

IRWIN FINANCIAL CORPORATION  
Form 10-Q  
November 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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, 2002**

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 registrant as specified in its charter)

**INDIANA**

(State or other jurisdiction of Incorporation or organization)

**35-1286807**

(IRS Employer Identification No.)

**500 Washington Street, Columbus, IN 47201**

(Address or principal executive offices)

(Zip Code)

**(812) 376-1909**

(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year if changed since last report)

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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

As of November 6, 2002, there were outstanding 27,760,052 common shares, no par value, of the Registrant.

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<b>PART I. FINANCIAL INFORMATION</b>		
<b>Item 1. Financial Statements</b>		
<b>IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES</b>		
<b>CONSOLIDATED BALANCE SHEET (Unaudited)</b>		
	September 30,	December 31,
<i>(In thousands, except for shares)</i>	2002	2001
<b>Assets:</b>		
Cash and cash equivalents	\$ 145,467	\$ 158,291
Interest-bearing deposits with financial institutions	31,217	14,247
Trading assets - residual interests	168,425	199,071
Investment securities (Market value: \$42,982 in 2002 and \$38,937 in 2001) - Note 2	42,340	38,796
Loans held for sale	773,117	502,086
Loans and leases, net of unearned income - Note 3	2,778,136	2,137,747
Less: Allowance for loan and lease losses - Note 4	(47,299)	(22,283)
	2,730,837	2,115,464
Servicing assets - Note 5	155,752	228,624
Accounts receivable	41,015	41,996
Accrued interest receivable	16,769	14,063
Premises and equipment, net	33,447	34,988
Other assets	105,019	100,067
Total assets	\$ 4,243,405	\$ 3,447,693
<b>Liabilities and Shareholders' Equity:</b>		

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Deposits		
Noninterest-bearing	\$ 681,493	\$ 533,983
Interest-bearing	1,081,148	889,448
Certificates of deposit over \$100,000	786,309	885,587
	2,548,950	2,309,018
Short-term borrowings - Note 6	519,958	487,963
Long-term debt - Note 7	450,306	30,000
Company-obligated mandatorily redeemable preferred securities of subsidiary trust	198,500	198,500
Other liabilities	189,413	189,889
Total liabilities	3,907,127	3,215,370
Commitments and contingencies - Note 8		
Minority interest	802	658
Shareholders' equity		
Preferred stock, no par value - authorized 4,000,000 shares; issued none as of September 30, 2002 and 96,336 shares as of December 31, 2001	-	1,386
Common stock, no par value - authorized 40,000,000 shares; issued 29,612,080 and 23,402,080 shares as of September 30, 2002 and December 31, 2001, respectively; including 1,896,528 and 2,096,947 shares in treasury as of September 30, 2002 and December 31, 2001, respectively	112,001	29,965
Additional paid-in capital	3,753	4,426
Deferred compensation	(299)	(449)
Accumulated other comprehensive loss, net of deferred income tax benefit of \$291 and \$216 in 2002 and 2001, respectively	(436)	(325)
Retained earnings	262,255	241,725
	377,274	276,728
Less treasury stock, at cost	(41,798)	(45,063)
Total shareholders' equity	335,476	231,665
Total liabilities and shareholders' equity	\$ 4,243,405	\$ 3,447,693

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

**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME (Unaudited)**

	For the Three Months Ended	
	September 30,	
<i>(In thousands, except for per share)</i>	2002	2001
<b>Interest income:</b>		
Loans and leases	\$ 60,121	\$ 33,415
Loans held for sale	14,200	30,210
Trading account	8,493	7,911
Investment securities:		
Taxable	727	1,276
Tax-exempt	57	60
Federal funds sold	14	66
Total interest income	83,612	72,938
<b>Interest expense:</b>		
Deposits	13,911	18,344
Short-term borrowings	3,830	8,983

