



⇒ *Standing Out* ⇐

IMPAC MORTGAGE HOLDINGS, INC.

2006

ANNUAL REPORT



NAVIGATING THE MARKET (P2)



CREATING TOOLS FOR PERFORMANCE (P6)



PREPARING FOR GROWTH (P10)

ABOUT IMPAC: Impac Mortgage Holdings, Inc. ("Impac" or "the Company") is a mortgage real estate investment trust ("REIT"). Impac (NYSE: IMH) manages a long-term investment portfolio with \$21.1 billion in assets nationwide. A public company since 1995, Impac helped pioneer the market for non-conforming

alternative-A ("Alt-A") residential mortgage loans. While Alt-A mortgages remain our main focus, we are building our portfolio with a growing emphasis on small-balance commercial loans to enhance stockholder value.

As part of our diversified strategy, Impac operates four core businesses. Our Long-Term

Investment Operations invests primarily in Alt-A residential mortgage loans and to a lesser extent in small-balance commercial loans. Our Mortgage Operations, Impac Funding Corporation ("IFC"), acquires, originates, sells and securitizes primarily Alt-A loans. Our Warehouse Lending Operations, Impac Warehouse

Lending Group ("IWLG"), provides short-term repurchase facilities to mortgage loan originators. Finally, our Commercial Operations, Impac Commercial Capital Corporation ("ICCC"), originates small-balance commercial and multi-family loans for sale to the Long-Term Investment Operations or third parties.



In the highly cyclical mortgage industry, one thing is certain: maximizing performance requires expertise, persistence and a disciplined approach to managing risk. In this type of market, the best companies stand out by emerging from each market cycle better and stronger. In 2006, Impac's experienced leadership proved its ability to make prudent choices to keep the Company on course and protect stockholder value while pursuing opportunities for longer-term growth and profitability.



⇒ *Navigating the Market* ⇐

Navigating through the cycles of the mortgage industry requires the ability to move quickly in shifting conditions. In 2006, Impac adjusted its strategy to preserve liquidity while remaining focused on long-term profitability. We adhered to our core philosophies despite market pressures from competition and increased borrowing costs.

Early in 2006, we identified a downward trend in credit quality, as the housing market cooled and home-price appreciation returned to more normal levels. As a result, we made a conscious decision to reduce our production volumes and invest more selectively.

We chose to build the balance sheet with longer duration, Alt-A residential and small-balance commercial loans that have historically demonstrated superior performance. Our foresight in a challenging market allowed us to pay consistent dividends throughout the year and reduce our exposure to less desirable mortgage assets.





The Capital Markets Group: In 2006, we established a Capital Markets group to broaden our ability to manage the balance sheet and enhance our competitive advantage. Led by Impac's new Chief Investment Officer, Andrew McCormick, and based just outside of Washington, D.C., the group positions Impac to evaluate a wider array of investment opportunities. By diversifying our portfolio, we believe we can minimize interest rate volatility and reduce credit risk.

FROM LEFT TO RIGHT: Norman Frey, Senior Vice President, Asset Liability, IFC; Andrew McCormick, Executive Vice President, Chief Investment Officer; Nancy Pollard, Executive Vice President, Secondary Marketing, IFC; James Malloy, Senior Vice President, Secondary Marketing, IFC

Impac remains well-capitalized, centralized and diversified among its business segments in order to withstand extended market cycles. Most importantly, we have the expertise to manage through the current lending environment. Our executive team is willing to make tough choices to protect stockholder value. We believe our Company is adequately prepared to weather the challenging market.

FOCUSING ON CREDIT QUALITY: After years of minimal credit losses, credit quality became a greater issue industry-wide in 2006. While some of our peers widened their underwriting guidelines to capture more business, we did the opposite. Instead of growing for growth's sake, we decided to pursue reduced but more profitable production, with a notable reduction in volume in the first half of the year. This meant tightening our underwriting guidelines and adjusting pricing on loans that we acquired or originated.

At the same time, we maintained our credit quality in the loans we held for investment. At the end of 2006, the long term investment portfolio had a weighted average credit score of 698 with 99.8 percent of the Alt-A residential mortgage loans defined as "A" credit quality, which the Company defines as loans with credit scores above 620. We also grew our high-performing commercial investment portfolio to \$1.7 billion at year end, up 42 percent from the end of 2005.

MAXIMIZING RETURNS: Last year, our experience as a seasoned issuer of structured transactions enabled us to maximize our return on equity while preserving our liquidity. To minimize risk and conserve our capital, we sold more than half of our originations, primarily Option Adjustable Rate Mortgages and second trust deeds, or \$6.3 billion in principal balance of mortgages for gains. The whole-loan sales of these products to third parties generally offer more attractive economic results than including them in our mortgage-backed security transactions.

We also issued \$5.8 billion of mortgages as consolidated Real Estate Mortgage Investment Conduit (REMIC) transactions. In addition, we sold \$834.0 million of mortgages as un-consolidated REMICs to third parties, of which \$29.8 million in residual interest was retained by the Long-Term Investment Operations. The REMIC strategy offers us attractive returns while providing more liquidity than other kinds of mortgage-backed securities.

