ORIGEN FINANCIAL INC
Form 10-K
March 27, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

Commission File No. 000-50721
ORIGEN FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-0145649**
State of Incorporation	I.R.S. Employer I.D. No.

27777 Franklin Road
Suite 1700
Southfield, Michigan 48034
(248) 746-7000
(Address of principal executive offices and telephone number)
Securities Registered Pursuant to Section 12(b) of the Act:
None
Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of June 30, 2008, the aggregate market value of the registrant s stock held by non-affiliates was approximately $25,390,555 (computed by reference to the closing sales price of the registrant s common stock as of June 30, 2008 as reported on the Nasdaq National Market). For this computation, the registrant has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of the registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the registrant.

As of March 15, 2009, there were 25,926,149 shares of the registrant s common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive Proxy Statement to be filed for its 2009 Annual Meeting of Stockholders or filed as an amendment to this form 10-K are incorporated by reference into Part III of this Report.

TABLE OF CONTENTS

Table of Contents

As used in this report, Company , Us , We , Our and similar terms means Origen Financial, Inc., a Delaware corporation, and, as the context requires, one or more of its subsidiaries.

PART I

ITEM 1. BUSINESS

General

Origen Financial, Inc. is an internally-managed and internally-advised Delaware corporation that is taxed as a real estate investment trust, or REIT. Since our inception and until early 2008, we were a national manufactured housing lender and loan servicer. We and our predecessors originated more than $3.0 billion of manufactured housing loans from 1996 through March 31, 2008, including $44.8 million in 2008. We additionally processed $185.5 million in loans originated under third-party origination agreements in 2008, and $388.3 million since inception of the third party lending program in 2003.

In March 2008, because of the lack of a reliable source for a loan warehouse facility and the uncertainty of the availability of an exit in the securitization market, we ceased originating loans for our own account and sold our portfolio of unsecuritized loans at a substantial loss. The proceeds from the loan sale were used to pay off our existing loan warehouse facility, which was not renewed.

We completed, in April 2008, a secured financing transaction with a related party and used the proceeds, combined with other funds, to pay off the outstanding balance of a supplemental advance credit facility which would have expired in June 2008.

At our annual stockholders meeting on June 25, 2008, our stockholders approved an Asset Disposition and Management Plan. Pursuant to this plan, we executed a number of transactions and took several actions, as follow.

On July 1, 2008, we completed a transaction for the sale of our loan servicing platform assets and ceased all loan servicing operations. As of the sale date, our loan servicing portfolio consisted of over 37,000 loans with approximately $1.6 billion in loan principal outstanding.

On July 31, 2008 we completed the sale of certain assets of our loan origination and insurance business and used the proceeds to reduce our related party debt.

We voluntarily delisted our common stock from the NASDAQ Global Market in December 2008 and also deregistered the stock under the Securities Exchange Act of 1934.

The corporate shell of Origen Servicing, Inc. was sold in January 2009. Formerly, this entity, our wholly-owned subsidiary, housed our loan servicing operations. Proceeds from this sale were used to reduce our related party debt.

As a direct result of the foregoing actions, we have reduced our workforce by 89% since December 31, 2007.

Origen Financial, Inc. was incorporated on July 31, 2003. On October 8, 2003, we began operations when we acquired all of the equity interests of Origen Financial L.L.C. and its subsidiaries. In the second quarter of 2004, we completed the initial public offering of our common stock. Until early 2008, most of our operations were conducted through Origen Financial L.L.C., our wholly-owned subsidiary. We conducted the rest of our business operations through our other wholly-owned subsidiaries, including taxable REIT subsidiaries, to take advantage of certain business opportunities and ensure that we comply with the federal income tax rules applicable to REITs. After the sale of our servicing and origination assets as described above, our business essentially consists of actively managing our residual interests in our securitized loan portfolios.

Our executive office is located at 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034 and our telephone number is (248) 746-7000. As of December 31, 2008, we employed 27 people.

Our website address is www.origenfinancial.com and we make available, free of charge, as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission, on or through our website all of our periodic reports, including our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. As a result of the deregistering of our common stock we are not required to file such reports with respect to the period beginning on the effective date of the deregistration of our common stock.

Developments Based on Current Adverse Market Conditions

Recent and current conditions in the credit markets have adversely impacted our business and financial condition. During 2007 and throughout 2008, the credit markets that we normally depended on for warehouse lending for originations and for securitization of our originated and purchased loans, as well as the whole loan market for acquisition of loans we originated, deteriorated to the point that access to such markets was effectively shut down. This situation began with problems in the sub-prime loan market and subsequently had the same effect on lenders and investors in asset classes other than sub-prime mortgages, such as our manufactured housing loans.

