IRWIN FINANCIAL CORP
Form 10-Q
November 10, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

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 0-6835

IRWIN FINANCIAL CORPORATION

(Exact Name of Corporation as Specified in its Charter)

Indiana	**35-1286807**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
500 Washington Street Columbus, Indiana	**47201**
(Address of Principal Executive Offices)	(Zip Code)
(812) 376-1909	**www.irwinfinancial.com**
(Corporation s Telephone Number, Including Area Code)	(Web Site)

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

As of November 6, 2008, there were outstanding 29,707,227 common shares, no par value, of the Registrant.

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About Forward-Looking Statements

This report contains 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. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We are including this statement for purposes of invoking these safe harbor provisions.

Forward-looking statements are based on management s expectations, estimates, projections, and assumptions. These statements involve inherent risks and uncertainties that are difficult to predict and are not guarantees of future performance. In addition, our past results of operations do not necessarily indicate our future results. Words that convey our beliefs, views, expectations, assumptions, estimates, forecasts, outlook and projections or similar language, or that indicate events we believe could, would, should, may or will occur (or will not or might not occur) or are likely (or unlikely) to occur, and similar expressions, are intended to identify forward-looking statements. These may include, among other things, statements and assumptions about:

- our projected revenues, earnings or earnings per share, as well as management s short-term and long-term performance goals;

- projected trends or potential changes in asset quality (particularly with regard to loans or other exposures including loan repurchase risk, in sectors in which we deal in real estate or residential mortgage lending), loan delinquencies, charge-offs, reserves, asset valuations, capital ratios or financial performance measures;

- our plans and strategies, including the expected results or costs and impact of implementing or changing such plans and strategies;

- potential litigation developments and the anticipated impact of potential outcomes of pending legal matters;

- predictions about conditions in the national or regional economies, housing markets, industries associated with housing, mortgage markets or mortgage industry;

- the anticipated effects on results of operations or financial condition from recent developments or events; and

- any other projections or expressions that are not historical facts.

We qualify any forward-looking statements entirely by these and the following cautionary factors.

Actual future results may differ materially from what is projected due to a variety of factors, including, but not limited to:

- potential deterioration or effects of general economic conditions, particularly in sectors relating to real estate and/or mortgage lending or small business-based manufacturing and services;

- potential effects related to the Corporation s decision to suspend the payment of dividends on its common, preferred and trust preferred securities.

- difficulties in completing the transactions for the disposition of our home equity business including: selling or otherwise reducing risk associated with home equity loans on our balance sheet; selling the assets or platform of our home equity business, including the completion of due diligence satisfactory to potential purchasers; obtaining third party consents for the transfer of assets, platforms or servicing; satisfying conditions necessary to release purchase price proceeds from escrow; obtaining the desired tax treatment for any dispositions; or encountering regulatory constraints;

- the inability to garner sufficient support for our capital raising efforts, including a failure to obtain, or a delay in obtaining, any necessary regulatory approvals;

potential changes in direction, volatility and relative movement (basis risk) of interest rates, which may affect consumer and commercial demand for our products and the management and success of our interest rate risk management strategies;

competition from other financial service providers for experienced managers as well as for customers;

staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;

the relative profitability of our lending and deposit operations;

the valuation and management of our portfolios, including the use of external and internal modeling assumptions we embed in the valuation of those portfolios and short-term swings in the valuation of such portfolios;

borrowers refinancing opportunities, which may affect the prepayment assumptions used in our valuation estimates and which may affect loan demand;

unanticipated deterioration in the credit quality or collectibility of our loan and lease assets, including deterioration resulting from the effects of natural disasters;

difficulties in accurately estimating any future repurchases of residential mortgage, home equity, or other loans or leases due to alleged violations of representations and warranties we made when selling these loans and leases to the secondary market or in securitizations;

unanticipated deterioration or changes in estimates of the carrying value of our other assets, including securities;

difficulties in delivering products to the secondary market as planned;

difficulties in expanding our businesses and obtaining or retaining deposit or other funding sources as needed;

changes in the value of our lines of business, subsidiaries, or companies in which we invest;

changes in variable compensation plans related to the performance and valuation of lines of business where we tie compensation systems to line-of-business performance;

unanticipated lawsuits or outcomes in litigation;

legislative or regulatory changes, including changes in laws, rules or regulations that affect tax, consumer or commercial lending, corporate governance and disclosure requirements, and other laws, rules or regulations affecting the rights and responsibilities of our Corporation, bank or thrift;

regulatory actions that impact our Corporation, bank or thrift, including the written agreement the Corporation and its state-chartered bank subsidiary, Irwin Union Bank and Trust Company, entered into with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions on October 10, 2008, and the written agreement the Corporation s federal savings bank subsidiary, Irwin Union Bank, F.S.B., entered into with the Office of Thrift Supervision on the same day;

the application of or changes in the interpretation of regulatory capital or other rules;

the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;

changes in applicable accounting policies or principles or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the

- implementation of new accounting methods;

- the final disposition of the remaining assets and obligations of our discontinued mortgage banking segment, and, after completion of transactions involving the recent sale of assets, our home equity and small-ticket leasing segments; or

- governmental changes in monetary or fiscal policies.

We undertake no obligation to update publicly any of these statements in light of future events, except as required in subsequent reports we file with the Securities and Exchange Commission (SEC).

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Explanatory Note

Throughout this Report on Form 10-Q we discuss our announced plan to pursue a rights offering to shareholders and a possible exchange of trust preferred securities for common stock. A registration statement relating to the rights offering has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. The rights offer remains subject to the registration statement being approved by the Securities and Exchange Commission.

The rights offering will be made only by means of a prospectus which will contain the specific terms of the transaction and which will be provided to Irwin shareholders at the commencement of the offer.

This filing also is not an offer or the solicitation of an offer to exchange the Corporation s trust preferred securities. Any such offers will only be made by registration under federal and state securities laws, or pursuant to an applicable exemption from registration thereunder.

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PART I. FINANCIAL INFORMATION.
Item 1. Financial Statements.

IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$ 250,415	$ 78,212
Interest-bearing deposits with financial institutions	27,018	31,841
Residual interests	9,008	12,047
Investment securities- held-to-maturity (Fair value: $18,911 September 30, 2008 and $18,134 at December 31, 2007) Note 2	18,690	18,123
Investment securities- available-for-sale Note 2	36,140	59,684
Investment securities- other Note 2	62,588	62,588
Loans and leases held for sale Note 3	43,643	6,134
Loans and leases, net of unearned income Note 4	4,651,506	5,696,230
Less: Allowance for loan and lease losses Note 5	(231,802)	(144,855)
	4,419,704	5,551,375
Servicing assets Note 6	20,003	23,234
Accounts receivable	33,608	38,710
Accrued interest receivable	21,392	26,291
Premises and equipment	34,537	38,178
Other assets Note 7	282,678	219,688
Total assets	$ 5,259,424	$ 6,166,105
Liabilities and Shareholders Equity:		
Deposits		
Noninterest-bearing	$ 325,676	$ 306,820
Interest-bearing	2,070,745	2,357,050
Certificates of deposit over $100,000	769,450	661,618
	3,165,871	3,325,488
Other borrowings Note 8	526,657	802,424
Collateralized debt Note 9	946,269	1,213,139
Other long-term debt	233,868	233,873
Other liabilities	113,210	131,881
Total liabilities	4,985,875	5,706,805
Commitments and contingencies Note 14 and Note 15		
Shareholders equity		
Preferred stock, no par value authorized 4,000,000 shares;		
Noncumulative perpetual preferred stock - 15,000 authorized and issued;	14,441	14,441
	116,667	116,542

Common stock, no par value authorized 40,000,000 shares; issued 29,902,483 as of September 30, 2008 and 29,896,464 as of December 31, 2007; 509,565 and 670,169 shares in treasury as of September 30, 2008 and December 31, 2007, respectively		
Additional paid-in capital		2,557
Accumulated other comprehensive (loss) income, net of deferred income tax benefit of $3,704 and $4,367 as of September 30, 2008 and December 31, 2007	(1,612)	1,032
Retained earnings	153,878	337,524
	283,374	472,096
Less treasury stock, at cost	(9,825)	(12,796)
Total shareholders equity	273,549	459,300
Total liabilities and shareholders equity	$ 5,259,424	$ 6,166,105

The accompanying notes are an integral part of the consolidated financial statements.

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IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Months Ended September 30, 2008	2007
	(Dollars in thousands, except per share)	
Interest income:		
Loans and leases	$ 95,185	$ 126,180
Loans and leases held for sale	2,663	585
Residual interests	160	268
Investment securities	2,016	2,738
Federal funds sold	478	79
Total interest income	100,502	129,850
Interest expense:		
Deposits	24,362	34,747
Short-term borrowings	5,663	7,436
Collateralized debt	18,250	18,563
Other long-term debt	4,009	3,958
Total interest expense	52,284	64,704
Net interest income	48,218	65,146
Provision for loan and lease losses Note 5	58,033	28,493
Net interest (expense) income after provision for loan and lease losses	(9,815)	36,653
Other income:		
Loan servicing fees	3,133	4,415
Amortization and impairment of servicing assets Note 6	(1,747)	(2,686)
Gain from sales of loans and loans held for sale	2,165	3,329
Trading (losses) gains	(979)	876
Derivative losses, net	(3,494)	(5,673)
Other than temporary impairment Note 2	(2,325)	
Other	6,771	6,771
	3,524	7,032
Other expense:		
Salaries	22,866	24,043
Pension and other employee benefits	6,094	6,478
Office expense	2,164	2,126
Premises and equipment	15,747	5,500
Marketing and development	952	1,354
Professional fees	4,181	2,086
Other	18,325	4,758
	70,329	46,345

Loss before income taxes from continuing operations		(76,620)		(2,660)
Provision for income taxes		(22,190)		(1,857)
Net loss from continuing operations		(54,430)		(803)
Loss from discontinued operations, net of $11,540 income tax benefit				(17,227)
Net loss	$	(54,430)	$	(18,030)
Loss per share from continuing operations: Note 12				
Basic	$	(1.85)	$	(0.04)
Diluted	$	(1.85)	$	(0.05)
Loss per share: Note 12				
Basic	$	(1.85)	$	(0.63)
Diluted	$	(1.85)	$	(0.64)
Dividends per share	$		$	0.12

The accompanying notes are an integral part of the consolidated financial statements.

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IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Nine Months Ended September 30,	
	2008	2007
	(Dollars in thousands, except per share)	
Interest income:		
Loans and leases	$ 322,030	$ 369,727
Loans held for sale	2,817	6,663
Residual interests	629	817
Investment securities	6,341	7,757
Federal funds sold	678	602
Total interest income	332,495	385,566
Interest expense:		
Deposits	79,820	103,178
Other borrowings	18,825	22,054
Collateralized debt	47,123	51,491
Other long-term debt	12,199	11,726
Total interest expense	157,967	188,449
Net interest income	174,528	197,117
Provision for loan and lease losses Note 5	260,384	71,155
Net interest (expense) income after provision for loan and lease losses	(85,856)	125,962
Other income:		
Loan servicing fees	8,424	15,443
Amortization and impairment of servicing assets Note 6	(4,027)	(9,924)
Gain from sales of loans and loans held for sale	10,169	690
Trading (losses) gains	(3,156)	868
Derivative losses, net	(1,449)	(10,014)
Other than temporary impaiment Note 2	(22,320)	
Other	17,948	18,736
	5,589	15,799
Other expense:		
Salaries	65,501	73,688
Pension and other employee benefits	19,768	20,912
Office expense	6,399	7,002
Premises and equipment	26,803	16,468
Marketing and development	3,292	3,931
Professional fees	9,607	6,853
Other	34,910	16,839

		166,280		145,693
Loss before income taxes from continuing operations		(246,547)		(3,932)
Provision for income taxes		(63,220)		(2,507)
Loss from continuing operations		(183,327)		(1,425)
Loss from discontinued operations, net of $18,250 income tax benefit				(27,123)
Net loss	$	(183,327)	$	(28,548)
Loss per share from continuing operations: Note 12				
Basic	$	(6.25)	$	(0.08)
Diluted	$	(6.25)	$	(0.11)
Loss per share: Note 12				
Basic	$	(6.25)	$	(1.01)
Diluted	$	(6.25)	$	(1.03)
Dividends per share	$		$	0.36

The accompanying notes are an integral part of the consolidated financial statements.

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IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)
For the Nine Months Ended September 30, 2008, and 2007

			Accumulated Other Comprehensive Income							
				Unrealized Gain/Loss		Defined	Additional			Perpetual
	Total	Retained Earnings	Foreign Currency	Securities	Derivatives	Benefit Plans	Paid in Capital	Common Stock	Treasury Stock	Preferred Stock
	(Dollars in thousands)									
Balance at January 1, 2008	$ 459,300	$ 337,524	$ 9,158	$(1,445)	$(1,576)	$(5,105)	$ 2,557	$116,542	$(12,796)	$14,441
Net loss	(183,327)	(183,327)								
Unrealized gain on investment securities net of $663 tax liability	995			995						
Unrealized loss on derivatives net of $206 tax benefit	(310)				(310)					
Foreign currency adjustment	(3,329)		(3,329)							
Other comprehensive loss	(2,644)									
Total comprehensive loss	(185,971)									
Stock compensation expense	1,851						1,851			
Subsidiary stock purchase	(2,313)						(2,313)			
Stock:										
Purchase of 6,102 shares	(92)								(92)	
Sales of 166,706 shares	774	(319)					(2,095)	125	3,063	
Balance at September 30, 2008	$ 273,549	$ 153,878	$ 5,829	$ (450)	$(1,886)	$(5,105)	$	$116,667	$ (9,825)	$14,441

Balance at January 1, 2007	$ 530,502	$ 405,835	$ 2,884	$ (344)	$ (30)	$ (6,874)	$ 1,583	$ 116,192	$ (3,262)	$ 14,518
Net loss	(28,548)	(28,548)								
Unrealized loss on investment securities net of $300 tax benefit	(450)			(450)						
Unrealized loss on derivatives net of $318 tax benefit	(477)				(477)					
Foreign currency adjustment	6,623		6,623							
Other comprehensive income	5,696									
Total comprehensive loss	(22,852)									
Cash dividends common stock	(10,543)	(10,543)								
Cash dividends preferred stock	(1,004)	(1,004)								
FAS 156 adoption	1,743	1,743								
Tax benefit on stock option exercises	91						91			
Stock compensation expense	1,296						1,296			
Stock issuance costs	(77)									(77)
Stock:										
Purchase of 671,186 shares	(12,781)								(12,781)	
Sales of 117,715 shares	2,421						(198)	100	2,519	
Balance at September 30, 2007	$ 488,796	$ 367,483	$ 9,507	$ (794)	$ (507)	$ (6,874)	$ 2,772	$ 116,292	$ (13,524)	$ 14,441

The accompanying notes are an integral part of the consolidated financial statements.

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IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Nine Months ended September 30,	
	2008	2007
	(Dollars in thousands)	
Loss from continuing operations	$ (183,327)	$ (1,425)
Loss from discontinued operations		(27,123)
Net loss	(183,327)	(28,548)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation, amortization, and accretion, net	9,657	7,742
Other than temporary impairment	22,320	
Amortization and impairment of servicing assets	4,027	10,174
Valuation allowance on deferred taxes	32,700	
Provision for loan and lease losses	260,384	71,155
(Loss) gain from sales of loans held for sale	(18,200)	11,279
Originations and purchases of loans held for sale	(218,142)	(497,707)
Proceeds from sales and repayments of loans held for sale	633,116	622,568
Net decrease in residuals	3,668	132
Net decrease in accounts receivable	5,102	163,494
Other, net	(116,068)	(64,945)
Net cash provided by operating activities	435,237	295,344
Investing activities:		
Proceeds from maturities/calls of investment securities:		
Held-to-maturity	3,153	2,438
Available-for-sale	2,973	2,818
Purchase of investment securities:		
Held-to-maturity	(3,286)	(2,167)
Available-for-sale	(513)	(17,316)
Net decrease in interest-bearing deposits	4,822	20,265
Net decrease (increase) in loans, excluding sales	437,489	(337,626)
Other, net	(1,422)	(7,739)
Net cash provided (used) by investing activities	443,216	(339,327)
Financing activities:		
Net decrease in deposits	(159,617)	(48,445)
Net decrease in short-term borrowings	(275,767)	(63,170)
Proceeds from issuance of collateralized debt	218,051	364,579
Repayments of collateralized debt	(486,571)	(249,514)
Repayments of long term debt	(5)	(11)
Subsidiary stock purchase	(2,313)	
Purchase of treasury stock for employee benefit plans	(92)	(12,781)
Proceeds from sale of stock for employee benefit plans	774	2,512

Dividends paid				(11,547)
Net cash used by financing activities		(705,540)		(18,377)
Effect of exchange rate changes on cash		(710)		2,268
Net increase (decrease) in cash and cash equivalents		172,203		(60,092)
Cash and cash equivalents at beginning of period		78,212		145,765
Cash and cash equivalents at end of period	$	250,415	$	85,673
Supplemental disclosures of cash flow information:				
Cash flow during the period:				
Interest paid	$	147,448	$	187,623
Income taxes paid	$	4,266	$	12,001
Noncash transactions:				
Adoption of FAS 156	$		$	2,905
Other real estate owned	$	14,327	$	12,729

The accompanying notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Accounting Policies, Management Judgments and Accounting Estimates

Consolidation: Irwin Financial Corporation and its subsidiaries (the Corporation) provide financial services throughout the United States (U.S.). We are engaged in commercial banking, commercial finance and home equity lending. We have exited the mortgage banking segment, maintaining a limited staff to manage our residual liabilities and responsibilities from past activities. In July, 2008, we sold the majority of the leases associated with our small ticket equipment leasing portion of our commercial finance line of business and sold or closed down the associated platforms, retaining the franchise finance portion of this line of business.

Our direct and indirect subsidiaries include Irwin Union Bank and Trust Company, Irwin Union Bank, F.S.B., Irwin Commercial Finance Corporation, Irwin Home Equity Corporation and Irwin Mortgage Corporation. Intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the financial statements reflect all material adjustments necessary for a fair presentation. The Corporation does not meet the criteria as primary beneficiary for our wholly-owned trusts holding our company-obligated mandatorily redeemable preferred securities established by Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. As a result, these trusts are not consolidated.

For the mortgage banking line of business that we have exited, the financial statement and notes within this report conform to the presentation required in Statement of Financial Accounting Standard (SFAS) 144, Accounting for the Impairment or Disposal of Long-Lived Assets for discontinued operations.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 periods. Actual results could differ from those estimates.

Foreign Currency: Assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at rates prevailing on the balance sheet dates; income and expenses are translated at average rates of exchange for the reporting period. Unrealized foreign currency translation gains and losses are recorded in accumulated other comprehensive income in shareholders equity.

Cash and Cash Equivalents: For purposes of the consolidated balance sheets, we consider cash and due from banks to be cash equivalents.

Investment Securities: Those investment securities that we have the positive intent and ability to hold until maturity are classified as held-to-maturity and are stated at cost adjusted for amortization of premiums and accretion of discounts (adjusted cost). All other investment securities are classified as available-for-sale and are stated at fair value. Unrealized gains and losses on available-for-sale investment securities, net of the future tax impact, are reported as a separate component of shareholders equity until realized. Investment securities gains and losses are based on the amortized cost of the specific investment security determined on a specific identification basis. Fair values are determined based upon dealer quotes and discounted cash flow modeling. A decline in value lasting an extended period of time or of significant magnitude is evaluated for impairment that may be deemed other-than-temporary.

Residual Interests: Residual interests are stated at fair value. Unrealized gains and losses are included in earnings. To obtain fair value of residual interests, quoted market prices would be used if available. However, quotes are generally not available for residual interests, so we estimate fair value based on the present value of expected cash flows using estimates of the key assumptions prepayment speeds, credit losses, forward yield curves, and discount rates commensurate with the risks involved that management believes market participants would use to value similar assets. Adjustments to carrying values are recorded as trading gains or losses.

Loans Held For Sale: Loans held for sale are carried at the lower of cost or market, determined on an aggregate basis for both performing and nonperforming loans. Cost basis includes deferred origination fees and costs. Fair value is determined based on the contract price at which the loans will be sold. At the time of origination, loans which management believes will be sold prior to maturity are classified as loans held for sale.

Loans: Loans are carried at amortized cost. Loan origination fees and costs are deferred and the net amounts are amortized as an adjustment to yield using the interest method. When loans are sold, deferred fees and costs are included with outstanding principal balances to determine gains or losses. Interest income on loans is computed daily based on the principal amount of loans outstanding.

The accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal or interest or earlier should credit analysis prior to 90 days suggest collection of such amounts is unlikely to occur. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral is sufficient to cover the principal balance and accrued interest and the loan is in the process of collection.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses is an estimate based on management s judgment applying the principles of SFAS 5, Accounting for Contingencies, SFAS 114, Accounting by Creditors for Impairment of a Loan, and SFAS 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. The allowance is maintained at a level we believe is adequate to absorb probable losses inherent in the loan and lease portfolio. We perform an assessment of the adequacy of the allowance on a quarterly basis.

Within the allowance, there are specific and expected loss components. The specific loss component is assessed for loans we believe to be impaired in accordance with SFAS 114. We have defined impairment as nonaccrual loans. For loans determined to be impaired, we measure the level of impairment by comparing the loan s carrying value to fair value using one of the following fair value measurement techniques: present value of expected future cash flows, observable market price, or fair value of the associated collateral. An allowance is established when the fair value implies a value that is lower than the carrying value of that loan. In addition to establishing allowance levels for specifically identified impaired loans, management determines an allowance for all other loans in the portfolio for which historical experience indicates that certain losses exist. These loans are segregated by major product type, and in some instances, by aging, with an estimated loss ratio applied against each product type and aging category. The loss ratio is generally based upon historic loss experience for each loan type as adjusted for certain environmental factors management believes to be relevant.

It is our policy to promptly charge off any loan, or portion thereof, which is deemed to be uncollectible. This includes, but is not limited to, any loan rated Loss by the regulatory authorities. Impaired commercial credits are considered on a case-by-case basis. The amount charged off includes any accrued interest. Consumer loans are charged off when deemed uncollectible, but generally no later than when a loan is past due 180 days.