WIDENING MARGINS: We reached a turning point in June 2006, when the Federal Reserve paused after raising short-term interest rates 17 times during the previous two years. With short-term interest rates holding steady, our borrowing costs – which are tied to the one-month London InterBank Offered Rate (LIBOR) – stabilized. This enabled our adjusted net interest margins to improve slightly as the coupons on adjustable mortgages adjusted upwards over the last half of the year.

In the third and fourth quarters, we took advantage of the more favorable interest rate environment and reduced competition to increase both production and investment. At the same time, we continued to adhere to vigilant underwriting standards, tools and processes to manage risk. We ended 2006 with a long-term investment portfolio of \$21.1 billion, down from a record high of \$24.7 billion at the end of 2005. While our portfolio was smaller, it consisted primarily of Alt-A residential and small-balance commercial loans that we believe offer superior credit quality and loan duration.



⇒ *Creating Tools for Performance* ⇐

Impac has long been a technology leader in the mortgage industry. In 2006, we deployed more robust and sophisticated Enterprise Risk Management tools to make more informed decisions. Leveraging proprietary and third-party technology platforms, we enhanced strategies, standards and processes to manage risk prudently.

Our data-driven strategy has helped us better define the credit risk exposure in our existing portfolio. More importantly, we are targeting precisely the loans we want to acquire and originate going forward.

We are concentrating on areas with the strongest home-price appreciation and solid employment. With industry-leading analytical capabilities, we are growing our business while building even stronger relationships with our customers.





The ERM Group: Since it was formed in 2005, the Enterprise Risk Management Group has brought a new level of innovation to Impac. With industry-leading tools and technologies, we are better positioned to assess risk, adjust our underwriting guidelines and grow our business. This group has impacted everything from product development to securitization strategies, enabling us to make the best decision on each individual loan.

FROM LEFT TO RIGHT: James Dickinson, Vice President Business Reporting & Data Integrity; Lily Van, Senior Project Manager; Ankush Chawla, Senior Vice President, Director of Enterprise Risk Management

Comprehensive data means more targeted marketing. Utilizing proprietary analytics, we have identified the top performing markets for Alt-A residential loan originations in terms of credit worthiness and loan duration. We have expanded our sales and marketing efforts with a laser focus based on market area performance.

BUILDING OUR BUSINESS: Today, we are using a risk-based approach to acquire and originate higher credit quality loans, while providing even greater value to our customers. A key example is the Impac Market Analysis Platform (iMAP), a proprietary tool we developed exclusively for our correspondent and broker customers.

Launched in May 2006, iMAP gives our customers macroeconomic data such as unemployment, home price appreciation and loan delinquencies. iMAP provides customers with a comprehensive credit risk analysis of each metropolitan area. The Web-based platform enables them to make better risk-adjusted decisions that result in higher approval ratios and better credit quality loans.

Our correspondents, who generated 68 percent of our loan production in 2006, are long-term players who care about the quality of their loans. With iMAP and third-party loan level assessment tools, we are helping them deliver higher-credit quality, better performing loans to Impac while building our business at the same time.

MANAGING RISK: Internally, we have deployed a proprietary profitability ranking system that helps us acquire and originate loans with higher credit quality. Our comprehensive decision-support system covers more than 320 metropolitan areas. We assess each loan's credit risk by evaluating macroeconomic data along with individual characteristics such as the borrower's credit score, the loan-to-value ratio, the property's history and more.

In addition to developing our own proprietary technology solutions, we partner with a number of the industry's top vendors to improve loan level risk. In 2006, the Company implemented LoanSafe™, a third-party tool from First American, CoreLogic™ that analyzes the three main components of loan transactions – the borrower, the collateral and the mortgage broker. To screen out potentially fraudulent loans, a key element of LoanSafe™ is the property segment which measures the property-based risk score based on home appreciation, foreclosure rates and flip activity. At year end 2006, we also began utilizing IncomePro™, an income validation tool that is used in conjunction with LoanSafe™ for the assessment of stated income loans.

OPTIMIZING OUR INVESTMENTS: We are integrating our analytics and technology to optimize pricing and selectively invest in loans. Using our technology advantage, we can gain insight into areas with the slowest prepayments and strongest job markets. By working with our secondary marketing group, we are in a position to identify a profitable exit strategy at the point of loan origination.

Overall, we have implemented a robust infrastructure designed to improve loan level forecasting, portfolio analysis and overall profitability. Looking ahead, we plan to use our Enterprise Risk Management expertise to build business partnerships with our customers by helping them to optimize their sales strategies. At the same time, we are helping our wholesale lending platforms originate better performing loans. At Impac, it's all part of creating tools for performance.



⇒ *Preparing for Growth* ⇐

Market corrections are often the point of differentiation for identifying companies with experienced management, a solid business and a strong balance sheet to manage through a decidedly challenging environment.

