

ORIGEN FINANCIAL INC

Form 10-Q

May 16, 2005

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.**

FORM 10-Q

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED March 31, 2005.

OR

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
(State of Incorporation)

20-0145649
(I.R.S. Employer Identification No.)

27777 Franklin Rd.
Suite 1700
Southfield, MI
(Address of Principal Executive Offices)

48034
(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock, \$.01 par value, outstanding as of May 10, 2005: 25,473,900

Origen Financial, Inc.

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Part I

Item 1. Financial Statements

Table of Contents**Origen Financial, Inc.****Consolidated Balance Sheet
(In thousands, except share data)****March 31, 2005 and December 31, 2004**

	March 31, 2005 (Unaudited)	December 31, 2004
ASSETS		
Assets		
Cash and equivalents	\$ 5,598	\$ 9,293
Restricted cash	10,653	9,222
Loans receivable, net of allowance for losses of \$5,294 and \$5,315, respectively	630,244	563,268
Investments	40,772	37,622
Furniture, fixtures and equipment, net	2,720	2,336
Goodwill	32,277	32,277
Other assets	30,295	28,529
Total assets	\$ 752,559	\$ 682,547
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Warehouse financing	\$ 183,739	\$ 107,373
Securitization financing	315,515	328,388
Repurchase Agreements	22,141	20,153
Notes payable servicing advances	1,977	
Recourse liability	5,665	6,603
Other liabilities	17,961	16,564
Total liabilities	546,998	479,081
Stockholders Equity		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; 125 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	125	125
Common stock, \$.01 stated value, 125,000,000 shares authorized; 25,215,400 shares issued and outstanding at March 31, 2005 and December 31, 2004	252	252
Additional paid-in-capital	219,121	219,121
Accumulated other comprehensive loss	(370)	(1,807)
Unearned stock compensation	(2,131)	(2,790)
Distributions in excess of earnings	(11,436)	(11,435)

Total stockholders' equity	205,561	203,466
Total liabilities and stockholders' equity	\$ 752,559	\$ 682,547

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

Table of Contents**Origen Financial, Inc.****Consolidated Statement of Earnings (Unaudited)**
(In thousands, except share data)**For the Three Months Ended March 31**

	2005	2004
Interest Income		
Total interest income	\$ 13,166	\$ 8,770
Total interest expense	5,410	3,019
Net interest income before loan losses	7,756	5,751
Provision for credit losses	2,030	1,891
Net interest income after loan losses	5,726	3,860
Non-interest income	3,280	2,880
Non-interest Expenses		
Personnel	5,481	4,402
Loan origination and servicing	414	388
State business taxes	113	90
Other operating	1,991	1,597
Total non-interest expense	7,999	6,477
NET INCOME	\$ 1,007	\$ 263
Weighted average common shares outstanding	24,726,729	15,686,374
Weighted average common shares outstanding, diluted	25,016,254	15,929,881
Earnings per share:		
Basic	\$ 0.04	\$ 0.02
Diluted	\$ 0.04	\$ 0.02

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

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Origen Financial, Inc.

**Consolidated Statement of Other Comprehensive Income (Unaudited)
(In thousands, except share data)**

For the Three Months Ended March 31

	2005	2004
Net income	\$ 1,007	\$ 263
Other Comprehensive Income:		
Net unrealized gain on interest rate swaps	1,369	
Less reclassification adjustment for net realized losses included in net income	68	46
Comprehensive income	\$ 2,444	\$ 309

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

Table of Contents**Origen Financial, Inc.****Consolidated Statement of Cash Flows (Unaudited)**
(In thousands, except share data)**For the Three Months Ended March 31**

	2005	2004
Cash Flows From Operating Activities		
Net income (loss)	\$ 1,007	\$ 263
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Provision for credit losses and recourse liability	2,080	1,891
Depreciation and amortization	1,946	1,191
Originations and purchases of loans	(87,970)	(59,143)
Principal collections on loans held for sale	16,308	11,355
Increase in other assets	(2,924)	(4,186)
Increase (decrease) in accounts payable and other liabilities	92	(1,829)
 Net cash used in operating activities	 (69,461)	 (50,458)
Cash Flows From Investing Activities		
Purchase of investment securities	(3,150)	(31,360)
Proceeds from sale of repossessed homes	3,069	2,341
Capital expenditures	(596)	(65)
 Net cash used in investing activities	 (677)	 (29,084)
Cash Flows From Financing Activities		
Net proceeds from issuance of preferred stock		95
Net proceeds from issuance of common stock		9,624
Dividends paid	(1,009)	(1,484)
Proceeds from warehouse and securitization financing	82,204	370,643
Repayment of warehouse and securitization financing	(16,729)	(292,189)
Net change in notes payable - servicing advances	1,977	(1,487)
 Net cash provided by financing activities	 66,443	 85,202
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (3,695)	 5,660
Cash and cash equivalents, beginning of period	9,293	6,926
 Cash and cash equivalents, end of period	 \$ 5,598	 \$ 12,586

