

IRWIN FINANCIAL CORPORATION  
Form S-1/A  
January 24, 2002

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As filed with the Securities and Exchange Commission on January 24, 2002.

Registration No. 333-69586

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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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### AMENDMENT NO. 2

TO

### FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

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## IRWIN FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

**Indiana**

(State or Other Jurisdiction of Incorporation or  
Organization)

**6712**

(Primary Standard Industrial Classification  
Code Number)

**35-1286807**

(I.R.S. Employer Identification Number)

**500 Washington Street  
Columbus, Indiana 47201  
(812) 376-1909**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Ellen Z. Mufson  
Vice President, Legal  
500 Washington Street  
Columbus, Indiana 47201  
(812) 376-1909**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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**APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:**

**As soon as practicable after the Registration Statement becomes effective.**

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. //

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. //

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED JANUARY 24, 2002**

### PROSPECTUS

**4,500,000 Shares**

## IRWIN FINANCIAL CORPORATION

### Common Shares

We are offering 4,500,000 common shares.

Our common shares are traded on the New York Stock Exchange under the symbol "IFC." On January 23, 2002, the last reported sale price of our common shares as reported on the New York Stock Exchange was \$16.25 per share.

**Investing in our common stock involves risks. See "Risk Factors" beginning on page 13.**

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to Irwin Financial Corporation	\$	\$

This is a firm commitment underwriting. The underwriters have been granted a 30-day option to purchase up to an additional 675,000 common shares to cover over-allotments, if any.

*The common shares being offered are not savings accounts, deposits or obligations of any bank and are not insured by any insurance fund of the Federal Deposit Insurance Corporation or any other governmental organization.*

**Neither the Securities and Exchange Commission nor any other state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

*Co-lead Managers***Keefe, Bruyette & Woods, Inc.****Stifel, Nicolaus & Company**

Incorporated

*Co-managers***J.J.B. Hilliard, W.L. Lyons, Inc.****Howe Barnes Investments, Inc.**

The date of this prospectus is

, 2002

**IRWIN FINANCIAL CORPORATION**

<b>Commercial Banking</b>	<b>Mortgage Banking</b>	<b>Home Equity Lending</b>	<b>Equipment Leasing</b>	<b>Venture Capital</b>
Irwin Union Bank and Trust; Irwin Union Bank, F.S.B.	Irwin Mortgage Corporation	Irwin Home Equity Corporation	Irwin Capital Holdings Corporation	Irwin Ventures LLC
Founded in 1871 and 2000, respectively	1981 Acquisition	1994 Start-up	1999 Start-up	1999 Start-up
16% of 2000 consolidated net revenues	46% of 2000 consolidated net revenues	35% of 2000 consolidated net revenues	1% of 2000 consolidated net revenues	2% of 2000 consolidated net revenues
Focuses on commercial and personal banking needs of small businesses and business owners	Originates, sells and services conforming first mortgage loans	Originates and services prime-quality, high loan-to-value home equity loans	Funding source for leasing companies, brokers and vendors	Investor in early stage companies in financial services or financial services-related technology
Locations in Indiana, Michigan, Arizona, Missouri, Nevada, Utah and Kentucky	National scope, emphasis on first-time home buyers and small brokers	National scope, emphasis on debt consolidation products	U.S. and Canadian focus	National focus
	\$6.4 billion in originations in the first nine months of 2001	\$803 million in originations in the first nine months of 2001	Acquired 78% ownership interest in a Canadian equipment leasing company in July 2000	
			Began franchise equipment leasing business in August 2001	
Loan portfolio of \$1.4 billion as of September 30, 2001	\$11.7 billion servicing portfolio as of September 30, 2001	\$2.2 billion managed portfolio as of September 30, 2001	Lease portfolio of \$245 million as of September 30, 2001	Five portfolio investments totaling \$12.1 million as of September 30, 2001
Headquarters in Columbus, IN	Headquarters in Indianapolis, IN	Headquarters in San Ramon, CA	Headquarters in Bellevue, WA	Headquarters in Columbus, IN

## SUMMARY

*This summary highlights information contained elsewhere in this prospectus. Because this is a summary, it may not contain all of the information that is important to you. Therefore, you also should read the more detailed information set forth in this prospectus, including our consolidated financial statements and the related notes included in this prospectus, before you make your investment decision. Unless otherwise noted, all information in this prospectus assumes that the underwriters will not exercise the option to purchase additional shares to cover over-allotments from us in the offering.*

## Irwin Financial Corporation

We are a diversified financial services company headquartered in Columbus, Indiana with \$3.1 billion in assets at September 30, 2001. We focus primarily on the extension of credit to consumers and small businesses as well as providing the ongoing servicing of those customer accounts. We currently operate five major lines of business through our direct and indirect subsidiaries. Our major lines of business are: commercial banking, mortgage banking, home equity lending, equipment leasing and venture capital.

Our banking subsidiary, Irwin Union Bank and Trust Company, was organized in 1871 and we formed the holding company in 1972. Our direct and indirect major subsidiaries include Irwin Union Bank and Trust, a commercial bank, which together with Irwin Union Bank, F.S.B., conducts our commercial banking activities; Irwin Mortgage Corporation, a mortgage banking company acquired in 1981; Irwin Home Equity Corporation, a consumer home equity lending company formed in 1994; Irwin Capital Holdings Corporation, an equipment leasing subsidiary; and Irwin Ventures LLC, a venture capital company. At December 31, 2001, we and our subsidiaries had a total of 2,941 employees, including full-time and part-time employees.

The following table summarizes our financial performance over the past five years and the first nine months of 2001:

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
(dollars in thousands except per share data)							
Net income	\$ 33,446	\$ 26,114	\$ 35,666	\$ 33,156	\$ 30,503	\$ 24,444	\$ 22,428
Earnings per common share (diluted)	1.47	1.23	1.67	1.51	1.38	1.08	0.98
Assets	3,079,546	2,149,280	2,422,429	1,680,847	1,946,179	1,496,794	1,300,122
Loans held for sale	651,380	490,690	579,788	508,997	936,788	528,739	446,898
Loans and leases, net	1,689,634	1,105,117	1,221,793	724,869	547,103	602,281	526,175
Deposits	2,175,120	1,320,514	1,443,330	870,318	1,009,211	719,596	640,153
Total shareholders' equity	220,908	181,989	189,925	159,296	145,233	127,983	118,903
Owned first mortgage servicing portfolio	11,667,136	9,963,018	9,196,513	10,488,112	11,242,470	10,713,549	10,810,988
Managed home equity portfolio	2,162,877	1,282,947	1,825,527	842,403	581,241	358,166	230,450
Return on average assets <sup>(1)</sup>	1.46%	1.82%	1.76%	2.01%	1.85%	1.94%	1.95%
Return on average equity <sup>(1)</sup>	22.25	20.88	20.83	21.51	22.77	19.80	20.37
Net interest margin <sup>(1)</sup>	5.21	5.03	5.36	5.03	4.33	5.15	5.12

(1) Annualized for interim periods.

**Recent Developments***Fourth Quarter Earnings Announcement*

On January 23, 2002 we announced our fourth quarter and annual 2001 earnings. We reported net income in the fourth quarter of 2001 of \$12.1 million or \$0.53 per share, compared with net income of \$9.6 million or \$0.45 per share during the same period in 2000, an increase in earnings of 26% and an increase in earnings per share of 18%. The increase is largely due to strong first mortgage loan originations. Improved profits in our commercial banking line of business also contributed to the record results.

Fourth quarter 2001 revenues totaled \$117.7 million, an increase of \$39 million or 49% compared with a year earlier. Return on average common equity during the fourth quarter was 21.0%.

For the entire year of 2001, revenues totaled \$401.0 million and net income was \$45.5 million, increases of 35% and 28%, respectively, over 2000. Return on average common equity was 21.8% in 2001.

Financial highlights for the quarter and entire year included:

	Fourth Quarter			YTD 2001	YTD 2000	% Change
	2001	2000	% Change			
(dollars in millions, except earnings per share)						
Total consolidated net revenues	\$ 117.7	\$ 79.1	49%	\$ 401.0	\$ 297.3	35%
Net income:						
Mortgage banking	12.8	3.1	318	38.1	13.0	193
Home equity lending	5.6	8.0	(30)	16.2	18.5	(12)
Commercial banking	3.0	1.7	73	8.9	7.1	26
Equipment leasing (pre-tax)	(1.7)	(0.2)	(744)	(4.4)	(2.6)	(71)
Venture capital	(3.4)	(1.4)	(155)	(6.5)	2.7	N/A
Parent and other	(4.2)	(1.7)	(150)	(6.8)	(3.1)	(121)
Total consolidated net income	12.1	9.6	26	45.5	35.7	28
Earning per share (EPS)	0.53	0.45	18	2.00	1.67	20
Return on average equity	21.0%	20.7%		21.8%	20.8%	

*Significant Factors for the Fourth Quarter and Full Year 2001*

Lower interest rates led to record mortgage loan originations.

Economic conditions resulting from the recession resulted in slower originations of non-mortgage products. Charge-offs and delinquencies increased during the quarter. We increased our loan loss and private equity valuation allowances to address this exposure.

Delinquency ratio (30 days and beyond) trends for our principal credit-related portfolios are shown below. These ratios remain within management's long-term expectations.

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	Commercial Loans	Home Equity Loans	Equipment Leases
	(dollars in billions)		
Owned portfolio	\$ 1.5	\$ 2.1	\$ 0.3
30-day + delinquency			
December 31, 2001	0.38%	5.07%	2.02%
September 30, 2001	0.08	4.71	2.41
December 31, 2000	0.46	4.31	1.06

2

*Impact of Recent Change to Regulatory Capital Rules*

The federal banking regulators, including the Federal Reserve, our principal regulator, have adopted revised regulatory capital standards regarding the treatment of certain recourse obligations, direct credit substitutes, residual interests in assets securitizations, and other securitized transactions. In general, the new rules require a banking institution that has certain residual assets, including assets commonly referred to as "interest-only strips," in an amount that exceeds 25% of its Tier 1 capital, to deduct the after-tax excess amount of credit-enhancing interest-only strips from Tier 1 capital for purposes of computing risk-based capital ratios.

The new capital standards became effective on January 1, 2002, for new residual interests related to any transaction covered by the revised rules that settles after December 31, 2001. For transactions settled before January 1, 2002, application of the new capital treatment to the residuals created will be delayed until December 31, 2002.

We believe these new rules apply to many, if not all, of the securitization transactions historically done by our home equity line of business to fund loan production. The residual assets we now own exceed the 25% concentration limit in the new capital treatment rules. On a pro forma basis adjusted to give effect to the sale of \$75 million of our common shares in this offering, and assuming conservatively that all of our residual assets are subject to the new capital treatment, our residual assets as of September 30, 2001, comprised 51% of our consolidated Tier 1 capital. We are taking steps to materially reduce the levels of our residuals as a percentage of Tier 1 capital. On November 29, 2001, we sold \$12.3 million of our residual interests in our home equity loans previously securitized in September 2000. This represents our fourth sale of residual assets in the last two years. See the "Capitalization" section on page 56 for a table showing our pro forma capital ratios giving effect to the new capital treatment. By the end of 2002, we expect our residual interests to have declined to approximately 35% of Tier 1 capital, falling to approximately 20% by the end of 2003.

We have financed our significant growth in our home equity lending line of business to date using transaction structures that create residual assets through "gain-on-sale" accounting sales transactions accounted for under SFAS 140. To address the new rules, beginning in 2002 we will be eliminating our use of these securitization structures that require gain-on-sale accounting treatment. We believe using on-balance sheet financing rather than transactions accounted for as gain-on-sale under SFAS 140 will allow continued access to the capital markets for cost-effective, matched funding of our loan assets, while not meaningfully affecting or changing our cash flows, nor changing the longer term profitability of our home equity lending operation.