At Impac, we continue to believe that the fundamentals of this business are sound and that we are positioned to successfully navigate through this cycle.

To focus more on strategic initiatives and opportunities available to the Company, we strengthened our executive management team. With this expertise, we believe we are better positioned to evaluate a wider array of investment opportunities. Further, we continue to evaluate strategic acquisitions of well-established, profitable companies to complement our thriving wholesale channels and leverage our liquidity.





The Executive Management Team: In 2006, Impac strengthened its executive management team to pursue prospects for targeted investment and growth. We repositioned long-time Impac executives and created a new position of Chief Investment Officer. Our organizational changes reflect the extensive experience and contributions of our leadership team, while positioning the Company for growth opportunities ahead.

BACK ROW FROM LEFT TO RIGHT: **Ronald Morrison**, Executive Vice President, General Counsel, Corporate Secretary; **Andrew McCormick**, Executive Vice President, Chief Investment Officer; **Gretchen Verdugo**, Executive Vice President, Chief Financial Officer; **Richard Johnson**, Executive Vice President, Chief Operating Officer; SEATED FROM LEFT TO RIGHT: **William Ashmore**, Director, President; **Joseph Tomkinson**, Chairman & Chief Executive Officer

Dear Fellow Stockholders: For Impac, 2006 was an important year of transition, stabilization and innovation. Despite challenging market conditions, we successfully preserved our liquidity, maintained our dividend and enhanced our technological advantage to manage risk. We also expanded our already significant management expertise to help prepare to take advantage of growth opportunities ahead.

The year presented challenges for Impac and the mortgage industry as a whole. Declining credit quality produced the least attractive vintage of loans in recent years. Ahead of many of its peers, Impac saw the need to pull back significantly on loan volume, cut costs and ride out the market cycle. At the same time, we focused on growing higher-margin areas of our diversified business, such as warehouse lending and our Alt-A and small-balance commercial wholesale platforms.

We also faced a highly competitive mortgage industry and an unfavorable yield curve, particularly in the first half of the year. In 2006, the Federal Reserve increased short-term interest rates 100 basis points before pausing in June for the remainder of the year – a welcome respite from the steady drumbeat of rising interest rates over the previous two years. Compressed for most of the year, our adjusted net interest margins began to widen in the fourth quarter. Our margins improved as our borrowing costs stabilized and the adjustable-rate mortgages in our securitized portfolio reset at higher rates.

Last year our leadership team effectively navigated through a difficult environment. We ended the year well-capitalized, with a large long-term investment portfolio that generates the majority of our taxable income. Once market conditions become more favorable, we believe Impac will be well positioned to achieve long-term, profitable growth.

A NEW OPPORTUNITY: In early 2007, we formed a partnership with Arch Bay, L.L.C., a group of mortgage industry leaders who have significant experience acquiring non-performing loans at

deep discounts, and then restructuring and remarketing them. By combining our partners' expertise with Impac's infrastructure and experience, we plan to acquire, restructure and sell

these loans for attractive returns. With the dramatic increase in loan defaults in recent months, the significant number of variable-rate and interest-only mortgages that are resetting and pressure by

warehouse lenders on their mortgage clients, we believe this is a promising opportunity for Impac.

In 2006, credit quality in our investment portfolio remained high. At year end, 99.8 percent of the Alt-A residential loans held as securitized mortgage collateral were “A” credit quality mortgages, as defined by the Company. To minimize risk, we continued to invest primarily in first-lien residential mortgages for owner-occupied properties and purchase transactions. At year end, the original credit score was 697 for residential loans and 730 for commercial loans backing our portfolio.

2006 RESULTS: In 2006, the Company reported a net loss of \$75.3 million or \$1.18 per diluted common share, as compared to net earnings of \$270.3 million or \$3.35 per diluted common share for 2005. Meanwhile, our estimated taxable income, which we believe to be an important indicator of the Company’s overall performance, was \$79.5 million or \$1.05 per diluted common share in 2006, as compared to taxable income of \$142.9 million or \$1.87 per diluted common share for 2005.

As a REIT, the Company is required to distribute at least 90 percent of its taxable income in the form of dividends. Our taxable income decreased during the year for several reasons – one, we reduced our loan production to better manage risk; two, our long-term investment portfolio declined as we invested more selectively and older loans seasoned and were paid off; and three, higher borrowing costs narrowed our net interest margins for much of the year. As a result, we paid a common stock dividend of \$0.95 per share in 2006, as compared to \$1.95 per share in 2005.

Early on, we saw that new originations were not performing as well as other vintages and reduced our residential production accordingly. As a result, we acquired or originated approximately \$11.6 billion of primarily non-conforming Alt-A mortgages during 2006, as compared to \$22.3 billion for 2005.

Meanwhile, we increased our production of small-balance commercial and multi-family loans, which have demonstrated superior performance. We acquired or originated approximately \$983.4 million of commercial and multi-family loans during 2006, as compared to \$798.5 million in 2005.

