

IRWIN FINANCIAL CORP  
Form 8-K  
October 02, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 26, 2006

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IRWIN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

0-6835

35-1286807

(State or other jurisdiction of  
incorporation)

(Commission File Number)

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

500 Washington Street

Columbus, Indiana 47201

(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code: **(812) 376-1909**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

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Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17CFR 240.13e-4(c))

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## ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

On September 26, 2006, pursuant to an asset purchase agreement described in a Report on Form 8-K filed August 7, 2006, which agreement was amended by a letter agreement on September 18, 2006, (together, the asset purchase agreement and letter agreement are referred to as the "Asset Purchase Agreement"), Irwin Financial Corporation's (the "Corporation's") indirect subsidiary, Irwin Mortgage Corporation ("IMC"), completed the sale of substantially all of its conforming conventional first mortgage loan production assets and related contractual commitments to Freedom Mortgage Corporation of Mt. Laurel, NJ ("Freedom"). A transfer of a portion of the assets was described in a Report on Form 8-K filed September 18, 2006.

Completion of the transaction on September 26, 2006 included the transfer of IMC's mortgage loans held for sale and associated hedges. Among the principal ancillary agreements entered into between IMC and Freedom in connection with the Asset Purchase Agreement are agreements that provide for (i) Freedom's sublease of approximately 47 percent of the Fishers headquarters on economic terms that are ratably substantially equivalent to the terms IMC pays its landlord; (ii) mutual transition services, such as interim loan servicing, information technology support, temporary use of equipment and furnishings and similar services, generally at prescribed fees intended to pass through or cover the servicing party's costs of providing the service; and (iii) temporary use by Freedom of the "Irwin Mortgage" name and IMC's websites.

The purchase price for the assets was approximately \$275 Million in cash subject to adjustment to reflect the following: (i) adjustments to account for changes in certain asset and liability accounts to reflect the difference between pre-closing estimates and actual closing date amounts and to give effect to the proration of utilities charges and other payables relating to periods straddling the closing date; (ii) payments by IMC to Freedom in respect of a portion of gain realized on pre-closing loan sales by IMC that remained pending at the time of closing; and (iii) future payments to IMC by Freedom based on the amount of future production through offices acquired by Freedom. Freedom assumed a number of accounts payable and contractual obligations associated with IMC's mortgage origination activities, but IMC retains liability for pending litigation and other obligations with respect to its mortgage origination activities prior to the closing and its retained servicing operations.

IMC did not sell Freedom IMC's mortgage servicing platform or its portfolio of mortgage servicing rights.

Irwin Financial Corporation and its subsidiaries have no material relationship with Freedom apart from the transactions covered by the Asset Purchase Agreement.

The above description of the transaction is qualified in its entirety by the full text of the Asset Purchase Agreement, which is attached to this report as Exhibits 2.1 and 2.2. A copy of the press release announcing the completion of the sale is attached to this report as Exhibit 99.1.

#### ITEM 8.01. OTHER EVENTS.

On October 2, 2006, the Corporation announced the sale of substantially all of its conforming, conventional mortgage servicing portfolio (MSRs) for approximately \$261 million. The portfolio was sold to four independent acquirers. Transfer of the portfolio and associated escrow deposits will begin in November and be substantially complete by January 3, 2007. Until final transfer, the Corporation will provide interim servicing for the buyers and will retain the liquidity and the economic benefits derived from the escrow deposits.

The cash consideration for the sales includes an estimate of prepayment and delinquency costs for which the Corporation contractually indemnified the purchasers for periods up to 90 days. Final cash consideration will also include the fair value of servicing produced during the third quarter, up to the point of the sale of certain related production assets on September 18, 2006. Reflecting anticipated sale proceeds and giving effect to gains on derivative hedges on the portfolio prior to sale date, the Corporation expects to record a pre-tax charge of approximately \$11 million on the MSR disposition.

The Corporation also announced that it is in substantive discussion with a national mortgage lender for the acquisition of certain assets and the assumption of certain lease and contractual obligations related to its servicing platform. Current negotiations contemplate a plan by the acquirer to employ a large majority of the existing servicing employees subsequent to the final MSR portfolio transfer.

A copy of the press release announcing the sale of the MSR asset and plans to sell the mortgage servicing platform is attached to this report as Exhibit 99.2.