Servicing Assets: When we securitize or sell loans, we may retain the right to service the underlying loans sold. For cases in which we retain servicing rights, a portion of the cost basis of loans sold is allocated to a servicing asset based on its fair value.

For servicing assets associated with second mortgages and high loan-to-value first mortgages, the fair value measurement method of reporting these servicing rights was elected beginning January 1, 2007, in accordance with SFAS 156, Accounting for Servicing of Financial Assets. Under the fair value method, we measure servicing assets at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur. All remaining servicing rights follow the amortization method for subsequent measurement whereby these servicing rights are amortized in proportion to and over the period of estimated net servicing income.

We use a combination of observed pricing on similar, market-traded servicing rights and internal valuation models that calculate the present value of future cash flows to determine the fair value of the servicing assets. These models are supplemented and calibrated to market prices using inputs from independent servicing brokers, industry surveys and valuation experts. In using this valuation method, we incorporate assumptions that we believe market participants would use in estimating future net servicing income, which include, among other items, estimates of the cost of servicing per loan, the discount rate, float value, an inflation rate, ancillary income per loan, prepayment speeds, and default rates.

Incentive Servicing Fees: For whole loan sales of certain home equity loans, in addition to our normal servicing fee, we have the right to an incentive servicing fee (ISF) that will provide cash payments to us if a pre-established return for the certificate holders and certain structure-specific loan credit and servicing performance metrics are met. Generally the structure-specific metrics involve both a delinquency and a loss test. The delinquency test is satisfied if,

as of the last business day of the preceding month, delinquencies on the current pool of mortgage loans are less than or equal to a given percentage. The loss test is satisfied if, on the last business day of the preceding month, the percentage of cumulative losses on the original pool of mortgage loans is less than or equal to the applicable percentage as outlined in the specific deal documents. We receive ISF payments monthly, once the pre-established return has been paid to the certificate holder, if the delinquency and loss percentages are within guidelines. If we are terminated or replaced for cause as servicer under the securitization, the cash flow stream under the ISF contract terminates.

We account for ISFs similar to management contracts under Emerging Issues Task Force Topic No. D-96, Accounting for Management Fees Based on a Formula. Accordingly, we recognize revenue on a cash basis as the pre-established performance metrics are met and cash is due.

Derivative Instruments: All derivative instruments have been recorded at fair value and are classified as other assets or other liabilities in the consolidated balance sheets in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities. Fair values for derivatives are determined based upon dealer quotes.

Derivative instruments that are used in our risk management strategy may qualify for hedge accounting if the derivatives are designated as fair value, cash flow or foreign currency hedges and applicable hedge criteria are met. Changes in the fair value of a derivative that is highly effective (as defined by SFAS 133) and qualifies as a fair value hedge, along with changes in the fair value of the underlying hedged item, are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective (as defined by SFAS 133) and qualifies as a cash flow hedge or foreign currency hedge, to the extent that the hedge is effective, are recorded in other comprehensive income until earnings are recognized from the underlying hedged item. Net gains or losses resulting from hedge ineffectiveness are recorded in current period earnings.

We use certain derivative instruments that do not qualify for hedge accounting treatment under SFAS 133. These derivatives are classified as other assets or other liabilities and marked to market in the consolidated income statements. While we do not seek hedge accounting treatment for these instruments, their economic purpose is to manage the risk of existing exposures to either interest rate risk or foreign currency risk.

Premises and Equipment: Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is determined by the straight-line method over the estimated useful lives of the assets.

Other Assets: Included in other assets are real estate properties acquired as a result of foreclosure. These real estate properties are carried at the lower of the recorded investment in the related loan or fair value of the property less estimated costs to sell.

Income Taxes: A consolidated tax return is filed for all eligible entities. In accordance with SFAS 109, Accounting for Income Taxes, deferred income taxes are computed using the liability method, which establishes a deferred tax asset or liability based on temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

Recent Accounting Developments: On January 1, 2008 we adopted SFAS 157, Fair Value Measurements. This statement defines fair value, establishes a consistent framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 requires, among other things, our valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, SFAS 157 requires the recognition of trade-date gains related to certain derivative trades that use unobservable inputs in determining the fair value. This guidance supersedes the guidance in EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, which prohibited the recognition of day-one gains on certain derivative trades when determining the fair value of instruments not traded in an active market. There was no cumulative effect adjustment to retained earnings as a result of adopting this statement.

On January 1, 2008, we adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure certain financial instruments at fair value. Subsequent changes in fair value for designated items are required to be reported in earnings in the current period. SFAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. During the third quarter of 2008, we entered into a secured financing transaction with respect to certain home equity loans. We elected to measure the $91 million of collateralized debt associated with this transaction at fair value in accordance with SFAS 159. See Note 11 to the Consolidated Financial Statements for further detail.

In March 2008 the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities. This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods

beginning after November 15, 2008. We will begin making the required disclosures in 2009.

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Note 2 Investment Securities

The following table shows the composition of our investment securities at the dates indicated:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Held-to-Maturity:		
U.S. Treasury and government obligations	$ 14,443	$ 13,970
Obligations of states and political subdivisions	3,321	3,436
Mortgage-backed securities	926	717
Total held-to-maturity	18,690	18,123
Available-for-Sale:		
Mortgage-backed securities	22,912	45,499
Other	13,228	14,185
Total available-for-sale	36,140	59,684
Federal Home Loan Bank and Federal Reserve Bank stock	62,588	62,588
Total investment securities	$ 117,418	$ 140,395

At September 30, 2008, we held four mortgage-backed securities that were issued by entities other than government-sponsored enterprises and backed by first mortgage liens. These securities have an estimated fair value of $5 million at September 30, 2008. While interest payments on these securities continue to be current, the decline in fair value related to these securities is deemed to be other-than-temporary. Accordingly, we recognized other-than-temporary impairment charges of $2 million and $22 million, respectively, during the three and nine month periods ended September 30, 2008.

Note 3 Loans and Leases Held for Sale

We had loans and leases held for sale of $44 million at September 30, 2008 compared to $6 million at December 31, 2007. During the third quarter we sold $0.3 billion of small ticket leases that were classified as held for sale at June 30, 2008.

Note 4 Loans and Leases

Loans and leases are summarized as follows:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 1,972,507	$ 2,099,451
Real estate-construction & land development	512,971	586,037
Real estate-mortgage	1,517,294	1,691,450
Consumer	26,608	32,232
Commercial financing		
Franchise financing	904,666	925,741
Domestic leasing	12,506	306,301
Foreign leasing		462,036

Unearned income		
Franchise financing	(293,677)	(306,681)
Domestic leasing	(1,369)	(42,723)
Foreign leasing		(57,614)
Total	$4,651,506	$5,696,230

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Commercial loans are extended primarily to local regional businesses in the market areas of our commercial banking line of business. To a lesser extent, we also provide consumer loans to the customers in those markets. Franchise related loans, real estate loans, and direct financing leases are extended throughout the United States.

At September 30, 2008, mortgage loans with a carrying value of $1.2 billion were pledged as collateral for bonds payable to investors (See Note 9).

Federal Home Loan Bank of Indianapolis (FHLBI) borrowings are collateralized by $1.3 billion in loans at September 30, 2008.

Note 5 Allowance for Loan and Lease Losses

Changes in the allowance for loan and lease losses are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Balance at beginning of period	$215,714	$ 92,140	$ 144,855	$ 74,468
Provision for loan and lease losses	58,033	28,493	260,384	71,155
Charge-offs	(42,865)	(18,782)	(176,595)	(48,619)
Recoveries	1,318	2,555	4,325	7,881
Reduction due to reclassification and sales of loans	(449)	(210)	(1,087)	(1,006)
Foreign currency adjustment	51	247	(80)	564
Balance at end of period	$231,802	$104,443	$ 231,802	$104,443

Nonperforming loans and leases are summarized below:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Accruing loans past due 90 days or more	$ 622	$ 857
Nonaccrual loans and leases	178,779	75,453
Total nonperforming loans and leases	$ 179,401	$ 76,310

Note 6 Servicing Assets

Changes in our fair value servicing assets are shown below:

	September 30, 2008 And the Nine Months Then Ended	December 31, 2007 And the Year Then Ended
	(Dollars in thousands)	
Beginning balance	$ 19,724	$ 27,725
Gain from initial adoption of SFAS 156		2,905

Changes in fair value:		
Due to changes in valuation inputs or assumptions [1]	490	(1,589)
Other changes in fair value [2]	(3,640)	(9,317)
Balance at the end of the period	$ 16,574	$ 19,724

(1) Principally reflects changes in discount rates and prepayment spread assumptions, primarily due to changes in interest rates.

(2) Represents changes due to realization of expected cash flows.

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Changes in our amortizing servicing assets are shown below:

	September 30, 2008 And the Nine Months Then Ended	December 31, 2007 And the Year Then Ended
	(Dollars in thousands)	
Beginning balance	$ 3,510	$ 31,949
Initial adoption of SFAS 156		(27,725)
Additions	796	530
Sales		(5)
Amortization	(885)	(1,199)
Recovery (impairment)	8	(40)
Balance at the end of the period	$ 3,429	$ 3,510

We have established a valuation allowance to record amortizing servicing assets at their lower of cost or market value. Changes in the allowance are summarized below:

	September 30, 2008 And the Nine Months Then Ended	December 31, 2007 And the Year Then Ended
	(Dollars in thousands)	
Balance at beginning of year	$ 191	$ 483
Transfer of assets from amortizing to fair value		(332)
(Recovery) impairment	(8)	40
Balance at the end of the period	$ 183	$ 191

Note 7 Income Taxes

A reconciliation of income tax benefit to the amount computed by applying the statutory income tax rate of 35% to income before income taxes is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Income taxes computed at the statutory rate	$(26,817)	$ (930)	$(86,292)	$(1,376)

Increase (decrease) resulting from:				
Nontaxable interest from investment securities and loans	(23)	(29)	(81)	(88)
Nontaxable income from bank owned life insurance	(57)	(216)	(407)	(487)
State tax, net of federal benefit	(2,546)	(133)	(8,450)	(197)
Foreign operations	83	(8)	127	(75)
Reserve adjustment [1]	(127)	(382)	219	184
Federal tax credits	(602)	(264)	(1,323)	(793)
Other items net	99	105	287	325
Valuation allowance [2]	7,800		32,700	
	$(22,190)	$(1,857)	$(63,220)	$(2,507)

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(1) Tax reserves are adjusted as we align our tax liability to a level commensurate with our current identified tax exposures.

(2) During the nine month period ended September 30, 2008, we recorded a valuation allowance to reduce our deferred tax asset to an amount that is more likely than not to be realized.

Note 8 Other Borrowings

Other borrowings are summarized as follows:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Federal Home Loan Bank borrowings	$526,657	$574,424
Federal funds		228,000
Total	$526,657	$802,424
Weighted average interest rate	3.70%	5.20%

Federal Home Loan Bank of Indianapolis borrowings (FHLBI) are collateralized by $1.3 billion of loans and loans held for sale at September 30, 2008.

In addition, we have an unused credit line available from the FHLBI of $0.3 billion to fund loans. The interest rate on this line of credit is 2.3% at September 30, 2008.

Note 9 Collateralized Debt

We pledged loans and leases in transactions structured as secured financings at our home equity lending and commercial finance lines of business. Sale treatment is precluded on these transactions because we fail the true-sale requirements of SFAS 140 as we maintain effective control over the loans and leases securitized. This type of structure results in cash being received, debt being recorded, and the loans and leases being retained on the balance

sheet. The notes associated with these transactions are collateralized by $1.2 billion in home equity loans and home equity lines of credit at September 30, 2008. This collateral balance on home equity loans and lines of credit increased by approximately $0.2 billion in the third quarter of 2008 due to a securitization transaction entered into during the quarter. The principal and interest on these debt securities are paid using the cash flows from the underlying loans and leases. Accordingly, the timing of the principal payments on these debt securities is dependent on the payments received on the underlying collateral. The interest rates on the bonds are both fixed and floating.

In July, 2008, we sold the majority of our Canadian small-ticket leases removing approximately $0.3 billion of these assets from our balance sheet and the repaying $0.3 billion of collateralized debt. In addition, we added $91 million of collateralized debt at our home equity line of business in connection with the securitization transaction that closed during the third quarter. We elected to measure this debt at fair value in accordance with SFAS 159. See Note 11 for further detail.

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Collateralized debt is summarized as follows:

	Contractual Maturity	Weighted Average Interest Rate at September 30, 2008	September 30, 2008	December 31, 2007
			(Dollars in thousands)	
Commercial finance line of business				
Canadian asset backed notes:				
Note 1			$	$ 46,183
Note 2				192,103
Note 3				4,120
Home equity line of business				
2004-1 variable rate asset backed notes:	12/2024-12/2034	3.1	53,570	58,508
2005-1 variable and fixed rate asset backed notes:	6/2025-6/2035	4.9	124,474	145,805
2006-1 variable and fixed rate asset backed notes:	9/2035	5.1	145,076	165,115
2006-2 variable and fixed rate asset backed notes:	2/2036	4.9	161,369	184,313
2006-3 variable and fixed rate asset backed notes:	1/2037-9/2037	4.5	147,127	168,324
2007-1 variable and fixed rate asset backed notes:	8/2037	4.3	223,735	248,668
2008-1 variable and fixed rate asset backed notes:	9/2048	7.3	7,594	
2008-2 fixed rate asset backed notes:	9/2048	19.0	74,872	
2008-3 fixed rate asset backed notes:	9/2048	19.4	8,452	0
Total			$946,269	$1,213,139

Note 10 Employee Retirement Plans

Below are components of net periodic cost of the Pension and Supplemental Executive Retirement Plan (SERP) benefits:

Employee Pension Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Service cost	$ 1,167	$ 1,014	$ 3,501	$ 3,040
Interest cost	683	606	2,048	1,819
Expected return on plan assets	(657)	(627)	(1,971)	(1,880)

Amortization of prior service cost	9	9	28	28
Amortization of actuarial loss	71	136	213	409
Net periodic benefit cost	$ 1,273	$ 1,138	$ 3,819	$ 3,416

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Supplemental Executive Retirement Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Service cost	$ 22	$ 58	$ 65	$ 175
Interest cost	81	101	243	302
Amortization of transition obligation	3	3	8	8
Amortization of prior service cost			1	1
Amortization of actuarial loss		20		59
Net periodic benefit cost	$ 106	$ 182	$ 317	$ 545

As of September 30, 2008, we have not made any cash contributions to our pension plan in the current year and no cash contribution is required to this plan in the remainder of 2008 to maintain its funding status due to credit balances. We do anticipate making cash contributions to the plan in 2009.

Note 11 Fair Value

Effective January 1, 2008, we adopted SFAS 157 Fair Value Measurements. This statement defines fair value, establishes a consistent framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 requires, among other things, our valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, SFAS 157 requires the recognition of trade-date gains related to certain derivative trades that use unobservable inputs in determining the fair value. This guidance supersedes the guidance in Emerging Issues Task Force Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities (EITF Issue 02-3), which prohibited the recognition of day-one gains on certain derivative trades when determining the fair value of instruments not traded in an active market.

Effective January 1, 2008, we adopted SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities. Subsequent changes in fair value for designated items are required to be reported in earnings in the current period. SFAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. During the third quarter of 2008, we entered into a secured financing transacting with respect to certain home equity loans. We elected to measure the $91 million of collateralized debt associated with this transaction at fair value in accordance with SFAS 159.

This collateralized debt is principally in the form of asset-backed securities collateralized by the underlying second lien mortgage loans held for investment. Due to the nature of the underlying collateral and current market conditions, observable prices for these or similar instruments are typically not available in active markets. As a result, we valued this debt using valuation models (discounted cash flows) that utilize significant internal inputs. These inputs include such market observable inputs such as prepayment speeds, credit losses, and discount rates. Fair value option collateralized debt is classified as Level 3 (see definition below) as a result of the reliance on significant assumptions and estimates for model inputs. Given the reduced liquidity in the financial markets, the value of the collateralized debt could be volatile.

SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. In accordance with SFAS 157, these two types of inputs have created the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available. The following table presents the hierarchy level for each of our assets and liabilities that are measured at fair value on a recurring basis at September 30, 2008.

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
September 30, 2008				
Assets				
Residual interests	$	$	$ 9,008	$ 9,008
Investment securities available-for-sale		21,267	14,873	36,140
Servicing assets			16,574	16,574
Total assets	$	$21,267	$40,455	$61,722
Liabilities				
Collateralized debt	$	$	$90,918	$90,918
Derivatives		4,315		4,315
Total liabilities	$	$ 4,315	$90,918	$95,233

We classify financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table presents the changes in the Level 3 fair value category for the nine months ended September 30, 2008.

	January 1, 2008	Net realized/unrealized gain(losses) included in earnings [1] [2]	Purchases, issuances and settlements	September 30, 2008	Unrealized gains (losses) still held [3]
		(Dollars in thousands)			
Assets					
Residual interests	$12,047	$ (3,077)	$ 38	$ 9,008	$ (3,077)
Investment securities available-for-sale	37,682	(22,748)	(61)	14,873	(22,748)
Servicing assets	19,724	(3,150)		16,574	
Total assets	$69,453	$(28,975)	$ 38	$ 40,455	$ (28,975)
Liabilities					
Collateralized borrowings	$	$ 278	$90,640	$ 90,918	$ 278
Total liabilities	$	$ 278	$90,640	$ 90,918	$ 278

(1) Unrealized gains (losses) on residual interests are recorded in Trading gains (losses) on the statement of income

(2) Unrealized gains (losses) on servicing assets are recorded in Amortization and impairment of servicing assets on the statement of income

(3) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that are still held at September 30, 2008

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The following table presents the hierarchy level for each of our assets that are measured at fair value on a nonrecurring basis at September 30, 2008.

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
September 30, 2008				
Assets				
Loans held for investment [1]	$	$	$ 98,822	$ 98,822
Loans and leases held for sale[2]			43,643	43,643
Mortage servicing assets [3]			3,429	3,429
Total assets	$	$	$145,894	$145,894

(1) Represents the carrying amount of impaired loans (i.e., unpaid principal balance less specific loan loss reserves) with impairment calculated based on appraised collateral values

(2) Represents the carrying value of loans and leases held for sale which are valued at lower of cost or market value. Market value is determined based upon open market bids and discounted cash flow models adjusted for prepayment assumptions

(3) Represents the carrying value

of mortgage servicing assets which are valued at lower of cost or market. Market value is determined based upon observed pricing on similar, market-traded servicing rights or discounted cash flow models

Note 12 Loss Per Share

Loss per share calculations are summarized as follows:

	Three Months ended September 30, 2008				
	Net Income (Loss)	Preferred Dividends	Basic Earnings Per Share	Effect of Stock Options	Diluted Earnings Per Share
	(Dollars in thousands, except per share amounts)				
Net loss available to common shareholders:	$(54,430)	$	$(54,430)	$	$(54,430)
Shares			29,378		29,378
Per-share amount			$ (1.85)	$	$ (1.85)

	Three Months ended September 30, 2007				
	Net Income (Loss)	Preferred Dividends	Basic Earnings Per Share	Effect of Stock Options	Diluted Earnings Per Share
	(Dollars in thousands, except per share amounts)				
Net loss available to common shareholders:					
From Continuing Operations	$ (803)	$(326)	$ (1,129)	$ (279)	$ (1,408)
From Discontinued Operations	(17,227)		(17,227)		(17,227)
Total Net Loss for All Operations	$(18,030)	$(326)	(18,356)	(279)	(18,635)
Shares			29,191		29,191
Per-share from Continuing Operations			$ (0.04)	$ (0.01)	$ (0.05)

Per-Share amount for all Operations	$ (0.63)	$ (0.01)	$ (0.64)

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	Nine Months ended September 30, 2008				
	Net Loss	Preferred Dividends	Basic Earnings Per Share	Effect of Stock Options	Diluted Earnings Per Share
	(Dollars in thousands, except per share amounts)				
Net loss available to common shareholders:	$(183,327)	$	$(183,327)	$	$(183,327)
Shares			29,314		29,314
Per-share amount			$ (6.25)	$	$ (6.25)

	Nine Months ended September 30, 2007				
	Net Loss	Preferred Dividends	Basic Earnings Per Share	Effect of Stock Options	Diluted Earnings Per Share
	(Dollars in thousands, except per share amounts)				
Net loss available to common shareholders:					
From Continuing Operations	$ (1,425)	$(1,004)	$ (2,429)	$ (683)	$ (3,112)
From Discontinued Operations	(27,123)		(27,123)		(27,123)
Total Net Loss for All Operations	$(28,548)	$(1,004)	(29,552)	(683)	(30,235)
Shares			29,390		29,390
Per-share from Continuing Operations			$ (0.08)	$ (0.03)	$ (0.11)
Per-share amount for All Operations			$ (1.01)	$ (0.02)	$ (1.03)

At September 30, 2008 and 2007, there were 2.6 million and 2.3 million shares, respectively, related to stock options that were not included in the dilutive earnings per share calculation because of our net loss position and because they had exercise prices above the stock price as of the respective dates.

Note 13 Industry Segment Information

We have three principal business segments that provide a broad range of banking products and services, including commercial banking, commercial finance, and home equity lending. In the third quarter, we substantially exited two channels within our commercial finance segment (small ticket equipment leasing in the US and Canada), retaining only our franchise finance channel within this segment. Our other segment primarily includes the parent company, unsold portions of businesses in which we no longer engage, and eliminations. The accounting policies of each segment are the same as those described in Note 1 Accounting Policies, Management Judgments and Accounting Estimates.

In the table below, the conforming, conventional mortgage banking line of business is shown in the table below as Discontinued Operations for 2007. Due to its diminishing significance, in 2008 this former segment is reported in

Parent and Other.

