

IRWIN FINANCIAL CORPORATION
Form 10-Q
August 13, 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 **June 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

35-1286807

(State or other jurisdiction of Incorporation or organization)

(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)

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

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

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 August 5, 2002, there were outstanding 27,736,886 common shares, no par value, of the Registrant

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Unaudited)

(In thousands, except for shares)	June 30, 2002	December 31, 2001
Assets:		
Cash and cash equivalents	\$110,865	\$158,291
Interest-bearing deposits with financial institutions	19,527	14,247
Trading assets	183,539	199,071
Investment securities (Market value: \$36,641 in 2002 and \$38,937 in 2001) - Note 2	36,448	38,796
Loans held for sale	437,147	502,086
Loans and leases, net of unearned income - Note 3	2,675,915	2,137,747
Less: Allowance for loan and lease losses - Note 4	(37,286)	(22,283)
	2,638,629	2,115,464
Servicing assets - Note 5	212,453	228,624
Accounts receivable	42,008	41,996
Accrued interest receivable	15,562	14,063
Premises and equipment	33,589	34,988
Other assets	97,815	100,067
Total assets	\$3,827,582	\$3,447,693
Liabilities and Shareholders' Equity:		
Deposits		
Noninterest-bearing	\$428,840	\$533,983
Interest-bearing	1,026,038	889,448
Certificates of deposit over \$100,000	802,428	885,587
	2,257,306	2,309,018
Short-term borrowings - Note 6	380,612	487,963
Long-term debt - Note 7	464,968	30,000
Company-obligated mandatorily redeemable preferred securities of subsidiary trust	198,500	198,500
Other liabilities	196,075	189,889
Total liabilities	3,497,461	3,215,370
Commitments and contingencies - Note 8		
Minority interest	846	658
Shareholders' equity		
Preferred stock, no par value - authorized 4,000,000 shares; issued none as of June 30, 2002 and 96,336 shares as of December 31, 2001	-	1,386

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

Common stock, no par value - authorized 40,000,000 shares; issued 29,612,080 and 23,402,080 shares as of June 30, 2002 and December 31, 2001, respectively; including 1,879,658 and 2,096,947 shares in treasury as of June 30, 2002 and December 31, 2001, respectively	112,159	29,965
Additional paid-in capital	3,794	4,426
Deferred compensation	(359)	(449)
Accumulated other comprehensive loss, net of deferred income tax benefit of \$83 and \$216 in 2002 and 2001, respectively	(125)	(325)
Retained earnings	255,932	241,725
	371,401	276,728
Less treasury stock, at cost	(42,126)	(45,063)
Total shareholders' equity	329,275	231,665
Total liabilities and shareholders' equity	\$3,827,582	\$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)

(In thousands, except for per share)	For the Three Months Ended	
	June 30,	
	2002	2001
Interest income:		
Loans and leases	\$52,663	\$31,263
Loans held for sale	9,159	24,748
Trading account	8,789	7,593
Investment securities:		
Taxable	340	1,363
Tax-exempt	57	65
Federal funds sold	11	56
Total interest income	71,019	65,088
Interest expense:		
Deposits	13,894	18,853
Short-term borrowings	3,796	8,100
Long-term debt	794	580
Preferred securities distribution	4,818	3,704
Total interest expense	23,302	31,237
Net interest income	47,717	33,851
Provision for loan and lease losses	9,500	2,804
Net interest income after provision for loan and lease losses	38,217	31,047
Other income:		
Loan origination fees	15,072	16,536
Gain from sales of loans	26,202	45,905
Loan servicing fees	17,809	15,812
Amortization and impairment of servicing assets	(62,257)	(8,869)
Net loan administration income	(44,448)	6,943
Gain on sale of mortgage servicing assets	9,809	3,689
Trading losses	(5,757)	(2,477)
Other	50,221	(2,180)
	51,099	68,416
Other expense:		
Salaries	40,326	43,123

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

Pension and other employee benefits	7,979	7,386
Office expense	4,395	4,035
Premises and equipment	8,523	7,430
Marketing and development	1,024	1,445
Professional Fees	2,098	1,684
Other	11,924	13,289
	<u>76,269</u>	<u>78,392</u>
Income before income taxes	13,047	21,071
Provision for income taxes	5,069	8,474
Income before minority interest	7,978	12,597
Minority interest in losses of subsidiaries	(8)	(211)
Net income	\$7,986	\$12,808
Earnings per share: - Note 9		
Basic	\$0.29	\$0.61
Diluted	\$0.28	\$0.56
Dividends per share	\$0.0675	\$0.0650