Changing our securitization practices will significantly affect the financial results of our home equity line of business in 2002. The key financial impacts we expect include:

By using on-balance sheet financing to fund our home equity loan originations, we will be required to change the timing of revenue recognition on these assets under generally accepted accounting principles. For assets funded on-balance sheet, we record interest income over the life of the loan, while for assets funded through transactions accounted for under SFAS 140, we have recorded revenue as trading gains at the time of sale based on the discounted present value of the anticipated revenue stream over the expected life of the loans. This different accounting treatment does not, however, affect cash flows related to the loans, and management expects that the ultimate total receipt of revenues and profitability derived from our home equity loans will be substantially unchanged by these different financing structures.

Due to the anticipated delay in revenue recognition under the new financing structures we intend to pursue, we plan to reduce the rate of growth in production and related expenses in the home equity lending line of business to more closely align anticipated revenue recognition and expenses under this new model. This process is now underway. However, while we anticipate

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continued profitability on a consolidated basis, we currently expect to report a loss in 2002 in our home equity lending line of business as we make this transition.

After the initial transition period, as the portfolio of on-balance sheet home equity loans continues to grow, we should record increased levels of net interest income sufficient to cover ongoing expenses. We would then expect to be in a position to resume profitable growth in this line of business. We may also pursue selective opportunities to sell whole loans in cash sale transactions if attractive terms can be negotiated. We currently anticipate that our home equity lending line of business will return to profitability in 2003.

#### *Pro Forma Capital Relative to New Regulation on Residuals*

Our Tier 1 capital totaled \$294.6 million as of December 31, 2001, or 6.8% of risk-weighted assets. On a pro forma basis, giving full effect to the new risk-weighted capital regulations regarding residual assets, as further adjusted to give effect to the net proceeds from this offering and prior to any residual asset reduction steps we are contemplating to reduce our concentration of residual assets or to reclassify for capital treatment purposes any of those residual assets, or any other changes, our Tier 1 capital and total capital to risk-weighted assets would be approximately 7.7% and 10.6%, respectively, as of December 31, 2001. The new capital rules do not become fully effective until December 31, 2002.

#### *Earnings Outlook*

Taking the factors discussed above into account, we expect consolidated net income to decline in 2002 but then to increase significantly in 2003. Management currently estimates that consolidated net income will be approximately \$36 million in 2002 and approximately \$54 million in 2003. These estimates include \$2.7 million of after-tax interest expense on our convertible trust preferred securities, which would be added back to net income for purposes of calculating fully diluted earnings per share under generally accepted accounting principles. These estimates are based on various factors and current assumptions management believes are reasonable, including current industry forecasts of a variety of economic and competitive factors. However, projections are inherently uncertain, and our actual earnings may differ significantly from these estimates due to uncertainties and risks related to our business, including those described in the "Risk Factors" section beginning on page 13 and elsewhere in this prospectus.

While our financial results in 2002 will likely be significantly different than our historical performance for the reasons discussed above, management anticipates that after 2002, we can again achieve our long-term financial objectives of at least 12% annual earnings per share growth and greater than 15% return on common equity.

#### **Strategy**

Our strategy is to maintain a diverse revenue stream by focusing on niches in financial services where we believe we can optimize the productivity of our capital and where our experience and expertise can provide a competitive advantage. Our operational objectives are premised on simultaneously achieving three goals: creditworthiness, profitability and growth. We refer to this as *creditworthy, profitable growth*. We believe we must continually balance these goals in order to deliver long-term value to all of our stakeholders. We have developed a four-part business plan to meet these goals:

We focus on product or market *niches in financial services* that we believe are *underserved* and where we believe customers are willing to pay a premium for value-added services.

We enter niches only when we have attracted *senior managers* who have proven track records in the niche for which they are responsible.

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We *diversify* our *revenues* and allocate our *capital* across complementary lines of business as a key part of our risk management. Our lines of business are cyclical, but when combined in an appropriate mix, we believe they provide sources of diversification and opportunities for growth in a variety of economic conditions.

We *reinvest* on an ongoing basis in the development of new and existing opportunities.

We believe our historical growth and profitability is the result of our endeavors to pursue complementary consumer and commercial lending niches through our bank holding company structure, our experienced management, our diverse product and geographic markets, and our willingness and ability to align the compensation structure of each of our lines of business with the interests of our stakeholders. Through various economic environments and cycles, we have had a relatively stable revenue and earnings stream on a consolidated basis generated primarily through internal growth rather than acquisitions. Over the five-year and ten-year periods ending December 31, 2000, respectively, our financial performance has been as follows:

our return on average equity averaged 21.11% and 22.04%;

our diluted earnings per common share compounded at an average annual growth rate of 14.25% and 20.99%;

our net revenues<sup>(1)</sup> compounded at an average annual growth rate of 13.19% and 19.44%;

our nonperforming assets to total assets averaged 0.61% and 0.52%;

our annual net charge-offs to average loans and leases averaged 0.36% and 0.42%; and

our book value per common share compounded at an average annual growth rate of 14.47% and 18.95%.

(1) Net revenues consist of net interest income plus noninterest income.

### Major Lines of Business

We are a regulated bank holding company. At the parent level, we work actively to add value to our lines of business by interacting with the management teams, capitalizing on interrelationships, providing centralized services and coordinating overall organizational decisions. Under this organizational structure, our separate businesses currently hold and fund the majority of their assets through Irwin Union Bank and Trust. This provides additional liquidity and results in regulatory oversight of each of our lines of business.

The following table shows our net income (loss) by line of business:

	Nine Months Ended September 30,		Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
	(in thousands)						
Commercial banking	\$ 5,917	\$ 5,350	\$ 7,090	\$ 7,345	\$ 6,509	\$ 5,587	\$ 4,254
Mortgage banking	25,305	9,944	13,006	23,063	28,853	21,300	20,422
Home equity lending	10,669	10,515	18,494	12,606	(6,668)	1,710	(816)
Equipment leasing	(2,731)	(2,366)	(2,563)	(843)			
Venture capital	(3,099)	4,077	2,723	656			
Other <sup>(1)</sup>	(2,615)	(1,406)	(3,084)	(9,671)	1,809	(4,153)	(1,432)



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	Nine Months Ended September 30,				Year Ended December 31,									
Total consolidated net income	\$	33,446	\$	26,114	\$	35,666	\$	33,156	\$	30,503	\$	24,444	\$	22,428

(1) Includes parent, medical equipment leasing and consolidating entries.

5

### Commercial Banking

Our commercial banking line of business focuses on providing credit, cash management and personal banking products to small businesses and business owners. Services include a full line of consumer, mortgage and commercial loans, as well as personal and commercial checking accounts, savings and time deposit accounts, personal and business loans, credit card services, money transfer services, financial counseling, property, casualty, life and health insurance agency services, trust services, securities brokerage, and safe deposit facilities. Under the bank's commercial lending policies, at September 30, 2001, our lending limit is \$10.0 million, and our average size commercial loan is \$0.3 million.

We offer commercial banking services through our banking subsidiaries, Irwin Union Bank and Trust, an Indiana state-chartered commercial bank, and Irwin Union Bank, F.S.B., a federal savings bank. We formed the federal savings bank to allow us the flexibility to expand our banking business into markets where state-chartered banks like Irwin Union Bank and Trust are not permitted to branch under current law. We sell a substantial majority of the commercial loans we originate at Irwin Union Bank, F.S.B. to Irwin Union Bank and Trust. We have offices throughout nine counties in central and southern Indiana; Kalamazoo, Grandville, Traverse City and Lansing, Michigan; Carson City and Las Vegas, Nevada; Brentwood, Missouri; Louisville, Kentucky; Salt Lake City, Utah; and Phoenix, Arizona. In this prospectus, we refer to our bank subsidiaries together as the bank.

Our strategy is to expand our commercial banking line of business into selected new markets. We target metropolitan markets with strong economies where we believe recent bank consolidation has negatively impacted customers. We believe that this consolidation has led to disenchantment with the delivery of financial services to the small business community among both the owners of those small businesses and the senior banking officers who had been providing services to them. In markets that management identifies as attractive opportunities, the bank seeks to hire senior commercial loan officers who have strong local ties and who can focus on providing personalized lending services to small businesses in that market.

The following table shows selected financial data for our commercial banking line of business:

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,											
	2001	2000	2000	1999	1998	1997	1996							
(dollars in thousands)														
<i>Commercial Banking:</i>														
Net income	\$	5,917	\$	5,350	\$	7,090	\$	7,345	\$	6,509	\$	5,587	\$	4,254
Total assets		1,527,909		1,061,797		1,167,559		789,560		607,992		539,233		503,507
Total loans		1,415,547		974,539		1,067,980		720,493		514,950		410,272		336,580
Allowance for loan and lease losses		12,219		8,559		9,228		7,375		6,680		5,525		4,790
Total deposits		1,292,546		924,272		998,892		710,899		567,526		486,481		453,879
Return on average assets		0.60%		0.79%		0.74%		1.08%		1.15%		1.08%		0.92%
Return on average equity		10.03		12.98		12.39		13.89		15.49		15.42		13.35

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	At or For Nine Months Ended September 30,			At or For Year Ended December 31,			
Net interest margin	3.81	4.38	4.25	4.82	4.75	4.61	4.67
Efficiency ratio	69.86	71.28	71.00	68.06	66.60	64.62	69.66
Nonperforming assets to total assets	0.16	0.20	0.23	0.15	0.31	0.60	0.76
Allowance for loan losses to total loans	0.86	0.88	0.86	1.02	1.30	1.35	1.43
Net charge-offs to average loans	0.12	0.10	0.12	0.16	0.13	0.34	0.34

6

### Mortgage Banking

In our mortgage banking line of business we originate, purchase, sell and service conventional and government agency-backed residential mortgage loans throughout the United States. We established this line of business when we acquired our subsidiary, Irwin Mortgage Corporation, in 1981. Most of our mortgage originations either are insured by an agency of the federal government, such as the Federal Housing Authority, or FHA, and the Veterans Administration, or VA, or, in the case of conventional mortgages, meet requirements for resale to the Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or FHLMC. This allows us to remove substantially all of the credit risk of these loans from our balance sheet. We sell mortgage loans to institutional and private investors but may retain servicing rights to the loans we originate or purchase from correspondents. We believe this balance between mortgage loan originations and mortgage loan servicing provides us a natural hedge against interest rate changes, which has helped stabilize our revenue stream.

We originate mortgage loans through retail offices, direct marketing and our Internet website. We also purchase mortgage loans through mortgage brokers. We consider this part of our business wholesale lending. At December 31, 2001, Irwin Mortgage operated 100 production and satellite offices in 27 states. Our mortgage banking line of business is currently our largest contributor to revenue, comprising 55.2% of our total revenues for the nine months ended September 30, 2001, compared to 48.8% for the first nine months of 2000. Our mortgage banking line of business contributed 75.7% of our net income for the first nine months of 2001, compared to 38.1% for the same period in 2000.