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Following is a summary of each segment s revenues, net income, and assets for the years indicated:

	Commercial Banking	Commercial Finance	Home Equity Lending	Parent and Other	Consolidated
				(Dollars in thousands)	
For the Three Months Ended September 30, 2008					
Net interest income	$ 29,300	$18,764	$ 18,295	$(18,141)	$ 48,218
Intersegment interest	(3,522)	(9,546)	(3,608)	16,676	
Provision for loan and leases losses	(29,400)	(1,694)	(26,940)	1	(58,033)
Other revenues	4,414	3,134	539	(4,563)	3,524
Intersegment revenues					
Total net revenues	792	10,658	(11,714)	(6,027)	(6,291)
Other expense	25,496	13,926	26,891	4,016	70,329
Intersegment expenses	1,129	376	652	(2,157)	
Loss before taxes	(25,833)	(3,644)	(39,257)	(7,886)	(76,620)
Provision for taxes	(10,728)	(1,465)	(15,698)	5,701	(22,190)
Net loss	$(15,105)	$ (2,179)	$(23,559)	$(13,587)	$(54,430)

	Commercial Banking	Commercial Finance	Home Equity Lending	Parent and Other	Consolidated Continuing Operations	Discontinued Operations	Consolidated
				(Dollars in thousands)			
For the Three Months Ended September 30, 2007							
Net interest income	$30,918	$ 23,779	$ 28,280	$(17,831)	$ 65,146	$ (550)	$ 64,596
Intersegment interest	(929)	(10,521)	(4,875)	16,325			
Provision for loan and leases losses	(3,100)	(2,860)	(22,533)		(28,493)		(28,493)
Other revenues	4,099	3,480	2,150	(2,697)	7,032	(4,577)	2,455
Intersegment revenues			1,058	(1,058)			
Total net revenues	30,988	13,878	4,080	(5,261)	43,685	(5,127)	38,558
Other expense	22,650	7,199	16,968	(472)	46,345	23,640	69,985
Intersegment expenses	932	400	670	(2,002)			
Income (loss) before taxes	7,406	6,279	(13,558)	(2,787)	(2,660)	(28,767)	(31,427)

Provision for taxes	2,697	2,471	(5,420)	(1,605)	(1,857)	(11,540)	(13,397)
Net income (loss)	$ 4,709	$ 3,808	$ (8,138)	$ (1,182)	$ (803)	$(17,227)	$(18,029)

	Commercial Banking	Commercial Finance	Home Equity Lending	Parent and Other	Consolidated
			(Dollars in thousands)		
For the Nine Months Ended September 30, 2008					
Net interest income	$ 90,439	$ 69,551	$ 72,355	$ (57,817)	$ 174,528
Intersegment interest	(9,917)	(32,929)	(12,677)	55,523	
Provision for loan and leases losses	(60,461)	(54,551)	(145,371)	(1)	(260,384)
Other revenue	13,482	12,248	958	(21,099)	5,589
Intersegment revenues			76	(76)	
Total net revenues	33,543	(5,681)	(84,659)	(23,470)	(80,267)
Other expense	69,922	28,545	53,600	14,213	166,280
Intersegment expenses	3,279	1,281	1,864	(6,424)	
Loss before taxes	(39,658)	(35,507)	(140,123)	(31,259)	(246,547)
Provision for taxes	(16,846)	(14,356)	(56,053)	24,035	(63,220)
Net loss	$ (22,812)	$ (21,151)	$ (84,070)	$ (55,294)	$ (183,327)
Assets at September 30, 2008	$3,048,492	$687,926	$1,216,206	$306,800	$5,259,424

	Commercial Banking	Commercial Finance	Home Equity Lending	Parent and Other	Consolidated Continuing Operations	Consolidated Discontinued Operations	Consolidated
			(Dollars in thousands)				
For the Nine Months Ended September 30, 2007							
Net interest income	$ 90,551	$ 67,087	$ 90,670	$ (51,191)	$ 197,117	$ (1,766)	$ 195,351
Intersegment interest	(1,084)	(28,898)	(18,228)	48,210			
Provision for loan and leases losses	(8,541)	(9,392)	(53,222)		(71,155)		(71,155)
Other revenue	12,234	9,218	(851)	(4,802)	15,799	(12,037)	3,762
Intersegment revenues			2,024	(2,024)			
Total net revenues	93,160	38,015	20,393	(9,807)	141,761	(13,803)	127,958
Other expense	68,097	21,458	52,121	4,017	145,693	31,570	177,263
Intersegment expenses	2,700	1,209	1,966	(5,875)			

Income (loss) before taxes	22,363	15,348	(33,694)	(7,949)	(3,932)	(45,373)	(49,305)
Provision for taxes	8,149	6,013	(13,456)	(3,213)	(2,507)	(18,250)	(20,757)
Net income (loss)	$ 14,214	$ 9,335	$ (20,238)	$ (4,736)	$ (1,425)	$ (27,123)	$ (28,548)
Assets at September 30, 2007	$ 3,131,124	$ 1,251,874	$ 1,561,817	$ 217,033			$ 6,161,848

Note 14 Commitments and Contingencies

Litigation in Connection with Loans Purchased from Community Bank of Northern Virginia

Our subsidiary, Irwin Union Bank and Trust Company, is a defendant in several actions in connection with loans Irwin Union Bank purchased from Community Bank of Northern Virginia (Community).

Hobson v. Irwin Union Bank and Trust Company was filed on July 30, 2004 in the United States District Court for the Northern District of Alabama. As amended on August 30, 2004, the *Hobson* complaint, seeks certification of both a plaintiffs and a defendants class, the plaintiffs class to consist of all persons who obtained loans from Community and whose loans were purchased by Irwin Union Bank. *Hobson* alleges that defendants violated the Truth-in-Lending Act (TILA), the Home Ownership and Equity Protection Act (HOEPA), the Real Estate Settlement Procedures Act (RESPA) and the Racketeer Influenced and Corrupt Organizations Act (RICO). On October 12, 2004, Irwin filed a motion to dismiss the *Hobson* claims as untimely filed and substantively defective.

Kossler v. Community Bank of Northern Virginia was originally filed in July 2002 in the United States District Court for the Western District of Pennsylvania. Irwin Union Bank and Trust was added as a defendant in December 2004. The *Kossler* complaint seeks certification of a plaintiffs class and seeks to void the mortgage loans as illegal contracts. Plaintiffs also seek recovery against Irwin for alleged RESPA violations and for conversion. On September 9, 2005, the *Kossler* plaintiffs filed a Third Amended Class Action Complaint. On October 21, 2005, Irwin filed a renewed motion seeking to dismiss the *Kossler* action.

The plaintiffs in *Hobson* and *Kossler* claim that Community was allegedly engaged in a lending arrangement involving the use of its charter by certain third parties who charged high fees that were not representative of the services rendered and not properly disclosed as

to the amount or recipient of the fees. The loans in question are allegedly high cost/high interest loans under Section 32 of HOEPA. Plaintiffs also allege illegal kickbacks and fee splitting. In *Hobson*, the plaintiffs allege that Irwin was aware of Community s alleged arrangement when Irwin purchased the loans and that Irwin participated in a RICO enterprise and conspiracy related to the loans. Because Irwin bought the loans from Community, the *Hobson* plaintiffs are alleging that Irwin has assignee liability under HOEPA.

If the *Hobson* and *Kossler* plaintiffs are successful in establishing a class and prevailing at trial, possible RESPA remedies could include treble damages for each service for which there was an unearned fee, kickback or overvalued service. Other possible damages in *Hobson* could include TILA remedies, such as rescission, actual damages, statutory damages not to exceed the lesser of $500,000 or 1% of the net worth of the creditor, and attorneys fees and costs; possible HOEPA remedies could include the refunding of all closing costs, finance charges and fees paid by the borrower; RICO remedies could include treble plaintiffs actually proved damages. In addition, the *Hobson* plaintiffs are seeking unspecified punitive damages. Under TILA, HOEPA, RESPA and RICO, statutory remedies include recovery of attorneys fees and costs. Other possible damages in *Kossler* could include the refunding of all origination fees paid by the plaintiffs.

Irwin Union Bank and Trust Company is also a defendant, along with Community, in two individual actions *(Chatfield v. Irwin Union Bank and Trust Company, et al.* and *Ransom v. Irwin Union Bank and Trust Company, et al.)* filed on September 9, 2004 in the Circuit Court of Frederick County, Maryland, involving mortgage loans Irwin Union Bank purchased from Community. On July 16, 2004, both of these lawsuits were removed to the United States District Court for the District of Maryland. The complaints allege that the plaintiffs did not receive disclosures required under HOEPA and TILA. The lawsuits also allege violations of Maryland law because the plaintiffs were allegedly charged or contracted for a prepayment penalty fee. Irwin believes the plaintiffs received the required disclosures and that Community, a Virginia-chartered bank, was permitted to charge prepayment fees to Maryland borrowers.

Under the loan purchase agreements between Irwin and Community, Irwin has the right to demand repurchase of the mortgage loans and to seek indemnification from Community for the claims in these lawsuits. On September 17, 2004, Irwin made a demand for indemnification and a defense to *Hobson, Chatfield* and *Ransom.* Community denied this request as premature.

In response to a motion by Irwin, the Judicial Panel On Multidistrict Litigation consolidated *Hobson, Chatfield* and *Ransom* with *Kossler* in the Western District of Pennsylvania for all pretrial proceedings. The Pennsylvania District Court had been handling another case seeking class action status, *Kessler v. RFC, et al.*, also involving Community and with facts similar to those alleged in the Irwin consolidated cases. The *Kessler* case had been settled, but the settlement was appealed and set aside on procedural grounds. Subsequently, the parties in *Kessler* filed a motion for approval of a modified settlement, which would provide additional relief to the settlement class. Irwin is not a party to the *Kessler* action, but the resolution of issues in *Kessler* may have an impact on the Irwin cases. The Pennsylvania District Court had effectively stayed action on the Irwin cases until issues in the *Kessler* case were resolved. On January 25, 2008, the Pennsylvania District Court approved and certified for settlement purposes the modified *Kessler* settlement, finding the proposed modified *Kessler* settlement to be fair and reasonable, and directed the parties to supply a proposed notice plan.

At a status conference on September 30, 2008, the court indicated its intention to enter a case management order allowing discovery to commence in *Chatfield* and *Ransom.* On or about October 24, 2008, the parties agreed in principle to settle *Chatfield* and *Ransom* for nonmaterial amounts.

The *Hobson* and *Kossler* lawsuits are still at a preliminary stage with motions to dismiss pending in each case. We have established an immaterial reserve for the Community litigation based upon SFAS 5 guidance and the advice of legal counsel.

Litigation in Connection with Loans Purchased from Freedom Mortgage Corporation.

On January 22, 2008, our direct subsidiary, Irwin Union Bank and Trust Company, and our indirect subsidiary, Irwin Home Equity Corporation, filed suit against Freedom Mortgage Corporation in the United States District Court for the Northern District of California, *Irwin Union Bank, et al. v. Freedom Mortgage Corp.*, (the California Action) for breach of contract and negligence arising out of Freedom s refusal to repurchase certain mortgage loans that Irwin

Union Bank and Irwin Home Equity had purchased from Freedom. The Irwin subsidiaries are seeking damages in excess of $8 million from Freedom.

In response, Freedom moved to compel arbitration of the claims asserted in the California Action and on March 12, 2008 filed suit against us and our indirect subsidiary, Irwin Mortgage Corporation, in the United States District Court for the District of Delaware, *Freedom Mortgage Corporation v. Irwin Financial Corporation et al.*, (the Delaware Action). Freedom alleges that the Irwin repurchase demands in the California Action represent various breaches of the Asset Purchase Agreement dated as of August 7, 2007.

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The Asset Purchase Agreement was entered into by Irwin Financial Corporation, Irwin Mortgage Corporation and Freedom Mortgage Corporation in connection with the sale to Freedom of the majority of Irwin Mortgage s loan origination assets. Freedom seeks damages in excess of $8 million and to compel Irwin to order its subsidiaries in the California Action to dismiss their claims. On April 23, 2008, Irwin filed a motion to dismiss the Delaware Action. On April 30, 2008, the California district court stayed the California Action pending completion of arbitration. We have not established any reserves for this litigation.

Homer v. Sharp

This lawsuit was filed by a mother and children on or about May 6, 2008 in the Circuit Court for Baltimore City, Maryland, against various defendants, including Irwin Mortgage Corporation and a former Irwin Mortgage employee, for injuries from exposure to lead-based paint. Irwin Mortgage and its former employee are the subject of three counts each of the 40-count complaint, which alleges, among other things, negligence and violations of the Maryland Lead Poisoning Prevention Act, unfair and deceptive trade practices in violation of the Maryland Consumer Protection Act, loss of an infant s services, incursion of medical expenses, and emotional distress and mental anguish. Plaintiffs seek damages of $5 million on each count. The counts against Irwin Mortgage and the former employee allege involvement with one of six properties named in the complaint. This case is in the early stages and we are unable at this time to form a reasonable estimate of the amount of potential loss, if any, that Irwin Mortgage could suffer. We have not established any reserves for this litigation.

We and our subsidiaries are from time to time engaged in various matters of litigation, including the matters described above, other assertions of improper or fraudulent loan practices or lending violations, and other matters, and we have a number of unresolved claims pending. In addition, as part of the ordinary course of business, we and our subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral, and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, we believe that damages, if any, and other amounts relating to pending matters are not likely to be material to our consolidated financial position or results of operations, except as described above. Reserves are established for these various matters of litigation, when appropriate under SFAS 5, based in part upon the advice of legal counsel.

Note 15 Regulatory Matters

On October 10, 2008, we entered into a written agreement with the Federal Reserve Bank of Chicago (FRBC) and the Indiana Department of Financial Institutions (DFI) and a separate one with the Office of Thrift Supervision. In the current environment of uncertainty in the banking and financial industry, the agreements outline a number of steps that have been agreed upon among the parties, including submission of plans regarding revised business strategies, liquidity and funds management, and capital levels; improvements in credit administration, accounting, and Board oversight; an assessment of and specific additions to management; and certain restrictions applicable only to its savings bank, which holds about 15% of the Corporation s assets. The agreement with the FRBC and DFI restrict the Corporation and IUBT from declaring or paying any dividend, making any distributions of interest or principal on subordinated debentures or trust preferred securities, or incurring, increasing, or guaranteeing any debt or repurchasing stock without prior regulatory approval. See further discussion of this agreement in the Supervision and Regulation section of this document.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
Strategy

The Corporation is in the middle of a strategic restructuring to refocus on serving small businesses and the communities in which it operates. Raising capital is an important part of the Corporation s restructuring plan, which the Corporation believes will strengthen its capital and position it to return to profitability. The Corporation has chosen to enhance its capital through a rights offering to existing shareholders and a possible exchange of trust preferred securities for common stock. In connection with the rights offering, the Corporation entered into agreements with accredited investors to provide standby commitments to purchase common shares that are not purchased by holders of subscription rights, and the Corporation has received standby commitments to date for $37 million.

A registration statement relating to the rights offering has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. The rights offer remains subject to the registration statement being approved by the Securities and Exchange Commission. The rights offering will be made only by means of a prospectus which will contain the specific terms of the transaction and which will be provided to Irwin shareholders at the commencement of the offer. In addition, this Report on Form 10-Q is not an offer or the solicitation of an offer to exchange the Corporation s trust preferred securities. Any such offers will only be made by registration under federal and state securities laws, or pursuant to an applicable exemption from registration thereunder.

On May 7, the Corporation announced that our Board of Directors was seeking alternatives to achieve our strategic refocusing objectives and resolve our home equity loan exposure. We closed on a securitization with financing treatment of approximately $268 million of home equity whole loans in July. We also signed an agreement to sell the residuals underlying $1 billion of previously securitized home equity loans and the associated $0.9 billion of debt, which would have removed both from our balance sheet. The agreement was subject to third party approvals which were not received by the purchaser by the agreed upon date. Therefore, as previously announced, the residual sale transactions were rescinded in September. It is still our aim to complete a withdrawal from the national mortgage business (outside of the local communities we serve through our bank branches) that was begun in 2006 with the sale of Irwin Mortgage Corporation. We have limited our exposure to future home equity credit losses through securitization activities. Against our $1.28 billion loan portfolio, we have non-recourse collateralized debt of $0.95 billion and an allowance for loan loss reserve of $0.15 billion. Although we will continue making mortgage credit available in our bank branch communities, we have ceased all originations in our national mortgage lines of business, maintaining only servicing platforms to manage our remaining portfolios in run-off mode.

As part of the Board of Director s strategic review, we also concluded that we should exit the small ticket equipment leasing portions of our commercial finance line of business. Sales of the portfolios in both the U.S. and Canada and the platform in Canada were completed in the third quarter of 2008. We had concluded that small ticket equipment leasing was no longer a strategic fit for our company because of their reliance on sources of funding, such as securitizations and structured finance, that are no longer available in a reliable and cost effective manner due to changes in the capital markets.

Going forward, our strategy is to focus on our roots as a small business lender and local community bank, building on our 137-year history. We will have two segments: commercial banking and franchise finance, down from four segments as recently as two years ago.

We seek to create competitive advantage within the banking industry by serving small businesses with lending, leasing, deposit, and advisory services, as well as consumers in the neighborhoods surrounding our bank branches. We intend to fund these activities primarily through deposits gathered through our 35 bank branches.

In our commercial banking segment, we provide a full line of banking services to small businesses and consumers in the communities and neighborhoods served by our bank branch locations. Through this approach, we provide the small businesses that are the backbone of economic growth in our communities with the advice, credit, and other banking products that meet their needs and help them to grow, which large national banks are often unable to do in a flexible manner. Our franchise finance segment also focuses on small businesses the owners and operators of the leading quick service and casual dining restaurant concepts in the U.S.

While having much in common in terms of competitive positioning and credit culture, these two segments allow us to diversify our revenues, credit risk, and application of capital across borrower types and across geographic regions as a key part of our risk management.

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Reducing our company to two operating segments from four will allow us to simplify our management structure, reduce overhead, and improve our cost structure. We are in the process of identifying areas in which we can coordinate and consolidate non-customer facing operations between these two segments. Our Board of Directors formed a committee to undertake a review of our management structure with the help of an independent consultant. Prior to the engagement of this consultant, we had centralized certain risk management functions, information technologies, procurement, transactional accounting, human resources, and legal functions to enhance senior management and Board oversight and reduce operational costs.

We have long held that strategy needs to evolve in response to changes in environmental conditions. Our former strategy was not producing acceptable results in the current environment of severe stress in housing and related markets and disruptions in the capital markets. We have therefore taken steps to change our strategy to fit the environment in which we operate today and will operate in the future. We believe these changes returning to our roots of focusing on banking for small businesses and the local communities in which we have branches will position us to contribute to the economies of our communities by providing the highest quality service to individuals and small businesses by continuing to be an important provider of credit to consumer and small business customers.

Critical Accounting Policies

Accounting estimates are an integral part of our financial statements and are based upon our current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from our current judgments or that our use of different assumptions could result in materially different estimates. Our Annual Report on Form 10-K for the year ended 2007 provides a description of the critical accounting policies we apply to material financial statement items, all of which require the use of accounting estimates and/or judgment.

Consolidated Overview

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Net loss from continuing operations (in thousands)	$(54,430)	$ (803)	$(183,327)	$(1,425)
Basic loss per share from continuing operations	(1.85)	(0.04)	(6.25)	(0.08)
Diluted loss per share from continuing operations	(1.85)	(0.05)	(6.25)	(0.11)
Return on average equity from continuing operations	(74.8)%	(0.6)%	(64.1)%	(0.4)%
Return on average assets from continuing operations	(4.0)%	(0.1)%	(4.2)%	0.0%

The financial statements, notes, schedules and discussion within this report for 2007 have been reformatted to conform to the presentation required for discontinued operations pursuant to the sale of the assets of our mortgage banking line of business.

Outlook

The restructuring we have announced and described elsewhere in this document will continue to affect our reported results materially in future quarters.

In our second quarter of 2008 10-Q, we estimated that we would record exit costs in the third quarter of 2008 associated with our sale of the small ticket leasing assets of approximately $10 million pretax and exit costs associated with the sale of home equity residuals of approximately $105 million. The small ticket assets sales were consummated in the third quarter. Actual exit costs, including investment banker fees, recorded in the third quarter totaled $14 million, with another $1 million anticipated in the fourth quarter. The sale of the home equity residual was rescinded in the third quarter due to the purchaser s failure to obtain third party consents by the agreed upon date. As a

result, the approximately $1.0 billion of home equity assets and $0.9 billion of debt which the residuals underlie remained on our balance sheet at September 30 and we did not incur the home equity exit costs as anticipated. We continue to explore alternatives for selling these residual assets or changing the terms of the securitization to achieve mark to market accounting for the residual asset. If we are able to sell them or mark them to market at a future date, our current estimate of costs associated with this sale are $65 million and to remove the associated assets and debt from our balance sheet.

Due to the unprecedented levels of uncertainty in the financial markets and economy at present, forecasting earnings in the current environment is particularly difficult. At present, we expect our commercial banking and franchise finance segments to be profitable in

2009. Whether the Corporation as a whole will be profitable next year depends primarily on the timing and size of charges related to our reduction in exposure and eventual exit from the home equity business.

Consolidated Income Statement Analysis

Net Income from Continuing Operations

We recorded a loss of $54 million for the three months ended September 30, 2008, compared to a net loss from continuing operations of $0.8 million for the three months ended September 30, 2007. Net loss per share (diluted) was $1.85 for the quarter ended September 30, 2008, compared to $0.05 loss per share in the third quarter of 2007. For the year to date, we recorded a net loss of $183 million or $6.25 loss per diluted share compared to a net loss from continuing operations of $1.4 million or $0.11 loss per share in 2007. The current period and year-to-date losses reflect our restructuring activities, including asset sales as well as significant provisions in excess of realized losses in our home equity and commercial banking portfolios.

Net Interest Income from Continuing Operations

Net interest income for the nine months ended September 30, 2008 totaled $175 million, down 11% from the net interest income from continuing operations of $197 million for the same period in 2007. Net interest margin is computed by dividing net interest income by average interest earning assets. Net interest margin for the nine months ended September 30, 2008 was 4.16%, down compared to 4.53% for the same period in 2007.

