commercial Operations which are subsidiaries of the REIT.

During the first quarter, the market conditions required us to focus on preserving liquidity. As such, we have taken steps to preserve liquidity in the first quarter and as a result have maintained liquidity levels consistent with year-end balances. We aggressively settled repurchase request claims. We have closely monitored our reverse repurchase facilities to manage our margin call exposure. Additionally we have decreased the period of time which the loans are outstanding on the facilities by selling loans more frequently. During the first quarter of 2007, we liquidated $52.0 million in delinquent loans to both manage any margin call exposure on our reverse repurchase facilities as well as convert mortgage loans into cash.

Also, as discussed in our Form 10-K, in the first quarter, we added a new reverse repurchase facility with $1.0 billion in capacity and we renewed another reverse repurchase facility with $1.5 billion capacity extending the maturity to March 2008. We continue to complete securitizations, totaling $2.4 billion in the first quarter, to minimize exposure to margin calls and keep inventory low on these facilities. The reverse repurchase balance at March 31, 2007 was $1.2 billion with a total capacity of $6.0 billion as compared to $1.9 billion outstanding and $5.7 billion in capacity at December 31, 2006.

Although we expect reduced loan volume as compared to 2006, current market conditions have created other opportunties for the Company. We have continued to price our loans for profitability which has resulted in reduced production volumes from the fourth quarter of 2006. We have also seen improvements in our adjusted net interest margin as a result of decreased amortizations due to lower actual and expected prepayments and longer duration of the loans in the portfolio offset by increased credit losses. In addition, to take advantage of what we believe will be attractive returns in the distressed loan market, we have invested in an asset management group that will purchase and liquidate distressed assets. In addition, we are reviewing other strategies to protect our adjusted net interest margin, reduce production costs and selectively maintain our mortgage operations infrastructure in preparation for when the market becomes more favorable.

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 include the allowance for loan losses, derivative financial instruments, securitization of financial assets as financing versus sale, calculation of repurchase reserve, and amortization of loan premiums and securitization costs.

Allowance for REO Losses

We provide an allowance for REO losses for mortgages held as real estate owned. In evaluating the adequacy of the allowance for the REO losses, management takes several items into consideration. When real estate is acquired in settlement of loans, or other real estate owned, the mortgage is written-down to a percentage of the property s appraised value or broker s price opinion less anticipated selling costs and including the mortgage insurance expected to be received. Subsequent changes in the net realizable value of the real estate owned is reflected as an allowance for REO losses.

Financial Highlights for the First Quarter of 2007

- Estimated taxable income per diluted share was $0.25 compared to $0.19 for the fourth quarter of 2006 and $0.36 for the first quarter of 2006;

- Cash dividends declared per common share were $0.10 for the first quarter of 2007 compared to $0.25 for the fourth quarter of 2006 and $0.25 for the first quarter of 2006;

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- Total assets were $23.3 billion as of March 31, 2007 compared to $23.6 billion as of December 31, 2006 and $24.8 billion as of March 31, 2006;

- Book value per common share was $9.15 as of March 31, 2007 compared to $11.15 as of December 31, 2006 and $13.87 as of March 31, 2006;

- The mortgage operations acquired and originated $2.2 billion of primarily Alt-A mortgages compared to $4.1 billion for the fourth quarter of 2006 and $2.1 billion for the first quarter of 2006;

- The commercial mortgage operations originated $196.9 million of commercial mortgages compared to $269.6 million for the fourth quarter of 2006 and $202.8 million for the first quarter of 2006; and

- The long-term investment operations retained for investment $2.2 billion of primarily Alt-A mortgages and $234.9 million of commercial mortgages compared to $2.7 billion of primarily Alt-A mortgages and $411.9 million of commercial mortgages for the fourth quarter of 2006 and $579.7 million of primarily Alt-A mortgages and $114.7 million of commercial mortgages for the first quarter of 2006.

First Quarter 2007 vs. Fourth Quarter 2006 GAAP Net Earnings

	For the Three Months Ended, March 31, 2007	For the Three Months Ended, December 31, 2006	Increase (Decrease)	% Change
Interest income	$ 342,821	$ 327,484	$ 15,337	5 %
Interest expense	329,366	334,393	(5,027)	(2)
Net interest income	13,455	(6,909)	20,364	295
Provision for loan losses	29,374	44,038	(14,664)	(33)
Net interest expense after provision for loan losses	(15,919)	(50,947)	35,028	69
Total non-interest income	(70,562)	15,772	(84,334)	(547)
Total non-interest expense	33,321	30,434	2,887	9
Income tax (benefit) expense	1,866	(6,104)	7,970	131
Net loss	$ (121,668)	$ (59,505)	$ (62,163)	(104)%
Net loss per share diluted	$ (1.65)	$ (0.83)	$ (0.82)	(99)%
Dividends declared per common share	$ 0.10	$ 0.25	$ (0.15)	(60)%

The results of operations for the first quarter of 2007 resulted in a net loss of $121.7 million or $1.65 per share as compared to a net loss of $59.5 million or $0.83 per share, for the fourth quarter of 2006. The decrease was primarily due to the $38.3 million decrease in the change in fair value of the derivative instruments, a $16.7 million decrease in gains from the selling of loans, an $11.7 million increase in the provision for repurchases, offset by an increase in net interest income of $20.4 million.