During 2006, we securitized approximately \$6.9 billion of primarily Alt-A loans and retained approximately \$5.8 billion of those for investment, as

compared to securitizing \$14.0 billion and retaining approximately \$13.4 billion in 2005. In 2006, we securitized and retained \$672.4 million of commercial loans, as compared to \$683.1 million in 2005.

At December 31, 2006, the Company’s long-term investment portfolio totaled \$21.1 billion, down from its record high of \$24.7 billion at December 31, 2005. Although the portfolio was smaller at year-end, in many ways it was stronger, backed by loans that have historically demonstrated higher credit quality and longer duration.

ACCOMPLISHMENTS: Despite these challenges, Impac maintained its quarterly common stock dividend in 2006, in fact raising its fourth quarter 2005 dividend from \$0.20 per share to \$0.25 per share for 2006. Our adjusted net interest margins began to show signs of rebounding in the fourth quarter, as short-term interest rates and prepayment speeds stabilized. We also benefited from our hedging strategy, which helped to mitigate interest margin volatility and provide significant cash flow.

At year end 2006, the Company held approximately \$179.8 million in cash and cash equivalents. We carefully preserved our liquidity to manage through the challenging environment as well as to capture future long-term opportunities for the Company. We sold nearly half of our loan production during the year for gains, primarily utilizing whole-loan sales. Like many in the industry, we experienced increased repurchase activity during the year. Our mortgage loan buybacks were up from recent historic lows, primarily the result of record loan production levels and whole loans sales principally related to the last half of 2005 and the beginning of 2006.

To minimize future repurchase liability, based on a loan-level analysis during 2005 and 2006, we aggressively tightened our underwriting criteria and pricing guidelines. Although these changes significantly decreased our loan production in 2006, they resulted in a higher concentration of primarily longer duration products, which have demonstrated better historical performance. We believe our repurchase reserves, which totaled \$15.3 million as of December 31, 2006, remained adequate at year end.

Meanwhile, during the year we selectively added loans to the balance sheet, while remaining focused on credit quality and performance. At year end, our long-term portfolio was invested 70 percent in longer-duration loans, defined as loans with fixed interest-rate periods of three years or greater.

To further improve our return on equity while preserving liquidity, we utilized REMIC securitizations. REMICs offer benefits similar to CMOs; however, their cash-flow structures offer more attractive returns for commercial loans while at the same time the residual created provides more readily available liquidity for the organization.

STRATEGIES FOR GROWTH: In 2006, Impac implemented strategies designed to grow our business and improve stockholder value. Strengthening our executive management team, we promoted Richard Johnson to Executive Vice President and Chief Operating Officer and Gretchen Verdugo to Executive Vice President and Chief Financial Officer. William Ashmore continues to lead the organization as President and Director of the Company, leveraging his substantial expertise and leadership to focus more on strategic initiatives and opportunities available to the Company. We also welcomed Andrew McCormick to the newly created role of Executive Vice President and Chief Investment Officer.

A 24-year veteran of the mortgage industry, Mr. McCormick now oversees all balance-sheet investment decisions for Impac. He also leads our Capital Markets group based just outside of Washington, D.C.,

which is evaluating a wider array of prudent investment opportunities. By diversifying our portfolio, we believe we can reduce interest margin volatility and credit risk.

During 2006, our Enterprise Risk Management group deployed innovative analytical tools to acquire and originate loans with higher credit quality. Leveraging our proprietary platforms, we adjusted our sales strategy to more precisely account for credit and market risk. We used third-party tools to minimize potential fraudulent loans, while integrating analytical technology to optimize pricing and selectively invest in loans.

Also during 2006, our commercial operations expanded its presence in the mountain and southwest regions. We believe small-balance commercial mortgages are an attractive investment because they typically offer higher credit scores, lower loan-to-value ratios and longer average-life-to-payoff than Alt-A mortgages.

Throughout the year, we continued to evaluate potential acquisitions of profitable, well-established companies to complement our existing wholesale Alt-A and commercial lending platforms.

POSITIVE OUTLOOK: In a challenging and changing market, Impac will benefit from a large balance sheet that is primarily invested in high credit quality mortgages. With our strong liquidity, we believe that we are well positioned to weather continuing consolidation in the marketplace, as overall mortgage industry production is expected to decline.

While home price appreciation has slowed, the economy is still solid. Today, Impac is poised to benefit from a steeper yield curve, increased wholesale distribution through strategic acquisitions, or both.

In closing, we would like to thank our employees for their dedication and commitment, and you, our stockholders, for your support. We believe our Company will emerge from a difficult industry cycle stronger and better. We look forward to updating you as we work to build the balance sheet, diversify the portfolio and strengthen the business in the year ahead.