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The following table shows our daily average consolidated balance sheet, interest rates and yield at the dates indicated:

	For the Nine Months Ended September 30,					
	2008			2007		
	Average Balance	Interest	Annualized Yield/ Rate	Average Balance	Interest	Annualized Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Interest-bearing deposits with financial institutions	$ 33,290	$ 1,208	4.85%	$ 52,648	$ 2,093	5.32%
Federal funds sold	42,131	678	2.15%	19,667	602	4.09%
Residual interests	12,506	629	6.72%	10,196	817	10.71%
Investment securities	127,294	5,133	5.39%	137,989	5,664	5.49%
Loans held for sale	41,542	2,817	9.06%	124,528	6,677	7.17%
Loans and leases, net of unearned income [(1)]	5,350,332	322,030	8.04%	5,426,759	371,502	9.15%
Total interest earning assets	5,607,095	$ 332,495	7.92%	5,771,787	$ 387,355	8.97%
Noninterest-earning assets:						
Cash and due from banks	82,220			72,880		
Premises and equipment, net	37,292			39,092		
Other assets	233,834			296,246		
Less allowance for loan and lease losses	(161,494)			(87,384)		
Total assets	$ 5,798,947			$ 6,092,621		
Liabilities and Shareholders Equity						
Interest-bearing liabilities:						
Money market checking	$ 306,611	$ 2,950	1.29%	$ 283,746	$ 4,890	2.30%
Money market savings	971,791	18,358	2.52%	1,160,416	38,954	4.49%
Regular savings	115,260	1,400	1.62%	124,113	2,064	2.22%
Time deposits	1,749,171	57,112	4.36%	1,497,477	57,270	5.11%
Other borrowings	562,206	18,825	4.47%	621,873	24,329	5.23%
Collateralized debt	1,098,642	47,123	5.73%	1,223,586	51,491	5.63%
Other long-term debt	233,869	12,199	6.97%	233,930	13,005	7.43%
Total interest-bearing liabilities	$ 5,037,550	$ 157,967	4.19%	$ 5,145,141	$ 192,003	4.99%
Noninterest-bearing liabilities:						
Demand deposits	298,742			334,639		

Other liabilities	80,724			98,946		
Shareholders equity	381,931			513,895		
Total liabilities and shareholders equity	$ 5,798,947			$ 6,092,621		
Net interest income		$ 174,528			$ 195,352	
Net interest income to average interest earning assets			4.16%			4.53%
Less: Net interest income from discontinued operations					(1,765)	
Net interest income from continuing operations		$ 174,528			$ 197,117	

(1) For purposes of these computations, nonaccrual loans are included in daily average loan amounts outstanding.

Provision for Loan and Lease Losses from Continuing Operations

The consolidated provision for loan and lease losses for the three months ended September 30, 2008 was $58 million, compared to $28 million for the same period in 2007. Year to date, the provision for 2008 was $260 million, compared to $71 million for the same period in 2007. The increase in third quarter and year-to-date provision reflects continued deterioration in the portfolio due to softening in the economy. The year-to-date provision was also impacted by the sale of our small-ticket leasing portfolio in July at a discount to our carrying value. The discount to the carrying value at the time of transfer from loans held for investment to loans held for sale of $53 million was accounted for as a charge-off resulting in a related increase in the loan loss provision. More information on this subject is contained in the section on Credit Risk.

Noninterest Income from Continuing Operations

Noninterest income during the three months ended September 30, 2008 totaled $4 million, compared to $7 million for the same period of 2007. This decrease in 2008 relates primarily to a fair value adjustment to our residual interest asset at our home equity line of business. Noninterest income of $6 million was recorded for the nine months ended September 30, 2008 compared to $16 million for the same period in 2007. The 2008 year-to-date decrease is a result of several factors. First, a $22 million other-than-temporary impairment (OTTI) charge was recorded during 2008 related to four mortgage-backed securities for which fair value has declined in 2008. Loan servicing fees declined $7 million in 2008 compared to 2007. Offsetting this were decreased derivative losses of $9 million and an improvement in our gain on sale of loans of $9 million during the year.

Noninterest Expense from Continuing Operations

Noninterest expenses for the three and nine months ended September 30, 2008 totaled $70 million and $166 million, respectively, compared to $46 million and $146 million for the same periods in 2007. The increase in noninterest expense in 2008 is primarily attributable to costs associated with our sale of small-ticket leases and other restructuring initiatives. Additional commentary on the increases in noninterest expense is included in the line of business discussions later in this document.

Income Tax Provision

Income tax benefit for the three months and nine months ended September 30, 2008 totaled $22 million and $63 million compared to tax benefit of $2 million and benefit of $3 million during the same periods in 2007. Our effective tax rate was 29% and 26%, respectively, during the three and nine months ended September 30, 2008. The lower effective rate in 2008 relates to an additional $8 million valuation allowance recorded at September 30, 2008 increasing our year to date allowance to $33 million. We believe the valuation allowance is sufficient to reduce the deferred tax asset to an amount that is likely to be realized.

Consolidated Balance Sheet Analysis

Total assets at September 30, 2008 were $5.3 billion, down 15% from December 31, 2007. Average assets for the nine months ending September 30, 2008 were $5.8 billion, down 5% from the average assets for the year ended December 31, 2007. The majority of the decrease in assets relates to the sale of our small-ticket leasing assets in July of 2008.

Investment Securities

The following table shows the composition of our investment securities at the dates indicated:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Held-to-Maturity:		
U.S. Treasury and government obligations	$ 14,443	$ 13,970
Obligations of states and political subdivisions	3,321	3,436
Mortgage-backed securities	926	717
Total held-to-maturity	18,690	18,123
Available-for-Sale:		
Mortgage-backed securities	22,912	45,499
Other	13,228	14,185
Total available-for-sale	36,140	59,684
Federal Home Loan Bank and Federal Reserve Bank stock	62,588	62,588
Total investment securities	$ 117,418	$ 140,395

At September 30, 2008, we held four private-label mortgage-backed securities that were estimated to have a fair market value of $5 million. These securities were issued by entities other than government-sponsored enterprises and backed by first mortgage liens. The decline in value of these securities is deemed to be other-than-temporary. Accordingly, we recognized other-than-temporary impairment expense of $2 million and $22 million during the three and nine month periods ended September 30, 2008, respectively.

Loans and Leases Held For Sale

Loans and leases held for sale totaled $44 million at September 30, 2008, an increase from a balance of $6 million at December 31, 2007. The majority of this balance relates to loans and leases at our commercial finance segment. During the quarter $0.3 billion of small ticket leases that were classified as held-for-sale as of June 30, 2008 were sold.

Loans and Leases

Our commercial loans and leases are originated throughout the United States. In July, 2008, we sold nearly all of our portfolio that had been originated in Canada. To a more limited extent, we also extend credit to consumers through mortgages, installment loans and revolving credit through our bank branches. The decrease in loans and leases relates primarily to the sale of our small ticket leases and run off in our home equity portfolios.

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Loans by major category for the periods presented were as follows:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Commercial, financial and agricultural	$1,972,507	$2,099,451
Real estate-construction & land development	512,971	586,037
Real estate-mortgage	1,517,294	1,691,450
Consumer	26,608	32,232
Commercial financing		
Franchise financing	904,666	925,741
Domestic leasing	12,506	306,301
Foreign leasing		462,036
Unearned income		
Franchise financing	(293,677)	(306,681)
Domestic leasing	(1,369)	(42,723)
Foreign leasing		(57,614)
Total	$4,651,506	$5,696,230

Allowance for Loans and Lease Losses

Changes in the allowance for loan and lease losses are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Balance at beginning of period	$215,714	$ 92,140	$ 144,855	$ 74,468
Provision for loan and lease losses	58,033	28,493	260,384	71,155
Charge-offs	(42,865)	(18,782)	(176,595)	(48,619)
Recoveries	1,318	2,555	4,325	7,881
Reduction due to reclassification and sales of loans	(449)	(210)	(1,087)	(1,006)
Foreign currency adjustment	51	247	(80)	564
Balance at end of period	$231,802	$104,443	$ 231,802	$104,443

The provision for loans and lease losses and charge-offs saw dramatic increases in 2008 related to the deterioration in our portfolio due to the softening in the overall economy. In addition, both the provision and charge-off accounts were impacted by the sale of the small-ticket leasing portfolio at a discount. See Credit Risk section for further discussion.

Deposits

Year to date total deposits averaged $3.4 billion, relatively unchanged from deposits for the year 2007. Year to date demand deposits in 2008 averaged $0.3 billion, a 9% decrease from the average balance for the year 2007.

Irwin Union Bank and Trust utilizes institutional broker-sourced deposits as funding to supplement deposits solicited through branches and other wholesale funding sources. At September 30, 2008, institutional broker-sourced deposits totaled $0.9 billion, a $0.2 billion increase from December 31, 2007.

Other Borrowings

Year to date other borrowings during 2008 averaged $562 million compared to an average of $599 million for the year 2007. Other borrowings totaled $527 million at September 30, 2008, compared to $802 million at December 31, 2007. The decrease in other borrowings relates primarily to a $228 million decline in federal funds purchased at September 30, 2008 as compared to December 31, 2007.

Federal Home Loan Bank borrowings averaged $507 million for the nine months ended September 30, 2008, with an average rate of 4.45% and the balance at September 30, 2008 was $527 million at an interest rate of 4.36%. The maximum outstanding during any month end during 2008 was $604 million. Federal Home Loan Bank borrowings averaged $478 million for the year ended December 31, 2007, with an average rate of 5.10%. The balance at December 31, 2007, which was also the maximum outstanding during any month end during 2007, was $574 million at an interest rate of 4.97%.

Collateralized and Other Long-Term Debt

Collateralized debt totaled $0.9 billion at September 30, 2008, compared to $1.2 billion at December 31, 2007. The bulk of these borrowings resulted from securitization of portfolio loans at the home equity lending line of business that resulted in loans remaining as assets and debt being recorded on the balance sheet. The securitization debt represents match-term funding for these loans. In July, we sold our small-ticket leases and paid-down collateralized borrowings of $0.3 billion which were associated with these leases. In addition, we added $91 million of collateralized debt at our home equity line of business in connection with a securitization transaction that closed during the third quarter.

Other long-term debt totaled $234 million at September 30, 2008 and December 31, 2007. We have obligations represented by subordinated debentures totaling $204 million with our wholly-owned trusts that were created for the purpose of issuing trust preferred securities. The subordinated debentures were the sole assets of the trusts at September 30, 2008. In accordance with FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities (revised December 2004), we do not consolidate the wholly-owned trusts that issued the trust preferred securities. As a result, trust preferred securities are not included on our balance sheet. Instead, the subordinated debentures held by the trusts are included on the balance sheet as other long-term debt.

Capital

Shareholders equity averaged $382 million during the nine months ending September 30, 2008, down 24% compared to the average for the year 2007. Shareholders equity balance of $274 million at September 30, 2008 represented $8.82 per common share, compared to $15.22 per common share at December 31, 2007.

At September 30, 2008, our total risk-adjusted capital ratio was 10.8%. At December 31, 2007, our total risk-adjusted capital ratio was 12.6%. This decrease from year end is largely the result of our net loss as well as $37 million of our deferred tax asset that is disallowed for regulatory capital purposes. Our equity to assets ratio at September 30, 2008 was 5.2% compared to 7.4% at December 31, 2007. Our average equity to assets ratio at September 30, 2008 was 5.4% compared to 8.3% at December 31, 2007. Our Tier 1 capital totaled $335 million as of September 30, 2008, or 6.8% of risk-weighted assets. Each of these capital ratios is below our long-term targets. As discussed under Strategy we are engaging in a restructuring to enhance our capital including a proposed rights offering and a possible exchange of certain trust preferred stock for common shares.

The following table sets forth our capital and regulatory capital ratios at the dates indicated:

	Actual		Minimum Regulatory Well-Capitalized
	Amount	Ratio	Standard
As of September 30, 2008	(Dollars in thousands)		
Total Capital (to Risk-Weighted Assets):			
Irwin Financial Corporation	$533,442	10.8%	10.0%
Irwin Union Bank and Trust	494,697	11.3	10.0
Irwin Union Bank, F.S.B.	68,897	12.4	10.0
Tier I Capital (to Risk-Weighted Assets):			
Irwin Financial Corporation	334,674	6.8	6.0
Irwin Union Bank and Trust	407,608	9.3	6.0
Irwin Union Bank, F.S.B.	61,950	11.2	6.0
Tier I Capital (to Average Assets):			
Irwin Financial Corporation	334,674	6.3	5.0
Irwin Union Bank and Trust	407,608	8.6	5.0
Core Capital (to Adjusted Tangible Assets)			
Irwin Union Bank, F.S.B.	61,950	9.7	5.0
As of December 31, 2007			
Total Capital (to Risk-Weighted Assets):			
Irwin Financial Corporation	$779,360	12.8%	10.0%
Irwin Union Bank and Trust	692,370	12.7	10.0
Irwin Union Bank, F.S.B.	65,808	10.7	10.0
Tier I Capital (to Risk-Weighted Assets):			
Irwin Financial Corporation	632,647	10.4	6.0
Irwin Union Bank and Trust	592,981	10.9	6.0
Irwin Union Bank, F.S.B.	60,339	9.8	6.0
Tier I Capital (to Average Assets):			
Irwin Financial Corporation	632,647	10.4	5.0
Irwin Union Bank and Trust	592,981	10.7	5.0
Core Capital (to Adjusted Tangible Assets)			
Irwin Union Bank, F.S.B.	60,339	9.3	5.0

The written agreement we have entered into with the Office of Thrift Supervision requires Irwin Union Bank, F.S.B. to maintain a Tier 1 capital ratio of at least 9% and a Total Risk-Based Capital Ratio of at least 11%. Under applicable regulations, because the written agreement requires Irwin Union Bank, F.S.B. to maintain a specific capital level, it is classified as adequately capitalized, which is less than well-capitalized, even though Irwin Union Bank, F.S.B. holds a higher level of capital than the regulatory definition of well-capitalized and currently satisfies the capital requirements set forth in the written agreement. See further discussion in the Supervision and Regulation section of this document.

Cash Flow Analysis

Our cash and cash equivalents increased $172 million during the nine months ending September 30, 2008, compared to a decrease of $60 million during the same period in 2007. Cash flows from operating activities provided $435 million in cash and cash equivalents in the nine months ended September 30, 2008 compared to the same period in 2007 when our operations provided $295 million in cash and cash equivalents.

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Earning by Line of Business

Irwin Financial Corporation is composed of three principal lines of business:

- Commercial Banking
- Commercial Finance
- Home Equity Lending

The following table summarizes our net income (loss) by line of business for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Net (loss) income:				
Commercial Banking	$ (15,105)	$ 4,709	$ (22,812)	$ 14,214
Commercial Finance	(2,179)	3,808	(21,151)	9,335
Home Equity Lending	(23,559)	(8,138)	(84,070)	(20,238)
Other (including consolidating entries)	(13,587)	(1,182)	(55,294)	(4,736)
Net loss from continuing operations	(54,430)	(803)	(183,327)	(1,425)
Discontinued operations		(17,227)		(27,123)
Net loss	$ (54,430)	$ (18,030)	$ (183,327)	$ (28,548)

Results of operations from each of these segments are discussed below.

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Commercial Banking

The following table shows selected financial information for our commercial banking line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Selected Income Statement Data:				
Interest income	$ 43,313	$ 58,729	$138,520	$175,984
Interest expense	(17,535)	(28,740)	(57,998)	(86,517)
Net interest income	25,778	29,989	80,522	89,467
Provision for loan and lease losses	(29,400)	(3,100)	(60,461)	(8,541)
Noninterest income	4,414	4,099	13,482	12,234
Total net revenue	792	30,988	33,543	93,160
Operating expense	(26,625)	(23,582)	(73,201)	(70,797)
(Loss) income before taxes	(25,833)	7,406	(39,658)	22,363
Income taxes	10,728	(2,697)	16,846	(8,149)
Net (loss) income	$(15,105)	$ 4,709	$ (22,812)	$ 14,214
Performance Ratios:				
Return on Average Equity	-27.22%	8.05%	-13.22%	8.14%

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Selected Balance Sheet Data at End of Period:		
Assets	$3,048,492	$3,093,764
Loans and leases	2,747,063	2,950,356
Allowance for loan and lease losses	(70,513)	(35,148)
Deposits	2,110,027	2,528,721
Shareholder s equity	205,139	235,009
Daily Averages:		
Assets	$3,021,139	$3,143,219
Loans and leases	2,891,215	2,902,994
Allowance for loan and lease losses	(44,587)	(26,984)
Deposits	2,493,590	2,753,615
Shareholder s equity	230,477	234,068
Shareholder s equity to assets	7.63%	7.45%

Overview

Our commercial banking line of business focuses on providing credit, cash management and personal banking products primarily to small businesses and business owners through our branches in markets in the Midwest and West. We offer commercial banking services through our subsidiaries, Irwin Union Bank and Trust Company, an Indiana state-chartered commercial bank, and Irwin Union Bank, F.S.B., a federal savings bank.

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Portfolio Characteristics

The following tables show the geographic composition of our commercial banking loans and our core deposits:

Markets	September 30, 2008 Loans Outstanding	Percent of Total	Weighted Average Yield	December 31, 2007 Loans Outstanding	Percent of Total	Weighted Average Yield
			(Dollars in thousands)			
Indianapolis	$ 471,504	17.2%	6.2%	$ 539,008	18.3%	7.1%
Central and Western Michigan	409,223	14.9%	5.7	465,924	15.8	7.3
Southern Indiana	443,555	16.1%	6.4	463,597	15.7	6.7
Phoenix	454,410	16.5%	5.6	484,985	16.4	7.0
Las Vegas	186,451	6.8%	5.4	188,126	6.4	8.2
Sacramento	117,781	4.3%	5.7	120,149	4.1	7.7
Other	664,139	24.2%	5.7	688,567	23.3	7.4
Total	$2,747,063	100.0%	5.8%	$2,950,356	100.0%	7.3%

	Core Deposits	Percent of Total	Weighted Average Yield	Core Deposits	Percent of Total	Weighted Average Yield
Indianapolis	$ 235,490	13.8%	1.8%	$ 225,075	10.0%	3.5%
Central and Western Michigan	175,901	10.3%	1.9	195,818	8.7	2.6
Southern Indiana	679,468	39.9%	1.9	740,686	33.1	2.9
Phoenix	119,632	7.0%	2.3	175,617	7.8	3.4
Las Vegas	76,599	4.5%	1.6	429,693	19.2	3.7
Sacramento	42,084	2.5%	1.3	45,228	2.0	2.5
Other	373,968	22.0%	2.1	428,599	19.2	6.3
Total	$1,703,142	100.0%	1.9%	$2,240,716	100.0%	3.1%

Net Income

Commercial banking net loss totaled $15 million during the third quarter of 2008 compared to net income of $5 million for the same period in 2007. Year-to-date net loss totaled $23 million in 2008 compared to net income of $14 million in 2007. The loss in the current period was primarily the result of a $26 million increase in loan loss provision compared to the same period in 2007.

Net Interest Income

The following table shows information about net interest income for our commercial banking line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Net interest income	$ 25,778	$ 29,989	$ 80,522	$ 89,467
Average interest earning assets	2,865,884	2,997,178	2,931,411	3,035,892

Net interest margin	3.58%	3.97%	3.67%	3.94%

Net interest income was $26 million for the third quarter of 2008, a decrease of 14% over third quarter of 2007. Net interest income year to date in 2008 also decreased 10% over the same period in 2007. The 2008 decline in net interest income resulted primarily from lower interest rates and from a decrease in our commercial banking interest earning assets. Net interest margin for the three months ended September 30, 2008 was 3.58%, compared to 3.97% for the same period in 2007. Year-to-date net interest margin for 2008 was 3.67%, compared to 3.94% for 2007. The decline in 2008 margin reflects competitive conditions, unfavorable repricing of loans and deposits and increases in nonaccrual loans.

Provision for Loan and Lease Losses

Provision for loan and lease losses increased to $60 million year to date during 2008, compared to a provision of $9 million during the same period in 2007. The increased provision relates to weakening credit quality, particularly commercial real estate credits in connection with the residential housing markets, principally in our Western markets. See further discussion in the Credit Quality section later in the document. Realized losses (net charge-offs) in the commercial banking portfolio totaled $9 million during the third quarter of 2008, a $5 million sequential quarter decrease. These losses compared to quarterly provision for loan losses of $29 million during the third quarter. This difference in provision and charge-off resulted in increasing the ratio of allowance for loan and lease losses to loans and leases to 2.57 percent, as compared to 1.19 percent as of December 31, 2007.

Noninterest Income

The following table shows the components of noninterest income for our commercial banking line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Trust fees	$ 512	$ 566	$ 1,642	$ 1,680
Service charges on deposit accounts	1,137	1,019	3,410	2,814
Insurance commissions, fees and premiums	371	405	1,345	1,426
Gain from sales of loans	445	457	1,509	1,474
Loan servicing fees	337	351	1,008	1,100
Amortization of servicing assets	(230)	(268)	(838)	(836)
Brokerage fees	439	468	1,147	1,219
Other	1,403	1,101	4,259	3,357
Total noninterest income	$ 4,414	$ 4,099	$ 13,482	$ 12,234

Noninterest income during the three and nine months ended September 30, 2008 increased 8% and 10%, respectively, over the same periods in 2007. This increase was due partly to higher service charges on deposit accounts, gain on sale of other real estate owned and interchange fee revenue.

Operating Expenses

The following table shows the components of operating expenses for our commercial banking line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Salaries and employee benefits	$ 12,899	$ 13,048	$ 38,782	$ 40,318
Other expenses	13,726	10,534	34,419	30,479
Total operating expenses	$ 26,625	$ 23,582	$ 73,201	$ 70,797
Efficiency ratio	88.2%	69.2%	77.9%	69.6%
Number of employees at period end[1]			534	593

(1) On a full time equivalent basis.

Operating expenses for the three and nine months ended September 30, 2008 totaled $27 million and $73 million, respectively, an increase of 13% and 3% over the same periods in 2007. The increase was driven primarily by

increased FDIC insurance premiums related to our regulatory ratings.