The following table shows selected financial data for our mortgage banking line of business:

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
(dollars in thousands)							
<i>Mortgage Banking:</i>							
Net income	\$ 25,305	\$ 9,944	\$ 13,006	\$ 23,063	\$ 28,853	\$ 21,300	\$ 20,422
Net interest income	18,026	11,757	15,401	21,745	26,244	17,577	17,178
Provision for loan losses	154	66	357	(1,998)	(1,721)	(1,383)	(455)
Loan origination fees	43,007	25,417	34,688	46,311	59,328	41,045	43,463
Gain on sale of loans	74,602	33,977	45,601	72,395	97,724	53,332	41,333
Loan servicing fees	37,876	38,939	50,309	54,247	55,217	50,194	45,573
Gain on sale of bulk servicing	6,079	14,432	27,528	9,005	829	1,512	1,224
Amortization and impairment of servicing assets, net of hedging	(23,818)	(21,606)	(37,490)	(24,566)	(29,805)	(15,843)	(13,897)
Total net revenue	159,822	106,445	140,932	180,767	207,238	147,657	135,310

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	At or For Nine Months Ended September 30,			At or For Year Ended December 31,			
Total mortgage originations	6,388,294	2,986,445	4,091,573	5,876,750	8,944,615	5,397,338	5,085,625
Refinancings to total originations	49.80%	13.70%	16.39%	28.64%	49.54%	22.53%	18.95%
Servicing sold to originations	27.95	85.12	99.35	79.89	56.95	71.82	60.87
Owned first mortgage servicing portfolio	\$ 11,667,136	\$ 9,963,018	\$ 9,196,513	\$ 10,488,112	\$ 11,242,470	\$ 10,713,549	\$ 10,810,988
Bulk sales of servicing	610,610	1,473,787	2,526,006	1,216,718	99,929	536,971	1,481,433
Capitalized servicing	152,910	133,288	121,555	132,648	113,131	81,610	71,415
Capitalized servicing to servicing portfolio	1.3%	1.3%	1.3%	1.3%	1.0%	0.8%	0.7%
Weighted average coupon	7.46	7.73	7.76	7.51	7.56	7.85	7.83

7

### Home Equity Lending

In our home equity lending line of business, we originate, purchase, securitize and service home equity loans and lines of credit nationwide. We generally sell the loans through securitization transactions. We continue to service the loans we securitize. We target creditworthy, homeownership consumers who are active, unsecured credit card debt users. Target customers are underwritten using proprietary models based on several criteria, including the customers' previous use of credit. We market our home equity products through direct mail and telemarketing, mortgage brokers and correspondent lenders nationwide and through Internet-based solicitations.

We established this line of business when we formed Irwin Home Equity Corporation in 1994 as our subsidiary. Irwin Home Equity is headquartered in San Ramon, California and became a subsidiary of Irwin Union Bank and Trust in 2001. In 1997 and 1998, we largely redesigned our product offerings, introducing new products with origination fees and early repayment options. We also introduced home equity loans with loan-to-value ratios of up to 125% of their collateral value. Home equity loans with loan-to-value ratios greater than 100% are priced with higher coupons than home equity loans with loan-to-value ratios less than 100% to compensate for the increased risk. For the nine months ended September 30, 2001, home equity loans with loan-to-value ratios greater than 100% made up 58% of our loan originations and 49% of our managed portfolio at September 30, 2001.

For most of our home equity product offerings, we offer customers the choice to accept an early repayment fee in exchange for a lower interest rate. A typical early repayment option provides for a fee equal to up to six months' interest that is payable if the borrower chooses to repay the loan during the first three to five years of its term. Approximately 82.1%, or \$1.1 billion, of our home equity loan servicing portfolio at September 30, 2001 has early repayment fees. This portfolio does not include our floating rate lines of credit.

We expect to continue to originate new loans in our home equity lending line of business through the development of new products, the extension of existing products to new customers, and continued sales through our indirect distribution channels. These include brokers, correspondent lenders and Internet sites.

The environment for high loan-to-value home equity lending has become more favorable for us during the past two years due to the exit of many home equity lenders who did not survive the competitive pressures and significant refinance activity of 1998. This has helped our recent expansion in our home equity lending line of business, although we expect the rate of growth in this line of business to be slower in 2002 than in recent periods as we adjust to the new capital rules as described in the "Recent Developments" section, and we expect this line of business to show a loss in net income during 2002.

In light of greater uncertainty in the national economy, during the third quarter of 2001, we increased loss reserves and the aggregate discount rate on our interest-only strips to 2.48% and 18.5% to account for potential increased future losses and increased uncertainty about future volatility in actual cash flows. These changes led to mark-to-market impairment from loss reserve and discount rate assumptions of \$14.6 million and \$7.6 million, respectively, during the third quarter of 2001. We also increased our assumption for future prepayment speeds to 24.9%, which resulted in impairment charges of \$9.4 million.

The following table shows selected financial data for our home equity lending line of business:

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
(dollars in thousands)							
<i>Home Equity Lending:</i>							
Net interest income	\$ 47,240	\$ 21,254	\$ 35,593	\$ 18,852	\$ 5,495	\$ 7,129	\$ 7,755
Provision for loan losses	(584)	(134)	(461)		(513)	(1,404)	(983)
Gain on sale of loans	70,716	34,938	30,340	23,998	18,610	15,908	7,798
Loan origination fees	874	440	951	273			
Loan servicing fees	9,702	5,081	7,559	4,907	3,323	2,145	710
Amortization and impairment of servicing assets	(1,941)	(1,104)	(1,583)	(1,445)	(842)	(334)	
Trading gains (losses)	(34,723)	10,123	14,399	2,512	(2,952)	(1,961)	
Total net revenue	91,347	70,598	103,447	50,566	23,941	21,777	15,420
Operating expense	73,565	53,072	72,623	35,557	30,609	20,067	16,236
Net income (loss)	10,669	10,515	18,494	12,606	(6,668)	1,710	(816)
Loan and line of credit volume	802,559	601,038	1,225,955	439,507	389,673	214,518	169,120
Secondary market delivery	850,836	565,219	774,610	430,743	294,261	210,057	79,936
Total managed portfolio	2,162,877	1,282,947	1,825,527	842,403	581,241	358,166	230,450
Interest-only strips <sup>(1)</sup>	197,486	103,903	152,614	57,883	32,321	22,134	12,661
Weighted average yield on loans	13.37%	12.87%	13.09%	12.33%	11.86%	13.97%	14.08%
Weighted average yield on lines of credit	11.69	14.23	14.04	12.72	11.89	12.96	12.80
Gain on sale to total loans securitized	8.31	6.18	3.92	5.57	6.32	7.57	9.76
Net home equity charge-offs to managed home equity portfolio <sup>(2)</sup>	1.31	0.64	0.57	0.36	0.37	0.29	0.02
Delinquency ratio	4.7	3.3	4.3	2.7	1.3	1.5	0.7
Return on average equity <sup>(2)</sup>	14.43	25.55	30.57	17.12	(15.79)	7.33	(5.20)

(1) Included in trading assets on our consolidated balance sheets.

(2) Annualized for interim periods.

### Equipment Leasing

In our equipment leasing line of business, we originate transactions with brokers and vendors throughout North America and through direct sales to franchisees. The majority of our leases are full payout (i.e., no residual), small-ticket assets secured by commercial equipment. We finance a variety of commercial and office equipment types and try to limit the industry and geographic concentrations in our lease portfolio.

We established this line of business in 1999 when we formed Irwin Business Finance Corporation, our United States equipment leasing company. We acquired Onset Capital Corporation, a Canadian equipment leasing company, in July 2000. These companies originate and service small- to medium-sized equipment leases and loans. We established Irwin Capital Holdings Corporation in April 2001 as a subsidiary of Irwin Union Bank and Trust to serve as the parent company for both our United States and Canadian leasing companies. Because it is in a development stage, management anticipates that our equipment leasing line of business will not break even until at least mid-2002. Our equipment leasing line of business had a total portfolio of \$244.7 million as of September 30, 2001.

### Venture Capital

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In our venture capital line of business, we make minority investments in early stage companies in the financial services industry and related fields that intend to use technology as a key component of their competitive strategy. We established this line of business when we formed Irwin Ventures in the third quarter of 1999. We provide Irwin Ventures' portfolio companies the benefit of our management

9

experience in the financial services marketplace. In addition, we expect that contacts made through venture activities may benefit management of our other lines of business through the sharing of technologies and market opportunities. In August 1999, Irwin Ventures established Irwin Ventures Incorporated SBIC, which has received a small business investment company license from the Small Business Administration. Our venture capital line of business had investments in five private companies as of September 30, 2001, with an aggregate investment cost of \$10.0 million and a carrying value of \$12.1 million.

Our principal executive offices are located at 500 Washington Street, P.O. Box 929, Columbus, Indiana 47201. Our telephone number is (812) 376-1909.

### The Offering

Common shares offered	4,500,000 shares
Offering price per common share	\$
Common shares to be outstanding after the offering	25,809,500 shares <sup>(1)</sup>
Use of proceeds	We intend to use the net proceeds from this offering to support future growth of our lines of business, to maintain our regulatory capital levels at desired levels under the new capital rules, and for other general corporate purposes. We anticipate that all or substantially all of the net proceeds of this offering will be contributed as capital to the bank, since we use the bank to fund assets for the majority of our lines of business. In particular, we expect to use the majority of the capital to support funding in our commercial banking, home equity lending, and leasing lines of business.
Risk factors	See "Risk Factors" beginning on page 13 and other information included in this prospectus for a discussion of factors you should consider carefully before deciding to invest in our common shares.
New York Stock Exchange symbol	IFC

- (1) The number of shares to be outstanding after this offering excludes, as of September 30, 2001, 2,357,808 shares issuable upon exercise of outstanding employee stock options, 2,610,270 shares issuable upon the conversion of outstanding convertible trust preferred securities and 416,663 shares issuable upon the conversion of the outstanding shares of our Series A, Series B and Series C convertible preferred shares.

10

### SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below for, and as of the end of, each of the years in the five-year period ended December 31, 2000, are derived from our historical financial statements. Our consolidated financial statements for each of the five years ended December 31, 2000 have been audited by PricewaterhouseCoopers LLP, independent accountants. The summary data presented below for the nine-month periods ended September 30, 2001 and 2000, are derived from our unaudited financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results as of or for the nine-month periods indicated have been included. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this prospectus. Results for past periods are not necessarily indicative of results that may be expected for any future period, and results for the nine-month period ended September 30, 2001, are not necessarily indicative of results that may be expected for the entire year ending December 31, 2001.

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	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
(in thousands, except per share data)							
<b>Statements of Income Data:</b>							
Net interest income	\$ 104,189	\$ 61,210	\$ 90,996	\$ 67,122	\$ 59,201	\$ 50,386	\$ 50,020
Provision for loan and lease losses	(9,363)	(3,610)	(5,403)	(4,443)	(5,995)	(6,238)	(4,553)
Net interest income after provision for loan and lease losses	94,826	57,600	85,593	62,679	53,206	44,148	45,467
<b>Noninterest income:</b>							
Loan origination fees	44,388	26,177	36,066	41,024	60,013	41,370	43,779
Gain on sale of loans	147,339	69,188	93,677	74,834	75,201	39,210	34,248
Loan servicing fees	48,412	44,781	58,939	60,581	57,284	53,257	46,877
Amortization and impairment of servicing assets	(68,795)	(23,044)	(39,529)	(15,702)	(35,388)	(16,355)	(14,331)
Gain on sale of servicing assets	6,079	14,432	27,528	37,801	43,308	32,631	16,378
Trading gains (losses)	9,893	10,123	14,399	(8,296)	1,366	(1,961)	
Gain from sale of leasing assets					5,241		
Other	7,461	18,974	20,631	13,827	11,832	8,696	8,699
Total noninterest income	194,777	160,631	211,711	204,069	218,857	156,848	135,650
Noninterest expense	234,911	174,720	237,962	214,111	221,206	158,818	143,829
Income before income taxes	54,692	43,511	59,342	52,637	50,857	42,178	37,288
Provision for income taxes	21,700	17,397	23,676	19,481	20,354	17,734	14,860
Income before minority interest	32,992	26,114	35,666	33,156	30,503	24,444	22,428
Minority interest	(279)						
Income before cumulative effect of change in accounting principle	33,271	26,114	35,666	33,156	30,503	24,444	22,428
Cumulative effect of change in accounting principle, net of tax	175						
Net income available to common shareholders	\$ 33,446	\$ 26,114	\$ 35,666	\$ 33,156	\$ 30,503	\$ 24,444	\$ 22,428
Mortgage loan originations	\$ 6,388,294	\$ 2,986,445	\$ 4,091,573	\$ 5,876,750	\$ 8,944,615	\$ 5,397,338	\$ 5,085,625
Home equity loan originations	802,559	601,038	1,225,955	439,507	389,673	214,518	169,120
<b>Common Share Data:</b>							
Earnings per share <sup>(1)</sup> :							
Basic	\$ 1.58	\$ 1.24	\$ 1.70	\$ 1.54	\$ 1.40	\$ 1.10	\$ 0.99
Diluted	1.47	1.23	1.67	1.51	1.38	1.08	0.98
Cash dividends per share	0.19	0.18	0.24	0.20	0.16	0.14	0.12
Book value per share	10.32	8.60	8.97	7.55	6.70	5.82	5.23
Dividend payout ratio	12.36%	14.46%	14.13%	12.93%	11.39%	12.74%	12.15%
11							
Weighted average shares basic	21,147	21,001	20,973	21,530	21,732	22,326	22,716
Weighted average shares diluted	24,154	21,213	21,593	21,886	22,139	22,722	23,030
Shares outstanding end of period	21,276	21,004	21,026	21,105	21,673	22,001	22,738