Respectfully yours,



JOSEPH R. TOMKINSON
Chairman of the Board and
Chief Executive Officer



WILLIAM S. ASHMORE
Director, President

Statement of Operations Data

(amounts in thousands, except per share data)

For the year ended December 31,	2006	2005	2004	2003 ⁽¹⁾	2002
		restated	restated	restated	restated
Net interest income:					
Interest income	\$ 1,276,713	\$ 1,251,960	\$ 755,616	\$ 385,716	\$ 230,267
Interest expense	1,311,405	1,047,209	412,533	209,009	127,801
Net interest income (expense)	(34,692)	204,751	343,083	176,707	102,466
Provision for loan losses	47,326	30,563	30,927	24,853	19,848
Net interest income (expense) after provision for loan losses	(82,018)	174,188	312,156	151,854	82,618
Non-interest income:					
Gain on sale of loans	1,805	39,509	24,729	37,523	—
Other income	27,003	13,770	11,666	12,329	1,671
Realized gain (loss) from derivative instruments	204,435	22,595	(91,881)	(47,847)	(28,361)
Change in fair value of derivative instruments	(113,017)	144,932	96,575	31,826	(22,141)
Equity in net earnings of IFC	—	—	—	11,537	11,299
Total non-interest income (expense)	120,226	220,806	41,089	45,368	(37,532)
Non-interest expense:					
Personnel expense	65,082	77,508	60,420	25,250	1,856
Other expense	30,389	24,321	15,329	11,072	1,898
General and administrative and other expense	19,867	25,384	17,097	7,660	985
Total non-interest expense	115,338	127,213	92,846	43,982	4,739
(Loss) Earnings before income taxes	(77,130)	267,781	260,399	153,240	40,347
Income tax (benefit) expense	(1,857)	(2,477)	2,762	4,261	—
Net (loss) earnings	\$ (75,273)	\$ 270,258	\$ 257,637	\$ 148,979	\$ 40,347
Net (loss) earnings per share:					
Basic	\$ (1.18)	\$ 3.38	\$ 3.79	\$ 2.94	\$ 1.01
Diluted	\$ (1.18)	\$ 3.35	\$ 3.72	\$ 2.88	\$ 0.99
Dividends declared per share	\$ 0.95	\$ 1.95	\$ 2.90	\$ 2.05	\$ 1.76

Balance Sheet Data

As of December 31,	2006	2005	2004	2003(1)	2002
Securitized mortgage collateral and mortgages held-for-investment	\$21,052,709	\$24,654,360	\$21,895,592	\$ 9,296,893	\$5,215,731
Finance receivables	306,294	350,217	471,820	630,030	664,021
Mortgages held-for-sale	1,561,919	2,052,694	587,745	397,618	—
Investments in and advances to IFC ⁽¹⁾	—	—	—	—	531,032
Total assets	23,598,955	27,720,379	23,815,767	10,577,957	6,540,339
Securitized mortgage borrowings	20,526,369	23,990,430	21,206,373	8,489,853	5,019,934
Reverse repurchase agreements	1,880,395	2,430,075	1,527,558	1,568,807	1,168,029
Total liabilities	22,589,425	26,553,432	22,771,692	10,105,170	6,256,814
Total stockholders' equity	1,009,530	1,166,947	1,044,075	472,787	283,525

(1) On July 1, 2003, IMH purchased 100 percent of the outstanding shares of common stock of IFC. The purchase of IFC's common stock combined with IMH's ownership of 100 percent of IFC's preferred stock resulted in the consolidation of IFC from July 1, 2003 through December 31, 2003. Prior to July 1, 2003, IFC was a non-consolidated subsidiary of IMH and 99 percent of the net earnings of IFC were reflected in IMH's financial statements as "Equity in net earnings of IFC."

Operating Data

As of and for the year ended December 31,	2006	2005	2004	2003	2002
Mortgage acquisitions and originations for the year	\$12,560,163	\$22,310,603	\$22,213,104	\$ 9,525,121	\$ 5,945,498
Master servicing portfolio at year-end	31,515,823	28,448,507	28,404,008	13,919,694	8,694,474
Servicing portfolio at year-end	1,498,253	2,208,433	1,690,800	1,402,100	2,653,414

Estimated Taxable Income available to IMH Common Stockholders

Estimated taxable income available to IMH common stockholders excludes net earnings from IFC and its subsidiaries and the elimination of intercompany loan sale transactions. The following schedule reconciles net earnings to estimated taxable income available to common stockholders of the REIT.

For the year ended December 31,	2006 ⁽¹⁾	2005	2004
Net (loss) earnings	\$(75,273)	\$270,258	\$257,637
Adjustments to net (loss) earnings: ⁽²⁾			
Loan loss provision ⁽³⁾	43,054	30,563	30,927
Tax deduction for actual loan losses ⁽³⁾	(27,157)	(16,004)	(16,252)
GAAP earnings on REMICs ⁽⁴⁾	(16,822)	—	—
Taxable income on REMICs ⁽⁴⁾	34,297	—	—
Change in fair value of derivatives ⁽⁵⁾	114,490	(155,695)	(103,724)
Dividends on preferred stock	(14,698)	(14,530)	(3,750)
Net loss (earnings) of taxable REIT subsidiaries ⁽⁶⁾	25,994	(14,968)	(42,944)
Dividend from taxable REIT subsidiaries ⁽⁷⁾	7,400	32,850	37,000
Elimination of inter-company loan sales transactions ⁽⁸⁾	(11,913)	10,429	44,048
Net miscellaneous adjustments	166	—	—
Estimated taxable income available to common stockholders ⁽⁹⁾	\$79,538	\$142,903	\$202,942
Estimated taxable income per diluted common share ⁽⁹⁾	\$ 1.05	\$ 1.87	\$ 2.97
Diluted weighted average common shares outstanding	76,110	76,277	68,244

(1) Estimated taxable income includes estimates of book to tax adjustments which 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 (loss) 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 percent of our annual taxable income to our stockholders.