Despite actions by the Federal Reserve Bank and the U.S. Treasury to lower interest rates and increase liquidity, uncertainty among lenders and investors continued to reduce liquidity, drive up the cost of lending and drive down the value of assets in these markets. The specific effects were that banks and other lenders reported large losses, demanded that borrowers reduce the credit exposure to these assets resulting in margin calls or reductions in borrowing availability, and caused massive sales of underlying assets that collateralize the loans. The consequence of these sales has been further downward pressure on market values of the underlying assets, such as our manufactured housing loans, despite the continued high intrinsic quality of our loans in terms of borrower creditworthiness and low rates of delinquencies, defaults and repossessions.

Our business model depended on the availability of credit, both for the funding of newly originated loans and for the periodic securitization of pools of loans that have been originated and funded by short-term borrowings from warehouse lenders. The securitization process permitted us to sell bonds secured by the loans we originated. The proceeds from the bond sales were used to pay off the warehouse lenders and reestablish the availability of funding for newly originated loans.

When warehouse funding is not available, or is available only on terms that do not permit us to profit from loan origination, our origination of loans for our own account could only be continued at a loss. Since there was no market for securitization at rates of interest and leverage levels acceptable to us, our only alternative for satisfying our obligations under our warehouse line was to sell the manufactured housing loans to a purchaser. Since purchasers were unwilling to pay at least the full amount advanced to borrowers plus all related fees and costs, sales of loans were not profitable for us.

We believe that the sales of our assets and the reductions in our workforce described above were necessitated by and are a result of the market conditions described above. We do not believe that the actions reflect on the quality of our continuing business operations which is to actively manage our residual interests in our securitized loan portfolio, or the credit performance or long-term realizable value of our securitized loan portfolio, which in our opinion continues to remain very high as evidenced by recent and current delinquency levels and defaults.

Management of Securitization Residuals

We historically securitized a substantial portion of our owned manufactured housing loans. In the past, after accumulating manufactured housing loans, we used transactions known as asset-backed securitizations to pay off short term debt, replenish funds for future loan originations, limit credit risk, and lock in the spread between interest rates on borrowings with the interest rates on our manufactured housing loans. In our securitizations, the manufactured housing loans were transferred to a bankruptcy remote trust that then issued bonds collateralized by those manufactured housing loans. By securitizing loans in this way, we eliminated the credit risk on our manufactured housing loans up to the amount of bonds sold to investors. Likewise, the form of securitization was designed to insulate the securitized loans from our creditors if we file for bankruptcy so that the loans supporting the bonds issued by the trust will not be encumbered. This process enabled us to fund our business at competitive rates without asset-backed bond investors relying on our corporate credit-worthiness. The most recent securitization we have completed was October 2007. As described earlier, under Recent Developments, we did not believe that current market conditions were favorable to securitization of our loans.

Table of Contents

We actively manage our residual interests in our securitized loan portfolio by monitoring and analyzing cash flow, delinquencies and recoveries.

Corporate Governance

We have implemented the following corporate governance initiatives to address certain legal requirements promulgated under the Sarbanes-Oxley Act of 2002, as well as Nasdaq corporate governance listing standards:

- Our Board of Directors determined that all members of the Audit Committee of our Board of Directors qualify as an audit committee financial expert as such term is defined under Item 401 of Regulation S-K. Each Audit Committee member is independent as that term is defined under applicable SEC and Nasdaq rules.

- Our Board of Directors adopted a Financial Code of Ethics for Senior Financial Officers, which governs the conduct of our senior financial officers. A copy of this code is available on our website at www.origenfinancial.com under the heading Investors and subheading Corporate Governance and is also available in print to any stockholder upon written request to Origen Financial, Inc., 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034.

- Our Board of Directors established and adopted charters for each of its Audit, Compensation and Nominating and Governance Committees. Each committee is comprised of independent directors. A copy of each of these charters is available on our website at www.origenfinancial.com under the heading Investors and subheading Corporate Governance and is also available in print to any stockholder upon written request to Origen Financial, Inc., 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034.

- Our Board of Directors adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees. A copy of this code is available on our website at www.origenfinancial.com under the heading Investors and subheading Corporate Governance and is also available in print to any stockholder upon written request to Origen Financial, Inc., 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034. Additionally, we maintain a Confidential and Anonymous Ethics Complaint Hotline maintained with an independent third party so that employees may confidentially report infractions against our Code of Business Conduct and Ethics to the Compliance Committee. Through this arrangement, each Compliance Committee member has access to two-way anonymous communications with the reporting employee. There are three submission methods (voicemail, email and web form). There is a message management system that provides the member an up-to-date snapshot of all incoming and outgoing communications. The ethics hotline is accessible through our intranet system.

- The Sarbanes Oxley Act of 2002 requires the establishment of procedures whereby each member of the Audit Committee of our Board of Directors is able to receive confidential, anonymous communications regarding concerns in the areas of accounting, internal controls or auditing matters. We have established a Confidential and Anonymous Financial Complaint Hotline , or whistleblower hotline, maintained with an independent third party. Through this arrangement, each Audit Committee member has access to two-way anonymous communications with the whistleblower. There are three submission methods (voicemail, e-mail and web form). There is a message management system that provides the member an up-to-date snapshot of all incoming and outgoing communications. The Whistleblower Hotline is accessible through our website at www.origenfinancial.com under the heading Investors .