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**Balance Sheet Data:**

Assets	\$ 3,079,546	\$ 2,149,280	\$ 2,422,429	\$ 1,680,847	\$ 1,946,179	\$ 1,496,794	\$ 1,300,122
Trading assets	208,429	104,315	154,921	59,025	32,148	22,133	12,661
Loans held for sale	651,380	490,690	579,788	508,997	936,788	528,739	446,898
Loans and leases	1,707,334	1,117,746	1,234,922	733,424	556,991	611,093	533,050
Allowance for loan and lease losses	17,700	12,629	13,129	8,555	9,888	8,812	6,875
Servicing assets	168,786	140,966	132,638	138,500	117,129	83,044	72,122
Deposits	2,175,120	1,320,514	1,443,330	870,318	1,009,211	719,596	640,153
Short-term borrowings	292,303	461,627	475,502	473,103	644,861	512,275	461,866
Long-term debt	29,642	30,849	29,608	29,784	2,839	7,096	17,659
Trust preferred securities	161,788	49,975	147,167	48,071	47,999	47,927	
Shareholders' equity	220,908	181,989	189,925	159,296	145,233	127,983	118,903
Owned first mortgage servicing portfolio	11,667,136	9,963,018	9,196,513	10,488,112	11,242,470	10,713,549	10,810,988
Managed home equity portfolio	2,162,877	1,282,947	1,825,527	842,403	581,241	358,166	230,450

**Selected Financial Ratios:**

*Performance Ratios:*

Return on average assets <sup>(2)</sup>	1.46%	1.82%	1.76%	2.01%	1.85%	1.94%	1.95%
Return on average equity <sup>(2)</sup>	22.25	20.88	20.83	21.51	22.77	19.80	20.37
Net interest margin <sup>(2)(3)(4)</sup>	5.21	5.03	5.36	5.03	4.33	5.15	5.12
Noninterest income to revenues <sup>(5)</sup>	65.15	72.41	69.94	75.25	78.71	75.89	73.06
Efficiency ratio <sup>(6)</sup>	78.57	78.76	78.61	78.95	79.55	76.74	77.46
Loans and leases to deposits <sup>(7)</sup>	78.49	84.64	85.56	84.27	55.19	84.92	83.27
Average interest-earning assets to average interest-bearing liabilities	115.39	114.24	113.51	127.36	121.02	124.00	131.18

*Asset Quality Ratios:*

Allowance for loan and lease losses to:

Total loans and leases	1.04%	1.13%	1.06%	1.17%	1.78%	1.45%	1.29%
Non-performing loans and leases	154.91	195.22	181.79	189.86	84.28	115.02	131.45
Net charge-offs to average loans and leases <sup>(2)</sup>	0.43	0.21	0.28	0.27	0.33	0.46	0.36
Net home equity charge-offs to managed home equity portfolio <sup>(2)</sup>	1.31	0.64	0.57	0.36	0.37	0.29	0.02
Non-performing assets to total assets	0.53	0.44	0.42	0.48	0.78	0.64	0.57
Non-performing assets to total loans and other real estate owned	0.95	0.84	0.81	1.09	2.77	1.55	1.76

*Capital Ratios:*

Average shareholders' equity to average assets	6.56%	8.71%	8.46%	9.35%	8.09%	9.32%	9.46%
Tier 1 capital ratio	7.26	8.96	8.87	11.39	11.63	13.56	12.20
Tier 1 leverage ratio	9.45	12.01	12.41	12.77	10.51	12.06	9.84
Total risk-based capital ratio	10.84	10.62	13.59	13.50	12.25	14.85	12.88

- (1) Earnings per share of common stock before cumulative effect of change in accounting principle related to SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," for the nine month period ended September 30, 2001 was \$1.57 basic and \$1.46 diluted.
- (2) Certain financial ratios for interim periods have been annualized.
- (3) Net interest income divided by average interest-earning assets.
- (4) Calculated on a tax-equivalent basis.
- (5)

Revenues consist of net interest income plus noninterest income.

- (6) Noninterest expense divided by net interest income plus noninterest income.
- (7) Excludes loans held for sale.

## RISK FACTORS

*An investment in our common shares involves a number of risks. We urge you to read all of the information contained in this prospectus. In addition, we urge you to consider carefully the following factors in evaluating an investment in our common shares.*

### ***Risks Relating to General Economic Conditions and Interest Rates.***

#### **We may be adversely affected by a general deterioration in economic conditions.**

The risks associated with our business become more acute in periods of a slowing economy or recession, like we have seen over the last two quarters. Economic declines may be accompanied by a decrease in demand for consumer and commercial credit and declining real estate and other asset values. Delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions. We expect that our servicing costs and credit losses will increase during periods of economic slowdown or recession.

In our residential mortgage and home equity lending lines of business, a material decline in real estate values may reduce the ability of borrowers to use home equity to support borrowings and increases the loan-to-value ratios of loans we have previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a default. The volume of our home equity loans has increased significantly during the last several years during which the national economy has been relatively strong, with volume in 2000 up 221.7% from volume in 1998. The 30-day and greater delinquency ratio for our home equity portfolio was 5.07% at December 31, 2001, up from 4.31% and 2.70% at December 31, 2000 and 1999, respectively.

During the third quarter of 2001, we took certain steps in anticipation of further deterioration in the national economy that could lead to greater stress on homeowners' cash flows and potentially greater losses in our portfolio. These steps included increasing our loss reserve and the aggregate discount rate on our residual interests in our home equity lending line of business. These changes led to mark-to-market impairment from loss reserve and discount rate assumptions of \$14.6 million and \$7.6 million, respectively, during the third quarter of 2001. We also increased our assumption for future prepayment speeds which resulted in impairment charges of \$9.4 million. If the default rates on these relatively unseasoned loans increase beyond our current forecast, due to economic slowdown, recession or otherwise, our default assumptions for the residual interests would change and we would recognize additional trading losses with respect to these residual interests during the period in which these defaults or changes in assumptions occur. Any substantial period of increased delinquencies, foreclosures, losses or increased costs could adversely affect our ability to finance loans or other assets through securitizations and increase the costs associated with this activity. This could adversely affect our financial condition and results of operations.

#### **We may be adversely affected by interest rate changes.**

We and our subsidiaries are subject to interest rate risk in our consumer and commercial lending businesses, although interest rate sensitivity impacts our various lines of business differently. Changes in interest rates likely will affect the pricing of loans and deposits and the value that we can recognize on the sale of mortgage and home equity loan originations or servicing portfolios. Interest rates tend to have opposite effects on the loan production aspect and the servicing aspect of these two lines of business.

Reductions in interest rates expose us to write-downs in the carrying value of the mortgage servicing and other servicing assets we hold on our balance sheet. These assets are recorded at the lower of their cost or market value and a valuation allowance is recorded for any impairment. Decreasing interest rates often lead to increased prepayments in the underlying loans which requires



that we write down the carrying value of these servicing assets. These assets, if improperly hedged or mismanaged, could adversely affect our results of operations during the period in which the impairment occurs. For example, during the third quarter of 2001, we recorded a gross impairment expense, excluding any offsetting hedging activities, on our mortgage servicing assets of \$41.9 million compared to \$4.0 million during the same period in 2000. This was offset by hedging gains of \$43.2 million and \$0, respectively, during these same periods.

Reductions in interest rates also cause trading losses related to residual interests that we often retain when selling or securitizing home equity loans. These assets are reflected on our balance sheet at their fair value with subsequent unrealized gain or loss recorded in our results of operations for any period in which the fair value changes. Fair value is based on a discounted cash flow analysis that takes into account, among other things, prepayment assumptions regarding the underlying loans. Decreasing interest rates often lead to an increase in actual and projected prepayments in the underlying loans. This could require that we recognize a trading loss with respect to our interest-only strips during the period in which the interest rates decrease. For example, during the third quarter of 2001, we recorded an unrecognized trading loss of \$31.6 million, due to changes in the valuation assumptions for residual assets in our home equity lending line of business.

Our commercial lending and equipment leasing lines of business mainly depend on earnings derived from net interest income. Net interest income is the difference between interest earned on loans and investments and the interest expense paid on other borrowings, including deposits at our banks. Our interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities, including the monetary policies of the Federal Reserve.

Although we have taken measures intended to manage the risks of operating in changing interest rate environments, we may not be able to mitigate interest rate sensitivity effectively. Our risk management techniques include modeling interest rate scenarios, using financial hedging instruments, match-funding certain loan assets, selling selected servicing rights and maintaining a strong loan production operation to offset interest rate risk. There are costs and risks associated with our risk management techniques, and these could be substantial.

Finally, to reduce the effect interest rates have on our businesses, we periodically invest in derivatives and other interest-sensitive instruments. While our intent in purchasing these instruments is to reduce our overall interest rate sensitivity, the performance of these instruments is, at times, unpredictable. When our hedges work as anticipated, they serve to reduce other losses. We experienced this in the third quarter of 2001 when hedging gains offset impairment to the value of our mortgage servicing assets. However, our investments in derivatives and other financial instruments we purchase with intent to hedge our interest rate risks may not always produce results in a highly correlated manner compared to the assets or liabilities being hedged. As a result, we may incur additional losses. For example, in the fourth quarter of 2001, a \$31.2 million valuation increase in our mortgage servicing assets was more than offset by \$38.6 million of hedging losses. For additional information about our hedging activities discussion, see "Derivative Financial Instruments" on page 96.

#### *Risks Relating to an Investment in Us.*

#### **We will be affected by new regulatory capital rules and expect to eliminate gain-on-sale revenue from securitizations in our home equity lending line of business beginning in 2002.**

On November 29, 2001, our banking regulators issued new rules that change the capital treatment of residual interests from loans securitized by banks and other financial institutions. The new capital standards became effective on January 1, 2002, for new residual interests related to any transaction covered by the revised rules that settles after December 31, 2001. For transactions settled before January 1, 2002, application of the new capital treatment to the residuals created will be delayed until

December 31, 2002. We believe the rules are intended to limit the use of residual interests, including interest-only strips, which often are retained by lenders like us when securitizing a pool of loans. These regulations will require us to hold additional capital against the fair value of our residual interests and in computing regulatory capital ratios, to deduct from capital amounts of certain residual interests in excess of 25% of our Tier 1 capital. Because we will be required to hold additional capital against certain of the residual assets we now own, principally in our home equity lending line of business, we intend to cease our use of securitization structures in this line of business that create interest-only strips. In addition to changing our current securitization practices, we have taken steps, and will continue to pursue ways to reduce our residual assets as a percentage of Tier 1 capital. These steps may include, but are not limited to: selling residuals to third parties as we have done in four separate transactions in the past, raising additional capital from this offering and possible subsequent offerings, hedging the risk in the residuals with other financial instruments, and/or obtaining third-party insurance to achieve capital relief under the new rules. Based on our discussions with our federal regulators, we believe these steps will be appropriate to manage the level of our residual assets in light of the new capital rules. However, if we are unsuccessful in managing the risk of our residual assets to a level acceptable to our regulators, these regulators may impose supervisory directives that could restrict our ability to grow as planned, or that could require us to maintain capital above the required minimums. If our bank subsidiaries fail to meet the minimum FDIC standards for well-capitalized institutions, our ability to utilize brokered

deposits as a funding source would be restricted.

