

ORIGEN FINANCIAL INC  
Form 10-Q  
August 16, 2004

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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 June 30, 2004.

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

Number of shares of Common Stock, \$.01 par value, outstanding as of August 13, 2004: 25,230,150

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**Table of Contents****Part I****Item 1. Financial Statements****Origen Financial, Inc.****Consolidated Balance Sheet  
(In thousands, except share data)****June 30, 2004 and December 31, 2003**

	<b>(Unaudited) June 30, 2004</b>	<b>December 31, 2003</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and equivalents	\$ 14,540	\$ 6,926
Restricted cash	6,531	6,017
Loans receivable, net of allowance for losses of \$4,547 and \$3,614, respectively	455,816	368,509
Investments held to maturity	34,658	
Furniture, fixtures and equipment, net	2,268	2,476
Goodwill	32,277	32,277
Other assets	27,043	28,337
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$573,133</u>	<u>\$444,542</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Warehouse financing	\$130,989	\$273,404
Securitization financing	183,406	
Repurchase agreements	21,554	
Notes payable servicing advances		4,037
Recourse liability	5,678	8,740
Other liabilities	13,859	15,572
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>355,486</u>	<u>301,753</u>
<b>Stockholders Equity</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; 125 and -0- shares issued and outstanding at June 30, 2004 and December 31, 2003,	125	

respectively

Common stock, \$.01 stated value, 125,000,000 shares authorized; 25,118,400 and 15,060,000 shares issued and outstanding at June 30, 2004 and

December 31, 2003, respectively

	251	152
Additional paid-in-capital	218,714	143,289
Accumulated other comprehensive loss		(20)
Unearned stock compensation	(3,561)	(1,114)
Retained earnings	2,118	482
	<u>          </u>	<u>          </u>
Total stockholders' equity	<u>217,647</u>	<u>142,789</u>
Total liabilities and stockholders' equity	<u>\$573,133</u>	<u>\$444,542</u>

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

Table of Contents**Origen Financial, Inc.****Consolidated Statement of Operations (Unaudited)  
(In thousands, except share data)****For the periods ended June 30, 2004 and 2003**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Interest Income</b>				
Total interest income	\$ 10,294	\$ 5,161	\$ 19,394	\$ 10,205
Total interest expense	3,296	4,509	6,315	7,193
	<hr/>	<hr/>	<hr/>	<hr/>
Net interest income before loan losses	6,998	652	13,079	3,012
Provision for credit losses and recourse liability	1,531	1,214	3,422	1,839
	<hr/>	<hr/>	<hr/>	<hr/>
Net interest income (loss) after loan losses	5,467	(562)	9,657	1,173
<b>Non-interest income</b>	3,014	2,749	5,895	5,119
<b>Non-interest Expenses</b>				
Personnel	4,915	4,812	9,317	9,024
Loan origination and servicing	246	298	598	610
Write down of residual interest		1,280		1,280
State business taxes	73	5	163	4
Other operating	1,578	2,324	3,174	4,060
	<hr/>	<hr/>	<hr/>	<hr/>
Total non-interest expense	6,812	8,719	13,252	14,978
	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET INCOME (LOSS)</b>	<b>\$ 1,669</b>	<b>\$(6,532)</b>	<b>\$ 2,300</b>	<b>\$(8,686)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average common shares outstanding	20,580,155	N/A	18,133,264	N/A
	<hr/>		<hr/>	
Weighted average common shares outstanding, diluted	20,889,013	N/A	18,393,586	N/A
	<hr/>		<hr/>	

Earnings per common share:				
Basic	\$ 0.08	N/A	\$ 0.13	N/A
	<u>          </u>		<u>          </u>	
Diluted	\$ 0.08	N/A	\$ 0.12	N/A
	<u>          </u>		<u>          </u>	
Common dividends declared	\$ 0.04	N/A	\$ 0.04	N/A
	<u>          </u>		<u>          </u>	

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

Table of Contents**Origen Financial, Inc.****Consolidated Statement of Other Comprehensive Income (Loss)  
(Unaudited)****(In thousands, except share data)****For the periods ended June 30, 2004 and 2003**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net income (loss)	\$1,669	\$(6,532)	\$2,300	\$(8,686)
Unrealized gain on interest rate swaps	5	—	20	—
Comprehensive income (loss)	<u>\$1,674</u>	<u>\$(6,532)</u>	<u>\$2,320</u>	<u>\$(8,686)</u>