ITEM 1A. RISK FACTORS

Our prospects are subject to certain uncertainties and risks. Our future results could differ materially from current results, and our actual results could differ materially from those projected in forward-looking statements as a result of certain risk factors. These risk factors include, but are not limited to, those set forth below, other one-time events, and important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission. This report contains certain forward-looking statements.

Table of Contents

Risks Related to Our Business

We may not have access to adequate capital to meet our existing debt obligations.

As of March 25, 2009, we owed approximately $28 million on a note to a related party. The note, in the original amount of $46 million, is a three-year secured note due on April 18, 2011, and is extendible for a one year period. Should the proceeds from our residual interests in our securitized loan portfolios be adversely affected by current and future economic conditions, such proceeds, in conjunction with proceeds from our other assets, might not be sufficient to pay off the note by its due date.

Our business may not be profitable in the future.

We had net losses of $35.4 million during the twelve months ended December 31, 2008, net losses of approximately $31.8 million during the twelve months ended December 31, 2007, a net profit of approximately $7.0 million during the twelve months ended December 31, 2006 and we incurred net losses of approximately $2.7 million and $3.0 million during the twelve months ended December 31, 2005 and 2004, respectively. Origen Financial L.L.C., our predecessor company, which we acquired in October 2003, experienced net losses in each year of its existence while growing its loan origination platform and business, including net losses of approximately $23.9 million for the period from January 1, 2003 through October 7, 2003 and $29.2 million for fiscal year 2002. While we have dramatically reduced the operating costs of the business through the cessation of all loan origination and loan servicing activities, should current and future economic conditions have an adverse effect on the borrowers associated with our securitized loans, the cash flows from our residual interests in these loans could be severely impacted. Such cash flows are our primary source of capital to fund the costs of operations and to produce profits.

We depend on key personnel, the loss of whom could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of certain members of our senior management team. In general, we have entered into employment agreements or consulting agreements with these individuals. There is no guarantee that these individuals will renew such agreements, which currently expire during 2009, prior to the completion of the execution of our Asset Disposition and Management Plan. The loss of services of one or more key individuals may harm our ability to maximize the value of our residual interests in our securitized loans.

Some of our investments are illiquid and their value may decrease.

Some of our assets are and will continue to be relatively illiquid. In addition, certain of the asset-backed securities that we hold may include interests that have not been registered under the relevant securities laws, resulting in a prohibition against transfer, sale, pledge or other disposition of those securities except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. Our ability to vary our portfolio in response to changes in economic and other conditions, including current market conditions, is currently limited and may become even more constrained. No assurances can be given that the fair market value of any of our assets will not further decrease in the future.

Certain securitization structures may cause us to recognize income for accounting and tax purposes without concurrently receiving the associated cash flow.

Certain securitizations are structured to build overcollateralization over time with respect to the loans that are the subject of the securitization or to accelerate the payment on senior securities to enhance the credit ratings of such securities. Accordingly, these structures may cause us to recognize income without concurrently receiving the associated cash flow. We have used such securitization structures in the past. These securitization structures and the possible resulting mismatch between income recognition and receipt of cash flow may cause us to require capital to meet our REIT distribution requirements, which capital may not be available to us on acceptable terms, if at all.

We may pay distributions that result in a return of capital to stockholders, which may cause stockholders to realize lower overall returns.

We may pay quarterly distributions that result in a return of capital to our stockholders. Any such return of capital to our stockholders will reduce the amount of capital available to us, which may result in lower returns to our stockholders. None of the distributions in 2008 and 2007 represented a return of capital. Return of capital amounted to 5.5% of distributions in 2006.

We may not generate sufficient revenue to make or sustain distributions to stockholders.

We intend to distribute to our stockholders substantially all of our REIT net taxable income each year so as to avoid paying corporate income tax on our earnings and to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. Distributions will be made at the discretion of our Board of Directors. Our ability to make and sustain cash distributions is based primarily on the performance of our manufactured housing loans and our ability to use hedging strategies to insulate our exposure to changing interest rates. Some of these factors are beyond our control and a change in any such factor could affect our ability to pay future distributions. We cannot assure our stockholders that we will be able to pay or maintain distributions in the future. We also cannot assure stockholders that the level of distributions will increase over time and that our loans will perform as expected.

We may engage in hedging transactions, which can limit gains and increase exposure to losses.