(2) Certain adjustments are made to net (loss) earnings in order to calculate 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 not deductible for tax purposes. Therefore, as the estimated losses provided for under GAAP are actually realized, the losses will negatively and may materially effect future taxable income.

(4) Includes GAAP to tax differences related to the ISAC REMIC 2005-2, ISAC REMIC 2006-1, ISAC REMIC 2006-3, ISAC REMIC 2006-4, and ISAC REMIC 2006-5 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) The mark-to-market change for the valuation of derivatives at IMH is income or expense for GAAP financial reporting purposes but is not included as an addition or deduction for taxable income calculations until realized.

(6) Represents net (loss) earnings of IFC and ICC, our taxable REIT subsidiaries (TRS), which may not necessarily equal taxable income. Starting January 1, 2006, the Company elected to convert ICC from a qualified REIT subsidiary to a TRS.

(7) Any dividends paid to IMH by the TRS in excess of their cumulative undistributed earnings and profits taxable income minus taxes paid would be recognized as a 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 earnings and profits taxable income minus taxes paid. Any distributions by the TRS in excess of IMH's capital investment in the TRS would be taxed as capital gains.

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

(9) Excludes the deduction for common stock cash dividends paid and the availability of a deduction attributable to net operating loss carry-forwards. As of December 31, 2006, the Company has 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.

Impac 2006 Annual Report Q&A

Q. WHAT KIND OF MORTGAGE LENDER IS IMPAC?

A. Impac is an Alt-A lender. Substantially all of the mortgages we originate or acquire are Alt-A loans. We define Alt-A loans as mortgages made to borrowers whose credit is generally within Fannie Mae and Freddie Mac guidelines, but have loan characteristics that make them non-conforming under those guidelines. As of December 31, 2006, 99.8 percent of the loans held in our portfolio had a credit grade of A or A-, which means that the credit rating exceeded 620, with a weighted average loan-to-value ratio of 74 percent. As of December 31, 2006, the weighted average credit score of the Alt-A loans in our portfolio (i.e. the long-term investment operations) was 697. The major credit rating agencies, mortgage bond investors and our industry identify the Company as an Alt-A lender.

Q. WHY DOES IMPAC INVEST IN ALT-A RESIDENTIAL MORTGAGES?

A. 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. We believe Alt-A mortgages are normally subject to lower rates of loss and delinquency than subprime mortgages.

Q. WHAT ARE THE KEY DIFFERENCES BETWEEN ALT-A AND SUBPRIME LOANS?

A. In general, Alt-A loans have stricter underwriting guidelines than subprime loans. For example, to qualify for an Alt-A loan, a borrower must have established at least five trade lines of credit, which might include credit cards or a car loan, and each trade line of credit must be consistent for a minimum of 24 months. Meanwhile, subprime borrowers in general can have between zero and three trade lines depending on the loan-to-value ratio, and each trade line must be consistent for a minimum of six months. In addition, Alt-A borrowers must not have a bankruptcy within 24 months prior to loan approval, whereas there is no minimum elapsed time for subprime borrowers. To qualify for an Alt-A loan, borrowers must have no rolling mortgage lates, whereas subprime loans allow rolling 30 days lates within the last 12 months, up to 90 days late.

Q. WHAT IS IMPAC'S EXPOSURE TO SUBPRIME LOANS?

A. Virtually none. We generally do not acquire or retain subprime mortgages. As of December 31, 2006, subprime mortgages represented 0.4 percent of acquisitions and 0.2 percent of the ending securitized mortgage collateral. We define subprime mortgages made to borrowers with credit ratings less than 620, or other characteristics that increase the credit risk.

Q. WHAT ARE IMPAC'S KEY UNDERWRITING STRATEGIES?

A. Our strict underwriting strategies enable us to maintain a high-quality long-term investment portfolio. For a very high percentage of loans, employment is provided and verified for at least two years. Most of our loans require either full documentation or stated income and verified assets. In addition, any loans with a loan-to-value ratio of more than 80 percent have either borrower- or lender-paid mortgage insurance. We proactively adjust our underwriting guidelines based on market conditions and actual loan performance.