**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)**

	<b>For the six months ended June 30</b>	
	<b>2004</b>	<b>2003</b>
	<hr/>	<hr/>
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ 2,300	\$ (8,686)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Provision for credit losses and recourse liability	3,422	1,839
Impairment of residual interest		1,280
Depreciation and amortization	1,881	1,573
Originations of loans held for sale	(122,019)	(87,535)
Principal collections on loans held for sale	30,696	16,862
Proceeds from the sale of loans		5,754
Increase in other assets	(5,022)	(5,889)
Decrease in accounts payable and other liabilities	(4,529)	(213)
	<hr/>	<hr/>
Net cash used in operating activities	(93,271)	(75,015)
<b>Cash Flows From Investing Activities</b>		
Purchase of investment securities	(34,270)	
Capital expenditures	(186)	(730)
	<hr/>	<hr/>
Net cash used in investing activities	(34,456)	(730)
<b>Cash Flows From Financing Activities</b>		
Net proceeds from issuance of preferred stock	95	
Net proceeds from issuance of common stock	73,107	
Proceeds from sale of repossessed homes	4,304	3,452
Dividends paid	(663)	
Proceeds from warehouse and securitization financing	425,388	426,125
Repayment of warehouse and securitization financing	(362,853)	(383,261)
Proceeds from minority interest investment		30,780
Net change in notes payable servicing advances	(4,037)	(364)
	<hr/>	<hr/>
Net cash provided by financing activities	135,341	76,732
	<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>7,614</b>	<b>987</b>
Cash and cash equivalents, beginning of period	6,926	257
	<hr/>	<hr/>

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Cash and cash equivalents, end of period	\$ 14,540	\$ 1,244
	<u>          </u>	<u>          </u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 6,315	\$ 6,903
<b>Non cash financing activities:</b>		
Restricted common stock issued as unearned compensation	\$ 3,200	\$

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

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**Origen Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note A Basis of Presentation**

These unaudited consolidated financial statements of Origen Financial, Inc., a Delaware corporation (the Company) at June 30, 2004 and for its predecessor Origen Financial, L.L.C. for the three and six months ended June 30, 2003, 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 for the period ended December 31, 2003, included in the Company's Registration Statement on Form S-11 (Registration No. 333-112516) filed May 5, 2004 with respect to its initial public offering. 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.

The results of operations for the three and six months ended June 30, 2003 are those of Origen Financial, Inc.'s predecessor company, Origen Financial, L.L.C. Origen Financial L.L.C. relied heavily on high cost short-term borrowings to fund day-to-day operations due to a lack of significant permanent capital. This lack of capital combined with losses incurred from underperforming loans originated prior to year 2002 (referred to as legacy loans), resulted in significant net operating losses prior to the commencement of Origen Financial, Inc.'s operations.

**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.

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

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 June 30, 2004 (in thousands except earnings per share):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Numerator:				
Net income (loss)	\$ 1,669	\$(6,532)	\$ 2,300	\$ 8,686
Preferred stock dividends	(4)	—	(8)	—
	\$ 1,665	\$(6,532)	\$ 2,292	\$(8,686)
Income (loss) available to common shareholders				
Denominator:				
Weighted average common shares for basic EPS	20,580	N/A	18,113	N/A
Effect of dilutive securities:				
Restricted stock awards	309	N/A	261	N/A
	20,889	N/A	18,374	N/A
Weighted average common shares for diluted EPS				
Basic EPS	\$ 0.08	N/A	\$ 0.13	N/A
Diluted EPS	\$ 0.08	N/A	\$ 0.12	N/A

**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

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on the Company's net income and earnings per share would be as follows for the periods ended June 30, 2004 (in thousands except income per share):

	<b>Three Months Ended</b>	<b>Six Months Ended</b>
	<b>June 30, 2004</b>	
Net income available to common shareholders	\$ 1,665	\$ 2,292
Stock option compensation cost	(3)	(6)
	<u>          </u>	<u>          </u>
Pro forma net income available to common shareholders	<b>\$ 1,662</b>	<b>\$ 2,286</b>
	<u>          </u>	<u>          </u>
Basic income per share as reported	\$ 0.08	\$ 0.13
Stock option compensation cost	<u>          </u>	<u>          </u>
Pro forma basic income per share	<b>\$ 0.08</b>	<b>\$ 0.13</b>
	<u>          </u>	<u>          </u>
Diluted income per share as reported	\$ 0.08	\$ 0.12
Stock option compensation cost	<u>          </u>	<u>          </u>
Pro forma diluted income per share	<b>\$ 0.08</b>	<b>\$ 0.12</b>
	<u>          </u>	<u>          </u>

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

The Company follows the provisions of Statement of Financial Accounting Standards No. 115 ( SFAS 115 ), Accounting For Certain Investments in Debt and Equity Securities, in reporting its investments. At June 30, 2004 the Company's investments consisted of two asset backed securities with principal amounts of \$32.0 million and \$3.1 million. The securities are collateralized by manufactured home loans and are classified as held-to-maturity. They have contractual maturity dates of July 28, 2033 and December 28, 2033, respectively. The securities are carried on the Company's balance sheet at amortized cost of \$34.7 million which approximates their market value at June 30, 2004.