Periodically, we have entered into interest rate swap agreements in an effort to manage interest rate risk. An interest rate swap is considered to be a hedging transaction designed to protect us from the effect of interest rate fluctuations on our floating rate debt and also to protect our portfolio of assets from interest rate and prepayment rate fluctuations. We may use hedging transactions, including interest rate swaps, in the future. The nature and timing of interest rate risk management strategies may impact their effectiveness. Poorly designed strategies may increase rather than mitigate risk. For example, if we enter into hedging instruments that have higher interest rates embedded in them as a result of the forward yield curve, and at the end of the term of these hedging instruments the spot market interest rates for the liabilities that we hedged are actually lower, then we will have locked in higher interest rates for our liabilities than would be available in the spot market at the time and this could result in a narrowing of our net interest rate margin or result in losses. In some situations, we may sell assets or hedging instruments at a loss in order to maintain adequate liquidity. There can be no assurance that our hedging activities will have the desired beneficial impact on our financial condition or results of operations. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates and prepayment rates.

If the prepayment rates for our manufactured housing loans are lower than expected, return of cash to our shareholders may take longer than expected,effectively lowering the internal rate of return..

Prepayments of our manufactured housing loans, whether due to refinancing, repayments, repossessions or foreclosures, lower than management s estimates could slow the timing of future cash flows. Prepayments can result from a variety of factors, many of which are beyond our control, including changes in interest rates and general economic conditions.

The securitization trusts through which we hold residual interests in securitized loans may not realize the expected recovery rate on the resale of a manufactured house upon its repossession or foreclosure.

Proposed state and federal regulations regarding bankruptcies could adversely impact recovery rates on the resale of our manufactured houses taken back through repossession or foreclosure. The Housing Affordability and Stability Plan proposed by the U.S. Treasury Department seeks to reduce substantially the number of housing foreclosures through loan modifications, primarily by extending existing so called cram-down provisions on debt to include mortgages on primary residences. This extension would allow a bankruptcy judge the option of forgiving some of the debt thereby the amount receivable in the event of a subsequent foreclosure.

Continued falling prices for new and existing housing sales may also adversely impact recovery rates as repossessed and foreclosed properties compete for buyers with newly built houses and sales of existing houses in a falling market.

Data security breaches may subject us to liability or tarnish our reputation.

In the ordinary course of our business, we have acquired and maintain confidential customer information. While we take great care in protecting customer information, we may incur liability if it is accessed by third parties and our customers suffer negative consequences, such as identity theft. We have taken precautions to guarantee the safety of all of our customers confidential information. We also periodically review all of our data security policies and procedures in an effort to avoid data breaches. However, there can be no guarantee that we will not be subject to future claims arising from data breaches.

Our inability to finance the purchase of our securitized loans on or after the respective call dates for each securitization may result in the partial or total loss of our overcollateralization amount.

When the aggregate unpaid principal balance of the loans in each of our securitizations, including 2004-A through 2007-B, reaches 20% of the aggregate beginning principal balance on the date the securitization was established, the Servicer has the right to redeem the outstanding notes by forwarding an amount equal to the unpaid principal balance of the loans to the Trustee. If the Servicer elects to redeem the notes, then Origen would receive its overcollateralization amount in full on the redemption date (less fees and expenses). However, if the Servicer elects not to redeem the notes, then the Trustee is obligated to auction the collateral to the highest bidder, so long as the bid is high enough to pay in full the outstanding notes plus any associated fees and expenses of the Trust. Origen is permitted to participate in the auction, but must have the ability to purchase the loans either through internally generated cash or through a financing. To the extent Origen does not have the requisite cash on hand or is unable to obtain financing to participate in the auction, the overcollateralization amount may be eliminated if the Trustee sold the collateral to a bidder whose bid was equal to the outstanding notes plus fees. Any winning bid higher than the outstanding notes, but less than the outstanding collateral balance would result in a partial loss of our overcollateralization amount.

We no longer service the loans we have originated.

In July 2008, we sold certain of the assets of our loan servicing platform, including the servicing rights to loans we originated and in which we continue to own residual interests. Accordingly, we no longer have any direct control over the results of the servicing of our loans. Should the successor servicer not perform in a manner consistent with our servicing standards our cash flows from our residual interests could be negatively impacted.

Risks Related to the Manufactured Housing Industry

Manufactured housing loan borrowers may be relatively high credit risks.

Manufactured housing loans make up substantially our entire loan portfolio. Typical manufactured housing loan borrowers may be relatively higher credit risks due to various factors. Moreover, especially during periods of economic slowdown or recession, decreased real estate values may reduce the incentives that borrowers have to meet their payment obligations. Consequently, the manufactured housing loans we have originated, securitized and in which we have a residual or retained ownership interest bear a higher rate of interest, have a higher probability of default and may involve higher delinquency rates and greater servicing costs relative to loans to more creditworthy borrowers. We bear the risk of delinquency and default on securitized loans in which we have a residual or retained ownership interest. We also reacquire the risks of delinquency and default for loans that we are obligated to repurchase. Repurchase obligations are typically triggered in sales or securitizations if the loan materially violates our representations or warranties.

Depreciation in the value of manufactured houses may decrease sales of new manufactured houses and lead to increased defaults and delinquencies.