Q. WHAT IS IMPAC'S LEVERAGE STRATEGY?

A. We employ a leverage strategy to finance assets in our long-term mortgage portfolio primarily with securitized mortgage borrowings and reverse repurchase agreements. We retain Adjustable Rate Mortgages (ARMs) and Fixed Rate Mortgages (FRMs) that are acquired from the mortgage and commercial operations and finance the acquisition of these mortgages, during the accumulation period with reverse repurchase agreements. After accumulating a pool of mortgages, we securitize the mortgages in the form of Collateralized Mortgage Obligations (CMOs), or Real Estate Mortgage Investment Conduits (REMICs), or we sell mortgages in whole loan sale transactions.

Q. WHAT IS A COLLATERALIZED MORTGAGE OBLIGATION OR CMO?

A. A CMO is a series of bonds (each called a "tranche") with varying maturities and coupons. CMOs are a form of collateralized borrowing where the cash flows from the assets supporting the debt are the repayment source. The advantages of the CMO include: financing which allows the Company to secure permanent financing without the risk of margin calls and a relatively small investment of capital.

Q. WHAT IS A REAL ESTATE MORTGAGE INVESTMENT CONDUIT OR REMIC?

A. REMIC securitizations, similar to a CMO, assemble mortgages into pools and issue multi-class bonds to the secondary market. REMICs which offer the same advantages of CMOs can be structured as financing whereby the net interest income is recognized over the life of the mortgage loans. REMICs can also be offered as a sale of assets to third parties whereby the sale provides a contribution to income as a gain on sale and an ongoing return on any residual interest retained.

Q. DOES IMPAC HAVE SUFFICIENT FINANCING UNDER ITS REVERSE REPURCHASE AGREEMENTS?

A. Reverse repurchase agreements are entered into to finance the Company's warehouse lending operations and to fund the closing and purchase of mortgages by the mortgage and commercial operations. As of December 31, 2006, these facilities amounted to \$5.7 billion, of which \$1.9 billion was outstanding.

Q. WHAT IS A REPURCHASE LIABILITY?

A. The liability for mortgage repurchases is maintained for the purpose of purchasing previously sold mortgages, for various reasons, including early payment defaults or breach of representations or warranties, which may be subsequently sold at a loss. In 2006, we increased our repurchase reserve to \$15.3 million, up 47 percent over 2005. To minimize future repurchase liability, the Company aggressively tightened our underwriting criteria and changed pricing guidelines which has resulted in improved credit and duration characteristics. As of December 31, 2006, the Company believes the repurchase reserve is adequate.

Q. WHAT IS THE EFFECT OF THE COMPANY'S RESTATEMENTS FOR 2004-2005?

A. Our restatements related to 2004-2005 have no effect on the Company's net earnings, cash position, stockholders' equity or taxable income. As previously described in our Form 8-K filed on February 23, 2007, we had discovered errors in previously reported Consolidated Statements of Operations and Comprehensive Earnings. These errors related to the presentation of deferred charge as a non-interest expense amount compared to the restated presentation as a component of income tax expense. We also reported restated amounts in the Consolidated Statements of Cash Flows to eliminate certain non-cash items related to inter-company transactions and the re-designation of loans from held-for-sale to held-for-investment. We present these corrections in the 2006 consolidated financial statements included in our Annual Report on Form 10-K.

Q. WHAT IS THE PRIMARY INDICATOR FOR COMMON STOCK DIVIDENDS?

A. Estimated taxable income is the primary indicator for common stock dividends. During 2006, the Company had estimated taxable income of \$79.5 million, or \$1.05 per diluted common share. During 2006, we paid common stock dividends of \$72.3 million, or \$0.95 per diluted common share.

Q. WHAT AND WHEN IS THE EX-DIVIDEND DATE?

A. The ex-dividend date is important in determining whether a stockholder qualifies for the Company's dividends. If an investor buys the stock before the ex-dividend date, they will receive the declared dividend. The ex-dividend date is two business days before the record date. The Company currently declares dividends on a quarterly basis and at that time the Board of Directors will declare the amount, payment date and the record date, which sets the ex-dividend date. The tentative dividend calendar is available on our website at www.impacompanies.com, link to Financial Reports, Dividend History. Please note that the Board of Directors has the right to change the dividend and schedule at any time, and without prior notice.

Glossary of Financial and Operational Terms

ACCRETION OF LOAN DISCOUNTS AND AMORTIZATION OF PREMIUM SECURITIZATION COSTS represent an adjustment to the yield on our securitized mortgage collateral and borrowings.

ADJUSTED NET INTEREST MARGIN on mortgage assets is calculated by subtracting interest expense on total borrowings on mortgage assets, accretion of loan discounts and net cash receipts (payments) on derivatives from interest income on total mortgage assets and dividing by total mortgage assets. Adjusted net interest margin is a non-Generally Accepted Accounting Principle (GAAP) financial measurement. We believe it is useful information to our investors as it represents the economics of net interest margin on mortgage assets. For a reconciliation, please refer to the yield table analysis of mortgage assets in the filing of our Annual Report on Form 10-K under item 7, Financial Condition and Results of Operations.