#### *About Irwin Financial*

Irwin® Financial Corporation (<http://www.irwinfinancial.com>) is a bank holding company with a history tracing to 1871. The Corporation, through its principal lines of business provides a broad range of financial services to consumers and small businesses in selected markets in the United States and Canada.

#### *About Forward-Looking Statements*

This Report contains forward-looking statements that are based on management's expectations, estimates, projections and assumptions. These statements involve inherent risks and uncertainties that are difficult to predict and are not guarantees of future performance. Words that convey our beliefs, views, expectations, assumptions and estimates or similar language, or that indicate events we believe could, would, should, may or will occur (or might not occur) or are likely (or unlikely) to occur, and similar expressions, are intended to identify forward-looking statements, which include but are not limited to, statements about adjustments to the purchase price of the sale of assets to Freedom that, among other things, may result in post-closing payments; expected future action in connection with the transfer of assets associated with the MSRs; the expected financial effect of the MSR disposition on the Corporation; the expected disposition of the servicing platform; and pro formas. Actual future results may differ materially from what is projected due to a variety of factors, including, but not limited to, a failure to realize gains on the sale of certain loans in connection with which adjustments will be made to the purchase price of assets sold to Freedom; difficulty by Freedom in achieving certain production results at offices acquired from IMC; prepayment and delinquency rates on the MSR portfolio during the period from sale to transfer date; and unforeseen difficulties the parties may experience in completing the transactions as currently contemplated. We undertake no obligation to

update publicly any of these statements in light of future events, except as required in subsequent reports we file with the Securities and Exchange Commission.

## ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

### (b) *Pro Forma Financial Information*

The following unaudited condensed consolidated pro forma financial statements are based upon the historical financial statements of the Corporation, adjusted to reflect the sale of assets related to its wholly-owned subsidiary IMC.

The unaudited condensed consolidated pro forma balance sheet reflects the disposition of the majority of IMC's assets as if it occurred on June 30, 2006. The unaudited condensed consolidated pro forma income statement for the year ended December 31, 2005, gives effect to the disposition as if it occurred on January 1, 2005. The unaudited condensed consolidated pro forma income statement for the six-month period ended June 30, 2006 is not presented since the operations of IMC were previously reported as discontinued operations in the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed on August 2, 2006.

The following unaudited condensed consolidated pro forma financial statements of the Corporation should be read in conjunction with the related notes and with the historical consolidated financial statements of the Corporation and the related notes included in previous filings with the Securities and Exchange Commission. The unaudited condensed consolidated pro forma financial statements are provided for illustrative purposes only and are not necessarily indicative of the operating results or financial position that would have occurred had the disposition closed on June 30, 2006, for the unaudited condensed consolidated pro forma balance sheet or as of January 1, 2005, for the unaudited condensed consolidated pro forma statement of income. All pro forma adjustments in the following schedules are based on the best available information and certain assumptions that the Corporation's management believes are reasonable. Readers should not rely on the unaudited condensed consolidated pro forma financial statements as being indicative of the historical operating results that the Corporation would have achieved or any future operating results or financial position that it will experience after the transaction closes.

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IRWIN FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED PRO FORMA BALANCE SHEET  
AS OF JUNE 30, 2006  
(UNAUDITED - AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

|                           | Historical    | (Note 1, 2) | Pro Forma        |
|---------------------------|---------------|-------------|------------------|
|                           | June 30, 2006 | Adjustments | June 30,<br>2006 |
| Assets:                   |               |             |                  |
| Cash and cash equivalents | \$ 154,619    | \$ -        | \$ 154,619       |