The value of manufactured houses has tended to depreciate over time. This depreciation makes pre-owned houses, even relatively new ones, significantly less expensive than new manufactured houses, thereby decreasing the demand for new manufactured houses, which negatively affects the manufactured housing lending industry. Additionally, rapid depreciation may cause the fair market value of borrowers manufactured houses to be less than the outstanding balance of their loans. In cases where borrowers have negative equity in their houses, they may not be able to resell their manufactured houses for enough money to repay their loans and may have less incentive to continue to repay their loans, which may lead to increased delinquencies and defaults.

Table of Contents

Our business may be significantly harmed by a slowdown in the economy of California where we have conducted a significant amount of business.

In the past, we had no geographic concentration limits on our ability to originate or purchase loans. For the year ended December 31, 2008, approximately 53% by principal balance and 38% by number of loans of the loans we originated were in California. As of December 31, 2008, approximately 41% of our loans receivable by principal balance was in California. Further decline in the economy or the residential real estate market in California or in any other state in which we have a high concentration of loans could further decrease the value of manufactured houses and increase the risk of delinquency. This, in turn, would increase the risk of default, repossession or foreclosure on manufactured housing loans that have been securitized and in which we hold a residual or retained ownership interest.

Tax Risks of Our Business and Structure

Distribution requirements imposed by law limit our flexibility in executing our business plan, and we cannot assure stockholders that we will have sufficient funds to meet our distribution obligations.

To maintain our status as a REIT for federal income tax purposes, we generally are required to distribute to our stockholders at least 90% of our REIT taxable net income each year. REIT taxable net income is determined without regard to the deduction for dividends paid and by excluding net capital gains. We are also required to pay federal income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income (including net capital gains) each year. In addition, to the extent such income is not subject to corporate tax, we are required to pay a 4% nondeductible excise tax on the amount, if any, by which certain distributions we pay with respect to any calendar year are less than the sum of 85% of our ordinary income for that calendar year, 95% of our capital gain net income for the calendar year and any amount of our income that was not distributed in prior years.

We intend to distribute to our stockholders at least 90% of our REIT taxable net income each year in order to comply with the distribution requirements of the Internal Revenue Code and to avoid federal income tax and the nondeductible excise tax. Differences in timing between the receipt of income and the payment of expenses in arriving at REIT taxable net income and the effect of required debt amortization payments could require us to borrow funds on a short-term basis, access the capital markets or liquidate investments to meet the distribution requirements that are necessary to achieve the federal income tax benefits associated with qualifying as a REIT even if our management believes that it is not in our best interest to do so. We cannot assure our stockholders that any such borrowing or capital market financing will be available to us or, if available to us, will be on terms that are favorable to us. Borrowings incurred to pay distributions will reduce the amount of cash available for operations. Any inability to borrow such funds or access the capital markets, if necessary, could jeopardize our REIT status and have a material adverse effect on our financial condition.

We may suffer adverse tax consequences and be unable to attract capital if we fail to qualify as a REIT.

Since our taxable period ended December 31, 2003, we have been organized and operated, and intend to continue to operate, so as to qualify for taxation as a REIT under the Internal Revenue Code. Although we believe that we have been and will continue to be organized and have operated and will continue to operate so as to qualify for taxation as a REIT, we cannot assure stockholders that we have been or will continue to be organized or operated in a manner to so qualify or remain so qualified. Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. In addition, frequent changes may occur in the area of REIT taxation, which require us to continually monitor our tax status.

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable net income at regular corporate rates. Moreover, unless entitled to relief under certain statutory provisions, (generally requiring reasonable cause for any REIT testing violations), we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. This treatment would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability to us for the years involved. In addition, distributions to stockholders would no longer be required to be made. Even if we qualify for and maintain our REIT status, we will be subject to certain federal, state and local taxes on our property and certain of our operations.

A portion of our income from assets held directly by or through a qualified REIT subsidiary that is classified as a taxable mortgage pool may represent phantom taxable income.

A portion of our income from a qualified REIT subsidiary that would otherwise be classified as a taxable mortgage pool or from interests in securitizations using a real estate mortgage investment conduits, or REMIC structure may be treated as excess inclusion income, Generally, a stockholder s share of excess inclusion income would not be allowed to be offset by any operating losses otherwise available to the stockholder. Tax exempt entities that own shares in a REIT must treat their allocable share of excess inclusion income as unrelated business taxable income. A REIT must also pay federal tax, at the highest corporate marginal tax rate, on any excess inclusion income allocated to disqualified organizations (e.g., governmental agencies and tax exempt organizations not subject to the tax on unrelated business income). Any portion of a REIT dividend paid to foreign stockholders that is allocable to excess inclusion income will not be eligible for exemption from the 30% withholding tax (or reduced treaty rate) on dividend income.

We may pay distributions that are in excess of our current and accumulated earnings and profits, which may cause our stockholders to incur future adverse federal income tax consequences.

