ORIGEN FINANCIAL INC
Form 10-Q
November 08, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.
FORM 10-Q

þ **Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
FOR THE QUARTERLY PERIOD ENDED September 30, 2007.

OR

o **Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the Transition Period From __________to __________

COMMISSION FILE NUMBER 000-50721
Origen Financial, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	20-0145649
(State of Incorporation)	(I.R.S. Employer Identification No.)
27777 Franklin Rd. Suite 1700 Southfield, MI	48034
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: (248) 746-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Number of shares of Common Stock, $.01 par value, outstanding as of November 1, 2007: 25,988,895

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Part I. Financial Information
Item 1. Financial Statements

Origen Financial, Inc.
Consolidated Balance Sheets
(In thousands, except share data)
As of September 30, 2007 and December 31, 2006

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Assets		
Cash and cash equivalents	$ 14,824	$ 2,566
Restricted cash	15,665	15,412
Investments held to maturity	41,885	41,538
Loans receivable, net of allowance for losses of $7,489 and $8,456 at September 30, 2007 and December 31, 2006, respectively	1,157,006	950,226
Servicing advances	5,890	7,741
Servicing rights	2,225	2,508
Furniture, fixtures and equipment, net	3,132	3,513
Repossessed houses	4,923	3,046
Goodwill	32,277	32,277
Other assets	15,144	14,240
Total assets	$ 1,292,971	$ 1,073,067
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Warehouse financing	$ 238,687	$ 131,520
Securitization financing	786,971	685,013
Repurchase agreements	16,894	23,582
Notes payable related party	14,445	
Notes payable servicing advances		2,185
Other liabilities	31,303	26,303
Total liabilities	1,088,300	868,603
Stockholders Equity		
Preferred stock, $.01 par value, 10,000,000 shares authorized; 125 shares issued and outstanding at September 30, 2007 and December 31, 2006, $1,000 per share liquidation preference	125	125
Common stock, $.01 par value, 125,000,000 shares authorized; 25,993,823 and 25,865,401 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	260	259
Additional paid-in-capital	221,323	219,759
Accumulated other comprehensive loss	(4,685)	(625)
Distributions in excess of earnings	(12,352)	(15,054)

Total stockholders equity	204,671	204,464
Total liabilities and stockholders equity	$ 1,292,971	$ 1,073,067

The accompanying notes are an integral part of these financial statements.

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Origen Financial, Inc.
Consolidated Statements of Operations (Unaudited)
(In thousands, except share data)
For the periods ended September 30, 2007 and 2006

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest Income				
Total interest income	$ 23,656	$ 18,807	$ 67,063	$ 54,072
Total interest expense	15,628	11,451	42,637	31,328
Net interest income before loan losses	8,028	7,356	24,426	22,744
Provision for loan losses	2,191	1,598	5,785	4,924
Net interest income after loan losses	5,837	5,758	18,641	17,820
Non-interest income				
Servicing income	4,728	3,635	13,331	10,608
Other	904	727	2,597	2,142
Total non-interest income	5,632	4,362	15,928	12,750
Non-interest Expenses				
Personnel	5,946	5,719	18,863	17,986
Loan origination and servicing	395	402	1,454	1,114
State business taxes	115	76	352	251
Other operating	2,234	2,169	6,579	6,327
Total non-interest expense	8,690	8,366	27,248	25,678
Net income before income taxes and cumulative effect of change in accounting principle	2,779	1,754	7,321	4,892
Income tax benefit	(51)		(43)	
Net income before cumulative effect of change in accounting principle	2,830	1,754	7,364	4,892
Cumulative effect of change in accounting principle				46
NET INCOME	$ 2,830	$ 1,754	$ 7,364	$ 4,938
Weighted average common shares outstanding, basic	25,365,778	25,203,558	25,289,680	25,099,157
Weighted average common shares outstanding, diluted	25,431,398	25,247,421	25,382,607	25,174,272
Earnings per common share before cumulative effect of change in accounting				

principle:								
Basic	$	0.11	$	0.07	$	0.29	$	0.19
Diluted	$	0.11	$	0.07	$	0.29	$	0.19
Earnings per common share:								
Basic	$	0.11	$	0.07	$	0.29	$	0.20
Diluted	$	0.11	$	0.07	$	0.29	$	0.20

The accompanying notes are an integral part of these financial statements.