Securitizations are an important part of our strategy in our home equity lending line of business. We have generated revenue and net income on a regular basis through gains on sales of loans in prior securitization transaction structures that require gain-on-sale accounting treatment sale transactions accounted for under SFAS 140. During 2001, we securitized \$1.0 billion of loans, generating a pre-tax gain of \$102.3 million. To fulfill our delivery commitments under the asset-backed securities we sold in the third quarter of 2001, we intend to sell an additional \$31 million of loans into the securitization trust prior to March 31, 2002. During 2000, we securitized \$774.6 million of loans, generating a pre-tax gain of \$52.6 million. As discussed in the "Recent Developments" section and elsewhere in this prospectus, when we cease our use of securitizations that utilize gain-on-sale accounting, we will no longer recognize gain-on-sale revenue but will instead record interest income over the life of the loan. As a result of this change, our earnings will be adversely impacted in 2002.

**We are the defendant in a class action lawsuit called *Culpepper v. Inland Mortgage Corporation* that could subject us to material liability.**

Our subsidiary, Irwin Mortgage Corporation, which was formerly known as Inland Mortgage Corporation, is the defendant in a class action lawsuit called *Culpepper v. Inland Mortgage Corporation*. The plaintiffs originally filed this lawsuit in 1996 in federal district court in Northern Alabama. The plaintiffs claim that certain payments that our subsidiary made to the plaintiffs' mortgage brokers are unlawful under the federal Real Estate Settlement Procedures Act, commonly known as RESPA. We describe the history of the *Culpepper* case in greater detail under "Legal Proceedings," beginning on page 98.

Numerous class action lawsuits have been, and continue to be, filed throughout the United States against mortgage lenders alleging violations of RESPA. While appeals are pending in a number of cases across the country, the *Culpepper* case is the only case to date in which a federal circuit court of appeals has upheld a lower court's grant of class action certification in favor of the plaintiffs. This happened on June 15, 2001. The case is now proceeding in the federal district court. In response to the court of appeals' decision unfavorable to us, the plaintiffs filed a motion for partial summary judgment in July 2001 asking the federal district court to find that our subsidiary is liable for violating RESPA. The court has not yet ruled on this motion, and in November 2001, the parties filed supplemental briefs upon order of the district court. The briefs address the parties' views on the import of a new

policy statement issued by the Department of Housing and Urban Development on October 18, 2001, after the appellate court ruling in this case. HUD is the agency responsible for interpreting and implementing RESPA. The clarifying policy statement explicitly disagreed with the court of appeals' interpretation of RESPA in connection with the types of payments at issue in the *Culpepper* case. In addition to responding to the district court's order, Irwin Mortgage filed a petition for certiorari with the United States Supreme Court seeking review of the court of appeals' ruling and also filed a motion in the district court seeking a stay of further proceedings until the appellate court renders decisions in three other RESPA cases pending in that court. On January 22, 2002, the Supreme Court denied Irwin Mortgage's petition for certiorari.

If the court finds that Irwin Mortgage violated RESPA, Irwin Mortgage could be liable for damages equal to three times the amount of that portion of payments made to the mortgage brokers that is ruled unlawful. Based on notices sent by the plaintiffs to date to potential class members and additional notices that might be sent, we believe the class is not likely to exceed 32,000 borrowers who meet the class specifications. We intend to vigorously defend this lawsuit and believe we have available numerous defenses to the claims. At this stage of the litigation we are unable to reasonably estimate the amount of potential loss we could suffer, and we have not established any reserves related to this case.

We expect that an adverse outcome in this litigation could subject us to significant monetary damages and this amount could be material to our financial position. Adverse developments in this litigation, or negative publicity regarding this litigation, or the possibility of additional RESPA litigation in the mortgage industry generally and against us in particular, also could cause the trading price of our common shares to decline.

**Our business may be affected adversely by the highly regulated environment in which we operate.**

We and our subsidiaries are subject to extensive federal and state regulation and supervision. Our failure to comply with these requirements can lead to, among other remedies, termination or suspension of our licenses, rights of rescission for borrowers, class action lawsuits and administrative enforcement actions. Recently enacted, proposed and future legislation and regulations have had, will continue to have or may have significant impact on the financial services industry. Regulatory or legislative changes could cause us to change or limit some of our consumer loan products or the way we operate our different lines of business. Future changes could affect the profitability of some or all of our lines of business.

Consumer loan originations are highly regulated and recent regulatory initiatives have focused on the mortgage and home equity lending markets. Federal, state and local government agencies and/or legislators have begun to consider, and in some instances have adopted, legislation to restrict lenders' ability to charge rates and fees in connection with residential mortgage loans. In general, these proposals involve lowering the existing federal Homeownership and Equity Protection Act thresholds for defining a "high-cost" loan, and establishing enhanced protections and remedies for borrowers who receive these loans. The proposed legislation has also included various loan term restrictions, such as limits on balloon loan features. Frequently referred to generally as "predatory lending" legislation, many of these laws and rules extend beyond curbing predatory lending practices to restrict commonly accepted lending activities, including some of our activities. For example, some of these laws and rules prohibit any form of prepayment charge or severely restrict a borrower's ability to finance the points and fees charged in connection with his or her loan. It is possible passage of these laws could limit our ability to impose various fees and charge what we believe are risk-based interest rates on various types of consumer loans and may impose additional regulatory restrictions on our business in certain states.

Because we originate home equity loans from our banking branch in Nevada, federal law permits us to conduct our home equity lending business in compliance with Nevada law regardless of where the

16

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borrowers may reside. Nonetheless, from time to time regulators from other states have questioned our ability to charge certain fees, such as prepayment penalties, to residents of their states. A change in federal or state law or regulation may affect the rates and fees we charge on home equity loans made to borrowers outside Nevada.

These and other potential changes in government regulation or policies could increase our costs of doing business and could adversely affect our operations and the manner in which we conduct our business.

**We may face challenges in managing our rapid growth.**

Our home equity and commercial lending businesses have grown rapidly over the past 18 months. We contemplate continued significant growth in our lines of business as we implement our strategic plans. For this reason, the financial assets that we manage are likely to increase significantly following this offering. Our business is a complex organization, and this growth may strain our existing managerial resources and internal monitoring, accounting and reporting systems. If we are unable to expand the capabilities of our internal reporting and monitoring systems or to hire qualified personnel as needed to keep pace with our growth, our existing risk management may suffer and we could incur unanticipated losses. Rapid growth may also adversely impact our profitability.

**We may need additional capital in the future and adequate financing may not be available to us on acceptable terms, or at all.**

We anticipate that the capital from this offering and what we expect to generate internally may not be sufficient to maintain our regulatory capital levels at desired levels under the new capital rules while also supporting the level of growth contemplated under our current business plan. We intend to seek additional capital in the future to fund growth of our operations and to maintain our regulatory capital at well-capitalized standards. We may not be able to obtain additional debt or equity financing, or, if available, it may not be in amounts and on terms acceptable to us. If we are unable to obtain the funding we need, we may be unable to develop our products and services, take advantage of future opportunities or respond to competitive pressures, which could have a material adverse effect on us. When we sell additional common shares, this will dilute your equity interest in us and may have a dilutive effect on our earnings per share.

**Our operations may be adversely affected if we are unable to secure adequate funding; our reliance on wholesale funding sources and securitizations exposes us to potential liquidity risk and earnings volatility.**

Due to balance sheet growth, in recent quarters we have increased our reliance on wholesale funding, such as short-term credit facilities, Federal Home Loan Bank borrowings and brokered deposits. Because wholesale funding sources are affected by general capital market conditions, the availability of funding from wholesale lenders may be dependent on the confidence these investors have in commercial and consumer finance businesses. The continued availability to us of these funding sources is uncertain, and we could be adversely impacted if our specialized financial services areas become disfavored by wholesale lenders. In addition, brokered deposits may be difficult for us to retain or replace at attractive rates as they mature. Our financial flexibility will be severely constrained if we are unable to renew our wholesale funding or if adequate financing is not available in the future at acceptable rates of interest. We may not have sufficient liquidity to continue to fund new loans or lease originations and we may need to liquidate loans or other assets unexpectedly in order to repay obligations as they mature.

We regularly sell the majority of our first and second mortgage loan originations into the secondary market through the use of securitizations. At times, some of our financial assets, such as

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nontraditional, high loan-to-value home equity loans or residuals, may not be readily marketable, and we may not be able to sell assets at favorable prices when necessary. This could adversely affect our liquidity and funding for future originations and purchases of loans. Additionally, adverse changes in the securitization market could impair our ability to originate, purchase and sell home equity loans or other assets on a favorable or timely basis, and result in earnings volatility.

**We have credit risk inherent in our asset portfolios and in certain assets that we have sold but continue to service.**

In our businesses, some borrowers may not repay loans that we make to them. As all financial institutions do, we maintain an allowance for loan and lease losses to absorb the level of losses that we think is probable in our portfolios. In light of greater uncertainty in the national economy, we significantly increased our loss reserve in our home equity lending line of business during the third quarter of 2001. However, our allowance for loan and lease losses may not be sufficient to cover the loan and lease losses that we actually may incur. While we maintain a reserve at a level management believes is adequate, our charge-offs could exceed these reserves.

Our strategy in our commercial banking line of business is to expand into new markets outside our traditional markets in south-central Indiana by establishing offices staffed by senior commercial loan officers who come to us from other commercial banks in these new markets. As of September 30, 2001, we made \$601.9 million of our total loans, representing 42.5% of our total loan portfolio, outside of our south-central Indiana markets from branch offices we opened since 1999. The majority of these loans are commercial loans and many of these borrowers may not have experienced a complete business or economic cycle since they have been loan customers of ours. We cannot be sure that our loan loss experience with these new borrowers in these newer markets will be consistent with our loan loss experience in our traditional south-central Indiana markets. Because we have only a limited lending history with these customers, our ability to assess whether our loan loss reserve is adequate is less certain. Our actual loan loss experience in these markets may cause us to increase our reserves.

In our home equity lending line of business, we carry some assets on our balance sheet at the net present value of the expected future revenue stream of the instruments, measured at the time we sell the underlying portfolio of loans. These assets are interest-only instruments and generally represent residual interests in loans we have sold or securitized. From time to time we also may purchase interest-only instruments that relate to portfolios of loans securitized by others. We are exposed to continuing credit risk on these assets. Payment defaults by borrowers could exceed the default assumptions we used. If we do not collect the expected amount of interest, the value of our residual interests in the loans will be impaired. Our future earnings will be affected adversely because we are required to record a trading loss equal to impairment of the residual. In addition, we project the expected cash flows over the life of the residual interest using certain assumptions that are subject to prepayment, credit and interest rate risks. If our actual experience as to timing, frequency or security of loans differs materially from the assumptions used, future cash flows and earnings in our home equity lending line of business could be negatively impacted.

If we experience defaults by borrowers in any of our businesses to a greater extent than anticipated, our earnings could be negatively impacted.