Supplemental disclosures of cash flow information:

Interest paid	\$ 5,011	\$ 3,153
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Non cash financing activities:

Restricted common stock issued as unearned compensation	\$	\$ 3,300
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The accompanying notes are an integral part of these financial statements.

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note A Basis of Presentation**

These unaudited condensed consolidated financial statements of Origen Financial, Inc., a Delaware corporation (the Company), have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations and should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in the Annual Report on Form 10-K for the year ended December 31, 2004. The following notes to consolidated financial statements present interim disclosures as required by the SEC. 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 recurring nature. Certain reclassifications have been made to prior periods' financial statements in order to conform with current period presentation. Results for interim periods are not necessarily indicative of the results that may be expected for a full year.

Note B Per Share Data

Basic earnings per share are computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if dilutive securities were exercised or converted into common stock.

The following table presents a reconciliation of the numerator (income applicable to common shareholders) and denominator (weighted average common shares outstanding) for the basic earnings per share calculation at March 31 (in thousands, except earnings per share):

	2005	2004
Numerator:		
Net income	\$ 1,007	\$ 263
Preferred stock dividends	(4)	(4)
Income available to common shareholders	\$ 1,003	\$ 259
Denominator:		
Weighted average common shares for basic EPS	24,727	15,686
Effect of dilutive securities:		
Restricted stock awards	289	244
Weighted average common shares for diluted EPS	25,016	15,930
Basic EPS	\$ 0.04	\$ 0.02

Diluted EPS

\$ 0.04 \$ 0.02

Diluted earnings per share reflect the potential dilution that would occur if dilutive securities were exercised or converted into common stock. At March 31, 2005 the Company had 267,500 stock options outstanding that if exercised, may impact dilution.

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note C Stock Options**

The Company has elected to measure compensation cost using the intrinsic value method in accordance with APB Opinion No. 25 Accounting for Stock Issued to Employees. Accordingly, since all options were granted at a fixed price not less than the fair market value of the Company's common stock on the date of grant, no compensation cost has been recognized for its stock option plan. Had stock option costs of the plan been determined based on the fair value at the grant dates for awards under the plan consistent with the methodology of SFAS 123, the pro forma effects on the Company's net income and earnings per share would be as follows for the period ended March 31 (in thousands except income per share):

	2005	2004
Net income available to common shareholders	\$ 1,003	\$ 259
Stock option compensation cost	(6)	(4)
Pro forma net income available to common shareholders	\$ 997	\$ 255
Basic income per share as reported	\$ 0.04	\$ 0.02
Stock option compensation cost		
Pro forma basic income per share	\$ 0.04	\$ 0.02
Diluted income per share as reported	\$ 0.04	\$ 0.02
Stock option compensation cost		
Pro forma diluted income per share	\$ 0.04	\$ 0.02

Note D Investments

The Company's investments consisted of three asset backed securities with principal amounts of \$32.0 million, \$6.8 million and \$6.5 million. The securities are collateralized by manufactured housing loans and are classified as held-to-maturity. They have contractual maturity dates of July 28, 2033, December 28, 2033 and December 28, 2033, respectively. The securities are carried on the Company's balance sheet at amortized cost of \$40.8 million which approximates their fair value.

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note E Allowance for Credit Losses and Recourse Liability**

The allowance for credit losses and related additions and deductions to the allowance were as follows for the period ended March 31 (in thousands):

	2005	2004
Balance at beginning of period	\$ 5,315	\$ 3,614
Provision for loan losses	2,030	1,891
Transfers from recourse liability	988	1,947
Gross charge-offs	(5,934)	(5,575)
Recoveries	2,895	2,274
Balance at end of period	\$ 5,294	\$ 4,151

The recourse liability and related additions and transfers out of the recourse liability were as follows for the period ended March 31 (in thousands):