Balance Sheet

Total assets at September 30, 2008 were $3.0 billion, down $45 million from December 31, 2007. Earning assets for the nine months ended September 30, 2008 averaged $2.9 billion, down $0.1 billion from the same period in 2007. Average core deposits for the third

quarter of 2008 totaled $1.9 billion, a decrease of 10% over average core deposits in the second quarter 2008. During the third quarter, the liquidity generated through our sale of our small ticket leasing assets was utilized to exit a large deposit relationship we had in one of our western branches.

Credit Quality

Several measures of our credit quality deteriorated during 2008, reflecting increased weakness in the regional economies in which we participate. Delinquencies of 30 days or more rose from 0.85% at December 31, 2007 to 1.13% at September 30, 2008. The allowance for loan losses to total loans increased to 2.57% at September 30, 2008, compared to 1.19% at December 31, 2007. Total nonperforming loans increased $102 million during 2008 versus year end 2007 and totaled $129 million or 4.69 percent of loans in this segment. Other real estate owned increased $5.4 million compared to the year-end 2007 balance. Approximately 45% of our nonperforming loans are related to construction and land development and have been affected by the deteriorating residential housing markets, particularly in the Western markets. We have undertaken an extensive review of each of these loans, including a collateral and guarantor review, and used these reviews to enhance our specific reserves. While nonperforming loans have increased 417% since yearend, our specific reserves on these loans have risen 459%. Specific reserves related to the nonperforming construction and land development loans totaled 26% of the principal balance of such loans. In total, charge-offs for the quarter were $9 million, up from $2 million a year earlier. The following table shows information about our nonperforming assets in this line of business and our allowance for loan losses.

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Nonperforming loans	$ 128,918	$ 27,001
Other real estate owned	12,294	6,895
Total nonperforming assets	$ 141,212	$ 33,896
Nonperforming assets to total assets	4.62%	1.09%
Allowance for loan losses	$ 70,513	$ 35,148
Allowance for loan losses to total loans	2.57%	1.19%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Provision for loan losses	$ 29,400	$ 3,100	$ 60,461	$ 8,541
Net charge-offs	9,105	2,118	25,097	8,197
Net charge-offs to average loans	1.28%	0.29%	1.16%	0.38%

The following table shows the ratio of nonperforming loans to total loans by market for the periods indicated:

Markets	September 30, 2008	December 31, 2007
Indianapolis	3.06%	1.02%
Central and Western Michigan	2.57%	2.52%
Southern Indiana	0.49%	0.53%
Phoenix	11.80%	1.20%
Las Vegas	11.57%	0.01%

Sacramento	3.84%	4.15%
Other	3.32%	0.49%
Total	4.69%	1.15%

For all of our significant nonperforming loans we undertake a specific review for risk of loss. In Phoenix, Las Vegas, and Sacramento, we have seen significant deterioration in our loan portfolios in 2008. This deterioration necessitated significant additions to our loan loss provision in the third quarter of 2008. In the case of Sacramento, Las Vegas and Phoenix where this deterioration has been most pronounced, the aggregation of our specific reserves totals 20% of nonperforming loans in these markets.

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Commercial Finance

The following table shows selected financial information for our commercial finance line of business, including the small ticket leasing receivables sold in the third quarter, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Selected Income Statement Data:				
Net interest income	$ 9,218	$ 13,258	$ 36,622	$ 38,189
Provision for loan and lease losses	(1,694)	(2,860)	(54,551)	(9,392)
Noninterest income	3,134	3,480	12,248	9,218
Total net revenue	10,658	13,878	(5,681)	38,015
Operating expense	(14,302)	(7,599)	(29,826)	(22,667)
(Loss) income before taxes	(3,644)	6,279	(35,507)	15,348
Income taxes	1,465	(2,471)	14,356	(6,013)
Net (loss) income	$ (2,179)	$ 3,808	$ (21,151)	$ 9,335
Selected Operating Data:				
Total funding of loans and leases	$ 95,077	$ 185,478	$ 384,080	$ 488,831

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Selected Balance Sheet Data at End of Period:		
Total assets	$687,926	$1,302,688
Loans and leases held for sale	40,495	
Loans and leases	622,127	1,287,060
Allowance for loan and lease losses	(6,445)	(17,792)
Shareholder s equity	94,142	119,574

Overview

For most of this year, the Commerical Finance segment consisted of three channels: Canadian small ticket, US small ticket, and franchise finance. In late July 2008 we sold the majority of our small ticket portfolios in the commercial finance segment. We have ceased originating small ticket leases. The Canadian lease portfolio was sold for a modest premium. The domestic lease portfolio was sold at a discount of approximately 20% of the net receivable balance. In the third quarter, we recorded platform exit costs, including investment banker fees, related to our leasing operations of $14 million and we anticipate another $1 million in the fourth quarter. We have also decided to exit the professional practice financing channel and have transferred $34 million of related loans to held for sale.

We continue to offer franchise finance products and services through our banking subsidiary, Irwin Union Bank and Trust, an Indiana state-chartered commercial bank, and its direct and indirect subsidiaries. We utilize a direct sales force to distribute our franchise finance products. In the franchise channel, the financing of equipment and real estate is structured as loans. The loan amounts average approximately $500 thousand.

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Portfolio Characteristics

The following table shows the geographic composition of our franchise finance loans and loans held for sale:

	September 30, 2008	December 31, 2007
California	14.2%	12.9%
Texas	11.3	12.6
New York	8.7	8.7
New Jersey	8.7	7.0
All other states	57.1	58.8
Total	100.0%	100.0%
Total Portfolio	$ 645,471	$ 619,060

The following table provides certain information about our franchise finance loans and loans held for sale at the dates shown.

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Franchise loans	$645,471	$619,060
Weighted average coupon	9.57%	9.38
Delinquency ratio	1.31	0.04

Net Income

During the three months ended September 30, 2008, the commercial finance line of business recorded a net loss of $2 million, compared to income of $4 million for the same period in the prior year. Year to date, the commercial finance line of business had a net loss of $21 million compared to net income of $9 million for the same period in the prior year. The 2008 decrease in earnings relates primarily to the loss on the sale of the small-ticket leases in July and related platform exit costs.

Net Interest Income

The following table shows information about net interest income for our commercial finance line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Net interest income	$ 9,218	$ 13,258	$ 36,622	$ 38,189
Average interest earning assets	850,857	1,184,323	1,129,223	1,113,288
Net interest margin	4.31%	4.44%	4.33%	4.59%

Net interest income was $9 million for the quarter ending September 30, 2008, a decrease of 30% over the same quarter in 2007. Year to date net interest income was $37 million, compared to $38 million in 2007. The decrease in net interest income resulted primarily from a decrease in our portfolio due to sales in the third quarter of our small-ticket leases. The total loan and lease portfolio was $0.7 billion at September 30, 2008, compared to $1.3 billion at December 31, 2007. This line of business originated $95 million and $384 million in loans and leases during the third quarter and year-to-date 2008, respectively, compared to $185 million and $489 million during the same periods of 2007.

Net interest margin for this segment during the third quarter of 2008 was 4.31% compared to 4.44% in 2007 for the same period. Year-to-date margins declined to 4.33% in 2008 compared to 4.59% during the same period in 2007. The decrease in 2008 is due primarily to a higher concentration of lower yield franchise product.

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Provision for Loan and Lease Losses

The provision for loan and lease losses year to date increased to $55 million during the first nine months of 2008 compared to $9 million for the same period in 2007. The increased provisioning levels relate primarily to charge offs in the domestic small-ticket leasing operation in connection with the sale of this portfolio at a 20 percent discount.

Noninterest Income

The following table shows the components of noninterest income for our commercial finance line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Gain from sales of loans	$ 1,518	$ 1,768	$ 8,031	$ 4,805
Derivative losses, net	(903)	(51)	(1,662)	(325)
Other	2,519	1,763	5,879	4,738
Total noninterest income	$ 3,134	$ 3,480	$ 12,248	$ 9,218

Noninterest income during the three months ended September 30, 2008 decreased 10% over the same period in 2007. Year to date, noninterest income was $12 million, compared to $9 million in the same period of 2007. Included in noninterest income were gains that totaled $1.5 million and $8.0 million for the three and nine months ended September 30, 2008, from sales of $48 million and $120 million in loans, respectively, compared to gains of $1.8 million and $4.8 million during the same periods in 2007.

Operating Expenses

The following table shows the components of operating expenses for our commercial finance line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Salaries and employee benefits	$ 4,685	$ 4,629	$ 14,252	$ 14,112
Other	9,617	2,970	15,574	8,555
Total operating expenses	$ 14,302	$ 7,599	$ 29,826	$ 22,667
Efficiency ratio	115.79%	45.40%	61.03%	47.81%
Number of employees at period end (1)			112	192

(1) On a full time equivalent basis.

Operating expenses during the third quarter and year to date during 2008 totaled $14 million and $30 million, respectively, an increase of 88% and an increase of 32% over the same periods in 2007. The increased expense relates primarily to transaction costs associated with the sale of our small-ticket leasing operation.

Credit Quality

The commercial finance line of business had nonperforming loans and leases at September 30, 2008 of $9.3 million, compared to $8.9 million as of December 31, 2007. Net charge-offs recorded by this line of business totaled $4.1 million for the third quarter of 2008, compared to $1.7 million for the third quarter of 2007. Net charge-offs year to date were $64.7 million, up from the $5.7 million net charge-offs recorded in the same period of 2007. Our allowance for loan and lease losses at September 30, 2008 totaled $6.4 million, representing 1.04% of loans and leases, compared to a balance at December 31, 2007 of $17.8 million, or 1.38% of loans and leases.

The elevated year-to-date provision and charge-off amounts and the decline in allowance for loan and lease losses relates to the reclassification of $322 million of small ticket leases to loans and leases held for sale during the second quarter just prior to the sale of

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these assets in July. This reclassification resulted in additional provisions of $41 million and charge-offs of $53 million as we marked these leases to the lower of cost or market value.

The following table shows information about our nonperforming and the allowance for loan losses for the on-going franchise finance channel:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Franchise Loans:		
Nonperforming loans	$7,141	$ 3,630
Allowance for loan losses	5,891	5,961
Allowance for loan losses to total loans	0.96%	0.96%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)		(Dollars in thousands)	
Provision for loan losses	$ 920	$ 781	$ 4,276	$ 1,574
Net charge-offs	878	252	3,259	623
Net charge-offs to average loans	1.10%	0.16%	0.51%	0.14%

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Home Equity Lending

In late July 2008, we announced a series of pending transactions designed to allow us to substantially reduce our presence in the home equity segment. We completed a collateralized debt financing in July whereby we securitized approximately $268 million of whole loans. The securitization was treated as a financing and, as such, the loans remained on our balance sheet. We recorded a liability for approximately $91 million representing debt issued by the securitization trust (which we have consolidated). These loans and our remaining home equity loans will run-off over time.

In July, we also announced the sale of certain residual assets underlying $1 billion of home equity loans and $0.9 billion of debt held on our balance sheet. This sale was contingent on the purchaser receiving certain necessary third-party consents to have the servicing of these loans transferred to them. The purchaser was unable to receive those consents prior to the contractually required time-frame and, as such, the sale of the residual assets was rescinded. We continue to explore alternatives to remove these loans and this debt from our balance sheet.

As part of our restructuring to exit the national residential mortgage business, we have ceased origination activities in this segment.

The following table shows selected financial information for the home equity lending line of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)		(Dollars in thousands)	
Selected Income Statement Data:				
Net interest income	$ 14,687	$ 23,405	$ 59,678	$ 72,442
Provision for loan and lease losses	(26,940)	(22,533)	(145,371)	(53,222)
Noninterest income	539	3,208	1,034	1,173
Total net revenues	(11,714)	4,080	(84,659)	20,393
Operating expenses	(27,543)	(17,638)	(55,464)	(54,087)
Loss before taxes	(39,257)	(13,558)	(140,123)	(33,694)
Income taxes	15,698	5,420	56,053	13,456
Net loss	$ (23,559)	$ (8,138)	$ (84,070)	$ (20,238)
Selected Operating Data:				
Net home equity charge-offs to average managed portfolio	8.26%	3.10%	7.49%	2.77%
Gain on sale of loans to loans sold	1.81%	0.94%	2.25%	0.53%

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Selected Balance Sheet Data:		
Total assets	$1,216,206	$1,481,306
Home equity loans and lines of credit[(1)]	1,282,068	1,458,564
Allowance for loan losses	(154,629)	(91,700)
Home equity loans held for sale	954	5,865
Residual interests		3,120
Mortgage servicing assets	16,882	20,071
Short-term borrowings	112,027	291,293

Collateralized debt	946,269	970,733
Shareholders equity	153,082	156,894
Selected Operating Data:		
Total managed portfolio balance	1,403,966	1,605,032
Delinquency ratio (2)	7.4%	5.8%
Weighted average coupon rate:		
Lines of credit	8.58%	10.62%
Loans	11.08	11.07

(1) Includes $1.2 billion and $1.1 billion of loans at September 30, 2008 and December 31, 2007, respectively, pledged as collateral as part of securitized financings.

(2) Nonaccrual loans are included in the delinquency ratio.

Overview

Our home equity lending line of business historically originated, sold and serviced first mortgages and high loan-to-value home equity loans nationwide. We ceased loan originations in 2008. Going forward, this segment s only activities are servicing home equity loans and mortgages for ourselves and others.

Portfolio Characteristics

The following table provides a breakdown of our home equity managed portfolio by product type, outstanding principal balance and weighted average coupon as of September 30, 2008:

	September 30, 2008			**September 30, 2007**		
	Amount	**% of Total**	**Weighted Average Coupon**	**Amount**	**% of Total**	**Weighted Average Coupon**
	(Dollars in thousands)			**(Dollars in thousands)**		
Home Mortgage Portfolio						
Loans £ 100% CLTV	$ 360,757	25.70%	8.94%	$ 445,641	26.95%	9.06%
Lines of credit £ 100% CLTV	212,290	15.12	7.24	259,976	15.72	9.92
First mortgages £ 100% CLTV	39,208	2.79	7.61	47,813	2.89	7.67
FNMA First mortgages £ 100% CLTV	741	0.05	6.55			
Total £ 100% CLTV	612,996	43.66	8.26	753,430	45.56	9.27
Loans > 100% CLTV	686,640	48.91	12.49	781,372	47.25	12.49
Lines of credit > 100% CLTV	77,363	5.51	12.00	89,660	5.42	14.57
First mortgages > 100% CLTV	22,727	1.62	8.47	23,771	1.44	8.48
Total > 100% CLTV	786,730	56.04	12.32	894,803	54.11	12.59
Other	4,240	0.30	13.52	5,373	0.33	14.16
Total portfolio	$ 1,403,966	100.00%	10.55%	$ 1,653,606	100.00%	11.08%

Net Income

Our home equity lending business recorded a net loss of $24 million during the three months ended September 30, 2008, compared to a net loss for the same period in 2007 of $8 million. A year-to-date loss of $84 million was recorded through September 30, 2008, compared to net loss of $20 million during the same period a year earlier.

Net Revenue

Net revenue for the three and nine months ended September 30, 2008 totaled $12 million loss and $85 million loss, respectively, compared to net revenues for the same periods in 2007 of $4 million and $20 million. The decrease in revenues is primarily a result of higher loan loss provision due to increased deterioration in the credit quality of this portfolio.

Our home equity lending business had $1.3 billion of net loans and loans held for sale at September 30, 2008, down $0.2 billion from December 31, 2007. Included in the loan balance at September 30, 2008 were $1.2 billion of loans that collateralize our secured financings.

The following table sets forth certain information regarding net revenue for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Net interest income	$ 14,687	$ 23,405	$ 59,678	$ 72,442
Provision for loan losses	(26,940)	(22,533)	(145,371)	(53,222)
Gain on sales of whole loans	109	223	793	893
Gain on sales intercompany transactions		985		2,087
Valuation adjustment on loans held for sale	66	(86)	137	(8,158)
Gain (loss) on sales of loans	175	1,122	930	(5,178)
Loan servicing fees	2,818	4,065	7,521	14,343
Amortization of servicing assets	(10)	(24)	(47)	(92)
Impairment of servicing assets	(1,507)	(2,395)	(3,142)	(8,995)
Derivative losses	(71)	(39)	(72)	(321)
Other	(866)	479	(4,156)	1,416
Total net revenue	$ (11,714)	$ 4,080	$ (84,659)	$ 20,393

Net interest income decreased to $15 million for the three months ended September 30, 2008, compared to $23 million for the same period in 2007. Year-to-date net interest income for 2008 was $60 million, compared to $72 million for 2007. The decrease in net interest income is a result of the declining size of the portfolio during 2008 relative to the same period in 2007.

Provision for loan losses increased to $27 million in the third quarter of 2008, compared to $23 million during the same period in 2007. Year-to-date provision for loan losses was $145 million in 2008 compared to $53 million in 2007. The increase in provision reflects declining credit quality of home equity loans. During the quarter, the actual and expected performance of portfolio loans continued to deteriorate, leading to the need to provide additional reserves for probable loan losses.

Servicing asset amortization and impairment expense totaled $3 million for the nine months ending September 30, 2008, compared to $9 million of expense for the nine months ended September 30, 2007.

Operating Expenses

The following table shows operating expenses for our home equity lending line of business for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)		(Dollars in thousands)	
Salaries and employee benefits	$ 9,304	$ 11,172	$ 25,244	$ 33,725
Other	18,239	6,466	30,220	20,362
Total operating expenses	$ 27,543	$ 17,638	$ 55,464	$ 54,087
Number of employees at period end [(1)]			266	464

(1) On a full time equivalent basis.

Operating expenses were $28 million and $55 million for the three and nine months ended September 30, 2008, compared to $18 million and $54 million for the same periods in 2007. Operating expenses increased in 2008 primarily due to restructuring and other exit costs.

Home Equity Servicing

Our home equity lending business continues to service certain of the loans it has securitized and sold. The following table sets forth certain information for the home equity portfolio.

	September 30, 2008	December 31, 2007	September 30, 2007
	(Dollars in thousands)		
Managed Portfolio			
Total Loans	$1,403,966	$1,605,032	$1,653,606
30 days past due	7.43%	5.78%	4.72%
90 days past due	3.04	2.53	2.06
Net Chargeoff Rate	8.26	3.24	3.10
Unsold Loans			
Total Loans[(1)]	$1,276,741	$1,458,095	$1,498,239
30 days past due	7.91%	6.18%	5.05%
90 days past due	3.22	2.76	2.25
Net Chargeoff Rate	8.62	3.58	3.41
Loan Loss Reserve	$ 154,629	$ 91,700	$ 59,981
Owned Residual			
Total Loans	$ 127,225	$ 146,937	$ 155,368
30 days past due	2.57%	1.83%	1.45%
90 days past due	1.26	0.29	0.33
Net Chargeoff Rate	4.61	0.17	0.15
Credit Risk Sold, Potential Incentive Servicing Fee Retained Portfolio			
Total Loans	$ 390,168	$ 461,237	$ 491,551
30 days past due	6.77%	7.13%	5.87%
90 days past due	2.20	2.69	2.21

(1) Excludes deferred fees and costs.

Parent and Other

Results at the parent company and other businesses totaled a net loss of $14 million and $55 million for the three and nine months ended September 30, 2008, compared to a loss of $1 million and $5 million during the same periods in 2007. In most prior periods, results at the parent and other consolidating entities have been driven by operating and interest expenses net of management fees and allocations charged to operating segments as well as net interest income earned on intracompany loans.

The results for the third quarter 2008 and year to date 2008 include a $2 million and $22 million, respectively, pre-tax other-than-temporary impairment on a portion of our securities portfolio. This impairment was on $26 million of private-label mortgage-backed securities that are not guaranteed by the federal government or a governmental agency. Also included in parent company operating results is a valuation allowance of $8 million and $33 million recorded in the third quarter and year-to-date periods, respectively. We believe the valuation allowance is sufficient to reduce the deferred tax asset to an amount that is likely to be realized. We further reduced our regulatory capital by another $37 million related to deferred tax assets that we believe will not be utilized within the one-year forward projection period as stipulated under banking regulation.

Included in the parent company operating results are allocations to our subsidiaries of interest expense related to our interest-bearing capital obligations. During the nine month period ended September 30, 2008, we allocated $13 million of these expenses to our subsidiaries, unchanged from the same period of 2007.

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Each subsidiary pays taxes to us at the statutory rate. Subsidiaries also pay fees to us to cover direct and indirect services. In addition, certain services are provided from one subsidiary to another. Intercompany income and expenses are calculated on an arm s-length, external market basis and are eliminated in consolidation.

Risk Management

We are engaged in businesses that involve the assumption of risks including:

Credit risk

Liquidity risk

Market risk (including interest rate and foreign exchange risk)

Operational risk

Compliance risk

The Board of Directors has primary responsibility for establishing the Corporation s risk appetite and overseeing its risk management system. Primary responsibility for management of risks within the risk appetite set by the Board of Directors rests with the managers of our business units, who are responsible for establishing and maintaining internal control systems and procedures that are appropriate for their operations. To provide an independent assessment of line management s risk mitigation procedures, we have established a centralized enterprise-wide risk management function. To maintain independence, this function is staffed with managers with substantial expertise and experience in various aspects of risk management who are not part of line management. They report to the Chief Risk Officer (CRO), who in turn reports to the Risk Management Committee of our Board of Directors. Our Internal Audit function independently audits both risk management activities in the lines of business and the work of the centralized enterprise-wide risk management function.

Each line of business that assumes risk uses a formal process to manage this risk. In all cases, the objectives are to ensure that risk is contained within the risk appetite established by our Board of Directors and expressed through policy guidelines and limits. In addition, we attempt to take risks only when we are adequately compensated for the level of risk assumed.

Our Chief Executive Officer, Chief Financial Officer, Chief Administrative Officer, and Chief Risk Officer meet on a regularly-scheduled basis (or more frequently as appropriate) as an Enterprise-wide Risk Management Committee (ERMC), reporting to the Board of Directors Risk Management Committee. Our Chief Risk Officer, who reports directly to the Risk Management Committee, chairs the ERMC.

