

IRWIN FINANCIAL CORP

Form 10-Q

October 29, 2004

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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 September 30, 2004**

**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**

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**(Exact Name of Corporation as Specified in its Charter)**

**Indiana**

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**35-1286807**

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(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

**500 Washington Street Columbus, Indiana**

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**47201**

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(Address of Principal Executive Offices)

(Zip Code)

**(812) 376-1909**

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**www.irwinfinancial.com**

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(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes       No

As of October 25, 2004, there were 28,350,990 outstanding common shares, no par value, of the Registrant.

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**Table of Contents****PART I. FINANCIAL INFORMATION.****Item 1. Financial Statements.**

**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Unaudited)**

	<b>September 30, 2004</b>	<b>December 31, 2003</b>
	<hr/>	<hr/>
	<b>(Dollars in thousands)</b>	
<b>Assets:</b>		
Cash and cash equivalents	\$ 213,458	\$ 140,810
Interest-bearing deposits with financial institutions	58,450	81,166
Residual interests	70,968	71,491
Investment securities- held-to-maturity (Market value: \$30,175 at September 30, 2004 and \$24,971 at December 31, 2003)	30,152	24,956
Investment securities- available-for-sale	77,516	67,569
Loans held for sale	971,357	883,895
Loans and leases, net of unearned income Note 2	3,401,643	3,161,054
Less: Allowance for loan and lease losses Note 3	(47,796)	(64,285)
	<hr/>	<hr/>
	3,353,847	3,096,769
Servicing assets Note 4	389,171	380,123
Accounts receivable	84,018	62,045
Accrued interest receivable	16,208	15,502
Premises and equipment, net	31,444	32,208
Other assets	118,982	131,825
	<hr/>	<hr/>
Total assets	<b>\$5,415,571</b>	<b>\$4,988,359</b>
	<hr/>	<hr/>
<b>Liabilities and Shareholders Equity:</b>		
Deposits		
Noninterest-bearing	\$ 981,327	\$ 850,529
Interest-bearing	1,777,900	1,352,763
Certificates of deposit over \$100,000	727,230	696,370
	<hr/>	<hr/>
	3,486,457	2,899,662
Short-term borrowings Note 5	132,691	429,758
Collateralized debt Note 6	667,797	590,131
Other long-term debt Note 7	270,175	270,184
Other liabilities	372,104	366,364
	<hr/>	<hr/>

Total liabilities	<u>4,929,224</u>	<u>4,556,099</u>
Commitments and contingencies Note 11		
Shareholders' equity		
Preferred stock, no par value authorized 4,000,000 shares; none issued		
Common stock, no par value authorized 40,000,000 shares; issued 29,612,080 shares as of September 30, 2004 and December 31, 2003, respectively; including 1,277,059 and 1,477,778, shares in treasury as of September 30, 2004 and December 31, 2003, respectively	112,000	112,000
Additional paid-in capital	557	1,264
Deferred compensation	(516)	(504)
Accumulated other comprehensive loss, net of deferred income tax expense of \$540 and \$120 as of September 30, 2004, and December 31, 2003, respectively	810	182
Retained earnings	<u>401,338</u>	<u>352,647</u>
	514,189	465,589
Less treasury stock, at cost	<u>(27,842)</u>	<u>(33,329)</u>
Total shareholders' equity	<u>486,347</u>	<u>432,260</u>
Total liabilities and shareholders' equity	<u>\$5,415,571</u>	<u>\$4,988,359</u>