Included in net earnings was a mark-to-market loss in the fair value of derivative instruments. During the first quarter of 2007 the loss increased to $58.7 million as compared to a loss of $20.4 million during the fourth quarter 2006. The change in the fair value of the derivative instruments was primarily the result of $37.5 million in cash receipts from derivatives and partially the result of changes in the expectation of future interest rates.

The decrease in gains from the sale of loans was the result of a decrease in the execution price of loans sold, as a result of unfavorable market conditions and an increase in the volume of loans for sale in the marketplace. The increase in the provision for repurchases is due to an increase in the actual losses experienced in the first quarter on loans re-sold or re-priced. The decrease in the value of loans is a result of the saturation of loans for sale combined with the decreases in the value of the underlying collateral, as home prices in many regions continued to fall from the fourth quarter of 2006. Also affecting the value of the loans held-for-sale is the level of non-performing loans and the level of pending foreclosures which makes additional home value decreases more likely.

Net interest income increased primarily as a result of the increases to the interest rates on our adjustable rate mortgages as well as an approximate $9.4 million increase to interest income, resulting from a decrease in the amortization of loan premiums. The amortization of loan premiums decreased as the Company adjusted the amortization based upon the actual prepayments for the first quarter and reduced its expected prepayments for future periods.

Estimated Taxable Income

Because dividend payments are based on estimated taxable income, dividends may be more or less than net earnings. As such, we believe that the disclosure of estimated taxable income available to common stockholders, which is a non-generally accepted accounting principle, or non-GAAP, financial measurement, is useful information for our investors.

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

	For the Three Months Ended (1) March 31, 2007	December 31, 2006	March 31, 2006
Net (loss) earnings	$ (121,668)	$ (50,550)	$ 85,566
Adjustments to net (loss) earnings: (2)			
Loan loss provision (3)	38,734	39,766	150
Tax deduction for actual loan losses (3)	(11,262)	(11,070)	(4,406)
GAAP earnings on REMICs (4)	(14,932)	(11,766)	(1,377)
Taxable income on REMICs (5)	12,843	15,685	6,098
Change in fair value of derivatives (6)	54,623	19,305	(46,963)
Dividends on preferred stock	(3,722)	(3,682)	(3,672)
Net loss (earnings) of taxable REIT subsidiaries (7)	58,667	14,997	(1,854)
Dividend from taxable REIT subsidiaries (8)			
Elimination of inter-company loan sales transactions (9)	5,471	1,960	(6,539)
Miscellaneous adjustments	108	(169)	120
Estimated taxable income available to common stockholders (10)	$ 18,862	$ 14,476	$ 27,123
Estimated taxable income per diluted common share (10)	$ 0.25	$ 0.19	$ 0.36
Diluted weighted average common shares outstanding	76,084	76,084	76,379

(1) Estimated taxable income includes estimates of book to tax adjustments and can differ from actual taxable income as calculated when we file our annual corporate tax return. Since estimated taxable income is a non-GAAP financial measurement, the reconciliation of estimated taxable income available to common stockholders to net earnings is intended to meet the requirements of Regulation G as promulgated by the SEC for the presentation of non-GAAP financial measurements. To maintain our REIT status, we are required to distribute a minimum of 90% of our annual taxable income to our stockholders.

(2) Certain adjustments are made to net earnings in order to calculate estimated taxable income due to differences in the way revenues and expenses are recognized under the two methods.

(3) To calculate estimated taxable income, actual loan losses are deducted. For the calculation of net earnings, GAAP requires a deduction for estimated losses inherent in our mortgage portfolios in the form of a provision for loan losses, which are generally not deductible for tax purposes. Therefore, as the estimated losses provided for GAAP are realized, the losses will negatively and may materially impact future taxable income.

(4) Includes GAAP amounts related to the REMIC securitizations, which were treated as secured borrowings for GAAP purposes and sales for tax purposes. The REMIC GAAP income excludes the provision for loan losses recorded that may relate to the REMIC collateral included in securitized mortgage collateral. The Company does not have any specific valuation allowances recorded as an offset to the REMIC collateral.

(5) Includes amounts that are taxable to the Company related to its residual interest in the securitizations, as the REMICs are accounted for as sales in its tax filings.

(6) The mark-to-market change for the valuation of derivatives at IMH is income or expense for GAAP financial reporting but is not included as an addition or deduction for taxable income calculations, until realized.

(7) Represents net earnings of IFC and ICCC, our taxable REIT subsidiaries (TRS), which may not necessarily equal taxable income.

(8) Any dividends paid to IMH by the TRS in excess of their cumulative undistributed taxable income would be recognized as return of capital by IMH to the extent of IMH s capital investment in the TRS. Distributions from the TRS to IMH may not equal the TRS net earnings, however, IMH can only recognize dividend distributions received from the TRS as taxable income to the extent that the TRS distributions are from current or prior period undistributed taxable income. Any distributions by the TRS in excess of IMH s capital investment in the TRS would be taxed as capital gains.