Each of our principal risks is managed directly at the line of business level, with oversight and, when appropriate, standardization provided by the ERMC and its subcommittees. The ERMC and its subcommittees oversee all aspects of our credit, market, operational and compliance risks. The ERMC provides senior-level review and enhancement of line manager risk processes and oversight of our risk reporting, surveillance and model parameter changes.

Credit Risk

The assumption of credit risk is a key source of our earnings. However, the credit risk in our loan portfolios has the most potential for a significant effect on our consolidated financial performance. Each of our segments has a Chief Credit Officer with expertise specific to the product line and manages credit risk through various combinations of the use of lending policies, credit analysis and approval procedures, periodic loan reviews, servicing activities, and/or personal contact with borrowers, in addition to portfolio level analysis of risk concentrations. Commercial loans over a certain size, depending on the loan type and structure, are reviewed by a loan committee prior to approval. We perform independent loan review across the Corporation through a centralized function that reports directly to the head of Credit Risk Management who in turn reports to the Chief Risk Officer.

The allowance for loan and lease losses is an estimate based on our judgment applying the principles of SFAS 5, Accounting for Contingencies, SFAS 114, Accounting by Creditors for Impairment of a Loan, and SFAS 118, Accounting by Creditors for

Impairment of a Loan Income Recognition and Disclosures. The allowance is maintained at a level we believe is adequate to absorb probable losses inherent in the loan and lease portfolio. We perform an assessment of the adequacy of the allowance at the segment level no less frequently than on a quarterly basis and through review by a subcommittee of the ERMC.

Within the allowance, there are specific and expected loss components. The specific loss component is based on a regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. From this analysis we determine the loans that we believe to be impaired in accordance with SFAS 114. Management has defined impaired as nonaccrual loans. For loans determined to be impaired, we measure the level of impairment by comparing the loan s carrying value using one of the following fair value measurement techniques: present value of expected future cash flows, observable market price, or fair value of the associated collateral. An allowance is established when the collateral value of the loan implies a value that is lower than carrying value. In addition to establishing allowance levels for specifically identified higher risk graded or high delinquency loans, management determines an allowance for all other loans in the portfolio for which historical or projected experience indicates that certain losses will occur. These loans are segregated by major product type, and in some instances, by aging, with an estimated loss ratio or migration pattern applied against each product type and aging category. For portfolios that are too new to have adequate historical experience on which to base a loss estimate, we use estimates derived from industry experience and management s judgment. The loss ratio or migration patterns are generally based upon historic loss experience or historic delinquency of risk rating migration behaviors, respectively, for each loan type adjusted for certain environmental factors management believes to be relevant.

Net charge-offs for the three months ended September 30, 2008 in our held for investment portfolio were $42 million, or 3% of average loans, compared to $16 million, or 1% of average loans during the same period in 2007. Year-to-date net charge-offs were $172 million, compared to $41 million during the same period in 2007. Below is a table that shows net charge-offs annualized to average loans by line of business:

	Annualized for the Three Months Ended	
	September 30, 2008	**December 31, 2007**
	(Dollars in thousands)	
Commercial Bank	1.28%	0.27%
Commercial Finance	2.23	0.90
Home Equity Lending	8.62	5.05
Total	3.39%	1.66%

The increase in charge-offs and allowance is due largely to the commercial finance increase in charge-offs and provision relating to the reclassification of $0.3 billion of small-ticket leases to held for sale classification. This reclassification resulted in a $41 million provision and $53 million in additional charge-offs. In addition, further deterioration in the residential real estate markets, including the impact on construction and land development loans, led to higher charge offs in commercial banking. At September 30, 2008, the allowance for loan and lease losses was 5.0% of outstanding loans and leases, compared to 2.5% at year-end 2007.

Total nonperforming loans and leases at September 30, 2008, were $179 million compared to $76 million at December 31, 2007. Nonperforming loans and leases as a percent of total loans and leases at September 30, 2008 were 3.9%, an increase from 1.3% at December 31, 2007. Other real estate we owned totaled $20 million at September 30, 2008, a $4 million increase from December 31, 2007. Total nonperforming assets at September 30, 2008 were $200 million, or 3.8% of total assets compared to nonperforming assets at December 31, 2007 of $93 million, or 1.5% of total assets.

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The following table shows information about our nonperforming assets at the dates shown:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Accruing loans past due 90 days or more:		
Commercial, financial and agricultural loans	$ 40	$ 177
Real estate mortgages		151
Consumer loans	582	41
Commercial financing:		
Franchise financing		
Domestic leasing		311
Canadian leasing		177
	622	857
Nonaccrual loans and leases:		
Commercial, financial and agricultural loans	126,869	25,797
Real estate mortgages	41,120	40,681
Consumer loans	1,427	587
Commercial financing:		
Franchise financing	7,142	3,630
Domestic leasing	2,221	2,595
Canadian leasing		2,163
	178,779	75,453
Total nonperforming loans and leases	179,401	76,310
Other real estate owned & other	20,944	16,964
Total nonperforming assets	$ 200,345	$ 93,274
Nonperforming loans and leases to total loans and leases	3.9%	1.3%
Nonperforming assets to total assets	3.8%	1.5%

For the periods presented, the balances of any restructured loans are reflected in the table above either in the amounts shown for accruing loans past due 90 days or more or in the amounts shown for nonaccrual loans and leases.

The nonperforming assets at September 30, 2008 and December 31, 2007 were held at our lines of business as follows:

	September 30, 2008	December 31, 2007
	(In millions)	
Commercial banking	$141	$ 34
Commercial finance	9	10
Home equity lending	47	46
Parent and Other	3	3

Generally, the accrual of income is discontinued when the full collection of principal or interest is in doubt, or when the payment of principal or interest has become contractually 90 days past due unless the obligation is both well secured and in the process of collection. Loans are charged-off upon evidence of expected loss or 180 days past due, whichever comes first.

Liquidity Risk

Liquidity is the availability of funds to meet the daily requirements of our business. For financial institutions, demand for funds results principally from extensions of credit, withdrawal of deposits, and maturity of other funding liabilities. Liquidity is provided through deposits and short-term and long-term borrowings, by asset maturities or sales, and through equity capital. Our corporate-level asset-liability management committee (ALMC) oversees the liquidity position of the Corporation, based on board-approved liquidity and contingency funding plans and policies.

The objectives of liquidity management are to ensure that funds will be available to meet current and future demands and that funds are available at a reasonable cost. Since loan assets are less marketable than securities and, therefore, need less volatile liability funding, the ratio of total loans to total deposits is a traditional measure of liquidity for banks and bank holding companies. At September 30, 2008, the ratio of loans (which excludes loans held for sale) to total deposits was 147%. We permanently fund a significant portion of our loans with secured financings, which effectively eliminates liquidity risk on these assets until we elect to exercise a clean up call. The ratio of loans to total deposits after reducing loans for those funded with secured financings was 108%.

Our deposits consist of two primary types: non-maturity transaction account deposits and certificates of deposit (CDs). Core deposits exclude jumbo CDs, brokered CDs, and public funds CDs. Core deposits totaled $1.8 billion at September 30, 2008, a $0.5 billion decline from December 31, 2007. The sale of the small ticket portfolios in July added approximately $325 million in net liquidity to the Bank. Assets sales and financing in August added approximately another $90 million. During the third quarter, we used liquidity generated through this sale of our small ticket leasing assets to offset a large deposit relationship we had in one of our western branches. The remaining deposits with this customer no longer represent a material deposit concentration risk.

Non-maturity transaction account deposits are generated by our commercial banking line of business and include deposits placed into checking, savings, money market and other types of deposit accounts by our customers. These types of deposits have no contractual maturity date and may be withdrawn at any time. While these balances fluctuate daily, a large percentage typically remains for much longer. At September 30, 2008, these deposit types totaled $1.1 billion, a $0.5 billion decline from December 31, 2007. We monitor overall deposit balances daily with particular attention given to larger accounts that have the potential for larger daily fluctuations and which are at greater risk to be withdrawn should there be an industry-wide or bank-specific event that might cause uninsured depositors to be concerned about the safety of their deposits. On a monthly basis we model the expected impact on liquidity from moderate and severe liquidity stress scenarios as one of our tools to ensure that our liquidity is sufficient.

CDs differ from non-contractual maturity accounts in that they do have contractual maturity dates. We issue CDs both directly to customers and through brokers. As of September 30, 2008, CDs issued directly to customers totaled $0.5 billion, unchanged from December 31, 2007. Brokered CDs are typically considered to have higher liquidity (renewal) risk than CDs issued directly to customers, since brokered CDs are often done in large blocks and since a direct relationship does not exist with the depositor. In recognition of this, we manage the size and maturity structure of brokered CDs closely. For example, the maturities of brokered CDs are laddered to mitigate liquidity risk. CDs issued through brokers totaled $0.9 billion at September 30, 2008, and had an average remaining life of 15 months, as compared to $0.6 billion outstanding with a 17 month average remaining life at December 31, 2007. Use of these brokered CDs has increased during 2008 thus far, but is expected to decline due to initiatives to close the gap between core deposits and loans.

Other borrowings consist of borrowings from several sources. Our largest borrowing source is the Federal Home Loan Bank of Indianapolis (FHLBI). We utilize their collateralized borrowing programs to help fund qualifying first mortgage, home equity and commercial real estate loans. As of September 30, 2008, FHLBI borrowings outstanding totaled $0.5 billion, $0.1 billion less than December 31, 2007. We had sufficient collateral pledged to FHLBI at September 30, 2008 to borrow an additional $0.2 billion, if needed.

At September 30, 2008, the amount of short-term borrowings outstanding on our major credit lines and the total amount of the borrowing lines were as follows:

Lines of credit with correspondent banks, including fed funds lines: none outstanding out of $45 million available but not committed.

Lines of credit with non-correspondent banks: none outstanding.

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Federal Reserve Bank Discount Window: none outstanding on $271 million of loans and securities pledged

Market Risk (including Interest Rate and Foreign Exchange Risk)

Because all of our assets are not perfectly match-funded with like-term liabilities, our earnings are affected by interest rate changes. Interest rate risk is measured by the sensitivity of both net interest income and fair market value of net interest sensitive assets to changes in interest rates.

Our corporate-level asset-liability management committee (ALMC) oversees the interest rate risk profile of all of our lines of business. It is supported by ALMCs at each of our lines of business and monitors the repricing structure of assets, liabilities and off-balance sheet items. It uses a financial simulation model to measure the potential change in market value of all interest-sensitive assets and liabilities and also the potential change in earnings resulting from changes in interest rates. We incorporate many factors into the financial model, including prepayment speeds, prepayment fee income, deposit rate forecasts for non-maturity transaction accounts, caps and floors that exist on some variable rate instruments, embedded optionality and a comprehensive mark-to-market valuation process. We reevaluate risk measures and assumptions regularly, enhance modeling tools as needed, and, on an approximately annual schedule, have the model validated by internal audit or an out-sourced provider under internal audit s direction.

Our lines of business assume interest rate risk in the form of repricing structure mismatches between their loans and leases and funding sources. We manage this risk by adjusting the duration of their interest sensitive liabilities and through the use of hedging via financial derivatives.

The following tables reflect our estimate of the present value of interest sensitive assets, liabilities, and off-balance sheet items at September 30, 2008. In addition to showing the estimated fair market value at current rates, they also provide estimates of the fair market values of interest sensitive items based upon a hypothetical instantaneous and permanent move both up and down 100 and 200 basis points in the entire yield curve.

The first table is an economic analysis showing the present value impact of changes in interest rates, assuming a comprehensive mark-to-market environment. The second table is an accounting analysis showing the same net present value impact, adjusted for expected GAAP treatment. Neither analysis takes into account the book values of the noninterest sensitive assets and liabilities (such as cash, accounts receivable, and fixed assets), the values of which are not directly determined by interest rates.

The analyses are based on discounted cash flows over the remaining estimated lives of the financial instruments. The interest rate sensitivities apply only to transactions booked as of September 30, 2008, although certain accounts are normalized whereby the three- or nine-month average balance is included rather than the quarter-end balance in order to avoid having the analysis skewed by a significant increase or decrease to an account balance at quarter end.

The tables that follow should be used with caution.

The net asset value sensitivities do not necessarily represent the changes in the lines of business net asset value that would actually occur under the given interest rate scenarios, as sensitivities do not reflect changes in value of the companies as a going concern, or consider potential rebalancing or other management actions that might be taken in the future under asset/liability management as interest rates change.

The tables below show modeled changes in interest rates for individual asset classes. Asset classes in our portfolio have interest rate sensitivity tied to different underlying indices or instruments. While the rate sensitivity of individual asset classes presented below is our best estimate of changes in value due to interest rate changes, the total potential change figures are subject to basis risk between value changes of individual assets and liabilities which have not been included in the model.

Few of the asset classes shown react to interest rate changes in a linear fashion. That is, the point estimates we have made at Current and +/-2% and +/-1% are appropriate estimates at those amounts of rate change, but it may not be accurate to interpolate linearly between those points. This is most evident in products that contain optionality in payment timing or pricing such as mortgage servicing or nonmaturity transaction deposits.

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Finally, the tables show theoretical outcomes for dramatic changes in interest rates which do not consider potential rebalancing or repositioning of hedges and balance sheet mix. Normal fluctuations in non-interest sensitive assets and liabilities can cause fluctuations in interest-sensitive assets and liabilities that can cause the market value of equity to fluctuate from period to period.

Economic Value Change Method

	Present Value at September 30, 2008 Change in Interest Rates of:				
	-2%	**-1%**	**Current**	**+1%**	**+2%**
			(In Thousands)		
Interest Sensitive Assets					
Loans and other assets	$ 5,061,063	$ 4,979,206	$ 4,897,593	$ 4,817,767	$ 4,739,881
Loans held for sale	45,955	44,760	43,643	42,596	41,615
Mortgage servicing rights	14,630	17,361	20,003	22,600	24,433
Interest sensitive financial derivatives	(9,584)	(6,401)	(4,390)	(533)	2,198
Total interest sensitive assets	5,112,064	5,034,926	4,956,849	4,882,430	4,808,127
Interest Sensitive Liabilities					
Deposits	(3,082,901)	(3,045,265)	(3,007,990)	(2,971,571)	(2,935,974)
Short-term borrowings [(1)]	(466,378)	(452,842)	(439,851)	(427,374)	(415,383)
Long-term debt	(1,345,114)	(1,325,084)	(1,304,238)	(1,279,409)	(1,249,633)
Total interest sensitive liabilities	(4,894,393)	(4,823,191)	(4,752,079)	(4,678,354)	(4,600,990)
Net market value as of Sept 30, 2008	$ 217,671	$ 211,735	$ 204,770	$ 204,076	$ 207,137
Change from current	$ 12,901	$ 6,965	$	$ (694)	$ 2,367
Net market value as of June 30, 2008	$ 337,794	$ 313,339	$ 292,450	$ 280,548	$ 268,221
Change from current	$ 45,344	$ 20,889	$	$ (11,902)	$ (24,229)

(1) Includes certain debt which is categorized as collateralized borrowings in other sections of this document

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GAAP-Based Value Change Method

	Present Value at Sept 30, 2008 Change in Interest Rates of:				
	-2%	-1%	Current	+1%	+2%
			(In Thousands)		
Interest Sensitive Assets					
Loans and other assets	$ 6,847	$ 6,601	$ 6,362	$ 6,134	$ 5,918
Loans held for sale	$ 45,955	$ 44,760	$ 43,643	$ 42,596	$ 41,615
Mortgage servicing rights	14,630	17,361	20,003	22,600	24,433
Interest sensitive financial derivatives	(9,584)	(6,401)	(4,390)	(533)	2,198
Total interest sensitive assets	57,848	62,321	65,618	70,797	74,164
Interest Sensitive Liabilities					
Deposits [(1)]					
Short-term borrowings [(1)]					
Long-term debt [(1)]					
Total interest sensitive liabilities [(1)]					
Net market value as of Sept 30, 2008	$ 57,848	$ 62,321	$ 65,618	$ 70,797	$ 74,164
Potential change	$ (7,770)	$ (3,297)	$	$ 5,179	$ 8,546
Net market value as of June 30, 2008	$ 338,485	$ 344,552	$ 350,306	$ 353,010	$ 353,710
Potential change	$ (11,821)	$ (5,754)	$	$ 2,704	$ 3,404

Off-Balance Sheet Instruments

In the normal course of our business as a provider of financial services, we are party to certain financial instruments with off-balance sheet risk to meet the financial needs of our customers. These financial instruments include loan commitments and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the consolidated balance sheet. We follow the same credit policies in making commitments and contractual obligations as we do for our on-balance sheet instruments.

Our exposure to credit loss, in the form of nonperformance by the counterparty on commitments to extend credit and standby letters of credit, is represented by the contractual amount of those instruments. Collateral pledged for standby letters of credit and commitments varies but may include accounts receivable; inventory; property, plant, and equipment; and residential real estate. Total outstanding commitments to extend credit at September 30, 2008 were $0.7 billion and at December 31, 2007 were $1.1 billion. We had $16 million and $22 million in irrevocable standby letters of credit outstanding at September 30, 2008 and December 31, 2007, respectively.

Derivative Financial Instruments

Financial derivatives are used as part of the overall asset/liability risk management process. We use certain derivative instruments that qualify and certain derivative instruments that do not qualify for hedge accounting treatment under SFAS 133. The derivatives that do not qualify for hedge treatment are classified as other assets and other liabilities and marked to market on the income statement. While we do not seek hedge accounting treatment for the assets and liabilities that these instruments are hedging, the economic purpose of these instruments is to manage the risk inherent in existing exposures to either interest rate risk or foreign currency risk.

We held interest rate swaps to hedge floating rate deposits at September 30, 2008 of $50 million that no longer qualify for SFAS 133 hedge accounting treatment. Under the terms of these swap agreements, we pay a fixed rate of

interest and receive a floating rate of interest based on the Federal Funds rate. We recorded a loss of $1.1 million on this swap during the year.

We have an interest rate swap in which we pay a fixed rate of interest and receive a floating rate. The purpose of this swap is to manage interest rate risk exposure created by Capital Trust XI which has variable rate interest payments. This swap had a notional amount of $15 million at September 30, 2008. The amount of loss on this swap during the nine month period ended September 30, 2008

was $0.5 million as a net result of losing SFAS133 hedge accounting treatment when we suspended our trust preferred dividend payments starting in the first quarter of 2008.

In our home equity business, we utilize interest rate caps and swaps to mitigate the interest rate exposure created by the 2005-1 2006-1, 2006-2, 2006-3 and 2007-1 securitizations in which floating rate notes are funding fixed rate home equity loans. We have $53 million in amortizing interest rate caps and $6 million of interest rate swaps relating to these hedging activities. The income impact of these derivatives was not material in either of the nine month periods ending September 30, 2008 and 2007, respectively

As a result of our exiting the Canadian small ticket leasing business, we closed out all of our existing Canadian interest rate swaps and foreign currency derivatives in the third quarter of 2008. For the nine months ending September 30, 2008 and 2007, the income statement impacts of these transactions were a gain of $0.2 million and loss of $0.3 million, respectively, for interest rate swaps and a gain of $1.9 million and loss of $9.3 million, respectively, for foreign currency contracts.

Operational and Compliance Risk.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Irwin Financial, like other financial services organizations, is exposed to a variety of operational risks. These risks include regulatory, reputational and legal risks, as well as the potential for processing or modeling errors, internal or external fraud, failure of computer systems, unauthorized access to information, and external events that are beyond the control of the Corporation, such as natural disasters.

Compliance risk is the risk of loss resulting from failure to comply with laws and regulations. While Irwin Financial is exposed to a variety of compliance risks, the two most significant arise from our consumer lending activities and our status as a public company.

Our Board of Directors has ultimate accountability for the level of operational and compliance risk we assume. The Board guides management by approving our business strategy and significant policies. Our management and Board have also established (and continue to improve) a control environment that encourages a high degree of awareness of the need to alert senior management and the Board of potential control issues on a timely basis.

The Board has directed that primary responsibility for the management of operational and compliance risk rests with the managers of our business units, who are responsible for establishing and maintaining internal control procedures that are appropriate for their operations. Our enterprise-wide risk management function provides an independent assessment of line management s operational risk mitigation procedures. This function, which includes enterprise-wide oversight of compliance, reports to the Chief Risk Officer (CRO), who in turn reports to the Risk Management Committee of our Board of Directors. We have developed risk and control summaries for our key business processes. Line of business and corporate-level managers use these summaries to assist in identifying operational and other risks for the purpose of monitoring and strengthening internal and disclosure controls. Our Chief Executive Officer, Chief Financial Officer and Board of Directors, as well as the management committees of our subsidiaries, use the risk summaries to assist in overseeing and assessing the adequacy of our internal and disclosure controls, including the adequacy of our controls over financial reporting as required by section 404 of the Sarbanes Oxley Act and Federal Deposit Insurance Corporation Improvement Act.

Supervision and Regulation

We and our subsidiaries are each extensively regulated under state and federal law. Please refer to pages 6 through 13 of our Annual Report on Form 10-K for the year ended December 31, 2007 for a more complete summary of certain statutes and regulations that apply to us and to our subsidiaries. The summaries included in the Form 10-K are not complete, and you should refer to the statutes and regulations for more information. Also, those statutes and regulations may change in the future, and we cannot predict what effect these changes, if made, will have on our operations.

We are regulated at both the holding company and subsidiary level and are subject to both state and federal examination on matters relating to safety and soundness, including risk management, asset quality, liquidity and capital adequacy, as well as a broad range of other regulatory concerns including: insider and intercompany transactions, the adequacy of the reserve for loan losses, regulatory reporting, adequacy of systems of internal controls and limitations on permissible activities.

In addition, we are required to maintain a variety of processes and programs to address other regulatory requirements, including: community reinvestment provisions; protection of customer information; identification of suspicious activities, including possible money laundering; proper identification of customers when performing transactions; maintenance of information and site security; and

other bank compliance provisions. In a number of instances board and/or management oversight is required as well as employee training on specific regulations.

Regulatory agencies have a broad range of sanctions and enforcement powers if an institution fails to meet regulatory requirements, including civil money penalties, formal agreements, and cease and desist orders.