We may pay quarterly distributions to our stockholders in excess of 100% of our estimated REIT taxable net income. Distributions in excess of our current and accumulated earnings and profits are not treated as a dividend and generally will not be taxable to a taxable U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder s adjusted tax basis in his or her common stock. Instead, any such distribution generally will constitute a return of capital, which will reduce the stockholder s adjusted basis and could result in the recognition of increased gain or decreased loss to the stockholder upon a sale of the stockholder s stock.

The market price of our common stock has significantly declined and may continue to do so.

We have been affected by the current volatility in the stock market. In December 2008, we voluntarily delisted our stock from the NASDAQ Global Market, although our common stock is currently traded on the over-the-counter market. In December 2008 we also voluntarily deregistered our common stock under the Securities Exchange Act of 1934. Accordingly, we will cease filing reports with the Securities and Exchange Commission effective following the filing of the 2008 Form 10-K. We cannot predict the effect, if any, of future sales of shares of our common stock or the availability of shares for future sales, or the market price of our common stock.

Our rights and the rights of our stockholders to take action against our directors are limited, which could limit stockholders recourse in the event of certain actions.

Our certificate of incorporation limits the liability of our directors for money damages for breach of a fiduciary duty as a director, except under limited circumstances. As a result, we and our stockholders may have more limited rights against our directors than might otherwise exist. Our bylaws require us to indemnify each director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

Our board of directors may change our investment and operational policies and practices without a vote of our stockholders, which limits stockholder control of our policies and practices.

Our major policies, including our policies and practices with respect to our operations, investments, financing, growth, debt capitalization, REIT qualifications and distributions, are determined by our Board of Directors. Our Board of Directors may amend or revise these and other policies from time to time without a vote of our stockholders. Accordingly, our stockholders will have limited control over changes in our policies.

Certain provisions of Delaware law and our governing documents may make it difficult for a third-party to acquire us.

7.50% Ownership Limit. In order to qualify and maintain our qualification as a REIT, not more than 50% of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals. Thus, ownership of more than 7.50% of our outstanding shares of common stock by any single stockholder has been

restricted, with certain exceptions, for the purpose of maintaining our qualification as a REIT under the Internal Revenue Code.

The 7.50% ownership limit, as well as our ability to issue additional shares of common stock or shares of other stock (which may have rights and preferences over the common stock), may discourage a change of control of the Company and may also: (1) deter tender offers for the common stock, which offers may be advantageous to stockholders; and (2) limit the opportunity for stockholders to receive a premium for their common stock that might otherwise exist if an investor were attempting to assemble a block of common stock in excess of 7.50% of the outstanding shares of the Company or otherwise effect a change of control of the Company.

Preferred Stock. Our charter authorizes the Board of Directors to issue up to 10,000,000 shares of preferred stock and to establish the preferences and rights (including the right to vote and the right to convert into shares of common stock) of any shares issued. The power to issue preferred stock could have the effect of delaying or preventing a change in control of the Company even if a change in control were in the stockholders interest.

Section 203. Section 203 of the Delaware General Corporation Law is applicable to certain types of corporate takeovers. Subject to specified exceptions listed in this statute, Section 203 of the Delaware General Corporation Law provides that a corporation may not engage in any business combination with any interested stockholder for a three-year period following the date that the stockholder becomes an interested stockholder. Although these provisions do not apply in certain circumstances, the provisions of this section could discourage offers from third parties to acquire us and increase the difficulty of successfully completing this type of offer.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our executive offices are located in approximately 25,000 square feet of leased space at 27777 Franklin Road, Suite 1700 and Suite 1640, Southfield, Michigan 48034. The lease, which terminates on August 31, 2011, provides for monthly rent of approximately $47,000. Certain of our officers and directors own interests in the company from which we lease our executive offices.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings arising in the ordinary course of business. All such proceedings, taken together, are not expected to have a material adverse impact on our results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE COMPANY S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

From May 5, 2004 through December 29, 2008 (when we voluntarily delisted our common stock) our common stock was listed on the Nasdaq Global Market (Nasdaq) under the symbol ORGN. Since December 29, 2008, our common stock has been quoted on the Pink Sheets Electronic Quotation Service under the symbol ORGN PK.

On March 16, 2009 the closing sales price of our common stock was $0.50 per share and the common stock was held by approximately 44 holders of record.

The following table presents the per share high and low prices of our common stock for the periods indicated as reported by the Nasdaq and for the period beginning December 29, 2008, the Pink Sheets. The stock prices reflect inter-dealer prices, do not include retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

Table of Contents

	High	Low
Fiscal Year Ended December 31, 2007		
First quarter	$7.35	$5.45
Second quarter	$7.40	$6.50
Third quarter	$7.22	$5.64
Fourth quarter	$6.16	$3.78
Fiscal Year Ended December 31, 2008		
First quarter	$4.29	$0.80
Second quarter	$2.78	$0.95
Third quarter	$1.95	$0.24
Fourth quarter	$1.36	$0.55

The following table presents the distributions per common share that were paid with respect to each quarter for 2007 and 2008.