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Origen Financial, Inc.
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands)
For the periods ended September 30, 2007 and 2006

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 2,830	$ 1,754	$ 7,364	$ 4,938
Other comprehensive loss:				
Net unrealized losses on interest rate swaps	(10,401)	(4,790)	(3,801)	(1,942)
Reclassification adjustment for net gains included in net income	(35)	(2)	(259)	(9)
Total other comprehensive loss	(10,436)	(4,792)	(4,060)	(1,951)
Comprehensive income (loss)	$ (7,606)	$ (3,038)	$ 3,304	$ 2,987

The accompanying notes are an integral part of these financial statements.

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Origen Financial, Inc.
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)
For the nine months ended September 30, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities		
Net income	$ 7,364	$ 4,938
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	5,785	4,924
Investment impairment		114
Depreciation and amortization	4,012	4,502
Compensation expense recognized under share-based compensation plans	1,189	1,409
Cumulative effect of change in accounting principal		(46)
Proceeds from loan sales		772
Decrease in servicing advances	1,851	1,960
Increase in other assets	(6,592)	(6,107)
Increase (decrease) in accounts payable and other liabilities	1,087	(606)
Net cash provided by operating activities	14,696	11,860
Cash Flows From Investing Activities		
Increase in restricted cash	(253)	(232)
Origination and purchase of loans	(298,611)	(214,548)
Principal collections on loans	77,985	63,990
Proceeds from sale of repossessed houses	8,047	8,661
Capital expenditures	(482)	(506)
Net cash used in investing activities	(213,314)	(142,635)
Cash Flows From Financing Activities		
Net proceeds from issuance of common stock	121	
Retirement of common stock	(331)	(288)
Dividends paid	(4,662)	(1,542)
Proceeds upon termination of hedging transaction	672	1,418
Payment upon termination of hedging transaction	(57)	
Proceeds from securitization financing	184,389	200,646
Repayment of securitization financing	(82,550)	(69,276)
Repayment of advances under repurchase agreements	(6,688)	
Proceeds from warehouse financing	301,255	201,868
Repayment of warehouse financing	(194,088)	(206,261)
Proceeds from notes payable related party	15,000	
Change in notes payable servicing advances, net	(2,185)	(754)
Net cash provided by financing activities	210,876	125,811
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,258	(4,964)
Cash and cash equivalents, beginning of period	2,566	8,307
Cash and cash equivalents, end of period	$ 14,824	$ 3,343

Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 41,314	$ 30,849
Cash paid for income taxes	$ 25	$
Non-cash financing activities:		
Non-vested common stock issued as unearned compensation	$ 1,037	$ 2,400
Loans transferred to repossessed houses and held for sale	$ 14,261	$ 13,874

The accompanying notes are an integral part of these financial statements.

Origen Financial, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 1 Basis of Presentation

The unaudited consolidated financial statements of Origen Financial, Inc. (the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Rules and Regulations of the Securities and Exchange Commission (SEC). However, they do not include all of the disclosures necessary for annual financial statements in conformity with US GAAP. The results of operations for the periods ended September 30, 2007 are not necessarily indicative of the operating results anticipated for the full year. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. The preparation of financial statements in conformity with US GAAP also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

Certain amounts for prior periods have been reclassified to conform with current financial statement presentation.