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|   |              |            |              |
|---|--------------|------------|--------------|
| Interest-bearing deposits with financial institutions   | 45,226       |            | 45,226       |
| Residual interests  | 15,036       |            | 15,036       |
| Investment securities- held-to-maturity (Fair value: \$17,245 at June 30, 2006 and \$17,031 at December 31, 2005) | 17,579       |            | 0            |
| Investment securities- available-for-sale   | 111,010      |            | 111,010      |
| Loans held for sale   | 148,561      |            | 148,561      |
| Loans and leases, net of unearned income  | 4,909,930    |            | 4,909,930    |
| Less: Allowance for loan and lease losses   | (66,921)     |            | (66,921)     |
|   | 4,843,009    | -          | 4,843,009    |
| Servicing assets  | 33,308       |            | 33,308       |
| Accounts receivable   | 38,557       |            | 38,557       |
| Accrued interest receivable   | 21,993       |            | 21,993       |
| Premises and equipment  | 32,542       |            | 32,542       |
| Other assets  | 96,850       |            | 96,850       |
| Assets held for sale  | 957,701      | 957,701    | 0            |
| Total assets  | \$ 6,515,991 | \$ 957,701 | \$ 5,558,290 |
| Liabilities and Shareholders' Equity:   |              |            |              |
| Deposits  |              |            |              |
| Noninterest-bearing   | \$ 801,861   | \$ 349,138 | \$ 452,723   |
| Interest-bearing  | 1,766,501    |            | 1,766,501    |
| Certificates of deposit over \$100,000  | 1,299,991    |            | 1,299,991    |
|   | 3,868,353    | 349,138    | 3,519,215    |
| Short-term borrowings   | 753,880      | 502,418    | 251,462      |
| Collateralized debt   | 854,233      |            | 854,233      |

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|   |              |            |              |
|---|--------------|------------|--------------|
| Other long-term debt  | 249,360      |            | 249,360      |
| Other liabilities   | 173,721      | 7,713      | 166,008      |
| Liabilities held for sale   | 86,863       | 86,863     | 0            |
| Total liabilities   | 5,986,410    | 946,132    | 5,040,278    |
| Commitments and contingencies   |              |            |              |
| Shareholders' equity  |              |            |              |
| Preferred stock, no par value - authorized<br>4,000,000 shares; none issued   |              |            |              |
| Common stock, no par value - authorized<br>40,000,000 shares;<br>issued 29,748,973 shares as of June 30, 2006<br>and 29,612,080 as of |              |            |              |
| December 31, 2005; 993,643 shares in<br>treasury as of December 31, 2005  | 113,890      |            | 113,890      |
| Additional paid-in capital  |              |            |              |
| Deferred compensation   |              |            |              |
| Accumulated other comprehensive income,<br>net of deferred income tax credit of   |              |            |              |
| \$144 at June 30, 2006 and liability of \$71 as<br>of December 31, 2005   | 4,037        |            | 4,037        |
| Retained earnings   | 411,654      | 11,569     | 400,085      |
|   | 529,581      | 11,569     | 518,012      |
| Less treasury stock, at cost  |              |            |              |
| Total shareholders' equity  | 529,581      | 11,569     | 518,012      |
| Total liabilities and shareholders' equity  | \$ 6,515,991 | \$ 957,701 | \$ 5,558,290 |

The accompanying notes are an integral part of this unaudited condensed consolidated pro forma balance sheet.

IRWIN FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED PRO FORMA INCOME STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(UNAUDITED - AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

|  | Historical           |              | Pro Forma          |
|--|----------------------|--------------|--------------------|
|  | For the Year Ended   | (Note 1,2,3) | For the Year Ended |
|  | December 31,<br>2005 | Adjustments  | December 31, 2005  |
| Interest income  |                      |              |                    |
| :  |                      |              |                    |
| Loans and leases   | \$ 312,970           | \$ 936       | \$ 312,034         |
| Loans held for sale  | 94,324               | 50,784       | 43,540             |
| Residual interests   | 6,948                | 0            | 6,948              |
| Investment securities  | 7,629                | 0            | 7,629              |
| Federal funds sold   | 387                  | 0            | 387                |
| Total interest income  | 422,258              | 51,720       | 370,538            |
| Interest expense:  |                      | 0            |                    |
| Deposits   | 83,861               | 0            | 83,861             |
| Short-term borrowings  | 21,244               | 11,573       | 9,671              |
| Collateralized debt  | 25,587               | 0            | 25,587             |
| Other long-term debt   | 25,676               | 0            | 25,676             |
| Total interest expense   | 156,368              | 11,573       | 144,795            |
| Net interest income  | 265,890              | 40,147       | 225,743            |
| Provision for loan and lease losses                              | 26,852               | (455)        | 27,307             |
| Net interest income after provision for<br>loan and lease losses | 239,038              | 40,602       | 198,436            |
| Other income   |                      |              |                    |
| :  |                      | 0            |                    |