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

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

	For the Six Months Ended	
	June 30,	
(In thousands, except for per share)	2002	2001
Interest income:		
Loans and leases	\$99,854	\$60,514
Loans held for sale	19,096	47,603
Trading account	18,068	14,738
Investment securities:		
Taxable	1,395	2,607
Tax-exempt	113	128
Federal funds sold	30	89
Total interest income	<u>138,556</u>	<u>125,679</u>
Interest expense:		
Deposits	28,028	37,907
Short-term borrowings	7,395	16,251
Long-term debt	1,363	1,160
Preferred securities distribution	9,638	7,408
Total interest expense	<u>46,424</u>	<u>62,726</u>
Net interest income	92,132	62,953
Provision for loan and lease losses	19,832	4,357
Net interest income after provision for loan and lease losses	<u>72,300</u>	<u>58,596</u>
Other income:		
Loan origination fees	30,611	28,214
Gain from sales of loans	62,698	81,061
Loan servicing fees	36,466	31,627
Amortization and impairment of servicing assets	(65,550)	(16,405)
Net loan administration income	(29,084)	15,222
Gain on sale of mortgage servicing assets	9,716	5,781
Trading losses	(13,059)	(2,546)
Other	46,125	2,494
	<u>107,007</u>	<u>130,226</u>

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

Other expense:		
Salaries	79,133	84,406
Pension and other employee benefits	16,693	14,121
Office expense	8,604	7,677
Premises and equipment	16,741	14,858
Marketing and development	1,626	2,975
Professional Fees	5,245	3,702
Other	<u>22,787</u>	<u>25,236</u>
	<u>150,829</u>	<u>152,975</u>
Income before income taxes	28,478	35,847
Provision for income taxes	<u>11,075</u>	<u>14,254</u>
Income before minority interest	17,403	21,593
Minority interest in losses of subsidiaries	(34)	(211)
Income before cumulative effect of change in accounting principle	17,437	21,804
Cumulative effect of change in accounting principle, net of tax	<u>495</u>	<u>175</u>
Net income	\$17,932	\$21,979
Earnings per share before cumulative effect of change in accounting principle:		
Basic	\$0.67	\$1.03
Diluted	\$0.65	\$0.96
Earnings per share: - Note 9		
Basic	\$0.69	\$1.04
Diluted	\$0.67	\$0.97
Dividends per share	\$0.1350	\$0.1300

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

IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

FOR THE THREE MONTHS ENDED JUNE 30, 2002 AND 2001

	Total	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Additional Paid in Capital	Common Stock	Preferred Stock	Treasury Stock
(Dollars in thousands)								
Balance at April 1, 2002	\$ 322,505	\$ 249,812	\$ (360)	\$ (419)	\$ 4,444	\$ 112,336	\$ 1,386	\$ (44,694)
Net income	7,986	7,986						
Unrealized loss on investment securities net of \$13 tax benefit	(19)		(19)					
Foreign currency adjustment net of \$170 tax liability	254		254					
Total comprehensive income	8,221							
Deferred compensation	60			60				
Cash dividends	(1,866)	(1,866)						
Additional costs for equity offering	(177)					(177)		
Tax benefit on stock option exercises	504				504			

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

Treasury stock:									
Purchase of 54,732 shares	(1,101)								(1,101)
Sales of 245,054 shares	2,515	-			(1,154)				3,669
Conversion of preferred stock to common stock	(1,386)							(1,386)	
Balance June 30, 2002	\$ 329,275	\$ 255,932	\$ (125)	\$ (359)	\$ 3,794	\$ 112,159	\$ -	\$ (42,126)	
Balance at April 1, 2001	\$ 197,294	\$ 209,524	\$ (677)	\$ (499)	\$ 4,065	\$ 29,965	\$ 1,386	\$ (46,470)	
Net income	12,808	12,808							
Unrealized loss on investment securities net of \$17 tax liability	26		26						
Foreign currency adjustment net of \$144 tax benefit	216		216						
Total comprehensive income	13,050								
Deferred compensation	44			44					
Cash dividends	(1,377)	(1,377)							
Tax benefit on stock option exercises	39				39				
Treasury stock:									
Purchase of 3,640 shares	(81)								(81)
Sales of 28,520 shares	483	-			102				381
Balance June 30, 2001	\$ 209,452	\$ 220,955	\$ (435)	\$ (455)	\$ 4,206	\$ 29,965	\$ 1,386	\$ (46,170)	

FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

(Dollars in thousands)	Total	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Additional Paid in Capital	Common Stock	Preferred Stock	Treasury Stock
Balance at January 1, 2002	\$ 231,665	\$ 241,725	\$ (325)	\$ (449)	\$ 4,426	\$ 29,965	\$ 1,386	\$ (45,063)
Net income	17,932	17,932						
Unrealized gain on investment securities net of \$32 tax benefit	(48)		(48)					
Foreign currency adjustment net of \$166 tax liability	248		248					
Total comprehensive income	18,132							
Deferred compensation	90			90				
Cash dividends	(3,725)	(3,725)						
Sale of 6,210,000 shares of common stock	82,194					82,194		

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

Tax benefit on stock option exercises	516				516				
Treasury stock:									
Purchase of 55,345 shares	(1,111)								(1,111)
Sales of 272,634 shares	2,900				(1,148)				4,048
Conversion of preferred stock to common stock	(1,386)							(1,386)	
Balance June 30, 2002	\$ 329,275	\$ 255,932	\$ (125)	\$ (359)	\$ 3,794	\$ 112,159	\$ -	\$ (42,126)	
Balance at January 1, 2001	\$ 188,870	\$ 201,729	\$ (459)	\$ (503)	\$ 4,331	\$ 29,965	\$ 1,386	\$ (47,579)	
Net income	21,979	21,979							
Unrealized gain on investment securities net of \$59 tax liability	89		89						
Foreign currency adjustment net of \$43 tax benefit	(65)		(65)						
Total comprehensive income	22,003								
Deferred compensation	48			48					
Cash dividends	(2,753)	(2,753)							
Tax benefit on stock option exercises	1,631				1,631				
Treasury stock:									
Purchase of 93,760 shares	(2,220)								(2,220)
Sales of 259,393 shares	1,873	-			(1,756)				3,629
Balance June 30, 2001	\$ 209,452	\$ 220,955	\$ (435)	\$ (455)	\$ 4,206	\$ 29,965	\$ 1,386	\$ (46,170)	

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

IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

For the Six Months ended June 30, <i>(In thousands)</i>	2002	2001
Net income	\$ 17,932	\$ 21,979
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation, amortization, and accretion, net	6,243	4,922
Amortization and impairment of servicing assets	65,550	16,405
Provision for loan and lease losses	19,832	4,356
Gain on sale of mortgage servicing assets	(9,716)	(5,781)
Gain from sales of loans	(62,698)	(33,307)
Originated mortgage servicing assets	(64,938)	(67,983)
Originations and purchases of loans held for sale	(3,846,556)	(4,812,101)
Proceeds from sale of mortgage servicing assets	25,275	6,553
Proceeds from the sales and repayments of loans held for sale	3,966,979	4,408,404
Net decrease (increase) in trading assets	15,532	(37,026)
Net (increase) decrease in accounts receivable	(12)	22,543
Other, net	5,005	33,621

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

Net cash provided (used) by operating activities	138,428	(437,415)
Lending and investing activities:		
Proceeds from maturities/calls of investment securities:		
Held-to-maturity	476	3,270
Available-for-sale	1,862	2,000
Purchase of investment securities:		
Held-to-maturity	-	(83)
Available-for-sale	(77)	(595)
Net increase in interest-bearing deposits with financial institutions	(5,280)	(48,046)
Net increase in loans, excluding sales	(813,211)	(306,892)
Proceeds from sale of loans	277,428	53,160
Other, net	(2,337)	(5,532)
Net cash used by lending and investing activities	(541,139)	(302,718)
Financing activities:		
Net (decrease) increase in deposits	(51,712)	485,556
Net (decrease) increase in short-term borrowings	(107,351)	301,424
Proceeds from issuance long term debt	434,968	-
Purchase of treasury stock for employee benefit plans	(1,111)	(2,220)
Proceeds from sale of stock for employee benefit plans and equity offering	84,224	3,504
Dividends paid	(3,725)	(2,753)
Net cash provided by financing activities	355,293	785,511
Effect of exchange rate changes on cash	(8)	(18)
Net (decrease) increase in cash and cash equivalents	(47,426)	45,360
Cash and cash equivalents at beginning of period	158,291	83,493
Cash and cash equivalents at end of period	\$ 110,865	\$ 128,853
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	\$ 45,284	\$ 63,486
Income taxes	\$ 6,414	\$ 1,789
Noncash transactions:		
Conversion of preferred stock to common stock	\$ 1,386	\$ -

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation: Irwin Financial Corporation and its subsidiaries provide financial services throughout the United States and Canada. We are engaged in the mortgage banking, commercial banking, home equity lending, equipment leasing, and venture capital lines of business. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of 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.