	2005	2004
Balance at beginning of period	\$ 6,603	\$ 8,740
Reimbursements for losses per recourse agreements		
Provision for recourse liabilities	50	
Transfers to allowance for credit losses	(988)	(1,947)
Balance at end of period	\$ 5,665	\$ 6,793

Note F Loans Receivable and Securitizations

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

	March 31, 2005	December 31, 2004
Manufactured housing loans - securitized	\$ 388,406	\$ 401,995
Manufactured housing loans available for sale	252,686	170,978
Accrued interest receivable	3,444	3,285
Deferred fees	(3,076)	(3,100)
Discount on purchased loans	(5,922)	(4,575)
Allowance for loan loss	(5,294)	(5,315)

\$ 630,244 \$ 563,268

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note F Loans Receivable and Securitizations (Continued)**

Periodically the Company securitizes manufactured housing loans. Under the current legal structure of the securitization program, the Company sells manufactured housing loans it originates and purchases to a trust for cash. The trust sells asset-backed bonds secured by the loans to investors. The Company records certain assets and income based upon the difference between all principal and interest received from the loans sold and the following factors: (i) all principal and interest required to be passed through to the asset-backed bond investors, (ii) all excess contractual servicing fees, (iii) other recurring fees and (iv) an estimate of losses on loans.

These loan securitizations may be structured as financing transactions as opposed to sales transactions, typically by structuring the transaction to allow the Company to participate in the auction process at the scheduled termination of the existence of the qualified special purpose entity (the trust) and including a 20% clean up call. The Company structured all loan securitizations occurring before 2003 as loan sales and all loan securitizations in 2003 and 2004 as financings for accounting purposes. When securitizations are structured as financings no gain or loss is recognized, nor is any allocation made to residual interests 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 at March 31, 2005 was approximately \$170.6 million. Delinquency statistics (including repossessed inventory) on those loans are as follows at March 31, 2005 (dollars in thousands):

Days delinquent	No. of Loans	Principal Balance	% of Portfolio
31-60	100	\$ 3,918	2.3%
61-90	34	\$ 1,422	0.8%
Greater than 90	218	\$ 10,144	5.9%

The Company assesses the carrying value of the residual interests and servicing assets for impairment on a monthly basis. There can be no assurance that the Company's estimates used to determine the residual receivable and the servicing asset valuations will remain appropriate for the life of the securitization. If actual loan prepayments or defaults exceed the Company's estimates, the carrying value of the Company's residual receivable and/or servicing asset may decrease through a charge against earnings in the period management recognizes the disparity. The Company's residual interest balance was approximately \$724,000 at March 31, 2005. There was no change in the balance for the period presented.

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note G Debt**

Total debt outstanding was as follows (in thousands):

	March 31, 2005	December 31, 2004
Warehouse financing	\$ 183,739	\$ 107,373
Securitization financing	315,515	328,388
Notes payable servicing advances	1,977	
Repurchase agreements	22,141	20,153
	\$ 523,372	\$ 455,914

Notes Payable Citigroup The Company, through its operating subsidiary Origen Financial L.L.C., currently has a short term securitization facility used for warehouse financing with Citigroup Global Markets Realty Corp. (Citigroup) (formerly Salomon Brothers Realty Corporation). Under the terms of the agreement, originally entered into in March 2003 and revised periodically, most recently in March 2005, the Company pledges loans as collateral and in turn is advanced funds. The facility has a maximum advance amount of \$200 million, an advance rate equal to 85% of the unpaid principal balance of the pool of loans pledged and an annual interest rate equal to LIBOR plus a spread. The facility also includes a \$15 million supplemental advance amount that is collateralized by the Company's residual interests in the 2004-A, and 2004-B securitizations. The facility matures on March 23, 2006. At March 31, 2005 the outstanding balance on the facility was approximately \$183.7 million.

Repurchase Agreements The Company has entered into three repurchase agreements with Citigroup for the purpose of financing the purchase of investments in three asset backed securities with principal balances of \$32.0 million, \$3.1 million and \$3.7 million respectively. Under the terms of the agreements the Company sells its interest in the securities with an agreement to repurchase them at a predetermined future date at the principal amount sold plus an interest component. The securities are financed at an amount equal to 75% of their current market value as determined by Citigroup. At March 31, 2005 the repurchase agreements had outstanding principal balances of approximately \$18.1 million, \$1.8 million and \$2.2 million, respectively. Typically the repurchase agreements are rolled over for 30 day periods when they expire. The annual interest rates on the agreements are equal to LIBOR plus a spread.

