

IRWIN FINANCIAL CORP

Form 10-Q

May 07, 2007

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

(Mark One)

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

For the quarterly period ended **March 31, 2007**

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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 24, 2007, there were outstanding 29,539,804 common shares, no par value, of the Registrant.

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CONSOLIDATED BALANCE SHEETS (Unaudited)**

	March 31, 2007	December 31, 2006
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	\$ 61,821	\$ 145,765
Interest-bearing deposits with financial institutions	43,393	53,106
Residual interests	9,619	10,320
Investment securities- held-to-maturity (Fair value: \$17,766 at March 31, 2007 and \$17,893 at December 31, 2006)	18,038	18,066
Investment securities- available-for-sale	116,659	110,364
Loans held for sale	44,906	237,510
Loans and leases, net of unearned income Note 3	5,414,778	5,238,193
Less: Allowance for loan and lease losses Note 4	(84,876)	(74,468)
	5,329,902	5,163,725
Servicing assets Note 5	30,105	31,949
Accounts receivable	70,591	208,585
Accrued interest receivable	24,567	26,470
Premises and equipment	38,671	36,211
Other assets	188,008	139,314
Assets held for sale Note 2	41,456	56,573
Total assets	\$6,017,736	\$6,237,958
Liabilities and Shareholders Equity:		
Deposits		
Noninterest-bearing	\$ 336,298	\$ 687,626
Interest-bearing	1,748,012	1,756,109
Certificates of deposit over \$100,000	1,363,087	1,107,781
	3,447,397	3,551,516
Short-term borrowings Note 6	619,304	602,443
Collateralized debt Note 7	1,102,025	1,173,012
Other long-term debt	233,885	233,889
Other liabilities	102,256	146,596
Total liabilities	5,504,867	5,707,456
Commitments and contingencies Note 11		
Shareholders equity		
Preferred stock, no par value authorized 4,000,000 shares; none issued		
Noncumulative perpetual preferred stock - 15,000 authorized and issued	14,446	14,518
	116,246	116,192

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Common stock, no par value authorized 40,000,000 shares; issued 29,890,917 shares and 29,879,773 shares as of March 31, 2007 and December 31, 2006; 430,316 shares 143,543 shares in treasury as of March 31, 2007 and December 31, 2006

Additional paid-in capital	1,688	1,583
Accumulated other comprehensive loss, net of deferred income tax benefit of \$4,003 and \$4,813 as of March 31, 2007 and December 31, 2006	(3,785)	(4,364)
Retained earnings	393,564	405,835
	522,159	533,764
Less treasury stock, at cost	(9,290)	(3,262)
Total shareholders equity	512,869	530,502
Total liabilities and shareholders equity	\$6,017,736	\$6,237,958

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

Table of Contents**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	For the Three Months Ended March 31,	
	2007	2006
	(Dollars in thousands, except per share)	
Interest income:		
Loans and leases	\$ 119,349	\$ 97,886
Loans held for sale	4,942	11,406
Residual interests	270	664
Investment securities	2,457	1,485
Federal funds sold	20	26
Total interest income	127,038	111,467
Interest expense:		
Deposits	33,451	29,682
Short-term borrowings	7,806	4,106
Collateralized debt	15,815	11,111
Other long-term debt	3,838	4,990
Total interest expense	60,910	49,889
Net interest income	66,128	61,578
Provision for loan and lease losses Note 4	23,208	9,193
Net interest income after provision for loan and lease losses	42,920	52,385
Other income:		
Loan servicing fees	5,912	8,108
Amortization and impairment of servicing assets	(4,950)	(5,902)
(Loss) gain from sales of loans and loans held for sale	(5,907)	2,768
Trading losses	(264)	(219)
Derivative (losses) gains, net	(1,089)	2,768
Other	5,484	6,473
	(814)	13,996
Other expense:		
Salaries	25,735	25,303
Pension and other employee benefits	7,738	7,773
Office expense	2,337	2,094
Premises and equipment	5,628	5,035
Marketing and development	1,209	668
Professional fees	2,086	2,398
Other	7,552	9,543
	52,285	52,814

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(Loss) income before income taxes from continuing operations	(10,179)	13,567
Provision for income taxes	(4,085)	4,877
Net (loss) income from continuing operations	(6,094)	8,690
Loss from discontinued operations, net of \$2,742 and \$7,026 income tax benefit, respectively Note 2	(4,035)	(10,548)
Net loss	\$ (10,129)	\$ (1,858)
Earnings per share from continuing operations: Note 9		
Basic	\$ (0.22)	\$ 0.30
Diluted	\$ (0.22)	\$ 0.30
Earnings per share: Note 9		
Basic	\$ (0.35)	\$ (0.06)
Diluted	\$ (0.36)	\$ (0.07)
Dividends per share	\$ 0.12	\$ 0.11

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 Three Months Ended March 31, 2007, and 2006