ALLOWANCE FOR LOAN LOSS is a valuation allowance established to provide for credit losses inherent in the long term investment portfolio as of the balance sheet date. The allowance for loan losses is evaluated by management on a periodic basis and is determined by applying expected loss factors to loans outstanding such as loan aging, historical default rates, loss percentages of comparable loans, market conditions and estimates of collateral value. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as factors change or as more information becomes available.

NET CASH RECEIPTS (PAYMENTS) ON DERIVATIVES, also referred to as realized gain (loss) from derivative instruments, are reported in the current period revenue or expense on our consolidated financial statements and are included in the calculation of taxable income. During 2006, the Company primarily acquired swaps to synthetically convert its floating rate borrowings into fixed rate borrowings. In an interest rate swap, we pay a fixed interest rate and receive a floating rate indexed to one-month LIBOR which offsets changes in interest expense on our adjustable rate securitized mortgage borrowings also indexed to one-month LIBOR.

NET INTEREST MARGIN on mortgage assets is calculated by subtracting interest expense on total borrowings on mortgage assets from interest income on mortgage assets and then dividing by total mortgage assets.

PREPAYMENTS occur when borrowers pay all or part of their mortgage debt before it is due. Prepayments typically increase in low interest rate and/or high home price appreciation environments where lower cost mortgage loans and/or available equity encourage borrowers to refinance for better rates and/or terms.

PROVISION FOR LOAN LOSSES is recorded to maintain an adequate allowance for loan loss. The Company evaluates loan loss expectations and records a provision for loan losses.

RECONCILIATION OF NET EARNINGS TO ESTIMATED TAXABLE INCOME includes certain adjustments made to net earnings in order to calculate taxable income due to differences in the way revenues and expenses are recognized under the two methods. For example, to calculate estimated taxable income, actual loan losses are deducted; however, the calculation of net earnings under GAAP, requires a deduction for estimated losses inherent in our mortgage portfolio in the form of a provision for loan losses. For a reconciliation, please refer to the table in our Annual Report on Form 10-K under Item 7, Taxable Income.

YIELD CURVE is the relationship between the interest rate (cost of borrowing or yield) and the maturity of debt. A *steep yield curve* occurs when the yield on longer duration debt is substantially higher than that of the yield of shorter duration debt. A *flat yield curve* is apparent when all maturities have similar yields. An *inverted yield curve* is when long term yields fall below short term yields.

CORPORATE OFFICERS & DIRECTORS

Joseph R. Tomkinson
Chairman of the Board,
Chief Executive Officer

William S. Ashmore
Director, President

Richard J. Johnson
Executive Vice President,
Chief Operating Officer

Ronald M. Morrison
Executive Vice President,
General Counsel and
Corporate Secretary

Gretchen D. Verdugo
Executive Vice President,
Chief Financial Officer

Andrew C. McCormick
Executive Vice President,
Chief Investment Officer

Leigh J. Abrams
Director,
Chief Executive Officer and President,
Drew Industries Inc.

Frank P. Filippis
Director,
Chairman and Chief Executive Officer,
Clayton Holdings Inc.

Stephan R. Peers
Director

William E. Rose
Director,
Managing Director,
HBK Investments LP

James Walsh
Director,
Managing Director,
Sherwood Trading &
Consulting Corporation

CORPORATE INFORMATION

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Irvine, CA 92612
Telephone: 800.597.4101

Common Stock Listing
New York Stock Exchange
Symbol: IMH

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59 Maiden Lane
New York, NY 10038
800.937.5449

Investor Relations
Tania Jernigan
Vice President, Investor Relations
tjernigan@impacompanies.com
949.475.3722

Website
www.impacompanies.com

Annual Stockholders' Meeting
The Fairmont Hotel
4500 MacArthur Blvd.
Newport Beach, CA 92660
June 5, 2007
9:00 am (Pacific Time)

Form 10-K

A copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission is available to stockholders without charge by contacting the Company's investor relations department or by accessing our Website.

CERTIFICATIONS

After the fiscal 2006 Annual Meeting of Stockholders, the Company intends to file with the New York Stock Exchange ("NYSE") the CEO certification regarding its compliance with the NYSE's corporate governance listing standards as required by NYSE Rule (303)A.12. Last year, the Company filed this CEO certification with the NYSE.

FORWARD LOOKING STATEMENTS

This report 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 terms. The forward-looking statements are based on management expectations. Actual results may differ materially as a result of several factors, including, but not limited to, failure to achieve projected earnings and taxable income levels; unexpected or greater than anticipated increases in credit and bond spreads; the ability to generate sufficient liquidity; uncertainty in the secondary market and the inability to sell or securitize loans; unexpected decrease in value of loans underlying finance facilities due to oversupply of mortgage loans or other market conditions; continued ability to access the securitization markets or other funding sources; the availability of financing, including the renewal of finance facilities, and, if available, the terms of any financing; lenders' unwillingness to provide further financing based on general market conditions; failure to comply with our existing finance facilities; 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; the failure to sell non-performing loans in the secondary market due to economic or other conditions; 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 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 Item 1A "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2006. 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 Impac Companies
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