**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 periods ended June 30 (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Balance at beginning of period	\$ 4,151	\$ 2,762	\$ 3,614	\$ 2,743
Provision for loan losses	1,531	1,214	3,422	1,839
Transfers from recourse liability	1,115	998	3,062	2,270
Gross chargeoffs	(4,159)	(4,371)	(9,734)	(6,989)
Recoveries	1,909	2,311	4,183	3,051
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of period	\$ 4,547	\$ 2,914	\$ 4,547	\$ 2,914
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The recourse liability and related additions and transfers out of the recourse liability were as follows for the periods ended June 30 (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Balance at beginning of period	\$ 6,793	\$ 11,424	\$ 8,740	\$ 13,320
Reimbursements for losses per recourse agreements				(624)

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Transfers to allowance for credit losses	<u>(1,115)</u>	<u>(998)</u>	<u>(3,062)</u>	<u>(2,270)</u>
Balance at end of period	<u>\$ 5,678</u>	<u>\$10,426</u>	<u>\$ 5,678</u>	<u>\$10,426</u>

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**Origen Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note F Loan Securitizations**

Periodically the Company securitizes manufactured home loans. Under the current legal structure of the securitization program, the Company sells manufactured home 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). 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.

On February 11, 2004, the Company completed a securitized financing transaction for approximately \$240.0 million of loans, which was funded by issuing bonds in the approximate amount of \$200.0 million, at a duration weighted average interest cost of 5.13%. The transaction was structured to issue classes of bonds with different estimated maturity dates and average lives to better meet investor demands. Approximately \$176.7 million of the securitization proceeds were used to reduce the aggregate balances of the notes outstanding under the Company's short-term securitization facility.

For securitizations accounted for as either a financing or a sale the Company retains the right to service the loans it sells. Fees for servicing the loans are based on a contractual percentage per annum ranging from .5% to 1.25% of the unpaid principal balance of the associated loans. For securitizations accounted for as a sale the Company recognizes a servicing asset in addition to its gain on sale of loans. The servicing asset is calculated as the present value of the expected future net servicing income in excess of adequate compensation for a substitute servicer, based on common industry assumptions and the Company's historical experience. These factors include default and prepayment speeds. There were no securitizations accounted for as a sale during the three and six months ended June 30, 2004 or 2003.

Servicing fees received with respect to prior securitizations accounted for as a sale were approximately \$501,000 and \$1.0 million for the three and six months ended June 30, 2004, respectively.



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

Total principal balance of loans serviced that the Company has securitized and accounted for as a sale at June 30, 2004 was approximately \$194.2 million. Delinquency statistics (including repossessed inventory) on those loans are as follows at June 30, 2004 (dollars in thousands):

<u>Days delinquent</u>	<u>No. of Loans</u>	<u>Principal Balance</u>	<u>% of Portfolio</u>
31-60	133	\$ 5,294	2.7%
61-90	47	1,839	1.0%
Greater than 90	266	12,232	6.3%

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 \$749,000 and the servicing asset was approximately \$1.6 million at June 30, 2004. There was no change in the balance for the 2004 period presented.

**Note G Debt**

Total debt outstanding was as follows (in thousands):

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Warehouse financing	\$ 130,989	\$ 273,404
Securitization financing	183,406	
Repurchase agreements	21,554	
Notes payable servicing advances		4,037
	<u>\$ 335,949</u>	<u>\$ 277,441</u>

**Notes Payable Citigroup** - The Company through its operating subsidiary Origen Financial, L.L.C., currently has a short term securitization facility with Citigroup Global Markets Realty Corp. ( Citigroup ) (formerly Salomon Brothers Realty Corporation). Under terms of the facility, originally entered into in March 2003 and revised in November 2003, the Company is advanced funds and in turn pledges as collateral manufactured home loans. On March 30, 2004 the

terms of the agreement were modified by segregating the pledged loans into three separate pools designated 2004-1A, 2004-1B and 2004-1C. The maximum advance amount on 2004-1A (for new loan production) was set at \$170.0 million, the fixed advance amount on 2004-1B (for loans originated in 2003) was set at approximately \$71.6 million and the maximum amount on 2003-1C (for loans acquired from third parties) was set at \$150.0 million. The modification added a stratified advance rate for each pool and reduced the stated interest rate on all three pools. The annual interest rate on the pools is a variable rate equal to LIBOR plus a spread. Additionally, the maturity date was fixed on 2004-1A at March 29, 2005, on 2004-1B at November 16, 2004 and on 2004-1C at March 28, 2006.