On October 10, 2008, we agreed to written agreements with our principal banking regulators. The agreement for the holding company and Irwin Union Bank and Trust Company (IUBT), which holds approximately $4.5 billion or 85% of our total assets as of September 30, 2008, includes the following elements:

Agreement Elements	Our Status
Submit a plan to strengthen board oversight of the management and operations of the holding company and the bank.	We have submitted this plan to the FRBC and DFI and are already acting on it.
Submit a report from an independent consultant regarding the assessment of the bank s management and, as appropriate, take steps to address the independent consultant s findings.	The Board has engaged this consultant; the consultant expects to complete their assessment in November.
Submit a written liquidity and funds management plan and a contingency plan that identifies available sources of liquidity and includes adverse scenario planning.	We have submitted this plan to the FRBC and DFI and are already acting on it.
Submit a capital plan that will ensure our holding company and our bank maintain sufficient capital to comply with regulatory capital guidelines and address adversely affected assets, concentration of credit, adequacy of allowance for loan and leases losses and planned growth and anticipated levels of retained earnings.	We have submitted this plan to the FRBC and DFI and are already acting on it. The previously announced shareholder rights offering, standby commitments, and possible Trust Preferred Stock (TruPS) exchange offers are part of this plan.
Review and revise as necessary our allowance for loan and lease losses methodology to assure compliance with relevant supervisory guidance, submit a written program for the maintenance of an adequate allowance for loan and lease losses, and within 30 days from the receipt of any regulatory report of examination, charge off all assets classified loss.	We have reviewed our allowance methodology and submitted the required documentation. We will submit to the regulators an allowance program within the required timeframe and continue our practice of charging off loans on a timely basis as required by regulation.
Submit a three-year strategic plan and a 2009 plan and budget for our holding company and the bank.	We will submit the 2009 plan and 3-year strategic plan in the fourth quarter.
Do not declare or pay any dividend, make any distributions of interest or principal on subordinated debentures or trust preferred securities, or incur, increase, or guarantee any debt or repurchase stock without prior regulatory approval.	We suspended dividends earlier in the year and have no plans for further debt issuance, nor need to issue debt to support our on-going business plan.

The agreement for Irwin Union Bank, FSB (FSB), which holds approximately $0.6 billion or 12% of our total assets as of September 30, 2008, includes the following elements.

Agreement Elements	Our Status
Maintain capital in the FSB of at least 9.0% Tier 1 (core) and 11.0% and Total Capital; do not take on additional brokered deposits without prior regulatory approval.	We currently do exceed and plan to continue to exceed these capital levels. At September 30, 2008, Tier 1 and Total Capital at the FSB were 11.2% and 12.4%, respectively. We have less than $100 million in brokered CDs in the FSB and a forward

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Agreement Elements	Our Status
	business plan that is not reliant on additional issuance.
Submit a revised business plan that defines strategies for preserving and enhancing the savings bank s capital, limits high-risk lending activities, identifies strategies designed to improve and sustain the savings bank s earnings, and identifies strategies to stress-test and adjust earnings forecasts based on continuing operating results, economic conditions and the credit quality of our loan portfolio.	We have submitted this plan to the OTS and are already acting on it.
Do not increase total FSB assets more than the net interest credited on deposit liabilities during the prior quarter; do not make any more construction loans or land loans without prior regulatory approval.	We stopped making commercial construction and land loans in the third quarter through the FSB. We have submitted a business plan to the OTS which manages our growth within the specified limits.
Restructure the management of the FSB so that it operates on an independent basis from Irwin Union Bank and Trust. Hire a full time President and Chief Executive Officer, Chief Credit Officer and Chief Financial Officer for the FSB and add at least two independent directors who are not management officials of our holding company or our bank.	We have submitted a plan to the OTS which addresses each of these points. The new executives and board members have been identified from senior managers and independent board members of the holding company. Each will take their appointments, pending OTS approval.
Do not have employment agreements or contracts with the FSB which contain severance provisions, golden parachute payments, and certain other prohibited payments without the prior approval of the OTS. In addition, do not enter into, renew or revise any third-party contracts for services outside the normal course of business without prior approval.	We have and will continue to adhere to these provisions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The quantitative and qualitative disclosures about market risk are reported in the Market Risk (including Interest Rate and Foreign Exchange Risk) section of Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations found on pages 53 through 55.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures As of the end of the period covered by this report, the Corporation carried out an evaluation as required by Rule 13a-15(b) or 15d-15(b) of the Securities Exchange Act of 1934 (Exchange Act), under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the Corporation s disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) or 15d-15(e). Based on this evaluation, the CEO and the CFO have concluded that the Corporation s disclosure controls and procedures were effective as of September 30, 2008.

Internal Control Over Financial Reporting In connection with the evaluation performed by management with the participation of the CEO and the CFO as required by Exchange Act Rule 13a-15(d) or 15d-15(d), there were no changes in the Corporation s internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

PART II. Other Information.

Item 1. Legal Proceedings.

Since the time we filed our Report on Form 10-Q for the period ended June 30, 2008, we experienced developments as noted in the litigation described below. For a full description of the litigation, see Note 14, Commitments and Contingencies, in the Notes to the Financial Statements, Part I, Item 1 of this Report.

Litigation in Connection with Loans Purchased from Community Bank of Northern Virginia (actions against our subsidiary, Irwin Union Bank and Trust Company, in connection with loans it purchased from Community Bank of Northern Virginia (Community), filed against or naming Irwin Union Bank as a defendant in 2004 and later consolidated for pre-trial procedures in the United States District Court for the Western District of Pennsylvania, alleging that Community Bank of Northern Virginia engaged in a lending arrangement involving the use of its charter by certain third parties who charged high fees that were not representative of the services rendered and not properly disclosed as to the amount or recipient of the fees; two of the lawsuits seek class action status (*Hobson v. Irwin Union Bank and Trust Company* and *Kossler v. Community Bank of Northern Virginia)*, and two lawsuits are individual actions *(Chatfield v. Irwin Union Bank and Trust Company, et al.* and *Ransom v. Irwin Union Bank and Trust Company, et al.)).*

Developments: On or about October 24, 2008, the parties agreed in principle to settle the two individual actions (*Chatfield* and *Ransom*) for nonmaterial amounts.

We and our subsidiaries are from time to time engaged in various matters of litigation, including the matters described above, other assertions of improper or fraudulent loan practices or lending violations, and other matters, and we have a number of unresolved claims pending. In addition, as part of the ordinary course of business, we and our subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral, and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, we believe that damages, if any, and other amounts relating to pending matters are not likely to be material to our consolidated financial position or results of operations, except as described above. Reserves are established for these various matters of litigation, when appropriate under SFAS 5, based in part upon the advice of legal counsel.

Item 1A. Risk Factors.

An investment in our securities involves a number of risks. We urge you to read all of the information contained in this Report on Form 10-Q. We revised certain risk factors previously disclosed in our Form 10-K for the year ended December 31, 2007 and our form 10-Q for the quarterly period ended June 30, 2008, and added certain new risk factors. The updated and additional risk factors are listed below.

Risks Related to the Common Shares

The price of our common shares may fluctuate significantly, and this may make it difficult for shareholders to resell common shares they own at times or at prices they find attractive.

The price of our common shares on the NYSE constantly changes. We expect that the market price of our common shares will continue to fluctuate.

Our stock price may fluctuate as a result of a variety of factors, some of which are beyond our control. These factors include:

- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by us or our competitors;

the operating and securities price performance of other companies that investors believe are comparable to us;

future sales of our equity or equity-related securities, including our previously announced rights offering currently in the registration process with the SEC;

our past and future dividend practice;

our creditworthiness;

interest rates;

the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally;

the market for similar securities; and

economic, financial, geopolitical, regulatory, congressional or judicial events that affect us or the financial markets.

Accordingly, our common shares may trade at a price lower than that at which they were purchased.

In addition, in recent years, and especially during the third quarter, the stock market in general experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may persist, and could adversely affect our stock price, notwithstanding our operating results.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common shares.

On November 3, 2008, our shareholders approved an increase in our authorized shares of common stock from 40 million to 200 million and the issuance of shares representing more than 20% of the voting control of the Corporation. We are not restricted from issuing additional common shares, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common shares, as well as any common shares that may be issued pursuant to our shareholder rights plan. The market price of our common shares could decline as a result of sales of our common shares made after our proposed rights offering or the perception that such sales could occur. The market price of our common shares could also decline if we issue additional common shares in connection with a potential exchange of a portion of our trust preferred shares for our common shares. At this time, we are unable to determine whether we will complete an exchange offer or the number of shares that we will issue in connection with any exchange offer.

You may not receive dividends on the common shares.

Holders of our common shares are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. On March 3, 2008, we announced that our board of directors voted to suspend payment of dividends on our common, preferred and trust preferred securities. In addition, as a result of the written agreement that we and Irwin Union Bank and Trust Company entered into on October 10, 2008, with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we are not permitted to (1) declare or pay any dividend, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities, without the prior written approval of these regulators. As a result we cannot declare a dividend on our common shares. Although we can seek to obtain a waiver of this prohibition, there is no certainty that the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions will grant such a waiver. Therefore, we may not be able to resume payments of dividends in the future.

The issuance of additional series of our preferred shares could adversely affect holders of our common shares which may negatively impact shareholders investment.

Our board of directors is authorized to issue additional classes or series of preferred shares without any action on the part of the shareholders. The board of directors also has the power without shareholder approval, to set the terms of any such classes or series of preferred shares that may be issued, including voting rights, dividend rights, and preferences over our common shares with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue additional preferred shares in the future that have a preference over our common shares

with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred shares with voting rights that dilute the voting power of our common shares, the rights of holders of our common shares or the market price of our common shares could be adversely affected.

We have regulatory restrictions on our ability to receive dividends from bank subsidiaries.

Our ability to pay dividends in the future depends on our ability to dividend from our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, to our holding company, for which prior approval from our regulators and additional action by our board of directors will be necessary. As a result of the written agreement that we and Irwin Union Bank and Trust Company entered into on October 10, 2008, with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, Irwin Union Bank

and Trust Company, is not permitted to (1) declare or pay any dividend, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities, without the prior written approval of these regulators. As a result, Irwin Union Bank and Trust Company cannot declare a dividend to us. Although Irwin Union Bank and Trust Company can seek to obtain a waiver of this prohibition, there is no certainty that the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions will grant such a waiver.

Our shareholder rights plan, provisions in our restated articles of incorporation, our by-laws, and Indiana law may delay or prevent an acquisition of us by a third party.

Our board of directors has implemented a shareholder rights plan which, combined with Indiana law, and absent further action by our board, contains provisions which have certain anti-takeover effects. While the purpose of these plans is to strengthen the negotiating position of the board in the event of a hostile takeover attempt, the overall effects of the plan may be to render more difficult or discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a larger block of our shares and the removal of incumbent directors and key management. If triggered, the rights will cause substantial dilution to a person or group that attempts to acquire us without approval of our board of directors, and under certain circumstances, the rights beneficially owned by the person or group may become void. The plan also may have the effect of limiting the participation of certain shareholders in transactions such as mergers or tender offers whether or not such transactions are favored by incumbent directors and key management. This could discourage proxy contests and may make it more difficult for shareholders to elect their own representatives as directors and take other corporate actions.

Our by-laws do not permit cumulative voting of shareholders in the election of directors, allowing the holders of a majority of our outstanding shares to control the election of all our directors. We have a staggered board, which means that only one-third of our board can be replaced by shareholders at any annual meeting. Directors may not be removed by shareholders. Our by-laws also provide that only our board of directors, and not our shareholders, may adopt, alter, amend and repeal our by-laws.

Indiana law provides several limitations that may discourage potential acquirers from purchasing our common shares. In particular, Indiana law prohibits business combinations with a person who acquires 10% or more of our common shares during the five-year period after the acquisition of 10% by that person or entity, unless the acquirer receives prior approval for the acquisition of the shares or business combination from our board of directors.

These and other provisions of Indiana law and our governing documents are intended to provide the board of directors with the negotiating leverage to achieve a more favorable outcome for our shareholders in the event of an offer for the company. However, there is no assurance that these same anti-takeover provisions could not have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our shareholders.

Risks Related to the Capital and Credit Markets

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. During the third quarter, the volatility and disruption reached unprecedented levels. In some cases, the markets produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers underlying financial strength. If the current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience further adverse effects, which may be material, on our ability to access capital and on our results of operations.

The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.

We are operating in a challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we have taken steps to decrease and limit our exposure to residential mortgage loans, home equity loans and lines of credit, and construction and land loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events. Our commercial banking line of business has a substantial portfolio of construction and land development loans. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the

uncertain economic environment, including job losses, could have an adverse effect on our borrowers or their customers, which could

adversely affect our financial condition and results of operations. The overall deterioration in economic conditions, the decline in our financial performance over the last two years, and the reduction in capital below our target levels have subjected us to increased regulatory scrutiny in the current environment. In addition, a possible national economic recession or further deterioration in local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: additional loan delinquencies, problem assets and foreclosures may increase; demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans.

The U.S. government s plan to restore the credit markets and stabilize the financial system may not be effective and/or it may not be available to us.

In response to the financial crises affecting the banking system and financial markets and the going concern threats to the ability of investment banks and other financial institutions, the U.S. Congress adopted the Emergency Economic Stabilization Act of 2008 (EESA). The primary feature of the EESA is the establishment of a troubled asset relief program (TARP), under which the U.S. Treasury Department was authorized to use up to $700 billion to purchase troubled assets, including mortgage-backed and other securities, from financial institutions and to make equity investments in banks (and possibly other financial institutions) for the purpose of stabilizing the financial markets. There can be no assurance as to what impact the program will have on the financial markets, including the extreme levels of volatility currently being experienced. The failure of the U.S. government to execute this program expeditiously could have a material adverse effect on the financial markets, which in turn could materially and adversely affect our business, financial condition and results of operations. Since the rules and guidelines of the TARP have not yet been fully clarified, we are unable at this time to assess whether to apply for the Capital Purchase program and/or whether any of our assets will qualify for the TARP or, if so, whether participation in either program would be beneficial to us.

Risks Related to Our Business

We may be adversely affected by a general deterioration in economic conditions.

The risks associated with our business become more acute in periods of a slowing economy or slow growth such as we experienced in the latter half of 2007 and which has continued into 2008. Economic declines may be accompanied by a decrease in demand for consumer and commercial credit and declining real estate and other asset values. The credit quality of commercial loans and leases where the activities of the borrower or vendor are related to housing and other real estate markets may decline in periods of stress in these industries. Delinquencies, foreclosures and losses generally increase during economic slowdowns or periods of slow growth. We expect that our servicing costs and credit losses will increase during periods of economic slowdown or slow growth such as the one we are presently experiencing.

Although we are in the process of exiting our home equity line of business, we continue to have exposure to losses so long as we hold a portfolio of loans. As such, a material decline in real estate values may reduce the ability of borrowers to use home equity to support borrowings and could increase the loan-to-value ratios of loans we have previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a default. A decline in real estate values could also materially lower runoff in our existing portfolio, effectively extending the average life of the loans in the portfolio (and therefore prolonging the period we are exposed to losses).

We may be adversely affected by interest rate changes.

We and our subsidiaries are subject to interest rate risk. Changes in interest rates will affect the value of loans, deposits and other interest-sensitive assets and liabilities on our balance sheet. Our income may be at risk because changes in interest rates also affect our net interest margin and the value of assets and derivatives that we sell from time to time or that are subject to either mark-to-market accounting or lower-of-cost-or-market accounting, such as loans held for sale, mortgage servicing rights and derivatives instruments.

Reductions in interest rates expose us to write-downs in the carrying value of the mortgage servicing and other servicing assets we hold on our balance sheet. Some of these assets are recorded at the lower of their cost or market value and a valuation allowance is recorded for any impairment. Decreasing interest rates often lead to increased

prepayments in the underlying loans, which requires that we write down the carrying value of these servicing assets. The change in value of these assets, if improperly hedged or mismanaged, could adversely affect our operating results in the period in which the impairment occurs.

Our lines of business mainly depend on earnings derived from net interest income. Net interest income is the difference between interest earned on loans and investments and the interest expense paid on other borrowings, including deposits at our banks and other funding liabilities we have. Our interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities, including the monetary policies of the Federal Reserve that cause our funding costs and yields on new or variable rate assets to change.

Although we take measures intended to manage the risks of operating in changing interest rate environments, we cannot eliminate interest rate sensitivity. Our goal is to ensure that interest rate sensitivity does not exceed prudent levels as determined by our board of directors in certain policies. Our risk management techniques include modeling interest rate scenarios, using financial hedging instruments, and match-funding certain loan assets. There are costs and risks associated with our risk management techniques, and these could be substantial.

Finally, to reduce the effect interest rates have on our businesses, we periodically invest in derivatives and other interest-sensitive instruments. While our intent in purchasing these instruments is to reduce our overall interest rate sensitivity, the performance of these instruments can, at times, cause volatility in our results either due to factors such as basis risk between the derivatives and the hedged item, timing of accounting recognition differences or other such factors.

Our operations may be adversely affected if we are unable to secure adequate funding; our use of wholesale funding sources exposes us to potential liquidity risk.

As a result of our restructuring, including our prior discontinuation of our mortgage banking line of business, we have had to seek alternative funding sources to contribute to our other lines of business, which sources in some cases are more expensive than those previously used.

Due to the sale of mortgage servicing rights and the loss of escrow deposits associated with those servicing rights, we have increased our reliance on wholesale funding, such as Federal Home Loan Bank borrowings, public funds, and brokered deposits in recent quarters. Because wholesale funding sources are affected by general capital market conditions, the availability of funding from wholesale lenders may be dependent on the confidence these investors have in commercial banking, franchise finance, and consumer finance businesses. While we have processes in place to monitor and mitigate these funding risks, the continued availability to us of these funding sources is uncertain, and we could be adversely impacted if our business segments become disfavored by wholesale lenders or large depositors. As a result of the written agreement with the Office of Thrift Supervision, Irwin Union Bank, F.S.B. (which holds approximately 12% of our total assets) is no longer permitted to accept brokered deposits unless it receives the prior approval of the Federal Deposit Insurance Corporation. Although we have applied for approval, there is no guarantee that it will be obtained. Moreover, even if such an approval is granted, the written agreement would still impose limitations on Irwin Union Bank, F.S.B. s freedom to set rates for brokered deposits. Our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, which is regulated by the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, does not have any regulatory restrictions on the issuance of brokered deposits.

Brokered deposits may be difficult for us to retain or replace at attractive rates as they mature. Our financial flexibility could be severely constrained if we are unable to renew our wholesale funding or if adequate financing is not available in the future at acceptable rates of interest. We may not have sufficient liquidity to continue to fund new loans or lease originations, and we may need to liquidate loans or other assets unexpectedly in order to repay obligations as they mature.

Historically, we financed or sold the majority of our second mortgage loan originations into the secondary market through the use of securitizations. This market closed to all participants in the middle of 2007. We expect it to remain closed indefinitely. We are no longer producing these loans.

If there were an acceleration of the recording of losses on our home equity portfolio from our current expectations, it could have a material adverse effect on our results of operations and capital position.

As announced in July 2008, we agreed to securitize approximately $275 million of home equity whole loans. The securitization is treated as a financing and, as such, the loans remain on our balance sheet. These loans, together with the $1 billion of residual home equity loans that currently remain on our balance sheet, as well as an additional remaining portfolio of $40 million of home equity whole loans, will be run-off over time. We believe our remaining

exposure, including other costs associated with a simultaneous exit of the

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segment, is less than $250 million (pre-tax). We will evaluate the performance of the loans on a regular basis. A number of factors, including, but not limited to, changes in regulatory or accounting interpretations, changes to our accounting policy, or contractual triggers, could cause us to accelerate the recognition of losses in a single period or a small number of successive periods. If that were to occur, it may have a material adverse affect on our results of operations and capital position for such periods.

We have credit risk inherent in our asset portfolios.

In our businesses, some borrowers may not repay loans that we make to them. As all financial institutions do, we maintain an allowance for loan and lease losses and other reserves to absorb the level of losses that we think is probable in our portfolios. However, our allowance for loan and lease losses may not be sufficient to cover the loan and lease losses that we actually may incur. While we maintain a reserve at a level management believes is adequate, our charge-offs could exceed these reserves. If we experience defaults by borrowers in any of our businesses to a greater extent than anticipated, our earnings could be negatively impacted.

We review the adequacy of these reserves and the underlying estimates on a periodic basis and we make adjustments to the reserves when required. However, there is still no assurance that our actual losses will not exceed our estimates and negatively impact our earnings. As part of our written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we and Irwin Union Bank and Trust Company agreed to review and revise as necessary our allowance for loan and lease losses methodology to assure compliance with relevant supervisory guidance and to develop an acceptable program for the maintenance of an adequate allowance for loan and lease losses going forward.

We hold in our portfolio a significant number of construction, land and home equity loans, which may pose more credit risk than other types of mortgage loans.

We have limited offering construction and land loans to an exception basis and have ceased offering loans and lines of credit in the home equity line of business. In light of current economic conditions, these types of loans are considered more risky than other types of mortgage loans. Due to the disruptions in credit and housing markets, many of the developers to whom we lend experienced a dramatic decline in sales of new homes from their projects. As a result of this unprecedented market disruption, a material amount of our land and construction portfolio has or may become non-performing as developers are unable to build and sell homes in volumes large enough for orderly repayment of loans. In addition, as home values decline, borrowers are increasingly defaulting on home equity lines of credit in the portfolio of these loans that we hold in run-off mode.

We believe we have established adequate reserves on our financial statements to cover the credit risk of these loan portfolios. However, there can be no assurance that losses will not exceed our reserves, and ultimately result in a material level of charge-offs, which could adversely impact our results of operations, liquidity and capital.

We may be required to repurchase mortgage loans that we previously sold because of the credit risk inherent in those loans.

We retain limited credit exposure from the sale of mortgage loans. When we sell mortgage loans, we make standard representations and warranties to the transferee regarding the loans. These representations and warranties do not assure against credit risk associated with the transferred loans, but if individual mortgage loans are found not to have fully complied with the associated representations and warranties we have made to a transferee, we may be required to repurchase the loans from the transferee or we may make payments in lieu of curing alleged breaches of these representations and warranties. Given the significant delinquencies in higher combined-loan-to-value or loan-to-value products, we expect that claims for repurchases pursuant to contractual representation and warranties will increase. While we have established reserves for what we consider as probable and reasonably estimable losses, there can be no assurance that losses will not ultimately exceed our reserves and materially impact our business, financial condition and future results of our operations.