	Accumulated Other Comprehensive Income									
	Total	Retained Earnings	Foreign Currency	Unrealized		Defined Benefit Plans	Additional Paid in Capital	Common Stock	Treasury Stock	Perpetual Preferred Stock
Securities				Gain/Loss Derivatives						
(Dollars in thousands)										
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	(10,129)	(10,129)								
Unrealized gain on investment securities net of \$21 tax liability	31			31						
Unrealized gain on derivatives net of \$121 tax liability	183				183					
Foreign currency adjustment	365		365							
Other comprehensive income	579									
Total comprehensive income	(9,550)									
Cash dividends common stock	(3,533)	(3,533)								
Cash dividends preferred stock	(352)	(352)								
FAS 156 adoption	1,743	1,743								
Tax benefit on stock option exercises	116						116			
Stock option expense	363						363			
Stock issuance costs	(72)									(72)
Stock: Purchase of 359,848 shares	(7,668)								(7,668)	

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Sales of 74,199 shares	1,320			(374)	54	1,640				
Balance at March 31, 2007	\$ 512,869	\$ 393,564	\$ 3,249	\$ (313)	\$ 153	\$ (6,874)	\$ 1,688	\$ 116,246	\$ (9,290)	\$ 14,446
Balance at January 1, 2006	\$ 512,334	\$ 418,784	\$ 3,341	\$ (373)	\$ 754	\$ (274)	\$ 50	\$ 112,000	\$ (21,948)	\$
Net loss	(1,858)	(1,858)								
Unrealized loss on investment securities net of \$79 tax benefit	(119)			(119)						
Unrealized loss on derivative net of \$4 tax benefit	(6)				(6)					
Foreign currency adjustment	(153)		(153)							
Other comprehensive income	(278)									
Total comprehensive income	(2,136)									
Cash dividends	(3,268)	(3,268)								
Tax benefit on stock option exercises	319					319				
Stock option expense	253					253				
Conversion of trust preferred shares to 1,013,938 shares of common stock	19,513	(1,058)					1,070	19,501		
Stock:										
Purchase of 48,303 shares	(950)								(950)	
Sales of 124,386 shares	1,628	(508)				(300)	179	2,257		
Balance at March 31, 2006	\$ 527,693	\$ 412,092	\$ 3,188	\$ (492)	\$ 748	\$ (274)	\$ 322	\$ 113,249	\$ (1,140)	\$

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

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CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Three Months ended March 31,	
	2007	2006
	(Dollars in thousands)	
(Loss) Income from continuing operations	\$ (6,094)	\$ 8,690
Loss from discontinued operations	(4,035)	(10,548)
Net Loss	(10,129)	(1,858)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization, and accretion, net	2,356	1,486
Amortization and impairment of servicing assets	5,199	15,562
Provision for loan and lease losses	23,208	9,240
Loss (gain) from sales of loans held for sale	10,155	(18,117)
Originations and purchases of loans held for sale	(208,830)	(2,565,909)
Proceeds from sales and repayments of loans held for sale	233,201	2,622,218
Net decrease in residuals	971	8,383
Net decrease in accounts receivable	137,994	30,036
Other, net	(92,243)	(29,209)
Net cash provided by operating activities	101,882	71,832
Investing activities:		
Proceeds from maturities/calls of investment securities:		
Held-to-maturity	127	45
Available-for-sale	974	913
Purchase of investment securities:		
Held-to-maturity	(100)	
Available-for-sale	(7,240)	(692)
Net decrease (increase) in interest-bearing deposits	9,713	(14,035)
Net increase in loans, excluding sales	(44,957)	(353,095)
Proceeds from sale of loans	28,023	122,635
Other, net	(4,120)	(2,729)
Net cash used by investing activities	(17,580)	(246,958)
Financing activities:		
Net (decrease) increase in deposits	(104,118)	175,507
Net increase (decrease) in short-term borrowings	16,861	(254,284)
Proceeds from issuance of collateralized debt	27,206	335,384
Repayments of collateralized debt	(98,208)	(90,068)
Proceeds from the issuance of trust preferred securities		31,500
Redemption of trust preferred securities and other long term debt	(4)	(32,112)
Purchase of treasury stock for employee benefit plans	(7,668)	(950)
Proceeds from sale of stock for employee benefit plans	1,436	1,947
Dividends paid	(3,885)	(3,268)

Net cash (used) provided by financing activities	(168,380)	163,656
Effect of exchange rate changes on cash	134	(74)
Net decrease in cash and cash equivalents	(83,944)	(11,544)
Cash and cash equivalents at beginning of period	145,765	155,486
Cash and cash equivalents at end of period	\$ 61,821	\$ 143,942
Supplemental disclosures of cash flow information:		
Cash flow during the period:		
Interest paid	\$ 59,659	\$ 54,685
Income taxes paid	\$ 6,152	\$ 4,103
Noncash transactions:		
Adoption of FAS 156	\$ 1,743	\$
Loans transferred from held-for-sale to held-for-investment	\$ 166,773	\$
Other real estate owned	\$ 2,664	\$ 2,103
Conversion of trust preferred stock to common stock	\$	\$ 19,513

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Consolidation: Irwin Financial Corporation and its subsidiaries (the Corporation) provide financial services throughout the United States (U.S.) and Canada. We are engaged in commercial banking, commercial finance and home equity lending. We are in the process of exiting the mortgage banking segment. 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 (IMC). 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.

Because we are in the process of exiting the mortgage banking line of business, the financial statements and footnotes 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. Certain of the balance sheet assets related to this line of business are being reported as assets held for sale. See Note 2 for additional information.

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 period. Actual results could differ from those estimates.

Cash and Cash Equivalents Defined: For purposes of the statement of cash flows, we consider cash and due from banks to be cash equivalents.

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.