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Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note G Debt (Continued)

Notes Payable 2004-A Securitization On February 11, 2004, the Company completed a securitization of approximately \$238 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, Origen Manufactured Housing Trust 2004-A issued \$200 million in notes payable. The notes are stratified into six different classes and pay interest at a duration weighted average rate of approximately 5.13%. The notes have a contractual maturity date of October 2013 with respect to the Class A-1 notes; August 2017, with respect to the Class A-2 notes; December 2020, with respect to the Class A-3 notes; and January 2035, with respect to the Class A-4, Class M-1 and Class M-2 notes. At March 31, 2005 the outstanding balance of the notes was approximately \$160.7 million.

Notes Payable 2004-B Securitization On September 29, 2004, the Company completed a securitization of approximately \$200 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, Origen Manufactured Housing Trust 2004-B issued \$169 million in notes payable. The notes are stratified into seven different classes and pay interest at a duration weighted average rate of approximately 5.26%. The notes have a contractual maturity date of June 2013 with respect to the Class A-1 notes; December 2017, with respect to the Class A-2 notes; August 2021, with respect to the Class A-3 notes; and November 2035, with respect to the Class A-4, Class M-1, Class M-2 and Class B-1 notes. At March 31, 2005 the aggregate outstanding balance of the 2004-B securitization notes was approximately \$154.9 million.

Notes Payable Servicing Advances The Company currently has a revolving credit facility with JPMorgan Chase Bank, N.A. (as successor by merger to Bank One, NA). Under the terms of the facility the Company can borrow up to \$5.0 million for the purpose of funding required principal and interest advances on manufactured housing loans that are serviced for outside investors. Borrowings under the facility are repaid upon the collection by the Company of monthly payments made by borrowers under such manufactured housing loans. The bank's prime interest rate is payable on the outstanding balance. To secure the loan, the Company has granted JPMorgan Chase a security interest in substantially all its assets (excluding securitized assets). The expiration date of the facility is December 31, 2005. At March 31, 2005 the outstanding balance on the facility was approximately \$2.0 million.

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note G Debt (Continued)**

The average balance and average interest rate of outstanding debt was as follows (in thousands):

	March 31, 2005		December 31, 2004	
	Average Balance	Average Rate	Average Balance	Average Rate
Notes payable Citigroup	\$ 128,412	4.3%	\$ 139,115	3.9%
Notes payable 2004-A securitization	\$ 165,451	4.6%	\$ 163,088	4.4%
Notes payable 2004-B securitization	\$ 158,956	4.9%	\$ 42,299	4.8%
Repurchase agreement	\$ 20,616	3.4%	\$ 17,573	2.3%
Note payable servicing advances	\$ 402	9.5%	\$ 553	7.0%

Note H Equity Incentive Plan

The Company's equity incentive plan has approximately 1.7 million shares of common stock reserved for issuance as either stock options or restricted stock grants. Under the plan, the exercise price of the options will not be less than the fair market value of the common stock on the date of grant. The date on which the options are first exercisable is determined by the Compensation Committee of the Board of Directors as the administrator of the Company's stock option plan, and options that have been issued to date generally vest over a two-year period. There were no options issued during the quarter ended March 31, 2005. As of March 31, 2005, 267,500 options were outstanding under the plan at an exercise price of \$10.00 per share.

Note I Derivative Instruments and Hedging Activity

In February 2005, the Company entered into a forward starting interest rate swap for the purpose of locking in the benchmark interest rate on a portion of its planned securitization transaction to be completed in May 2005. The Company has designated the swap as a cash flow hedge for accounting purposes.

On the start date of the swap the Company began paying a fixed rate of 4.44% and receiving a floating rate equal to the one month LIBOR rate on a beginning notional balance of \$132.9 million. A rise in rates during the interim period would increase the borrowing cost in the securitization, but the increase would be offset by the increased value in the right to pay a lower fixed rate during the term of the securitized deal making the hedge highly effective.

SFAS No. 133, the Accounting for Derivative Instruments and Hedging Activities requires all derivative instruments to be carried at fair value on the balance sheet. The fair value of the forward starting interest rate swap related to the 2005-A securitization transaction approximates an asset of \$1.4 million at March 31, 2005. The unamortized portion of the terminated interest rate swap related to the 2004-B securitization approximates a liability of \$1.7 million at March 31, 2005.

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Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note J Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123(R), that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under the FASB's statement, all forms of share-based payments to employees, including employee stock options, must be treated the same as other forms of compensation by recognizing the r