**We use innovative business strategies in order to gain competitive advantage in our consumer lending niches.**

Innovative product design is important to us to differentiate us in consumer lending. We have developed our lines of business by identifying underserved niches that we believe offer us a competitive opportunity. For this reason, the performance of our financial assets may be less predictable than those of lenders that offer only conventional mortgage and home equity loans. We may not have the same

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history of delinquency and loss experience to utilize in pricing and structuring some of our products as do lenders offering more seasoned asset types, and it may be more difficult to sell or securitize novel loan types. We may also be impacted by changes in evolving generally accepted accounting principles, unanticipated financial reporting requirements and regulatory uncertainties since accounting and regulatory treatment may not be well established for some of our innovative strategies.

**We rely heavily on our management team and key personnel, and the unexpected loss of key managers and personnel may affect our operations adversely.**

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Each line of our five lines of business has a separate management team that operates its niche as a separate business unit. Our overall financial performance depends heavily on the results of these different specialized financial services businesses. Our success to date has been influenced strongly by our ability to attract and to retain senior management that is experienced in banking and financial services. Our ability to retain executive officers and the current management teams of each of our lines of business will continue to be important to implement our strategies successfully.

Our lending officers in our newer banking markets have primary contact with our new customers in these markets and maintain strong community ties and personal banking relationships with our customer base, which is a key aspect of our business strategy and in increasing our market presence. We are dependent on these new lending officers to maintain and increase our growth in these markets. The unexpected loss of the services of any key management or personnel, or the inability to recruit and retain qualified management and key personnel in the future, could have an adverse effect on our business and financial results.

### **Ownership of our common stock is concentrated in persons affiliated with us.**

Our Chairman, William I. Miller, currently has voting control over more than 50% of our common shares and is expected to substantially control the vote of our common shares after this offering. Together with Mr. Miller, directors and executive officers of Irwin will beneficially own approximately 44.60% of our common shares after the offering. These persons likely have the ability to substantially control the outcome of all shareholder votes and to direct our affairs and business. This voting power would enable them to cause actions to be taken that may prove to be inconsistent with the interests of non-affiliated shareholders.

### **Our future success depends on our ability to compete effectively in highly competitive financial services industry.**

The financial services industry, including commercial banking, mortgage banking, home equity lending and equipment leasing, is highly competitive, and we and our operating subsidiaries encounter strong competition for deposits, loans and other financial services in all of our market areas in each of our lines of business. Our principal competitors include other commercial banks, savings banks, savings and loan associations, mutual funds, money market funds, finance companies, trust companies, insurers, leasing companies, credit unions, mortgage companies, private issuers of debt obligations, venture capital firms, and suppliers of other investment alternatives, such as securities firms. Many of our non-bank competitors are not subject to the same degree of regulation as we and our subsidiaries are and have advantages over us in providing certain services. Many of our competitors are significantly larger than we are and have greater access to capital and other resources. Also, our ability to compete effectively in our lines of business is dependent on our ability to adapt successfully to technological changes within the banking and financial services industry generally.

19

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### **Our shareholder rights plan, provisions in our restated articles of incorporation, our by-laws, and Indiana law may delay or prevent an acquisition of us by a third party.**

Our Board of Directors has implemented a shareholder rights plan. The rights have certain anti-takeover effects. The overall effects of the plan may be to render more difficult or to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a larger block of our shares and the removal of incumbent directors and key management even if such removal would be beneficial to shareholders generally. If triggered, the rights will cause substantial dilution to a person or group that attempts to acquire us without approval of our Board of Directors, and under certain circumstances, the rights beneficially owned by the person or group may become void. The plan also may have the effect of limiting shareholder participation in certain transactions such as mergers or tender offers whether or not such transactions are favored by incumbent directors and key management. In addition, our executive officers may be more likely to retain their positions with us as a result of the plan, even if their removal would be beneficial to shareholders generally.

Our restated articles of incorporation and our by-laws as well as Indiana law contain provisions that make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions also could discourage proxy contests and may make it more difficult for you and other shareholders to elect your own representatives as directors and take other corporate actions.

Our by-laws do not permit cumulative voting of shareholders in the election of directors, allowing the holders of a majority of our outstanding shares to control the election of all our directors. We have a staggered board which means that only one-third of our board can be replaced by shareholders at any annual meeting. Directors may not be removed by shareholders. For these reasons, our Chairman, William I. Miller, who will continue to control the vote of a substantial portion of our common shares after this offering, will likely be able to exercise effective control over the outcome of any shareholder vote. Our by-laws also provide that only our Board of Directors, and not our shareholders, may adopt, alter, amend and repeal our by-laws.

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Indiana law provides several limitations that may discourage potential acquirers from purchasing our common shares. In particular, Indiana law prohibits business combinations with a person who acquires 10% or more of our common shares during the five-year period after the acquisition of 10% by that person or entity, unless the acquirer receives prior approval for the acquisition of the shares or business combination from our Board of Directors.

These and other provisions of Indiana law and our governing documents may have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our shareholders.

20

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in the "Recent Developments" section and elsewhere in this prospectus constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of invoking these safe harbor provisions. You can identify these statements from our use of the words "plan," "forecast," "estimate," "project," "believe," "intend," "anticipate," "expect," "target," "is likely," "will," and similar expressions. These forward-looking statements may include, among other things:

statements and assumptions relating to projected growth, earnings, earnings per share, and other financial performance measures as well as management's short-term and long-term performance goals;

statements relating to the anticipated effects on results of operations or financial condition from recent and expected developments or events, including the recently revised regulatory capital rules relating to residual interests;

statements relating to our business and growth strategies, including potential acquisitions; and

any other statements, projections or assumptions that are not historical facts.

Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We discuss these and other uncertainties in the "Risk Factors" section of this prospectus beginning on page 13 and elsewhere in this prospectus. We undertake no obligation to update publicly any of these statements in light of future events.

21

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### RECENT DEVELOPMENTS

#### Fourth Quarter Earnings Announcement

On January 23, 2002 we announced our fourth quarter and annual 2001 earnings. We reported net income in the fourth quarter of 2001 of \$12.1 million or \$0.53 per share, compared with net income of \$9.6 million or \$0.45 per share during the same period in 2000, an increase in earnings of 26% and an increase in earnings per share of 18%. The increase is largely due to strong first mortgage loan originations. Improved profits in our commercial banking line of business also contributed to the record results.

Fourth quarter 2001 revenues totaled \$117.7 million, an increase of \$39 million or 49% compared with a year earlier. Return on average common equity during the fourth quarter was 21.0%.

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For the entire year of 2001, revenues totaled \$401.0 million and net income was \$45.5 million, increases of 35% and 28%, respectively, over 2000. Return on average common equity was 21.8% in 2001.

Financial highlights for the quarter and entire year included:

	Fourth Quarter			YTD 2001	YTD 2000	%
	2001	2000	% Change			
	(dollars in millions, except earnings per share)					
Total consolidated net revenues	\$ 117.7	\$ 79.1	49%	\$ 401.0	\$ 297.3	35%
Net income:						
Mortgage banking	12.8	3.1	318	38.1	13.0	193
Home equity lending	5.6	8.0	(30)	16.2	18.5	(12)
Commercial banking	3.0	1.7	73	8.9	7.1	26
Equipment leasing (pre-tax)	(1.7)	(0.2)	(744)	(4.4)	(2.6)	(71)
Venture capital	(3.4)	(1.4)	(155)	(6.5)	2.7	N/A
Parent and other	(4.2)	(1.7)	(150)	(6.8)	(3.1)	(121)
Total consolidated net income	12.1	9.6	26	45.5	35.7	28
Earning per share (EPS)	0.53	0.45	18	2.00	1.67	20
Return on average equity	21.0%	20.7%		21.8%	20.8%	

*Significant Factors for the Fourth Quarter and Full Year 2001*

Lower interest rates led to record mortgage loan originations.

Economic conditions resulting from the recession resulted in slower originations of non-mortgage products. Charge-offs and delinquencies increased during the quarter. We increased our loan loss and private equity valuation allowances to address this exposure.

Delinquency ratio (30 days and beyond) trends for our principal credit-related portfolios are shown below. These ratios remain within management's long-term expectations.

	Commercial Loans	Home Equity Loans	Equipment Leases
	(dollars in billions)		
Owned portfolio	\$ 1.5	\$ 2.1	\$ 0.3
30-day + delinquency			
December 31, 2001	0.38%	5.07%	2.02%
September 30, 2001	0.08	4.71	2.41
December 31, 2000	0.46	4.31	1.06

22

*Line of Business Results*

*Mortgage Banking*

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Net income at our mortgage banking line of business totaled \$12.8 million in the fourth quarter of 2001, an increase of \$9.7 million or 318% compared with the year earlier period due to strong mortgage originations. Net income totaled \$38.1 million for the full year, an increase of 193% over 2000 results.

Reflecting an interest rate environment where the average GNMA note rate was approximately 1.1% lower than in the fourth quarter of 2000, mortgage loan originations totaled \$2.8 billion during the fourth quarter, a year-over-year increase of \$1.7 billion or 157%. Refinanced loans accounted for 64% of fourth quarter production, compared with 24% in the year earlier period. In addition, loans for the purchase of new homes increased 20% year-over-year.

Our mortgage servicing portfolio totaled \$12.9 billion as of December 31, 2001, a year-over-year increase of 40% and a quarterly increase of \$1.2 billion or 10%, reflecting increased production and greater retention of servicing on loans sold. The market value of our servicing portfolio totaled \$239.7 million as of December 31, 2001, compared with the balance sheet carrying value of \$211.2 million, reflecting balance sheet valuation at the lower of cost or market.

### Home Equity Lending

Our home equity lending business earned \$5.6 million during the fourth quarter of 2001, a \$2.4 million or 30.1% decrease as compared to the fourth quarter of 2000. Net income for the full year totaled \$16.2 million, a decrease of \$2.2 million or 12.1% compared with 2000 results.

Although 30-day or greater delinquencies rose during the quarter, overall credit performance for our core high loan-to-value products continues to meet management's expectations and remains within the forecasts used for its loss reserve analysis. Loss rates on a previously discontinued low-balance loan program for loans originated principally during 1999, increased during the quarter and accounted for 76% of the net impairment charge of \$6.0 million taken during the quarter. For the entire home equity portfolio, embedded loss reserves have been established for this line of business to provide for further increases in delinquencies throughout 2002, toward a peak of approximately 8.0% during the third quarter of 2002.

Our managed and subserviced home equity portfolio totaled \$2.3 billion at quarter-end, compared with \$1.8 billion a year earlier, a 27.0% increase. Capitalized residual assets totaled \$199 million as of December 31, 2001, or approximately 11.6% of the principal balance of our \$1.7 billion securitized, residual home equity portfolio. We delivered \$195 million of loans into the secondary market as part of our fourth quarter 2001 funding activities and plan to deliver approximately another \$31 million in the first quarter of 2002 to complete our delivery commitment to a securitization originally structured and sold in September 2001. Both deliveries are to be accounted for as sales (rather than secured financings) in accordance with SFAS 140. We also sold approximately \$35 million of first mortgage loans in a cash whole loan sale.

As previously announced, in December we sold a 40% residual interest in home equity loans previously securitized in September 2000 (the *Irwin Home Equity Trust, 2000-1*) to an independent party. The transaction was our fourth sale of residual interests. Consistent with the three previous residual sales, we sold the residual interest for a price approximating its current carrying value, establishing a market value for this residual consistent with our valuation assumptions. Net cash proceeds from the sale totaled \$12.3 million or 11.3% of the underlying loan principal balance.

### Commercial Banking

Our commercial banking line of business earned \$3.0 million in the fourth quarter of 2001, an increase of \$1.3 million or 73% compared with a year earlier. The increase in net income largely reflects year-over-year growth of \$2.1 million or 23% in net interest income after provision for loan losses and a \$1.0 million increase in other revenues, principally mortgage origination and other fees. Net income for 2001 totaled \$8.9 million, a 26% increase over 2000.