	Distribution per share
Fiscal Year Ended December 31, 2007	
First quarter	$0.060
Second quarter	$0.080
Third quarter	$0.090
Fourth quarter	
Fiscal Year Ended December 31, 2008	
First quarter	
Second quarter	
Third quarter	$0.046
Fourth quarter	

In order to qualify for the tax benefits accorded to REITs under the Internal Revenue Code, we must, and we intend to, make distributions to our stockholders each year in an amount at least equal to (i) 90% of our REIT taxable net income (before the deduction for dividends paid and not including any net capital gain), plus (ii) 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code, minus (iii) any excess non-cash income. Differences in timing between the receipt of income and the payment of expenses and the effect of required debt amortization payments could require us to borrow funds on a short-term basis, access the capital markets or liquidate investments to meet this distribution requirement.

The actual amount and timing of distributions will be at the discretion of our Board of Directors and will depend upon our actual results of operations. To the extent not inconsistent with maintaining our REIT status, we may maintain accumulated earnings of our taxable REIT subsidiaries in those subsidiaries.

Equity Compensation Plan Information

The following table reflects information about the securities authorized for issuance under our equity compensation plans as of December 31, 2008.

	(a) Number of securities to be	(b) Weighted-average	(c) Number of securities remaining available for future issuance under

Plan Category	issued upon exercise of outstanding options, warrants and rights		exercise price of outstanding options, warrants and rights	equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	135,500	$	10.00	373,302
Equity compensation plans not approved by shareholders	N/A		N/A	N/A
Total	135,500	$	10.00	373,302

Table of Contents

Stockholder Return Performance Presentation

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on our common stock against the cumulative total return of a broad market index composed of all issuers listed on the Nasdaq National Market (NASDAQ) and the SNL Finance REITs Index for the period beginning on May 5, 2004 (the date of our initial public offering) and ending on December 31, 2008. This line graph assumes a $100 investment on May 5, 2004, a reinvestment of dividends and actual decrease of the market value of our common stock relative to an initial investment of $100. The comparisons in this table are required by the applicable SEC regulations and are not intended to forecast or be indicative of possible future performance of our common stock.

Index	05/05/04	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Origen Financial, Inc.	100.00	97.60	95.84	93.62	57.12	8.67
NASDAQ Composite	100.00	111.15	112.67	123.40	135.51	80.57
SNL Finance REIT Index	100.00	127.38	101.92	129.10	80.29	43.06

12

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

	Origen Financial, Inc.				
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
	(dollars in thousands, except for per-share data)				
Operating Statement Data:					
Interest income on loans	$ 90,827	$ 91,267	$ 73,635	$ 59,391	$ 42,479
Loss on sale of loans	(22,377)				
Servicing and other revenues	(353)	3,635	1,632	14,651	11,184
Total revenue	68,097	94,902	75,267	74,042	53,663
Interest expense	60,732	59,740	43,456	28,468	15,020
Provisions for loan loss and recourse liability	17,745	8,739	7,069	13,633	10,210
Goodwill impairment		32,277			
Other operating expenses	34,015	34,495	24,620	34,600	31,399
Total expenses	112,492	135,251	75,145	76,701	56,629
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	(44,395)	(40,349)	122	(2,659)	(2,966)
Provision for income taxes(1)	61	47			
Income (loss) from continuing operations	(44,456)	(40,396)	122	(2,659)	(2,966)
Income from discontinued operations, net of tax	9,092	8,629	6,803		
Cumulative effect of change in accounting principle			46		
Net income (loss)	$ (35,364)	$ (31,767)	$ 6,971	$ (2,659)	$ (2,966)
Earnings (loss) on continuing operations per share Diluted	$ (1.73)	$ (1.60)	$ 0.01	$ (0.11)	$ (0.14)
Earning on discontinued operations per share Diluted	$ 0.35	$ 0.34	$ 0.27	$ 0.00	$ 0.00
Earning (loss) per share Diluted	$ (1.38)	$ (1.26)	$ 0.28	$ (0.11)	$ (0.14)
Distributions paid per share	$ 0.05	$ 0.27	$ 0.09	$ 0.22	$ 0.35
Balance Sheet Data:					
Loans receivable, net of allowance for losses	$ 911,947	$ 1,193,916	$ 950,226	$ 768,410	$ 563,268
Servicing rights		2,146	2,508	3,103	4,097

Goodwill			32,277	32,277	32,277
Cash and other assets	53,586	88,139	88,056	89,213	82,905
Total assets	$ 965,533	$ 1,284,201	$ 1,073,067	$ 893,003	$ 682,547
Total debt	$ 804,471	$ 1,089,968	$ 842,300	$ 669,708	$ 455,914
Other liabilities	$ 82,867	$ 45,848	$ 26,303	$ 23,344	$ 23,167
Stockholders Equity	$ 78,195	$ 148,385	$ 204,464	$ 199,951	$ 203,466
Other Information					
Cash Flow Data: (provided by/(used in)) From operating activities	$ 169,840	$ 23,056	$ 16,286	$ 18,167	$ 8,606
From investing activities	$ 124,400	$ (253,997)	$ (193,265)	$ (229,183)	$ (245,125)
From financing activities	$ (290,913)	$ 239,166	$ 171,238	$ 210,030	$ 238,886

(1) As a REIT, Origen Financial, Inc. is not required to pay federal corporate income taxes on its net income that is currently distributed to its stockholders.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto.