Certain of our consumer mortgage products were not sold by many financial institutions.

In the past, we originated high loan-to-value home equity loans not offered by many financial institutions. For this reason, the performance of some of our financial assets may be less predictable than those of other lenders. We may not have adequate experience in a variety of economic environments to predict accurately the losses from our remaining portfolios of these products.

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We rely heavily on our management team and key personnel, and the unexpected loss of key managers and personnel, or significant changes in senior management, may affect our operations adversely.

Our overall financial performance depends heavily on the performance of key managers and personnel. Our past success was influenced strongly by our ability to attract and to retain senior management that is experienced in the niches within banking for which they are responsible. If we are not able to retain these key managers and personnel, we may not be able to run our operations as effectively.

Our ability to retain executive officers and the current management teams of each of our lines of business and our holding company continues to be important to implement our strategies successfully. In our written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we agreed to engage an independent consultant to assess the bank s management and to take steps by December 9, 2008, to address the independent consultant s findings, including hiring additional or replacement officers, if necessary. This process was commenced prior to the signing of the written agreement. It is possible that these findings could result in significant changes in our senior management team. If we are required to hire new members of management, the restrictions that the written agreements place on our ability to enter into and make payments pursuant to severance agreements may make it difficult to attract persons of high quality to fill these positions.

Our future success depends on our ability to compete effectively in a highly competitive financial services industry.

The financial services industry, including commercial banking and franchise finance, is highly competitive. We and our operating subsidiaries encounter strong competition for deposits, loans and other financial services in all of the market areas in our lines of business. Our principal competitors include other commercial banks, savings banks, savings and loan associations, mutual funds, money market funds, finance companies, trust companies, insurers, leasing companies, credit unions, mortgage companies, real estate investment trusts (REITs), private issuers of debt obligations, and suppliers of other investment alternatives, such as securities firms. Many of our non-bank competitors are not subject to the same degree of regulation as we and our subsidiaries are and have advantages over us in providing certain services. Many of our competitors are significantly larger than we are and have greater access to capital and other resources, lower operating costs, and lower cost of funds. Also, our ability to compete effectively in our lines of business is dependent on our ability to adapt successfully to technological changes within the banking and financial services industry.

Our business may be affected adversely by the highly regulated environment in which we operate.

We and our subsidiaries are subject to extensive federal and state regulation and supervision. Our failure to comply with these requirements can lead to, among other remedies, administrative enforcement actions, termination or suspension of our licenses, rights of rescission for borrowers, class action lawsuits, and a regulatory takeover of our banking subsidiaries. Legislation and regulations have had, may continue to have or may have significant impact on the financial services industry. Legislative or regulatory changes could make regulatory compliance more difficult or expensive for us, causing us to change or limit some of our consumer loan products or the way we operate our different lines of business. Future changes could affect the profitability of some or all of our lines of business.

Our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, entered into a memorandum of understanding, which was considered an informal agreement, with the Federal Reserve Bank of Chicago as of March 1, 2007 to enhance the consumer compliance function and compliance oversight programs of Irwin Union Bank and Trust and its subsidiaries. Irwin Union Bank and Trust Company agreed to and did provide quarterly written progress reports to the Federal Reserve Bank of Chicago with respect to these matters, through the required period ending September 30, 2007. We developed and implemented compliance plans to address the issues raised by the Federal Reserve Bank of Chicago. The memorandum of understanding was lifted effective July 31, 2008.

On October 10, 2008, we entered into written agreements with our regulators. Our holding company and our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, entered into a written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions. Our federal savings bank subsidiary, Irwin Union Bank, F.S.B., entered into a written agreement with the Office of Thrift Supervision. The failure to comply with the terms of these written agreements could result in significant enforcement actions against us of increasing severity, up to and including a regulatory takeover of one or both of our bank subsidiaries.

The written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions requires, among other things, that we submit a capital plan that will ensure our holding company and Irwin Union Bank and Trust Company maintain sufficient capital to comply with regulatory capital guidelines and to address the volume of our adversely affected assets,

concentration of credit, adequacy of our allowance for loan and lease losses, planned growth and anticipated levels of retained earnings. The written agreement with the Office of Thrift Supervision requires, among other things, that Irwin Union Bank, F.S.B. maintain a Tier 1 capital ratio of at least 9% and a Total Risk-Based Capital Ratio of at least 11%.

As a result of the written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we and Irwin Union Bank and Trust Company are not permitted to (1) declare or pay any dividend without the prior approval of these regulators, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities, unless we obtain the prior written approval of the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions. There is no certainty that we will resume payments of dividends in the future.

In addition, like other registrants, we are subject to the requirements of the Sarbanes-Oxley Act of 2002. Failure to have in place adequate programs and procedures could cause us to have gaps in our internal control environment, putting the our holding company and its shareholders at risk of loss.

These and other potential changes in government regulation or policies could increase our costs of doing business and could adversely affect our operations and the manner in which we conduct our business.

A deterioration in our regulatory capital position could adversely affect us.

The banking industry, in general, is heavily regulated, and we and our subsidiaries are extensively regulated under state and federal law. Regulations of the Federal Reserve, the Indiana Department of Financial Institutions, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation that apply to us specify minimum capital ratio requirements that must be maintained by bank holding companies, banks and thrifts to be considered a well-capitalized institution. In addition, these regulators reserve the right to reclassify institutions that meet these standards into a lower capital category (i.e., less than well-capitalized) at their own discretion based on safety and soundness considerations. As of September 30, 2008, our holding company, Irwin Financial Corporation, and its state-chartered bank subsidiary, Irwin Union Bank and Trust Company, met the applicable regulatory standard of a well-capitalized institution under the relevant capital regulations that apply to them. As a result of the written agreement with the Office of Thrift Supervision, our federal savings bank subsidiary, Irwin Union Bank, F.S.B., is considered adequately capitalized, although we presently expect to continue to have capital levels above those agreed to in the written agreement applicable to the savings bank. As a result, the savings bank, which holds approximately 13% of our total assets is no longer permitted to accept brokered deposits unless it receives the prior approval of the Federal Deposit Insurance Corporation. Although we have applied for approval, there is no guarantee that it will be obtained. Our other banking subsidiary, Irwin Union Bank and Trust Company, a state chartered bank regulated by the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, does not have any regulatory restrictions on the issuance of brokered deposits.

Irwin Union Bank, F.S.B could be assessed higher premiums by the Federal Deposit Insurance Fund and required to pay its regulators increased assessment and application fees. In addition, if Irwin Union Bank and Trust Company were no longer considered well-capitalized, it would also be subject to these higher fees, and it might lose access to public funds in the state of Indiana, which could adversely affect our liquidity and results of operations. Moreover, if we were considered an undercapitalized institution, we could be subject to certain prompt corrective action requirements, regulatory controls and restrictions, which become more extensive as an institution becomes more severely undercapitalized. If such actions were to be taken, it could adversely affect our business and we may have more limited access to the capital markets.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

We are the defendant in class actions and other lawsuits that could subject us to material liability.

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Our subsidiaries have been named as defendants in lawsuits that allege we violated state and federal laws in the course of making loans and leases. Among the allegations are that we charged impermissible and excessive rates and fees and participated in fraudulent financing. Some of these cases either seek or have attained class action status, which generally involves a large number of plaintiffs and could result in potentially increased amounts of loss. We have not established reserves for all of these lawsuits due to either lack of probability of loss or inability to accurately estimate potential loss. If decided against us, the lawsuits have the potential to affect us materially.

Our business may be affected adversely by Internet fraud.

We are inherently exposed to many types of operational risk, including those caused by the use of computer, internet and telecommunications systems. These may manifest themselves in the form of fraud by employees, by customers, other outside entities targeting us and/or our customers that use our internet banking, electronic banking or some other form of our telecommunications systems. Given the growing level of use of electronic, internet-based, and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) (Issuer Repurchases of Equity Securities). From time to time, we repurchase shares in connection with our equity-based compensation plans. We did not have any repurchase activity in the past three months.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
2.1	Asset Purchase Agreement by and among Irwin Financial Corporation, Irwin Mortgage Corporation and Freedom Mortgage Corporation dated as of August 7, 2006. (Incorporated by reference to Exhibits 2.1 and 2.2 of Form 8-K filed October 2, 2006, File No. 001-16691.)
2.2	Asset Purchase Agreement dated as of the 21st day of July, 2008, by and among EQ Acquisitions 2003, Inc., Equilease Financial Services, Inc., Irwin Commercial Finance Corporation, Equipment Finance, and Irwin Union Bank and Trust Company.
2.3	Letter Amendment to Asset Purchase Agreement dated July 21, 2008 by and among Irwin Commercial Finance Corporation, Equipment Finance, Irwin Union Bank and Trust Company, EQ Acquisitions 2003, Inc., and Equilease Financial Services, Inc. dated July 30, 2008.
2.4	Asset Purchase Agreement dated as of the 23rd day of July, 2008 by and among Roynat Inc. and Irwin Commercial Finance Canada Corporation and Onset Alberta Ltd. and Irwin Union Bank and Trust Company.
2.5	Amended and Restated Asset Purchase Agreement dated as of July 31, 2008 among Roosevelt Management Company LLC, Navigator Mortgage Loan Trust 2008, Wells Fargo Bank, N.A. and Irwin Union bank and Trust Company.
3.1	Restated Articles of Incorporation of Irwin Financial Corporation, as amended November 3, 2008.
3.2	Code of By-laws of Irwin Financial Corporation, as amended November 28, 2007.
4.1	Specimen Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 of Form 10-K filed March 9, 2007, File No. 001-16691.)
4.2	Certain instruments defining the rights of the holders of long-term debt of Irwin Financial Corporation and certain of its subsidiaries, none of which authorize a total amount of indebtedness in excess of

	10% of the total assets of the Corporation and its subsidiaries on a consolidated basis, have not been filed as Exhibits. The Corporation hereby agrees to furnish a copy of any of these agreements to the Commission upon request.
4.3	Rights Agreement, dated as of March 1, 2001, between Irwin Financial Corporation and Irwin Union Bank and Trust. (Incorporated by reference to Exhibit 4.1 of Form 8-A filed March 2, 2001, File No. 000-06835.)
4.4	Appointment of Successor Rights Agent dated as of May 11, 2001 between Irwin Financial Corporation and National City Bank. (Incorporated by reference to Exhibit 4.5 of Form S-8 filed on September 7, 2001, File No. 333-69156.)
10.1	*Irwin Financial Corporation 1997 Stock Option Plan. (Incorporated by reference to Exhibit 10 of Form 10-Q Report for quarter ended September 30, 1997, and filed August 12, 1997, File No. 000-06835.)
10.2	*Amendment Number One to Irwin Financial Corporation 1997 Stock Option Plan. (Incorporated by reference to Exhibit

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Exhibit Number	Description of Exhibit
	10(l) to Form 10-K405 Report for the period ended December 31, 1997, filed March 30, 1998, File No. 000-06835.)
10.3	*Irwin Union Bank and Trust Company Business Development Board Compensation Program. (Incorporated by reference to Form S-8 filed on July 19, 2000, File No. 333-41740.)
10.4	*Irwin Union Bank and Trust Company Business Development Board Compensation Program as amended November 28, 2006. (Incorporated by reference to Exhibit 10.4 of the Form 10-K Report for the period ended December 31, 2007, filed March 14, 2008, File No. 001-16691.)
10.5	*Irwin Financial Corporation Amended and Restated 2001 Stock Plan, as amended and restated May 10, 2007. (Incorporated by reference to Exhibit 99.1 of Form 8-K filed May 16, 2007, File No. 001-16691.)
10.6	*Amendment Number One to the Irwin Financial Corporation Amended and Restated 2001 Stock Plan. (Incorporated by reference to Exhibit 10.1 of Form 8-K filed February 11, 2008, File No. 001-16691.)
10.7	*Irwin Financial Corporation 2001 Stock Plan Form of Stock Option Agreement and Notice of Stock Option Grant. (Incorporated by reference to Exhibit 99.1 of the Corporation s 8-K Current Report, filed May 9, 2005, File No. 001-16691.)
10.8	*Irwin Financial Corporation 2001 Stock Plan Form of Restricted Stock Agreement and Notice of Restricted Stock Award. (Incorporated by reference to Exhibit 99.2 of the Corporation s 8-K Current Report, filed May 9, 2005, File No. 001-16691.)
10.9	*Irwin Financial Corporation 2001 Stock Plan Form of Stock Option Agreement (Canada) (Incorporated by reference to Exhibit 10.8 of the Corporation s 10-Q Report for the quarter ended September 30, 2005, File No. 001-16691.)
10.10	*Irwin Financial Corporation 2001 Stock Plan Form of Restricted Stock Agreement (with Performance Criteria) and Notice of Restricted Stock Award with Performance Criteria. (Incorporated by reference to Exhibit 99.2 of Form 8-K, filed May 16, 2007, File No. 001-16691.)
10.11	*Irwin Financial Corporation 2001 Stock Plan Form of Restricted Stock Unit Agreement (with Performance Criteria) and Notice of Restricted Stock Unit Award with Performance Criteria. (Incorporated by reference to Exhibit 10.2 of Form 8-K, filed February 11, 2008, File No. 001-16691.)
10.12	*Irwin Financial Corporation 2001 Stock Plan Form of Restricted Stock Unit Agreement (No Performance Criteria) and Notice of Restricted Stock Unit Award. (Incorporated by reference to Exhibit 10.12 of the Form 10-K Report for the period ended December 31, 2007, filed March 14, 2008, File No. 001-16691.)
10.13	*Irwin Financial Corporation 1999 Outside Director Restricted Stock Compensation Plan. (Incorporated by reference to Exhibit 2 of the Corporation s 2004 Proxy Statement for the Annual Meeting of Shareholders, filed March 18, 2004, File No. 001-16691.)

10.14	*Employee Stock Purchase Plan III. (Incorporated by reference to Exhibit 10(a) to Form 10-Q Report for the quarter ended September 30, 1999, File No. 000-06835.)
10.15	*Long-Term Management Performance Plan. (Incorporated by reference to Exhibit 10(a) to Form 10-K Report for the period ended December 31, 1986, File No. 000-06835.)
10.16	*Long-Term Incentive Plan-Summary of Terms. (Incorporated by reference to Exhibit 10(a) to Form 10-K Report for the period ended December 31, 1986, File No. 000-06835.)
10.17	*Amended and Restated Management Bonus Plan. (Incorporated by reference to Exhibit 10(a) to Form 10-K Report for the period ended December 31, 1986, File No. 000-06835.)
10.18	*Irwin Financial Corporation Amended and Restated Short Term Incentive Plan effective January 1, 2006. (Incorporated by reference to Exhibit 10.27 of Form 10-Q Report for the quarter ended September 30 2006, File No. 001-16691.)
10.19	*First Amendment to the Irwin Financial Corporation Amended and Restated Short Term Incentive Plan. (Incorporated by reference to Exhibit 10.28 of Form 10-Q Report for the quarter ended September 30 2007, File No. 001-16691.)
10.20	*Irwin Commercial Finance Amended and Restated Short Term Incentive Plan effective January 1, 2006. (Incorporated by reference to Exhibit 10.28 of Form 10-Q for the quarter ended September 30, 2006, File No. 001-16691.)
10.21	*First Amendment to the Irwin Commercial Finance Amended and Restated Short Term Incentive Plan. (Incorporated by reference to Exhibit 10.30 of Form 10-Q for the quarter ended September 30, 2007, File No. 001-16691.)
10.22	*Irwin Home Equity Amended and Restated Short Term Incentive Plan effective January 1, 2006. (Incorporated by reference to Exhibit 10.29 of Form 10-Q for the quarter ended September 30, 2006, File No. 001-16691.)

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Exhibit Number	Description of Exhibit
10.23	*First Amendment to the Irwin Home Equity Amended and Restated Short Term Incentive Plan effective January 1, 2006. (Incorporated by reference to Exhibit 10.32 of Form 10-Q for the quarter ended September 30, 2007, File No. 001-16691.)
10.24	*Irwin Union Bank and Trust Company Amended and Restated Short Term Incentive Plan effective January 1, 2006. (Incorporated by reference to Exhibit 10.31 of Form 10-Q Report for the quarter ended September 30, 2006, File No. 001-16691.)
10.25	*First Amendment to the Irwin Union Bank and Trust Company Amended and Restated Short Term Incentive Plan (Incorporated by reference to Exhibit 10.35 of Form 10-Q Report for the quarter ended September 30, 2007, File No. 001-16691.)
10.26	*Onset Capital Corporation Employment Agreement. (Incorporated by reference to Exhibit 10.26 to Form 10-Q Report for the quarter ended September 30, 2002, File No. 000-06835.)
10.27	*Irwin Financial Corporation Restated Supplemental Executive Retirement Plan for Named Executives. (Incorporated by reference to Exhibit 10.27 to Form 10-Q Report for period ended September 30, 2002, File No. 000-06835.)
10.28	*Irwin Financial Corporation Supplemental Executive Retirement Plan for Named Executives. (Incorporated by reference to Exhibit 10.28 to Form 10-Q Report for the quarter ended September 30, 2002, File No. 000-06835.)
10.29	*Stock Purchase Agreement by and between Onset Holdings Inc. and Irwin International Corporation dated December 23, 2005. (Incorporated by reference to Exhibit 10.36 of Form 10-K Report for period ended December 31, 2005, File No. 001-16691.)
10.30	*Shareholder Agreement Termination Agreement by and between Irwin Commercial Finance Canada Corporation and Irwin International Corporation dated December 23, 2005. (Incorporated by reference to Exhibit 10.37 of Form 10-K Report for period ended December 31, 2005, File No. 001-16691.)
10.31	*Irwin Commercial Finance Corporation First Amended and Restated Shareholder Agreement dated May 15, 2007. (Incorporated by reference to Exhibit 10.41 of Form 10-Q Report for the quarter ended June 30, 2007, File No. 001-16691.)
10.32	*Irwin Commercial Finance Corporation 2005 Stock Option Agreement Grant of Option to Joseph LaLeggia dated December 23, 2005. (Incorporated by reference to Exhibit 10.39 of Form 10-K Report for period ended December 31, 2005, File No. 001-16691.)
10.33	*Irwin Commercial Finance Corporation 2005 Notice of Stock Option Grant to Joseph LaLeggia dated December 23, 2005. (Incorporated by reference to Exhibit 10.40 of Form 10-K Report for period ended December 31, 2005, File No. 001-16691.)
10.34	*Irwin Union Bank Amended and Restated Performance Unit Plan. (Incorporated by reference to Exhibit 10.41 of Form 10- K Report for period ended December 31, 2005, File No. 001-16691.)

10.35	*Irwin Commercial Finance Amended and Restated Performance Unit Plan. (Incorporated by reference to Exhibit 10.42 of Form 10-K Report for period ended December 31, 2005, File No. 001-16691.)
10.36	*First Amendment to the Irwin Commercial Finance Amended and Restated Performance Unit Plan, dated October 31, 2006. (Incorporated by reference to Exhibit 10.41 of Form 10-K report for the period ended December 31, 2006, File No. 001-16691.)
10.37	*Irwin Home Equity Corporation Performance Unit Plan. (Incorporated by reference to Exhibit 10.43 of Form 10-K Report for period ended December 31, 2005, File No. 001-16691.)
10.38	*Supplemental Performance Unit Grant-Jocelyn Martin-Leano, dated February 6, 2007. (Incorporated by reference to Exhibit 10.45 of Form 10-K filed March 9, 2007, File No. 001-16691.)
10.39	*Irwin Financial Corporation 2007 Performance Unit Plan. (Incorporated by reference to Appendix B of the Corporation s 2007 Proxy Statement for the Annual Meeting of Shareholders, filed April 16, 2007, File No. 001-16691.)
10.40	*Agreement General Release and Covenant Not to Sue between Irwin Financial Corporation, and Thomas D. Washburn executed December 5, 2007. (Incorporated by reference to Exhibit 99.1 of Form 8-K filed December 13, 2007, File No. 001-16691.)
10.41	*Amendment to 2005 Stock Option Agreement between Irwin Commercial Finance Corporation and Joseph R. LaLeggia, dated July 28, 2008.
10.42	*Letter setting forth the Redemption Agreement between Irwin Commercial Finance Corporation and Joseph R. LaLeggia, dated July 29, 2008.

Exhibit Number	Description of Exhibit
10.43	*Retention Incentive Agreement by and among Irwin Home Equity Corporation, Irwin Financial Corporation and Jocelyn Martin-Leano dated September 10, 2008.
10.44	Standby Purchase Agreement, dated as of October 13, 2008, by and between Irwin Financial Corporation and Cummins Inc. (Incorporated by reference to Form 8-K filed October 14, 2008, File No. 001-16691).
10.45	Written Agreement by and among Irwin Financial Corporation, Irwin Union Bank and Trust Company, the Federal Reserve Bank of Chicago, and the Indiana Department of Financial Institutions, dated October 10, 2008. (Incorporated by reference to Form 8-K filed October 14, 2008, File No. 001-16691).
10.46	Supervisory Agreement by and between Irwin Union Bank, F.S.B. and the Office of Thrift Supervision, dated October 10, 2008. (Incorporated by reference to Form 8-K filed October 14, 2008, File No. 001-16691).
11.1	Computation of Earnings Per Share is included in the notes to the financial statements.
31.1	Certification pursuant to 18 U.S.C. Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.
31.2	Certification pursuant to 18 U.S.C. Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.
32.1	Certification of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates management contract or compensatory plan or arrangement.

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SIGNATURES

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

DATE: November 7, 2008

IRWIN FINANCIAL CORPORATION

By: /s/ Gregory F. Ehlinger
GREGORY F. EHLINGER
CHIEF FINANCIAL OFFICER

By: /s/ Jody A. Littrell
JODY A. LITTRELL
CORPORATE CONTROLLER
(Chief Accounting Officer)