The commercial banking loan portfolio of \$1.5 billion increased \$0.4 billion, or 42% year-over-year. The net interest margin for this line of business in the fourth quarter of 2001 was 3.77%, compared with 3.94% during the fourth quarter of 2000, reflecting excess liquidity during the quarter. Net interest margin for the year 2001 was 3.80%, compared with 4.25% during 2000. Average core deposits increased during the year to \$1.0 billion, a 64% year-over-year increase, reflecting renewed efforts on deposit gathering initiatives.

Included in fourth quarter net income was \$3.5 million in provision for loan and lease losses, a year-over-year increase of \$2.4 million or 209%, reflecting portfolio growth, general economic conditions, and increased charge-offs. Net charge-offs totaled \$1.1 million during the fourth quarter of 2001 or 0.29% of average loans on an annualized basis, and totaled \$2.5 million or 0.19% of average loans for the year. Our reserve to loans totaled 0.97% as of December 31, compared with 0.86% a year earlier.



Equipment Leasing

Our leasing line of business incurred a pre-tax loss of \$1.7 million in the fourth quarter, compared with a pre-tax loss of \$0.2 million a year earlier and a loss of \$4.4 million pre-tax for the year, compared with a \$2.6 million pre-tax loss in 2000.

The increased loss was principally the result of difficult economic conditions that led to higher levels of charge-offs and delinquencies, primarily on our domestic leases originated in 2000. To address these issues, our provision for loan and lease losses totaled \$2.8 million during the fourth quarter, compared to \$0.6 million a year ago. Lease charge-offs increased to \$1.7 million during the fourth quarter, a \$1.0 million year-over-year increase. We tightened our underwriting criteria for our domestic broker business beginning in the first quarter of 2001. Leases originated since that time have shown improved performance. Lease and loan fundings totaled \$46.4 million in the fourth quarter, a year-over-year increase of 24.8%. The equipment lease and loan portfolio totaled \$264.8 million at year-end, a \$109.9 million or 71% annual increase.

Venture Capital

Our venture capital line of business lost \$3.4 million during the fourth quarter, compared with a loss of \$1.4 million a year earlier, reflecting portfolio valuation adjustments due to limited new funding and reduced exit opportunities in the current environment for development stage companies. We lost \$6.6 million for the year, compared with net income of \$2.7 million in 2000.

Our investment portfolio had a \$6.8 million carrying value as of December 31, 2001, compared with a cost basis of \$10.7 million.

Parent and Other

The parent company and other consolidating entities recorded a net loss of \$4.2 million in the fourth quarter, compared to a \$1.7 million loss a year earlier. The change largely reflects increased operating expenses, including interest expense associated with a portion of the trust preferred securities issued during 2001 relating to capital not yet allocated to lines of business and a \$1.9 million one-time compensation charge for the estimated future cost of key employee retention initiatives in our home

equity lending line of business. The parent and consolidating entities recorded a loss of \$6.8 million for the year, compared with a \$3.1 million loss in 2000.

Balance Sheet

We had assets totaling \$3.4 billion as of December 31, 2001, a \$1.0 billion increase from a year earlier, reflecting increases in portfolio loans at the commercial banking and equipment leasing lines of business and increases in loans held for sale at the mortgage banking line of business. Our loan and lease portfolio totaled \$2.1 billion as of December 31, 2001, an increase of \$0.9 billion or 73% from a year earlier, reflecting loan growth and a reclassification of approximately \$350 million of home equity loans from held-for-sale to held-for-investment categorization. Reflecting this reclassification, loans held-for-sale decreased 13% year-over-year to \$0.5 billion. Risk-based assets totaled \$4.3 billion at December 31, 2001, a 53% year-over-year increase, largely reflecting increases in our commercial loan and lease portfolios and growth of our home equity lending line of business.

Nonperforming assets (including other real estate owned of \$4.4 million) were \$23.5 million or 0.68% of total assets as of December 31, 2001, up from \$10.1 million or 0.42% of total assets a year earlier. Net charge-offs for the quarter totaled \$3.5 million, compared to \$1.3 million a year earlier, reflecting increases at our commercial banking and leasing lines of business. Our on balance sheet allowance for loan and lease losses totaled \$22.3 million as of December 31, 2001, compared with \$13.1 million a year earlier. As of December 31, 2001, the consolidated on balance sheet ratio of allowance for loan and lease losses to total loans and leases was 1.04%, compared with 1.06% a year earlier. We also carry \$135.9 million of undiscounted reserves embedded in the residuals held on our securitized home equity portfolio or 7.9% of the outstanding principal balance, compared with \$81.2 million or 6.3% a year earlier.

Our ratio of allowance for loan and lease losses to nonperforming loans and leases totaled 116% at year end 2001, compared with 182% a year earlier. In the third quarter, our home equity lending line of business reclassified approximately \$38.4 million of loans from "loans-held-for-sale" to "loans-held-for-investment." This reclassification created a valuation allowance under generally accepted accounting principles which, had the loans been classified as loans held-for-investment from their inception, would have been included in allowance for loan losses. Adjusted to include the valuation allowance associated with this reclassification, the ratio of allowance for loan losses to nonperforming loans as of December 31, 2001, would have been 137%.

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On November 14, 2001, we sold \$30 million of 9.95% trust preferred securities. These securities qualified immediately as Tier 2 regulatory capital and are eligible for inclusion in Tier 1 capital. The privately placed securities are callable at par beginning in December 2006 and mature in December 2031.

We had \$232 million or \$10.83 per share in common shareholders' equity as of December 31, 2001, a year-over-year per share increase of 21%. Our Tier 1 leverage ratio and total risk-based capital ratio were 9.4% and 10.8%, respectively, as of December 31, 2001, compared with 12.4% and 13.6% respectively, a year earlier. These compare to "well-capitalized" regulatory standards of 5.0% and 10.0%, respectively.

### **New Regulatory Capital Rules**

As we discuss in more detail in the "Supervision and Regulation" section beginning on page 101, on November 29, 2001, the federal banking regulators, including the Federal Reserve, our principal regulator, adopted revised regulatory capital standards regarding the treatment of certain recourse obligations, direct credit substitutes, residual interests in assets securitizations, and other securitized transactions. These changes were first proposed in September 2000. In general, the new rules require banking institutions that have residual assets, including assets commonly referred to as "interest-only

25

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strips" that exceed 25% of their Tier 1 capital amount to deduct the after-tax excess amount of credit-enhancing interest-only strips from Tier 1 capital for purposes of computing risk-based capital ratios. This creates regulatory capital incentives for banking institutions to reduce the creation of new residual assets when total residual assets exceed 25% of Tier 1 capital.

The new capital standards became effective on January 1, 2002, for new residual interests related to any transaction covered by the revised rules that settles after December 31, 2001. For transactions settled before January 1, 2002, application of the new capital treatment to the residuals created will be delayed until December 31, 2002.

The residual assets we now own exceed the 25% concentration limit in the new rules. On a pro forma basis adjusted to give effect to the sale of \$75 million of our common shares in this offering, and conservatively assuming all of our residual assets are subject to the new capital treatment, our residual assets as of September 30, 2001, comprised 51% of our consolidated Tier 1 capital. On November 29, 2001, we sold \$12.3 million of our residual interests in home equity loans previously securitized in September 2000. This represents our fourth sale of residual assets in the last two years. See the "Capitalization" section on page 56 for a table showing our pro forma capital ratios giving effect to the new capital treatment.

### *Our Response*

These new rules apply to the securitization transactions historically done by our home equity line of business. We have financed our significant growth in this line of business to date using transaction structures that create residual interests on sold loans through "gain-on-sale" accounting sales transactions accounted for under SFAS 140.

To address the new rules, we have changed our operating plan to eliminate our use of securitization structures that require gain-on-sale accounting treatment under SFAS 140. Beginning in 2002, we will use securitization structures that qualify for financing rather than sale treatment under SFAS 140. This will allow us to access the capital markets for cost-effective, matched secured funding of our loan assets, while not meaningfully impacting or changing our cash flows, nor changing the longer term profitability of our home equity lending operation.

In addition to changing our current securitization practices, we have taken steps and will continue to pursue ways to reduce our residual assets as a percentage of Tier 1 capital. These steps may include, but are not limited to:

selling residuals to third parties as we have done in four separate transactions in the past;

raising additional capital in this offering;

hedging the risk in the residuals with other financial instruments; and/or

obtaining third-party insurance to achieve capital relief under the new rules.

Through these initiatives, we plan to materially reduce the level of residuals as a percentage of Tier 1 capital. We intend to manage our balance sheet to remain well-capitalized under all regulatory capital measures. By the end of 2002, we expect our residual interests to have declined to approximately 35% of Tier 1 capital, falling to approximately 20% by the end of 2003.

26

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#### *Anticipated Impact on Earnings*

Changing our securitization practices will significantly affect the financial results of our home equity line of business in 2002. The key financial impacts we expect include:

By using on-balance sheet financing to fund our home equity loan originations, we will be required to change the timing of revenue recognition on these assets under generally accepted accounting principles. For assets funded on-balance sheet, we record interest income over the life of the loan, while for assets funded through transactions accounted for under SFAS 140 or its predecessor SFAS 125, we have recorded revenue as trading gains at the time of sale based on the discounted present value of the anticipated revenue stream over the expected life of the loans. This difference in accounting treatment does not, however, affect cash flows related to the loans, and management expects that the ultimate total receipt of revenues and profitability derived from our home equity loans will be substantially unchanged by these different financing structures.

Due to the anticipated delay in revenue recognition under the new financing structures we intend to pursue, we plan to reduce the rate of growth in production and related expenses in the home equity line of business to more closely align anticipated revenue recognition and expenses under this new model. This process is now underway. While we expect continued profitability on a consolidated basis, we currently expect to incur a small accounting loss in 2002 in our home equity line of business as we make this transition.

After the initial transition period, as the portfolio of on-balance sheet home equity loans continues to grow, our home equity business should record increased levels of net interest income sufficient to cover ongoing expenses. We would then expect to be in a position to resume profitable growth in this line of business. We may also pursue selective opportunities to sell whole loans in cash sale transactions if attractive terms can be negotiated. We currently anticipate that our home equity line of business will return to profitability in 2003.

Taking the factors discussed above into account, we expect consolidated net income will decline in 2002 but then increase significantly in 2003. Management currently estimates that consolidated net income will be approximately \$36 million in 2002 and approximately \$54 million in 2003. These estimates include \$2.7 million of after-tax interest expense on our convertible trust preferred securities, which would be added back to net income for purposes of calculating fully diluted earnings per share under generally accepted accounting principles. These estimates are based on various factors and assumptions management currently believes are reasonable, including current industry forecasts of a variety of economic and competitive factors. However, projections are inherently uncertain, and our actual earnings may differ significantly from these estimates due to risks and uncertainties related to our business that are described in the "Risk Factors" section beginning on page 13.

#### *Pro Forma Capital Relative to New Regulation on Residuals*

Our Tier 1 capital totaled \$294.6 million as of December 31, 2001, or 6.8% of risk-weighted assets. On a pro forma basis, giving full effect to the new risk-weighted capital regulations regarding residual assets, as further adjusted to give effect to the net proceeds from this offering and prior to any residual asset reduction steps we are contemplating to reduce our concentration of residual assets or to reclassify for capital treatment purposes any of those residual assets, or any other changes, our Tier 1 capital and total capital to risk-weighted assets would be approximately 7.7% and 10.6%, respectively, as of December 31, 2001. The new capital rules do not become fully effective until December 31, 2002.

While our financial results in 2002 will likely be significantly different than our historical performance for the reasons discussed above, management anticipates that after 2002, we can again

27

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achieve our long-term financial objectives of at least 12% annual earnings per share growth and greater than 15% return on common equity.