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**Origen Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note G Debt (Continued)**

On June 30, 2004, the advance rate was 84.0% of the eligible principal balance of the manufactured home loans pledged to 2003-1A, 78.5% of the eligible principal balance of the manufactured home loans pledged to 2003-1B and 72.6% of the eligible principal balance of the manufactured home loans pledged to 2003-1C and the outstanding advance amounts were approximately \$28.6 million on 2003-1A, \$67.3 million on 2003-1B and \$35.1 million on 2003-1C, for a total of \$131.0 million.

**Repurchase Agreement** The Company has entered into two repurchase agreements with Citigroup for the purpose of financing the purchase of investments in two asset backed securities with principal balances of \$32.0 million and \$3.1 million, respectively. Under the terms of the agreement 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 sold at an amount equal to 75% of their current market value as determined by Citigroup. The sales are accounted for as financings for accounting purposes. At June 30, 2004 the repurchase agreement had an outstanding principal balance of approximately \$21.6 and an annual interest rate equal to LIBOR plus a spread and maturity dates of July 28, 2004 and July 6, 2004, respectively. Typically the repurchase agreements are rolled over for 30 day periods when they expire.

**Notes Payable 2004-A Securitization** On February 11, 2004, the Company completed a securitization of approximately \$240.0 million in principal balance of manufactured home loans. The securitization was accounted for as a financing. Upon completion of the securitization the Company through a special purpose entity, Origen Manufactured Housing Trust 2004-A issued \$200.0 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 June 30, 2004 the outstanding balance of the notes was approximately \$183.4 million.

**Notes Payable Servicing Advances** The Company currently has a revolving credit facility with Bank One, NA. Under the terms of the facility the Company can borrow up to \$7.0 million for the purpose of funding required principal and interest advances on manufactured home 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 home loans. The bank's prime interest rate is payable on the outstanding balance. To secure the loan from Bank One, the Company has granted Bank One a security interest in substantially all its assets (excluding securitized assets). The facility has a termination date of December 31, 2004. At June 30, 2004 there was no outstanding balance on this facility.

**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):

	<b>June 30, 2004</b>		<b>December 31, 2003</b>	
	<b>Average Balance</b>	<b>Average Rate</b>	<b>Average Balance</b>	<b>Average Rate</b>
Notes payable Citigroup	\$ 158,951	3.7%	\$ 250,935	4.2%
Notes payable 2004-A securitization	\$ 149,062	4.2%		
Repurchase agreement	\$ 23,703	1.8%	\$ 2,699	4.4%
Note payable servicing advances	\$ 1,348	4.2%		

**Note H Equity Incentive Plan**

Data pertaining to the Company's equity incentive plan with respect to stock options is as follows:

Options outstanding, December 31, 2003	95,000
Options granted	198,000
Option price	\$ 10.00
Options exercised	
Option price	
Options forfeited	(3,500)
Option price	\$ 10.00
Options outstanding, March 31, 2004	289,500
Option price	\$ 10.00
Options exercisable, March 31, 2004	
Options granted	
Option price	
Options exercised	
Option price	
Options forfeited	(10,500)
Option price	
Options outstanding, June 30, 2004	279,000

The Company's equity incentive plan has 1.7 million shares of common stock reserved for issuance as either stock options or 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 administrator of the Company's stock option plan, the Compensation Committee of the Board of Directors or the entire Board of Directors, and options generally vest over a two-year period. As of June 30, 2004, 279,000 were outstanding under the plan at an option price of \$10.00.



**Table of Contents****Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note H Equity Incentive Plan (Continued)**

The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards No. ( SFAS 123 ), Accounting for Stock Based compensation . Accordingly, the fair value of each option granted in 2004 was estimated using the Cox, Ross & Rubenstein binomial option-pricing model based on the assumptions stated below:

Estimated weighted average fair value per share of options granted	\$ 0.40
Assumptions:	
Annualized dividend yield	12.00%
Common stock price volatility	15.00%
Weighted average risk free rate of return	4.00%
Weighted average expected option term (in years)	5.0

**Note I Stockholders Equity**

Effective January 1, 2004, the Company sold 125 shares of its Series A Cumulative Redeemable Preferred Stock directly to 125 investors at a per share price of \$1,000.00. The transaction resulted in net proceeds to the company of \$95,000. In June 2004 the Company paid a dividend on its preferred shares of \$62.50 per share for a total of \$7,812.50

On February 4, 2004, the Company completed a private placement of 1,000,000 shares of its common stock to one institutional investor. The offering price was \$10.00 per share, which provided approximate net proceeds to the Company of \$9.4 million.