Note 2 Recent Accounting Pronouncements

Accounting for Certain Hybrid Instruments

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155 (SFAS 155), Accounting for Certain Hybrid Instruments, which allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of SFAS 155 on January 1, 2007 did not have a material impact on the Company s financial position or results of operations.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS 156, Accounting for Servicing of Financial Assets An Amendment of FASB Statement No. 140. Among other requirements, SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer s financial assets that meets the requirements for sale accounting; a transfer of the servicer s financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. SFAS 156 is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006. The Company adopted SFAS 156 on January 1, 2007. The Company characterized servicing rights relating to all existing manufactured housing loans as a single class of servicing rights and did not elect to apply fair value accounting to these servicing rights. The adoption of SFAS 156 on January 1, 2007 did not have a material impact on the Company s financial position or results of operations.

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Origen Financial, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 2 Recent Accounting Pronouncements, continued:

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various state and local jurisdictions. With few exceptions, the Company and its subsidiaries are no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2002. It is the Company s policy to include any accrued interest or penalties related to unrecognized tax benefits in income tax expense. The Company adopted the provisions of FIN 48 on January 1, 2007. No liability for unrecognized tax benefits as of January 1, 2007 was recorded as a result of the implementation of FIN 48. Additionally, the Company did not record any accrued interest or penalties relating to unrecognized tax benefits as of January 1, 2007.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of SFAS 157 on its financial position and results of operations.

Fair Value Option

On February 15, 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. Under SFAS 159, the Company may make an irrevocable election to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. SFAS 159 is effective for years beginning after November 15, 2007. At this time, the Company does not expect the adoption of SFAS 159 to have a material impact on its financial position or results of operations.

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Origen Financial, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 3 Per Share Data

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS incorporates the potential dilutive effect of common stock equivalents outstanding on an average basis during the period. Dilutive common shares primarily consist of employee stock options, non-vested common stock awards, stock purchase warrants and convertible notes. The following table presents a reconciliation of basic and diluted EPS for the three and nine months ended September 30, 2007 and 2006 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net income	$ 2,830	$ 1,754	$ 7,364	$ 4,938
Preferred stock dividends	(4)	(4)	(12)	(12)
Income available to common shareholders, basic	$ 2,826	$ 1,750	$ 7,352	$ 4,926
Income available to common shareholders, diluted	$ 2,826	$ 1,750	$ 7,352	$ 4,926
Denominator:				
Weighted average common shares for basic EPS	25,366	25,204	25,290	25,099
Effect of dilutive securities:				
Incremental shares non-vested stock awards	42	43	85	75
Incremental shares stock purchase warrants	23		8	
Weighted average common shares for diluted EPS	25,431	25,247	25,383	25,174
Basic EPS	$ 0.11	$ 0.07	$ 0.29	$ 0.20
Diluted EPS	$ 0.11	$ 0.07	$ 0.29	$ 0.20

Antidilutive outstanding common stock options that were excluded from the computation of diluted earnings per share for the three months ended September 30, 2007 and 2006, were 222,207 and 248,500, respectively, and for the nine months ended September 30, 2007 and 2006, were 234,687 and 250,394, respectively. The common stock options are considered antidilutive if assumed proceeds per share exceed the average market price of the Company s common stock during the relevant periods. Assumed proceeds include proceeds from the exercise of the common stock options, as well as unearned compensation related to the common stock options.

Antidilutive outstanding convertible debt shares that were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2007, 174,276 and 58,730, respectively. There was no convertible debt outstanding during the three and nine months ended September 30, 2006. The convertible debt shares are considered antidilutive for any period where interest expense per common share obtainable on conversion exceeds basic earnings per share.

Origen Financial, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 4 Investments

The Company follows the provisions of SFAS No. 115, Accounting For Certain Investments in Debt and Equity Securities, and the American Institute of Certified Public Accountants (AICPA) Statement of Position 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer, in reporting its investments. The investments are carried on the Company s balance sheet at an amortized cost of $41.9 million at September 30, 2007. The fair value of these investments was approximately $42.9 million at September 30, 2007.