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|   |           |             |           |
|---|-----------|-------------|-----------|
| Loan servicing fees                                   | 126,609   | 86,930      | 39,679    |
| Amortization of servicing assets                      | (100,322) | (69,308)    | (31,014)  |
| Recovery of servicing assets                          | 19,625    | 18,734      | 891       |
| Net loan administration income                        | 45,912    | 36,357      | 9,555     |
| Gain from sales of loans                              | 98,127    | 75,267      | 22,860    |
| Gains on sale of mortgage servicing assets            | 14,412    | 14,412      | 0         |
| Trading gains   | 3,105     | 0           | 3,105     |
| Derivative losses, net                                | (69,688)  | (67,588)    | (2,100)   |
| Other   | 28,618    | 2,767       | 25,851    |
|   | 120,486   | 61,215      | 59,271    |
| Other expense   |           |             |           |
| :   |           | 0           |           |
| Salaries  | 167,490   | 57,017      | 110,473   |
| Pension and other employee benefits                   | 36,377    | 10,565      | 25,812    |
| Office expense  | 14,094    | 5,499       | 8,595     |
| Premises and equipment                                | 35,330    | 14,190      | 21,140    |
| Marketing and development                             | 8,196     | 3,822       | 4,374     |
| Professional fees                                     | 13,800    | 3,384       | 10,416    |
| Other   | 56,268    | 29,711      | 26,557    |
|   | 331,555   | 124,188     | 207,367   |
| Income before income taxes from continuing operations | 27,969    | (22,372)    | 50,341    |
| Provision for income taxes                            | 8,982     | (8,993)     | 17,975    |
| Net income (loss) from continuing operations          | \$ 18,987 | \$ (13,378) | \$ 32,365 |



Earnings per share from Continuing  
Operations:

|                     |         |        |
|---------------------|---------|--------|
| Basic               | \$ 0.67 | \$1.13 |
| Diluted             | \$ 0.66 | \$1.12 |
| Dividends per share | \$ 0.40 | \$0.40 |

## Weighted average shares outstanding

|         |        |        |
|---------|--------|--------|
| :       |        |        |
| Basic   | 28,518 | 28,518 |
| Diluted | 28,841 | 28,841 |

The accompanying notes are an integral part of this unaudited condensed consolidated pro forma income statement.

## Notes to the Unaudited Condensed Consolidated

**Pro Forma Financial Statements**

**Note 1.** These adjustments reflect the disposition of substantially all of the Corporation's conforming conventional first mortgage loan production assets and related contractual commitments to Freedom Mortgage Corporation (FMC) including the transfer of IMC's mortgage loans held for sale and associated hedges. The purchase price for the assets was approximately \$275 million in cash. As part of the transaction, FMC assumed certain liabilities associated with the on-going operations of the loan production business, and IMC retained liability for pending litigation and other obligations arising outside the ordinary course of business.

**Note 2.** These adjustments reflect the sale of substantially all of the Corporation's conforming, conventional mortgage servicing portfolio (MSRs) for approximately \$261 million in cash to four independent acquirers. Transfer of the portfolio and associated escrow deposits will begin in November and be substantially complete by January 3, 2007. Until final transfer, the Corporation will provide interim servicing for the buyers and will retain the liquidity and the economic benefits derived from the escrow deposits.

**Note 3.** These adjustments eliminate the operating results of IMC as if the sale to FMC and the sale of the mortgage servicing asset had occurred on January 1, 2005. In addition, these adjustments assume the mortgage servicing operation, which is currently being marketed, had been sold as of the same date as well.

(d) *Exhibits*

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--------------------|
|--------------------|--------------------|

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- 2.1 Asset Purchase Agreement among Irwin Financial Corporation, Irwin Mortgage Corporation and Freedom Mortgage Corporation., dated August 7, 2006.
- 2.2 Letter Agreement amending the Asset Purchase Agreement among Irwin Financial Corporation, Irwin Mortgage Corporation and Freedom Mortgage Corporation, dated September 18, 2006.
- 99.1 Press Release of Irwin Financial Corporation dated September 27, 2006.
- 99.2 Press Release of Irwin Financial Corporation dated October 2, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

IRWIN FINANCIAL CORPORATION

(Registrant)

Date: October 2, 2006

By: /s/ Gregory F. Ehlinger

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GREGORY F. EHLINGER  
*Senior Vice President and Chief  
Financial Officer*

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
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