FINAL TRANSCRIPT

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IMH - Q3 2008 Impac Mortgage Holdings, Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

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Impac Mortgage Holdings, Inc. - IR

Joseph Tomkinson
Impac Mortgage Holdings, Inc. - Chairman and CEO

Bill Ashmore
Impac Mortgage Holdings, Inc. - President

PRESENTATION

Operator

Good morning. My name is Beverlyn and I will be your conference operator today. At this time I would like to welcome everyone to the Impac Mortgage Holdings third-quarter 2008 earnings conference call.

All lines have been placed on mute to prevent any background noise. After the speakers remarks there will be a question-and-answer session. (Operator Instructions) I would now like to turn the call over to Justin Moisio of Investor Relations.

Justin Moisio - *Impac Mortgage Holdings, Inc. - IR*

Good morning everyone and thank you for joining Impac Mortgage Holdings third-quarter 2008 earnings conference call. During this call we will make projections or other forward-looking statements in regards to but not limited to GAAP and taxable earnings, cash flows, interest rate and market risk exposure and general market conditions.

I would like to refer you to the business risk factors in our most recently filed 10-K and other reports filed under the Securities Exchange Act of 1934. These documents contain and identify important factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements.

This presentation including outlook and any guidance is effective as of the date given and we expressly disclaim any duty to update information herein. I would like to get started by introducing Joseph Tomkinson, Chairman and CEO of Impac Mortgage Holdings.

Joseph Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman and CEO*

Good morning and thank you for for joining our third-quarter 2008 earnings conference call. With me I have Todd Taylor, our Chief Financial Officer; Ron Morrison, our General Counsel; and Bill Ashmore, our President.

I would like to begin my prepared remarks with a brief review of our third-quarter results for 2008. As was discussed in our previous earnings call starting in 2008, the Company adopted the FAS 157 and 159 which we believe provides more clear representation of the financial condition of the Company.

The result of the adoption provided a positive adjustment to stockholders equity of $1.1 billion from the $1.1 billion deficit at year-end for 2007. As of September 30, 2008 the stockholders equity was $5.5 million as compared to $24.5 million as of June 30, 2008. The reason for the decline in fair value from June 30, 2008 to September 30 was primarily due to the continued deterioration of real estate and credit markets resulting in a change in our expectations of future borrowing rates.

For the three months ended in September, the Company had a net loss of $16.2 million or $0.26 per diluted common share as compared with a net loss of $1.2 billion or $15.70 per diluted common share for the three months ended September 30, 2007. This is a positive increase in approximately $1.18 billion.

Of the $1.2 billion loss in the prior year, approximately $789 million was due to the provision for loan losses. In 2008 with the adoption of the fair value accounting, the Company no longer records provision for loan losses as the trust assets and liabilities are recorded at fair value.

Also, the change in fair value derivative instruments and which was a $106.5 million loss for the third-quarter of '07 is now included in the change in fair value of net trust assets which consisted of a $10.9 million loss on derivatives for the thrid quarter of '08. The improvement in net losses also attributed to the following items which are all the included in discontinued operations.

An improvement of $132.6 million in loss from the sale of loans, an improvement of $14.7 million in provision for repurchased reserves, and an improvement of $35.3 million in non-interest expense and income taxes and a savings in personnel expenses of approximately $13.1 million. The Company also earned $7 million in real estate advisory fees through the third quarter of '08 and $15.6 million for the first nine months of '08.

However subsequent to the quarter end, the real estate marketing company bought out our advisory fee arrangement for $25 million in cash to the Company plus the accrued advisory fees due through mid-November. In explaining the Company's motives for selling our contract, I must note that I've always said that this is a business built to go out of business. In addition, we evaluated recent developments in the mortgage and real estate markets and decided to take advantage of the situation and sell our contracts and received the cash today.

Our analysis took into consideration the continuing uncertainties of federal and state government involvement in trying to maintain ownership for defaulted borrowers in addition to the increasing effectiveness of servicers carrying borrowers with loan modifications. With the Company's attempts to redefine and refocus itself, we felt it prudent to move ahead and close this transaction.

Further it should be noted that Impac will continue to provide escrow lending and real estate management services to our real estate marketing partner and we expect expanding services to them in the future. At this time, the Company is evaluating what the best use of our additional cash will be and we will update our shareholders accordingly.

In regards to the Company's current cash position at the end of the third quarter, we had three primary sources of cash -- cash flows from our long-term mortgage portfolio, master servicing fees from our long-term mortgage portfolio and real estate advisory fees. As of September 30 the Company had $24.5 million in cash compared to $[26] million at June 30, 2008.

As mentioned previously, the buyout of our advisory services agreement provided approximately $27 million in additional cash to the Company. At September 30, 2008 the Company had total assets of $9.2 billion as compared to $12 billion at June 30, 2008. During the quarter we wrote down our assets by almost $3 billion to the estimated fair value.

As of September 30, 2008 nonperforming assets which we define as 90 days or more delinquent and including mortgage loans and foreclosure, delinquent bankruptcies and REOs; were $3.4 billion as compared to $3.2 billion at June 30, 2008. Of these nonperforming assets, REOs represented $668 million at September 30 as compared to $625 million at June 30 of '08.

As previously announced in September the Company converted its last reverse repurchase line to a long-term facility. In doing so it now allows the Company to manage the remaining loans on the line without risk of receiving margin calls. This reverse repurchase facility had an approximate balance of $178 million at the end of September '08 as compared with $300 million at December 31 '07 net of restricted cash in our margin accounts.