Management s discussion and analysis of financial condition and results of operations and liquidity and capital resources contained within this Form 10-K is more clearly understood when read in conjunction with our historical financial statements and the related notes. The notes to the financial statements provide information about us, as well as the basis for presentation used in this Form 10-K.

Overview

In October 2003, we began operations upon the acquisition of all of the equity interests of Origen Financial L.L.C. We also took steps to qualify Origen Financial, Inc. as a REIT. In the second quarter of 2004, we completed the initial public offering of our common stock. Through March 2008 our business was to originate, purchase and service manufactured housing loans.

In March 2008, because of the lack of a reliable source for a loan warehouse facility and the unavailability of a profitable exit in the securitization market, we ceased originating loans for our own account and sold our portfolio of unsecuritized loans at a substantial loss. On July 1, 2008, we completed a transaction for the sale of our loan servicing platform assets and ceased all loan servicing operations. In July 2008, we completed the sale of certain assets of our loan origination and insurance business. In December 2008, we voluntarily delisted our common stock from the NASDAQ Global Market and deregistered the stock under the Securities Exchange Act of 1934. After the sale of the servicing and origination assets as described above, our business essentially consists of actively managing our residual interests in our securitized loan portfolios.

Developments Based on Current Adverse Market Conditions

Recent and current conditions in the credit markets have adversely impacted our business and financial condition. During 2007 and throughout 2008, the credit markets that we normally depended on for warehouse lending for originations and for securitization of our originated and purchased loans, as well as the whole loan market for acquisition of loans we originate, deteriorated. This situation began with problems in the sub-prime loan market and subsequently had the same effect on lenders and investors in asset classes other than sub-prime mortgages, such as our manufactured housing loans.

Despite actions by the Federal Reserve Bank and the U.S. Treasury to lower interest rates and increase liquidity, uncertainty among lenders and investors continued to reduce liquidity, drive up the cost of lending and drive down the value of assets in these markets. The specific effects were that banks and other lenders reported large losses, demanded that borrowers reduce the credit exposure to these assets resulting in margin calls or reductions in borrowing availability, and caused massive sales of underlying assets that collateralize the loans. The consequence of these sales has been further downward pressure on market values of the underlying assets, such as our manufactured housing loans, despite the continued high intrinsic quality of our loans in terms of borrower creditworthiness and low rates of delinquencies, defaults and repossessions.

Our business model depended on the availability of credit, both for the funding of newly originated loans and for the periodic securitization of pools of loans that have been originated and funded by short-term borrowings from warehouse lenders. The securitization process permitted us to sell bonds secured by the loans we originated. The proceeds from the bond sales were used to pay off the warehouse lenders and reestablish the availability of funding for newly originated loans.

When warehouse funding is not available, or is available only on terms that do not permit us to profit from loan origination, our origination of loans for our own account could only be continued at a loss. Since there is no market for securitization at rates of interest and leverage levels acceptable to us, our only alternative for satisfying our obligations under our warehouse line was to sell the manufactured housing loans to a purchaser. Since purchasers were unwilling to pay at least the full amount advanced to borrowers plus all related fees and costs, sales of loans were not profitable for us.

As a direct result of these market conditions and because of the lack of a reliable on-going source of loan warehouse financing and other forms of borrowings, we initiated a series of actions to change our business model.

In February 2008, to satisfy our warehouse lender, we sold an asset-backed bond for $22.5 million, in order to fully pay off $19.6 million of repurchase agreements secured by this bond and three others that we continue to hold. Sale of this bond resulted in our recording an asset impairment charge of $9.2 million in 2007.

We ceased originating loans for our own account during March 2008. On March 14, 2008 we sold our portfolio of approximately $174.6 million in aggregate principle balance of unsecuritized loans with a carrying value of $175.7 million for approximately $155.0 million. The proceeds from the loan sale were used to pay off our existing loan warehouse facility of $146.4 million. The warehouse facility expired on March 14, 2008 and was not renewed.

On April 8, 2008, we completed a $46.0 million secured financing transaction with a related party and used the proceeds, combined with other funds, to pay off the $46.7 million outstanding balance of a supplemental advance credit facility which would have expired in June 2008. The facility was terminated on April 8, 2008.

At our annual stockholders meeting on June 25, 2008, our stockholders approved an Asset Disposition and Management Plan. Pursuant to this plan, we executed a number of transactions and took several actions, as follows.