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Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

File No.: 4-497
Feedback on Experiences Implementing the Internal Control Requirements of Section 404 of the Sarbanes-Oxley Act of 2002

Dear Mr. Katz:

Impac Mortgage Holdings, Inc. (the Company) welcomes this opportunity to comment on our experiences related to implementation of the Section 404 internal control requirements (the Act). We are pleased that the Commission has sponsored the Roundtable as a forum for issuers, auditors, the PCAOB and the SEC to seek improvements over the first year implementation process.

IMPAC

We support the efforts of the Commission to improve financial reporting, corporate governance and audit quality to further the public interest and strengthen confidence in our capital markets. We believe the priorities for improving the integrity of financial reporting are thorough external audits, strong corporate governance practices, management integrity, and comprehension and application of complex accounting rules, which are not appropriately addressed by the auditing standard which identifies weaknesses in process-level control activities and detailed documentation. Based upon the first year analysis, the cost of implementation of the Act does not appear to be fully supported by its perceived benefits. We are an accelerated filer and have reported two material weaknesses, one related to a previously disclosed restatement of prior periods financial statements which we detected as part of our efforts in complying with the Act, and one related to certain IT general controls and end-user computing. We are pending completion of our auditor's attestation as to management's assessment, the effectiveness of internal control over financial reporting and audit report on our financial statements. We filed unaudited financial statements with out Form 10-K for the year ended December 31, 2004 in the interest of making information timely available to the public, due to the integrated audit requirement which precluded our external auditor from opining on the financial statements separate from the internal control audit.

The primary benefits to the Company from implementation of the Act have been significantly increased attention to information technology general controls, increased definition of business processes, creation of updated desk procedure documentation that can be used for training purposes, the creation of a more entity-wide awareness level as to design, operation and importance of internal controls over financial reporting and the specific identification of our "portfolio" of controls that we can look to on an ongoing basis to evaluate, update and strengthen controls. As we linked key controls to significant accounts and relevant assertions, we achieved increased transparency between our processes, applications, controls and financials statements, which will assist us in evaluating the potential impact of any identified deficiencies on our financial reporting. The linking matrix allows us to identify automated, preventative, anti-fraud and other control types in order to evaluate the appropriate balance of controls and identify areas where improvements and efficiencies can be achieved.

To more fully align the requirements of the Act with its intended objectives, we would like to express a number of concerns we feel should be addressed in this second year of compliance activities. In general, we believe the auditing standard should emphasize a more risk-based approach as to the extent of documentation and testing required. The standard is somewhat confusing in the use of "all or any" in its requirements as these seem to be absolutes that reduce the meaningfulness of the auditing standard in its application. Our concerns lie in the areas of guidance as to implementation, cost/benefit considerations and the required level of documentation, reporting deadlines, the evaluation of deficiencies and delays in financial information available to the public.

Implementation

By utilizing a risk-based approach, management and the auditor should be able to limit the scope of accounts exceeding the quantitative threshold for materiality that are inherently less likely to contain a misstatement due to a lack of complexity or manual intervention. The requirements of the auditing standard result in documentation and testing of controls that do not have a realistic potential of creating a material misstatement of the financial statements. There is not sufficient differentiation as to the level and frequency of testing between areas with a high level of estimation, judgment and subjectivity that are more likely to result in a misstatement versus routine transactions and processes. Most of the time and cost incurred during the first year related to documentation and testing of controls over routine business transactions and financial statement accounts. A rather frustrating example of the emphasis on documentation versus performance is the increased requirement for signatures as documentary evidence that a control was performed. We do not believe that an undocumented control, according to COSO, is an ineffective control, nor does a signature necessarily evidence that a control was performed accurately. Within the COSO framework, it is specifically stated that many controls are informal and undocumented, yet are regularly performed and highly effective and that these controls may be tested in the same ways documented controls are. The standard appears to remove any allowance for management or auditor judgment with respect to risk and required documentation, which results in a far less effective approach to management of the Company, ultimately leading to difficulty in attracting and retaining talented personnel in all areas of the organization.