Investments Accounted for Under the Provisions of SFAS No. 115

The investments accounted for under the provisions of SFAS 115 are carried on the Company s balance sheet at an amortized cost of $38.3 million at September 30, 2007. These investments consisted of two asset backed securities with principal amounts of $32.0 million and $6.8 million at September 30, 2007. The investments are collateralized by manufactured housing loans and are classified as held-to-maturity. They have contractual maturity dates of July 28, 2033 and December 28, 2033, respectively. As prescribed by the provisions of SFAS 115 the Company has both the intent and ability to hold the investments to maturity. The investments will not be sold in response to changing market conditions, changing fund sources or terms, changing availability and yields on alternative investments or other asset liability management reasons. As there is no observable market for these investments, they are regularly measured for impairment through the use of a discounted cash flow analysis based on the historical performance of the underlying loans that collateralize the investments. These investments collateralize repurchase agreements with Citigroup as discussed in Note 7. If it is determined that there has been a decline in fair value below amortized cost and the decline is other-than-temporary, the cost basis of the investment is written down to fair value as a new cost basis and the amount of the write-down is included in earnings. Notwithstanding the indirect effects on credit markets resulting from the recent sub-prime mortgage fallout, there has not been a significant change in the performance of the loans supporting these asset backed securities. No impairment was recorded relating to these investments during the three and nine months ended September 30, 2007 and September 30, 2006.

Investments Accounted for Under the Provisions of SOP 03-3

Debt securities acquired with evidence of deterioration of credit quality since origination are accounted for under the provisions of SOP 03-3. The carrying value of investments accounted for under the provisions of SOP 03-3 was approximately $3.6 million at September 30, 2007, and is included in investments held to maturity in the consolidated balance sheet. During the three and nine months ended September 30, 2007 the Company did not purchase or sell any investments accounted for under the provisions of SOP 03-3. The investments are regularly measured for impairment through the use of a discounted cash flow analysis based on the historical performance of the underlying loans that collateralize the investments. If it is determined that there has been a decline in fair value below amortized cost and the decline is other-than-temporary, the cost basis of the investment is written down to fair value as a new cost basis and the amount of the write-down is included in earnings. No impairment was recorded relating to these investments during the three and nine months ended September 30, 2007. No impairment was recorded related to these securities during the three months ended September 30, 2006. An other-than-temporary impairment of $114,000 was recorded during the nine months ended September 30, 2006, as a result of a change in the Company s estimates of expected future cash flows.

Origen Financial, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 5 Loans Receivable

The carrying amounts of loans receivable consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Manufactured housing loans securitized	$ 940,524	$ 825,811
Manufactured housing loans unsecuritized	218,758	130,828
Accrued interest receivable	6,144	4,840
Deferred loan origination costs	4,718	1,271
Discount on purchased loans	(4,736)	(3,155)
Allowance for purchased loans	(913)	(913)
Allowance for loan losses	(7,489)	(8,456)
	$ 1,157,006	$ 950,226

The Company originates and purchases loans collateralized by manufactured houses with the intent to securitize them. Under the current legal structure of the securitization program, the Company transfers manufactured housing loans it originates and purchases to a trust for cash. The trust then sells asset-backed bonds secured by the loans to investors. These loan securitizations are structured as financing transactions. When securitizations are structured as financings, no gain or loss is recognized, nor is any allocation made to interests that continue to be held by the transferor or servicing rights. Rather, the loans securitized continue to be carried by the Company as assets, and the asset-backed bonds secured by the loans are carried as a liability.

Total principal balance of loans serviced that the Company has previously securitized and accounted for as a sale was approximately $117.0 million at September 30, 2007. Delinquency statistics (including repossessed inventory) on those loans are as follows at September 30, 2007 (dollars in thousands):

Days delinquent	No. of Loans	Principal Balance	% of Portfolio
31-60	103	$3,685	3.2%
61-90	34	1,260	1.1%
Greater than 90	70	2,747	2.3%

Note 6 Allowance for Credit Losses

The allowance for credit losses and related additions and deductions to the allowance were as follows for the three and nine months ended September 30 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 7,342	$ 8,779	$ 8,456	$ 10,017
Provision for loan losses	2,191	1,598	5,785	4,924
Gross charge-offs	(4,909)	(4,202)	(15,137)	(12,825)
Recoveries	2,865			