Derivative Instruments: Effective January 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Under the provisions of this standard, all derivative instruments have been recorded at fair value as assets or liabilities in the December 31, 2001 consolidated

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

balance sheet. Unrealized holding gains and losses from all derivative instruments classified as fair value hedges or freestanding derivative instruments have been recorded in the consolidated statement of income. The adoption of SFAS 133 resulted in a cumulative change in accounting principle, increasing net income by \$175 thousand in 2001.

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

We enter into forward contracts to protect against interest rate fluctuations from the date of mortgage loan commitment until the loans are sold. At December 31, 2001, we designated the portion of these transactions hedging the closed mortgage loans as hedges that qualify for hedge accounting treatment under SFAS 133. The basis of the hedged closed loans is adjusted for changes in value associated with the risk being hedged. The effect of these hedging activities, which do not have a material impact on our net income, was recorded through earnings as gain from sales of loans. Hedge ineffectiveness recorded in gain from sales of loans related to these hedging activities was immaterial.

Additionally, we enter into commitments to originate loans for which the interest rate is determined prior to funding (rate lock commitments). Rate lock commitments on first mortgage loans intended to be sold are considered to be derivatives. At the time of interest rate lock commitment, no gain or loss is recognized. Any subsequent changes in fair value are recorded in earnings. These derivatives are recorded on the balance sheet at fair value at period end.

Recent Accounting Developments: In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140, which replaces SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," provides accounting and reporting standards for securitizations and other transfers of assets. SFAS 140 is based on the application of a financial components approach that focuses on control, and provides consistent standards for distinguishing between transfers of financial assets that are sales and transfers that are secured borrowings. The Standard requires disclosure of information about securitized assets, including the principal outstanding of securitized and other managed assets, accounting policies, key assumptions related to the determination of the fair value of residual interests, delinquencies and credit losses. The accounting requirements of SFAS 140 were effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adoption of this statement did not have a material impact on our financial position or results of operations.

On June 29, 2001 the FASB approved SFAS No. 141, "Business Combinations," and No. 142 "Goodwill and Other Intangible Assets." SFAS 141 eliminated the pooling-of-interests method of accounting - requiring that purchase accounting, with its recognition of intangible assets separately from goodwill, be applied to all business combinations initiated after June 30, 2001.

Under the provisions of SFAS 142, goodwill is no longer amortized against earnings. Instead, goodwill and intangible assets deemed to have an indefinite life are reviewed for impairment at least annually. The amortization period of intangible assets with finite lives is no longer limited to forty years. This standard became effective January 1, 2002. We discontinued the amortization of goodwill with a net carrying value of \$1.8 million on the date of adoption and annual amortization of \$0.2 million that resulted from business combinations prior to the adoption of SFAS 141. In addition, as required by the standard, we wrote off, as a cumulative effect of a change in accounting principle, unamortized negative goodwill totaling \$0.5 million net of tax at the date of adoption arising from a prior business combination at our leasing line of business.

The FASB has also issued SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 143 addresses accounting for the retirement of tangible long-lived assets and the associated asset retirement costs. The effective date is for fiscal years beginning after June 15, 2002. SFAS 144, effective for fiscal years beginning after December 15, 2001, supersedes FASB No. 121 "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of" and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. Management does not believe the implementation of SFAS 143 or SFAS 144 will have a material effect on our earnings or financial condition.

Reclassifications: Certain amounts in the 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation. These changes had no impact on previously reported net income or shareholders' equity.

NOTE 2 - INVESTMENT SECURITIES

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

The carrying amounts of investment securities, including a net unrealized gain of \$43 thousand and a net unrealized loss of \$124 thousand on available-for-sale securities at June 30, 2002 and December 31, 2001, respectively, are summarized as follows:

<i>(In thousands)</i>	June 30, 2002	December 31, 2001
Held-to-maturity, at amortized cost		
Obligations of states and political subdivisions	\$ 4,255	\$ 4,425
Mortgage-backed securities	1,200	1,507
Corporate obligations	133	133
Total held-to-maturity	5,588	6,065
Available-for-sale, at fair value		
US Treasury and Government obligations	29,282	29,329
Mortgage-backed securities	1,304	2,717
Other	274	685
Total available-for-sale	30,860	32,731
Total investments	\$ 36,448	\$ 38,796

Securities that we have a positive intent and ability to hold until maturity are classified as "held-to-maturity" and are stated at cost adjusted for amortization of premium and accretion of discount. Securities that might be sold prior to maturity are classified as "available-for-sale" and are stated at fair value. Unrealized gains and losses on available-for-sale securities, net of the future tax impact, are reported as a separate component of shareholders' equity until realized.