(9) Includes the effects to taxable income associated with the elimination of gains from inter-company loan sales and other intercompany transactions between IFC, ICCC, and IMH, net of tax and the related amortization of the deferred charge.

(10) Excludes the deduction for common stock dividends paid and the availability of a deduction attributable to net operating loss carry-forwards. As of December 31, 2006, the Company had estimated Federal net operating loss carry-forwards of $8.2 million that are expected to be utilized prior to their expiration in the year 2020.

First Quarter 2007 vs. Fourth Quarter 2006

Estimated taxable income increased $4.4 million to $18.9 million, or $0.25 per diluted common share, for the first quarter 2007, compared to $14.5 million or $0.19 per diluted common share, for the fourth quarter 2006. The increase in estimated taxable income was mainly attributable to an increase in adjusted net interest margin at IMH. The $6.7 million increase in adjusted net interest margin at IMH was primarily the result of a decrease in premium amortization, due to lower prepayments. A decrease in actual prepayments increased interest income and estimated taxable income $4.7 million and a decrease in projected prepayments also increased interest income and estimated taxable income $4.7 million, compared to the amortization rates used in the fourth quarter of 2006. Offsetting the increase to interest income was a non-recurring decrease in estimated taxable income from REMICs of $2.8 million which was primarily related to a change in the tax accounting for the REMICs from an accrual basis to a cash basis which creates a timing difference between the amounts recorded for GAAP purposes, compared to the amounts recorded for tax purposes.

Financial Condition and Results of Operations

Financial Condition

Condensed Balance Sheet Data
(dollars in thousands)

	March 31, 2007	December 31, 2006	Increase (Decrease)	% Change
Securitized mortgage collateral	$ 21,462,312	$ 21,050,829	$ 411,483	2 %
Mortgages held-for-investment	1,156	1,880	(724)	(39)
Finance receivables	262,667	306,294	(43,627)	(14)
Allowance for loan losses	(102,838)	(91,775)	11,063	12
Mortgages held-for-sale	857,222	1,561,919	(704,697)	(45)
Derivatives	102,441	147,291	(44,850)	(30)
Real estate owned, net	251,943	161,538	90,405	56
Other assets	448,382	460,979	(12,597)	(3)
Total assets	$ 23,283,285	$ 23,598,955	$ (315,670)	(1)%
Securitized mortgage borrowings	$ 20,998,378	$ 20,526,369	$ 472,009	2 %
Reverse repurchase agreements	1,233,334	1,880,395	(647,061)	(34)
Other liabilities	192,745	182,661	10,084	6
Total liabilities	22,424,457	22,589,425	(164,968)	(1)
Minority interest	1,000			
Total stockholders equity	857,828	1,009,530	(151,702)	(15)
Total liabilities and stockholders equity	$ 23,283,285	$ 23,598,955	$ (315,670)	(1)%

Total assets were $23.3 billion as of March 31, 2007 as compared to $23.6 billion as of December 31, 2006, as the long-term investment operations retained $2.2 billion of primarily Alt-A mortgages and $234.9 million of commercial mortgages offset by $709.7 million in whole loan sales and $1.8 billion in total prepayments.

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

	Residential As of March 31, 2007	December 31, 2006	March 31, 2006	Commercial As of March 31, 2007	December 31, 2006	March 31, 2006
Percent of Alt-A mortgages	99 %	99 %	99 %	N/A	N/A	N/A
Percent of non-hybrid ARMs	6 %	7 %	12 %	1 %	2 %	3 %
Percent of hybrid ARMs	72 %	73 %	75 %	99 %	98 %	97 %
Percent of FRMs	22 %	20 %	13 %	0 %	0 %	0 %
Percent of interest-only	72 %	72 %	72 %	15 %	14 %	12 %
Weighted average coupon	6.83 %	6.75 %	6.19 %	6.21 %	6.15 %	5.79 %
Weighted average margin	3.51 %	3.60 %	3.80 %	2.67 %	2.68 %	2.69 %
Weighted average original LTV	74	74	75	66	66	67
Weighted average original credit score	698	697	696	730	730	730
Percent with original prepayment penalty	66 %	68 %	75 %	100 %	100 %	100 %
Prior 3-month constant prepayment rate	32 %	39 %	36 %	8 %	6 %	8 %
Prior 12-month prepayment rate	37 %	38 %	39 %	8 %	8 %	9 %
Lifetime prepayment rate	29 %	29 %	26 %	6 %	6 %	5 %
Weighted average debt service coverage ratio	N/A	N/A	N/A	1.27	1.27	1.24
Percent of mortgages in California	51 %	51 %	54 %	62 %	63 %	66 %
Percent of purchase transactions	56 %	58 %	60 %	50 %	51 %	52 %
Percent of owner occupied	78 %	78 %	80 %	N/A	N/A	N/A
Percent of first lien	98 %	99 %				