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Long-term debt	3,649	580
Preferred securities distribution	4,820	4,002
Total interest expense	26,210	31,909
Net interest income	57,402	41,029
Provision for loan and lease losses	15,577	5,006
Net interest income after provision for loan and lease losses	41,825	36,023
<b>Other income:</b>		
Loan origination fees	19,102	16,175
Gain from sales of loans	47,061	66,279
Loan servicing fees	18,156	16,785
Amortization and impairment of servicing assets	(104,366)	(52,390)
Net loan administration income	(86,210)	(35,605)
Gain on sale of mortgage servicing assets	223	298
Trading losses	(9,574)	(25,760)
Derivative gains, net	81,135	41,102
Other	2,661	2,205
	54,398	64,694
<b>Other expense:</b>		
Salaries	47,447	47,191
Pension and other employee benefits	7,264	6,263
Office expense	4,464	4,516
Premises and equipment	8,229	7,540
Marketing and development	7,799	3,325
Professional Fees	1,770	1,796
Other	5,956	11,241
	82,929	81,872
Income before income taxes	13,294	18,845
Provision for income taxes	5,050	7,446
Income before minority interest	8,244	11,399
Minority interest in gains (losses) of subsidiaries	51	(68)
Net income	\$ 8,193	\$ 11,467
Earnings per share: - Note 9		
Basic	\$ 0.30	\$ 0.54
Diluted	\$ 0.29	\$ 0.50
Dividends per share	\$ 0.0675	\$ 0.0650
The accompanying notes are an integral part of the consolidated financial statements.		
<b>IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES</b>		
<b>CONSOLIDATED STATEMENT OF INCOME (Unaudited)</b>		
	For the Nine Months Ended	
	September 30,	
<i>(In thousands, except for per share)</i>	2002	2001
<b>Interest income:</b>		
Loans and leases	\$ 159,619	\$ 93,929
Loans held for sale	33,295	78,033
Trading account	26,561	22,677
Investment securities:		
Taxable	2,478	3,883
Tax-exempt	170	188
Federal funds sold	44	155

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Total interest income	222,167	198,865
<b>Interest expense:</b>		
Deposits	41,940	56,251
Short-term borrowings	11,224	25,234
Long-term debt	5,171	1,740
Preferred securities distribution	14,458	11,410
Total interest expense	72,793	94,635
Net interest income	149,374	104,230
Provision for loan and lease losses	35,409	9,363
Net interest income after provision for loan and lease losses	113,965	94,867
<b>Other income:</b>		
Loan origination fees	49,713	44,388
Gain from sales of loans	109,759	147,339
Loan servicing fees	54,622	48,412
Amortization and impairment of servicing assets	(169,917)	(68,795)
Net loan administration income	(115,295)	(20,383)
Gain on sale of mortgage servicing assets	9,939	6,079
Trading losses	(22,634)	(28,304)
Derivative gains, net	118,362	41,318
Other	11,561	4,299
	161,405	194,736
<b>Other expense:</b>		
Salaries	126,581	131,597
Pension and other employee benefits	23,957	20,386
Office expense	13,069	12,193
Premises and equipment	25,038	22,495
Marketing and development	9,424	10,203
Professional Fees	7,015	5,047
Other	28,515	32,990
	233,599	234,911
Income before income taxes	41,771	54,692
Provision for income taxes	16,124	21,700
Income before minority interest	25,647	32,992
Minority interest in gains (losses) of subsidiaries	17	(279)
Income before cumulative effect of change in accounting principle	25,630	33,271
Cumulative effect of change in accounting principle, net of tax	495	175
Net income	\$ 26,125	\$ 33,446
Earnings per share before cumulative effect of change in accounting principle:		
Basic	\$ 0.97	\$ 1.57
Diluted	\$ 0.94	\$ 1.46
Earnings per share: - Note 9		
Basic	\$ 0.99	\$ 1.58
Diluted	\$ 0.96	\$ 1.47
Dividends per share	\$ 0.2025	\$ 0.1950
The accompanying notes are an integral part of the consolidated financial statements.		

<b>IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES</b>							
<b>CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)</b>							
<b>FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001</b>							
	Total						

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(Dollars in thousands)		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Additional Paid in Capital	Common Stock	Preferred Stock	Treasury Stock
Balance at July 1, 2002	\$ 329,275	\$ 255,932	\$ (125)	\$ (359)	\$ 3,794	\$ 112,159	\$ -	\$ (42,126)
Net income	8,193	8,193						
Unrealized loss on investment securities net of \$12 tax benefit	(18)		(18)					
Unrealized loss on interest rate cap net of \$59 tax benefit	(89)		(89)					
Foreign currency adjustment net of \$136 tax benefit	(204)		(204)					
Total comprehensive income	7,882							
Deferred compensation	60			60				
Cash dividends	(1,870)	(1,870)						
Additional costs for equity offering	(158)							