Auditor Guidance

In connection with the first year implementation, we experienced a lack of guidance with respect to implementation of the standard. This also ties into another concern with the external auditor's apparent inability to provide any type of guidance with respect to either the internal control evaluation, or application of generally accepted accounting principles. The late guidance from the PCAOB that was published throughout the year made it difficult for issuers and auditors to timely comply with the act. The inability of our external auditor to provide guidance resulted in disparate approaches to the audit of internal controls and ultimately significant delays in the process. The apparent inability of issuers to consult with their external auditors and the need to furnish the auditors with a complete set of financials prior to commencement of their audit will certainly result in further compressed timelines and more likely errors in the compilation of information contained within the financial statements. We have historically placed great value upon the expertise of our external auditors and believe the changes mandated in our relationship will not improve the financial reporting process.

Cost-Benefit Issues

In terms of cost versus benefit, the standard as it exists does not appear to allow for management judgment in determining whether remediation of deficiencies is warranted based upon the risk of misstatement. Additionally, as outlined above with respect to a more risk-based approach, the documentation-intensive standard has escalated costs associated with its implementation well beyond what was anticipated. First year external audit costs of compliance with the Act are estimated at 143% of the financial statement audit fees. These costs do not include any internal costs, nor does it include fees paid to outside advisors or consultants with respect to management's assessment. There were volumes of added documentation with respect to policies and procedures, solely to comply with the auditing standard, which are unlikely to improve financial reporting or reduce the likelihood of a material misstatement of the financial statements. By targeting efforts toward non-routine transactions and processes and recognizing, per COSO, that undocumented controls can still be operating effectively, some of the high cost of the Act can be reduced and efforts can be focused on areas where the most benefit can be achieved. Additionally, by layering in the requirement for three annual audit opinions, costs are being duplicated. And now, with the introduction of the evaluation of the remediation of a material weakness as of an interim date, it appears a fourth audit opinion is being added to the cost of the external audit function.

Reporting Deadlines

The reporting deadlines for the first year of implementation placed great stresses on issuers and auditors. The result has been interruption of business objectives that create shareholder value, delays in the filing of financial information as issuers were hesitant to file results prior to completion of the work of their external auditors, employee turnover and inadequate resources for both issuers and accounting firms. The combination of late guidance from the PCAOB, lack of guidance from external auditors and the documentation intensive requirements made the deadline for compliance unreasonable. Once each of these issues is appropriately addressed, issuers will be able to comply with filing requirements with a more quality product in terms of our assessments.

Evaluation of Deficiencies

The definition of a significant deficiency and a material weakness are based on the likelihood and magnitude of a potential misstatement of the financial statements. The threshold is low and the effect is aggravated by the evaluation of the deficiencies as potential significant deficiencies or material weaknesses. The result is significant documentation, testing, retesting, remediation and communication with respect to what are relatively inconsequential deficiencies in controls. These definitions and the process for evaluation should be modified to eliminate unnecessary time and effort on low risk areas that could not reasonably rise to the level of a material weakness.

As stated earlier, we filed our unaudited financial statements on Form 10-K and are pending our auditor's reports on internal control over financial reporting and their audit opinion on the financial statements. All of the foregoing concerns increase the likelihood of delays in publicly available financial information, as issuers are hesitant to make public filings without the opinions of their external auditors.

Better transparency, quality and timeliness of financial reporting are the objective of all issuers, accountants, the SEC and the PCAOB. We believe these objectives can be reached through implementing the suggested improvements to the Act and the auditing standard for the second year of compliance. Thank you for the opportunity to provide our input on the Act. We would be pleased to discuss our comments further with the Commission. If you have any questions or would like further information, please contact me at your convenience.

Very truly yours,

Gretchen Verdugo
Executive Vice President and Chief Accounting Officer