We are currently distributing all principal and interest received from the collateral securing the reverse repurchase line to the lender to continue to pay down these balances. The primary reason for the $122 million reduction to the balance of the line was through loan sales and refinances. The Company will continue to aggressively work to pay down or pay off this facility over its remaining term and employ any necessary lost mitigation strategies to maximize the performance of the portfolio.

I'm going to talk a little bit about the status of operations and our outlook. During the Company's last earnings call we discussed a number of significant goals which we need to be met in order to change for the Company to move ahead.

Two of these goals, restructuring our last warehouse line facility with UBS and becoming current (inaudible) filings, were completed in September and November. In October the Company announced an update regarding two more strategic initiatives that were identified on our previous call as well.

The Company paid its October 2008 trust preferred interest payment and is continuing its negotiations to restructure or exchange the current trust preferred securities for new securities with a lower interest rate or reductions in principles. These continue to be ongoing negotiations for the restructure or exchange of these securities.

Secondly the Company's planning on moving ahead in the exchange of the Company series B and series C preferred stock for the common stock. In July the Company had announced that is stockholders had approved the potential issuance of common shares in excess of 20% of the existing common shares in connection with this possible exchange offering.

Completing the exchange offering would reduce our dividend obligations by as much as $14.9 million per year. Further as part of the continuing reduction of the Company's expenses, we announced in October that it had executed a sublease agreement for approximately 90,000 square feet of our offices in Irvine, California. This new sublease agreement combined with a possible exchange offer are expected to provide the Company annual savings totaling between 15 and $17 million beginning in the fourth quarter of 2008.

Also announced in the Company's October strategic update was the creation of our new real estate management business, real estate owned solutions. This business was created as a strategic opportunity to provide real estate owned services related to the growing number of foreclosed properties in the housing market today.

It is an additional piece to our redefined business strategy of providing real estate and mortgage services in addition to continuing our management of mortgage assets. And as explained in our previous earnings call, this redefined strategy will include the following new and current businesses -- asset management, special and master servicing, real estate services, consulting, loan operation, and escrow services.

In closing, I would like to congratulate our CFO, Todd Taylor and his team for being responsible for filing our quarterly financials as timely within the SEC guidelines. In addition, even though Impac's management staff have been working very diligently over the past year and have since the market crisis began, our stock price still languishes at low levels. However, we will continue to work on the strategies that we've been discussing, which are in the best interest of the overall organization and its future. Thank you for listening and now we will open this up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) [Bob Clutterbuck, Clutterbuck Firm.]

Unidentified Participant

Joe, to the best that I know, you're always very limited in what you can say. But looking forward, certainly there are many challenges. What are the best opportunities out there when you take a look at over the next 12 months -- 12 to 18 months?

Joseph Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman and CEO*

That's a question that we try to redefine almost every day. Unfortunately right now what's difficult for us is that there is basically very little or no credit available and so what we have been doing is taking a look around and saying what can we do on a fee basis given the current condition of the market.

And we really like the real estate owned services, the management of real estate. We like the escrow business which we've been slowly growing and we also like the title agency business that we are pursuing. All of these are non-risk-based initiatives and the fact that we're seeing more and more REOs coming -- or more foreclosures but banks not knowing how to handle them, we think there's a market there for us in our real estate management services.

We continue to keep the infrastructure in place to re-enter the loan origination market, but right now the only markets open are Fannie Mae, Freddie Mac and Jennie Mae. Unfortunately, they continue to modify their underwriting guidelines and they continue to make the guidelines stricter and stricter. So it's very, very difficult even to originate a conforming or government loan.

One of the big problems is that even though maybe a borrower might be qualified, the property doesn't qualify because it was maybe abandoned for a year or two years and fell into disrepair. So therefore the agencies require that the property be repaired, brought back to a condition in which they feel they can lend that which is actually is having the exact opposite effect.

Here you have got people that are willing to put 20, 30% down but they can't finance the property, so the property continues to fall in forward disrepair. Again that brings us back to the ability to act as a special servicer and to offer services to manage those different types of REOs. That's where the markets going. So that's the best answer I think I can give you. Bill, do you have anything to add?

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Yes, I guess a couple of things. First off there was an opportunity here for the Company to continue to reduce its overall expenses and get it in line with what those revenue opportunities currently and in the future are going to be. I think that is what we have been trying to work on. We've made some big headway here.

We want to continue to try and really work at those expenses and get those down to a level that is a positive trend. In addition to that with the latest announcement by Paulson relative to a change in the strategic initiatives of TARP that basically says they're going after to liquify these organizations as opposed to going outright and buying loans which is -- as everybody knows, we announced that we were one of the 100 applicants in the initial distressed asset management notice that was given out 60 days or 45 days ago. We have had no additional information on that and whether that is going to be fulfilled or not.

But also leads to other opportunities outside of the Treasury relative -- or the government -- relative to how the handling of these assets are going to happen. Right now I've heard there's been a lot of misunderstanding out there of exactly what is going on especially since the announcement yesterday by Paulson that this was kind of a reversal.

A lot of folks that were holding these assets in anticipation that there would be something to sell it into like the federal government now are kind of reevaluating all of that. And my understanding is that we're going to start seeing better flow of assets out into the public market starting the first quarter of next year which would fall right into what Joe was saying relative to being that special servicer and offering these additional fee-based services out to banks, savings and loans and other institutions.

Joseph Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman and CEO*

I hope that answers your question, Bob.

Unidentified Participant

Yes it does, I appreciate it.

Operator

(Operator Instructions) There are no further questions at this time. Mr. Tomkinson, do you have any closing remarks?

Joseph Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman and CEO*

No, I do not have any at this time. If there are no questions, then that concludes our third quarter earnings call and we want to again thank everyone that participated.

Operator

This concludes today's conference call. You may now disconnect.