*Fourth Quarter and Annual 2001 Highlights*

**Selected Consolidated Financial Highlights**

	<b>Fourth Quarter</b>		<b>% Change</b>
	<b>2001</b>	<b>2000</b>	
	(dollars in thousands, except per share data)		
Net interest income	\$ 42,961	\$ 29,691	44.7%
Provision for loan and lease losses	(8,143)	(1,793)	354.2
Noninterest income	82,856	51,175	61.9
	<b>117,674</b>	<b>79,073</b>	<b>48.8</b>
Noninterest expense	98,750	63,227	56.2
	<b>18,924</b>	<b>15,846</b>	<b>19.4</b>
Income before income taxes	6,925	6,295	10.0
	<b>11,999</b>	<b>9,551</b>	<b>25.6</b>
Income before minority interest	(71)		n/a
Minority interest			
	<b>12,070</b>	<b>9,551</b>	<b>26.4%</b>
Net income			
Dividends on common stock	\$ 1,384	\$ 1,262	9.7%
Diluted earnings per share (24,137 weighted average shares outstanding)	0.53	0.45	17.8
Basic earnings per share (21,261 weighted average shares outstanding)	0.57	0.46	23.9
Dividends per common share	0.065	0.060	8.3
Common stock market price:			
High	22.08	22.00	0.4
Low	14.49	13.25	9.4
Net charge-offs	3,490	1,285	171.6
Performance ratios Quarter to date:			
Return on average assets	1.39%	1.62%	
Return on average equity	21.04	20.70	

28

	<b>Year to Date</b>		<b>% Change</b>
	<b>2001</b>	<b>2000</b>	
	(dollars in thousands, except per share data)		
Net interest income	\$ 147,149	\$ 90,996	61.7%

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	Year to Date		
Provision for loan and lease losses	(17,505)	(5,405)	224.0
Noninterest income	271,391	211,711	28.2
Total net revenues	401,035	297,304	34.9
Noninterest expense	327,420	237,962	37.6
Income before income taxes	73,615	59,342	24.1
Income taxes	28,624	23,676	20.9
Income before minority interest	44,991	35,666	26.1
Minority interest	(350)		n/a
Income before cumulative effect of change in accounting principle	45,341	35,666	27.1
Cumulative effect of change in accounting principle, net of tax	175		n/a
Net income	\$ 45,516	\$ 35,666	27.6%
Dividends on common stock	\$ 5,519	\$ 5,038	9.5%
Diluted earnings per share (24,173 weighted average shares outstanding)	2.00	1.67	19.8
Basic earnings per share (21,175 weighted average shares outstanding)	2.15	1.70	26.5
Dividends per common share	0.260	0.240	8.3
Common stock market price:			
High	27.70	22.00	25.9
Low	14.49	13.25	9.4
Closing	17.00	21.19	(19.8)
Net charge-offs	8,206	2,702	203.7
Performance ratios year to date:			
Return on average assets	1.45%	1.76%	
Return on average equity	21.83	20.83	

29

	At December 31,		
	2001	2000	% Change
	(dollars in thousands, except per share data)		
Loans held for sale	\$ 503,757	\$ 579,788	(13.1)%
Loans and leases in portfolio	2,137,747	1,234,922	73.1
Allowance for loan and lease losses	22,283	13,129	69.7
Total assets	3,439,960	2,422,429	42.0
Total deposits	2,309,018	1,443,330	60.0
Shareholders' equity	232,074	189,925	22.2
Shareholders' equity available to common shareholders (per share)	10.83	8.97	20.8
Average equity/average assets (YTD)	6.65%	8.46%	
Tier I capital	\$ 294,649	\$ 250,825	17.5%
Tier I leverage ratio	9.41%	12.41%	
Total risk-based capital ratio	10.81	13.59	
Nonperforming assets to total assets	0.68	0.42	

## Selected Financial Highlights By Line of Business

## Mortgage Banking

	Fourth Quarter		
	2001	2000	% Change
	(dollars in thousands, except per share data)		
Net interest income	\$ 12,235	\$ 3,644	235.8%
Provision for loan losses	(124)	291	(142.6)
Loan origination fees	18,910	9,270	104.0
Gain on sales of loans	38,537	11,624	231.5
Gain (loss) on sale of servicing	2,315	13,097	(82.3)
Loan servicing fees	14,961	11,369	31.6
Amortization and impairment of servicing assets,			
Net of hedging	(18,316)	(15,883)	15.3
Other revenues	1,121	1,075	4.3
Total net revenues	69,639	34,487	101.9
Salaries, pension, and other employee expense	31,371	18,489	69.7
Other expenses	17,916	11,023	62.5
Income before income taxes	20,352	4,975	309.1
Income taxes	7,558	1,913	295.1
Income before cumulative effect of change in accounting principle	\$ 12,794	\$ 3,062	317.8%
Total mortgage loan originations:	\$ 2,837,698	\$ 1,105,128	156.8%
Percent retail	37.83%	34.24%	
Percent wholesale	58.08	56.78	
Percent brokered	4.09	8.98	
Refinancings as a percent of total originations	64.48	23.74	

30

	Year to Date		
	2001	2000	% Change
	(dollars in thousands, except per share data)		
Net interest income	\$ 30,261	\$ 15,401	96.5%
Provision for loan losses	31	357	(91.3)
Loan origination fees	61,917	34,688	78.5
Gain on sales of loans	113,140	45,601	148.1
Gain (loss) on sale of servicing	8,394	27,528	(69.5)
Loan servicing fees	52,837	50,309	5.0
Amortization and impairment of servicing assets,			
Net of hedging	(42,135)	(37,490)	12.4
Other revenues	5,016	4,538	10.5

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	Year to Date		
Total net revenues	229,461	140,932	62.8
Salaries, pension, and other employee expense	110,542	72,818	51.8
Other expenses	57,082	46,569	22.6
Income before income taxes	61,837	21,545	187.0
Income taxes	23,912	8,539	180.0
Income before cumulative effect of change in accounting principle	37,925	13,006	191.6
Cumulative effect of change in accounting principle	175	0	n/a
Net income	\$ 38,100	\$ 13,006	192.9%
Total mortgage loan originations:	\$ 9,225,991	\$ 4,091,573	125.5%
Percent retail	35.69%	35.70%	
Percent wholesale	59.70	55.66	
Percent brokered	4.61	8.64	
Refinancings as a percentage of total originations	54.10	16.39	
	At December 31,		
	2001	2000	% Change
	(dollars in thousands, except per share data)		
Owned servicing portfolio balance	\$ 12,875,532	\$ 9,196,513	40.0%
Weighted average interest rate	7.23%	7.76%	
Delinquency ratio (30+ days):	7.80	9.61	
FNMA/FHLMC	2.54	4.64	
GNMA	9.62	11.14	
Servicing asset	\$ 211,201	\$ 121,555	73.7

31

Home Equity Lending

	Fourth Quarter		
	2001	2000	% Change
	(dollars in thousands, except per share data)		
Residual asset interest income	\$ 9,340	\$ 6,494	43.8%
Interest income - unsold loans and other	5,173	7,842	(34.0)
Provision for loan losses	(1,736)	(327)	430.9
Trading gains (losses)	(3,697)	4,276	(186.5)
Loan origination fees	765	510	50.0
Gain on sales of loans, including points and fees	20,840	12,033	73.2
Servicing income, net	2,377	2,000	18.9
Other revenues	9	21	(57.1)

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	Fourth Quarter		
	2001	2000	% Change
Total net revenues	33,071	32,849	0.7
Salaries, pension, and other employee expense	14,095	12,373	13.9
Other expense	9,678	7,179	34.8
Income before income taxes	9,298	13,297	(30.1)
Income taxes	3,719	5,318	(30.1)
Net income	\$ 5,579	\$ 7,979	(30.1)%
Loan volume	\$ 346,851	\$ 624,916	(44.5)%
Secondary market delivery	229,492	209,391	9.6
Gain on sale as percentage of loans sold	9.08%	5.75%	
Return on average equity	16.58	41.27	
	Year to Date		
	2001	2000	% Change
	(dollars in thousands, except per share data)		
Residual asset interest income	\$ 31,929	\$ 15,410	107.2%
Interest income - unsold loans and other	29,825	20,183	47.8
Provision for loan losses	(2,320)	(461)	403.3
Trading gains (losses)	(38,420)	14,399	(366.8)
Loan origination fees	1,639	951	72.3
Gain on sales of loans, including points and fees	91,556	46,970	94.9
Servicing income, net	10,138	5,976	69.6
Other revenues	71	19	273.7
Total net revenues	124,418	103,447	20.3
Salaries, pension, and other employee expense	59,010	39,180	50.6
Other expense	38,328	33,443	14.6
Income before income taxes	27,080	30,824	(12.1)
Income taxes	10,832	12,330	(12.1)
Net income	\$ 16,248	\$ 18,494	(12.1)%
Loan volume	\$ 1,149,410	\$ 1,225,955	(6.2)%
Secondary market delivery	1,080,328	774,610	39.5
Gain on sale as percentage of loans sold	8.47%	6.06%	
Return on average equity	15.15	30.57	

32

	At December 31,		% Change
	2001	2000	%



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At December 31,

(dollars in thousands, except per share data)

Home equity loans (on balance sheet)	\$	346,192	\$	334,718	3.4%
Residual asset		199,071		152,614	30.4
Managed portfolio		2,064,542		1,625,719	27.0
Delinquency ratio (30+ days)		5.07%		4.35%	
Managed portfolio, including subservicing	\$	2,317,975	\$	1,825,527	27.0
Delinquency ratio (30+ days)		5.25%		4.31%	

**Commercial Banking**

Fourth Quarter

2001                      2000                      % Change

(dollars in thousands, except per share data)

Net interest income	\$	14,858	\$	10,345	43.6%
Provision for loan and lease losses		(3,495)		(1,131)	209.0
Other revenues		4,178		3,136	33.2
 Total net revenues		 15,541		 12,350	 25.8
 Salaries, pension, and other employee expense		 6,227		 5,673	 9.8
Other expenses		4,390		3,795	15.7
 Income before income taxes		 4,924		 2,882	 70.9
Income taxes		1,922		1,142	68.3
 Net income	\$	 3,002	\$	 1,740	 72.5%
 Return on average equity		 11.41%		 10.76%	
Return on average assets		0.73		0.63	
Net charge-offs	\$	1,070	\$	462	131.6%
Net interest margin		3.77%		3.94%	

33

Year to Date

2001                      2000                      % Change

(dollars in thousands, except per share data)

Net interest income	\$	50,999	\$	38,412	32.8%
Provision for loan and lease losses		(7,900)		(2,933)	169.3
Other revenues		14,999		11,974	25.3
 Total net revenues		 58,098		 47,453	 22.4

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	Year to Date		
Salaries, pension, and other employee expense	25,411	21,507	18.2
Other expenses	18,089	14,266	26.8
Income before income taxes	14,598	11,680	25.0
Income taxes	5,680	4,590	23.7
Net income	\$ 8,918	\$ 7,090	25.8%
Return on average equity	10.45%	12.31%	
Return on average assets	0.64	0.74	
Net charge-offs	\$ 2,484	\$ 1,080	130.0%
Net interest margin	3.80%	4.25%	

	At December 31,		
	2001	2000	% Change
(dollars in thousands, except per share data)			
Securities and short-term investments	\$ 43,346	\$ 27,287	58.9%
Loans and leases	1,514,957	1,067,980	41.9
Allowance for loan and lease losses	(14,644)	(9,228)	58.7
Interest-bearing deposits	1,282,503	877,148	46.2
Noninterest-bearing deposits	173,873	121,744	42.8
Commercial loan delinquency ratio (30+ days)	0.38%	0.46%	

34

Equipment Leasing

Fourth Quarter