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)**

	<b>Three Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Dollars in thousands, except per share)</b>	
<b>Interest income:</b>		
Loans and leases	\$ 62,088	\$ 59,626
Loans held for sale	23,112	33,978
Residual interests	3,350	4,131
Investment securities	1,371	1,125
Federal funds sold	44	20
	<hr/>	<hr/>
Total interest income	89,965	98,880
	<hr/>	<hr/>
<b>Interest expense:</b>		
Deposits	11,984	9,873
Short-term borrowings	2,796	3,383
Collateralized debt	3,782	4,045
Other long-term debt - Note 7	5,743	419
Preferred securities distribution - Note 7		5,527
	<hr/>	<hr/>
Total interest expense	24,305	23,247
	<hr/>	<hr/>
Net interest income	65,660	75,633
Provision for loan and lease losses	1,898	14,778
	<hr/>	<hr/>
Net interest income after provision for loan and lease losses	63,762	60,855
<b>Other income:</b>		
Loan servicing fees	34,423	28,523
Amortization of servicing assets - Note 4	(28,070)	(34,064)
(Impairment) recovery of servicing assets - Note 4	(18,358)	41,665
	<hr/>	<hr/>
Net loan administration (loss) income	(12,005)	36,124
Gain from sales of loans	48,626	91,569
Gain on sale of mortgage servicing assets	440	7
Trading gains (losses)	4,326	(1,403)
Derivative gains (losses), net	21,045	(28,046)

Other	5,503	6,412
	<u>          </u>	<u>          </u>
	67,935	104,663
<b>Other expense:</b>		
Salaries	53,986	62,220
Pension and other employee benefits	12,127	9,573
Office expense	3,271	5,330
Premises and equipment	10,096	9,533
Marketing and development	3,103	3,400
Professional fees	5,132	2,980
Other	14,777	21,370
	<u>          </u>	<u>          </u>
	102,492	114,406
	<u>          </u>	<u>          </u>
Income before income taxes	29,205	51,112
Provision for income taxes	12,011	19,994
	<u>          </u>	<u>          </u>
Net income	\$ 17,194	\$ 31,118
	<u>          </u>	<u>          </u>
Earnings per share: - Note 9		
Basic	\$ 0.61	\$ 1.11
	<u>          </u>	<u>          </u>
Diluted	\$ 0.57	\$ 1.03
	<u>          </u>	<u>          </u>
Dividends per share	\$ 0.08	\$ 0.07
	<u>          </u>	<u>          </u>

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)**

	<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Dollars in thousands, except per share)</b>	
<b>Interest income:</b>		
Loans and leases	\$ 181,759	\$ 179,460
Loans held for sale	59,397	86,800
Residual interests	9,893	17,100
Investment securities	3,733	3,134
Federal funds sold	82	119
	<hr/>	<hr/>
Total interest income	254,864	286,613
	<hr/>	<hr/>
<b>Interest expense:</b>		
Deposits	31,532	32,679
Short-term borrowings	6,611	12,053
Collateralized debt	10,501	11,569
Other long-term debt Note 7	17,101	1,745
Preferred securities distribution Note 7		16,581
	<hr/>	<hr/>
Total interest expense	65,745	74,627
	<hr/>	<hr/>
Net interest income	189,119	211,986
Provision for loan and lease losses	11,838	37,655
	<hr/>	<hr/>
Net interest income after provision for loan and lease losses	177,281	174,331
<b>Other income:</b>		
Loan servicing fees	100,620	75,231
Amortization of servicing assets Note 4	(89,413)	(102,112)
Recovery (impairment) of servicing assets Note 4	6,210	(1,966)
	<hr/>	<hr/>
Net loan administration income (loss)	17,417	(28,847)
Gain from sales of loans	140,669	311,081
Gain on sale of mortgage servicing assets	8,857	7
Trading gains (losses)	15,668	(52,323)
Derivative gains (losses), net	25,869	(15,904)

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Other	17,917	16,982
	<u>          </u>	<u>          </u>
	226,397	230,996
<b>Other expense:</b>		
Salaries	158,602	176,851
Pension and other employee benefits	34,813	31,431
Office expense	12,950	16,200
Premises and equipment	30,890	28,751
Marketing and development	10,670	11,157
Professional fees	14,436	8,664
Other	48,325	40,646
	<u>          </u>	<u>          </u>
	310,686	313,700
	<u>          </u>	<u>          </u>
Income before income taxes	92,992	91,627
Provision for income taxes	37,513	35,505
	<u>          </u>	<u>          </u>
Net income	\$ 55,479	\$ 56,122
	<u>          </u>	<u>          </u>
Earnings per share: Note 9		
Basic	\$ 1.96	\$ 2.01
	<u>          </u>	<u>          </u>
Diluted	\$ 1.84	\$ 1.89
	<u>          </u>	<u>          </u>
Dividends per share	\$ 0.24	\$ 0.21
	<u>          </u>	<u>          </u>