NOTE 3 - LOANS AND LEASES

Loans and leases are summarized as follows:

<i>(In thousands)</i>	June 30, 2002	December 31, 2001
Commercial, financial and agricultural	\$ 1,273,429	\$ 1,055,307
Real estate-construction	278,369	287,228
Real estate-mortgage	357,679	490,111
Real estate-mortgage securitized	433,957	-
Consumer	29,906	38,489
Direct financing leases		
Domestic	248,895	232,527
Canadian	116,689	91,816
Unearned income		
Domestic	(45,659)	(44,183)
Canadian	(17,350)	(13,548)
Total loans and leases, net of unearned income	\$ 2,675,915	\$ 2,137,747

NOTE 4 - ALLOWANCE FOR LOAN AND LEASE LOSSES

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

<i>(In thousands)</i>	June 30, 2002	December 31, 2001
-----------------------	--------------------------	------------------------------

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

Balance at beginning of period	\$ 22,283	\$ 13,129
Provision for loan and lease losses	19,832	17,505
Charge-offs *	(6,261)	(10,441)
Recoveries	1,350	2,236
Other	82	(146)
Balance at end of period	\$ 37,286	\$ 22,283

* In addition, not included in the caption were charge-offs of \$2.0 million and \$2.3 million at June 30, 2002 and December 31, 2001, respectively, that were charged directly to a valuation allowance at our home equity line of business. This valuation allowance was recorded when approximately \$38 million of loans held for sale were transferred at market value to loans held for investment in late 2001.

NOTE 5- SERVICING ASSETS

Included on the consolidated balance sheet at June 30, 2002 and December 31, 2001 are \$212.5 million and \$228.6 million, respectively, of servicing assets. The servicing asset recorded represents the discounted cash flows of estimated future servicing income and cost. These amounts relate to the principal balances of loans that we service for investors. Although they are not generally held for sale, there is an active secondary market for servicing assets. We have periodically sold servicing assets.

Servicing Asset:

	June 30,	December 31,
(In thousands)	2002	2001

Beginning Balance	\$ 228,624	\$ 130,522
Additions	64,938	151,821
Amortization and impairment	(65,550)	(50,134)
Reduction for servicing sales	(15,559)	(3,585)
	\$ 212,453	228,624

NOTE 6- SHORT-TERM BORROWINGS

Short-term borrowings are summarized as follows:

	June 30,	December 31,
(In thousands)	2002	2001

Federal Home Loan Bank borrowings	\$ 177,000	\$ 212,000
Repurchase agreements and drafts payable related to mortgage loan closings	119,799	154,157
Lines of credit and other	16,633	75,483
Federal funds	52,000	35,200
Commercial paper	15,180	11,123
Total	\$ 380,612	487,963

Repurchase agreements at June 30, 2002 and December 31, 2001, include \$0.3 million and \$0.1 million respectively, in mortgage loans sold under agreements to repurchase which are used to fund mortgage loans sold prior to sale in the secondary market. These repurchase agreements are collateralized by mortgage loans held for sale.

Drafts payable related to mortgage loan closings totaled \$119.5 million and \$154.0 million at June 30, 2002 and December 31, 2001, respectively. These borrowings are related to mortgage closings at the end of the period which have not been presented for payment. When presented for payment these borrowings will be funded internally or by borrowing from the lines of credit.

Edgar Filing: IRWIN FINANCIAL CORPORATION - Form 10-Q

We have lines of credit available to fund loan originations and operations. Interest on the lines of credit is payable monthly or quarterly with rates ranging from 2.3% to 3.5% .

NOTE 7- LONG-TERM DEBT

Long-term debt is summarized as follows:

<i>In thousands)</i>	Maturity	Interest rate	June 30, 2002	December 31, 2001
Subordinated debt	7/7/2014	7.58%	\$ 30,000	\$ 30,000
2002-1 asset backed notes:				