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)**  
**Three Months Ended September 30, 2004, and 2003**

	<b>Total</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Deferred Compensation</b>	<b>Additional Paid in Capital</b>	<b>Common Stock</b>	<b>Treasury Stock</b>
<b>(Dollars in thousands)</b>							
Balance at July 1, 2004	\$469,486	\$386,410	\$ 71	\$ (538)	\$ 579	\$112,000	\$(29,036)
Net income	17,194	17,194					
Unrealized gain on investment securities net of \$142 tax liability	212		212				
Foreign currency adjustment net of \$352 tax liability	527		527				
<b>Total comprehensive income</b>	<b>17,933</b>						
Deferred compensation	22			22			
Cash dividends	(2,266)	(2,266)					
Tax benefit on stock option exercises	100				100		
Treasury stock:							
Purchase of 867 shares	(23)						(23)
Sales of 52,342 shares	1,095				(122)		1,217
<b>Balance September 30, 2004</b>	<b>\$486,347</b>	<b>\$401,338</b>	<b>\$ 810</b>	<b>\$ (516)</b>	<b>\$ 557</b>	<b>\$112,000</b>	<b>\$(27,842)</b>
Balance at July 1, 2003	\$384,835	\$308,760	\$ (58)	\$ (489)	\$2,422	\$112,000	\$(37,800)
Net income	31,118	31,118					
Unrealized loss on investment securities net of \$57 tax benefit	(84)		(84)				
Unrealized loss on interest rate cap net of \$17 tax liability	26		26				
Foreign currency adjustment net of \$16 tax benefit	(24)		(24)				

Total comprehensive income	31,036						
Deferred compensation	68			68			
Cash dividends	(1,959)	(1,959)					
Tax benefit on stock option exercises	22				22		
Treasury stock:							
Purchase of 1,321 shares	(33)						(33)
Sales of 24,766 shares	485				(31)		516
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance September 30, 2003	\$414,454	\$337,919	\$ (140)	\$ (421)	\$2,413	\$112,000	\$(37,317)
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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)**  
**Nine Months Ended September 30, 2004, and 2003**

	<b>Total</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Deferred Compensation</b>	<b>Additional Paid in Capital</b>	<b>Common Stock</b>	<b>Treasury Stock</b>
(Dollars in thousands)							
Balance at January 1, 2004	\$432,260	\$352,647	\$ 182	\$ (504)	\$ 1,264	\$112,000	\$(33,329)
Net income	55,479	55,479					
Unrealized gain on investment securities net of \$93 tax liability	139		139				
Unrealized gain on interest rate cap net of \$131 tax liability	196		196				
Foreign currency adjustment net of \$195 tax liability	293		293				
<b>Total comprehensive income</b>	<b>56,107</b>						
Deferred compensation	(12)			(12)			
Cash dividends	(6,788)	(6,788)					
Tax benefit on stock option exercises	778				778		
Treasury stock: Purchase of 11,307 shares	(370)						(370)
Sales of 212,026 shares	4,372				(1,485)		5,857
<b>Balance at September 30, 2004</b>	<b>\$486,347</b>	<b>\$401,338</b>	<b>\$ 810</b>	<b>\$ (516)</b>	<b>\$ 557</b>	<b>\$112,000</b>	<b>\$(27,842)</b>
Balance at January 1, 2003	\$360,555	\$287,662	\$ (1,142)	\$ (240)	\$ 3,606	\$112,000	\$(41,331)
Net income	56,122	56,122					
Unrealized loss on investment securities net of \$45 tax benefit	(72)		(72)				

Unrealized loss on interest rate cap net of \$31 tax benefit	(47)	(47)		
Foreign currency adjustment net of \$576 tax liability	865	865		
Minimum SERP liability net of \$170 tax liability	<u>256</u>	256		
Total comprehensive income	57,124			
Deferred compensation	(181)		(181)	
Cash dividends	(5,865)	(5,865)		
Conversion of 1,700 trust preferred shares to 2,142 common shares	43		(1)	44
Tax benefit on stock option exercises	1,031		&nb	