On March 23, 2004 the Company issued 113,000 restricted stock awards at \$10.00 per share to certain officers and employees, which are being amortized over their estimated service period. Compensation cost recognized for the restricted stock awards was \$478,000 and \$752,000 for the three and six months ended June 30, 2004.

On May 6, 2004 the Company completed an initial public offering of 8.0 million shares of its common stock. In June 2004 the underwriters of the initial public offering purchased an additional 625,900 shares of the Company s common stock pursuant to an over allotment-option. Net proceeds from these transactions were \$62.9 million after discount and expenses, which were used primarily to pay down the aggregate balances of the notes outstanding under the Company s loan funding facility with Citigroup and fund new loan originations.

On May 26, 2004 the Company declared a dividend of \$0.04 per common share payable to holders of record as of March 16, 2004. On June 6, 2004 those dividends were paid and totaled approximately \$656,000.

**Note J Subsequent Events**

On July 22, 2004 the Company declared a dividend of \$0.06 per common share payable to holders of record as of August 2, 2004.

On August 5, 2004, 111,750 shares of common stock were issued by the Company under its Equity Incentive Plan.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Form 10-Q includes certain forward looking statements. The words will, may, designed to, believes, should, anticipates, plans, expects, intends, and estimates, and similar expressions, identify these forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, these expectations may not be correct. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this document include the following:

the performance of our manufactured home loans;

our ability to borrow at favorable rates and terms;

the supply of manufactured home loans;

interest rate levels and changes in the yield curve (which is formed by the differing Treasury rates paid on one, two, three, five, ten and 30 year term debt);

our ability to use hedging strategies to insulate our exposure to changing interest rates;

changes in, and the costs associated with complying with federal, state and local regulations, including consumer finance and housing regulations;

applicable laws, including federal income tax laws; and

general economic conditions in the markets in which we operate.

All forward-looking statements included in this document are based on information available to us on the date of this document. We do not intend to update or revise any forward-looking statements that we make in this document or other documents, reports, filings or press releases, whether as a result of new information, future events or otherwise.

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto. Capitalized terms are used as defined elsewhere in this Quarterly Report on Form 10-Q.

**Overview**

On October 8, 2003, we began operations upon the completion of a private placement of \$150 million of our common stock to certain institutional and accredited investors. On February 4, 2004, we completed another private placement of \$10 million of our common stock to one institutional investor. In connection with and as a condition to the October 2003 private placement, we acquired all of the equity interests of Origen Financial L.L.C. We also took steps to qualify Origen Financial, Inc. as a REIT. Currently, most of our operations are conducted through Origen Financial L.L.C., which is our wholly-owned subsidiary. We conduct the rest of our business operations through our other wholly-owned subsidiaries, including taxable REIT subsidiaries, to take advantage of certain business opportunities and ensure that we comply with the federal income tax rules applicable to REITs.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The results of operations for the three and six months ended June 30, 2003 used for comparison purposes in this discussion and analysis of financial condition and results of operations are those of our predecessor company Origen Financial, L.L.C. Origen Financial L.L.C. relied heavily on high cost short-term borrowings to fund day-to-day operations due to a lack of significant permanent capital. This lack of capital combined with losses incurred from underperforming loans originated prior to year 2002 (referred to as legacy loans), resulted in significant net operating losses prior to the commencement of our operations.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. On an on-going basis, we evaluate these estimates, including those related to reserve for credit losses, recourse liabilities, servicing rights and retained interests in loans sold and securitized. Estimates are based on historical experience, information received from third parties and on various other assumptions that are believed to be reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under conditions different from our assumptions.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Transfers of Financial Assets:** We engage in securitizations and whole loan sales of our manufactured home loan receivables. Securitizations may take the form of a loan sale or a financing. We structured all loan securitizations occurring before 2003 as loan sales and all loan securitizations in 2003 and 2004 as financings for accounting purposes. In the future, we intend to structure and account for our securitizations as financings. When a loan securitization is structured as a financing, the financed asset remains on our books along with the recorded liability that evidences the financing. Income from both the loan interest spread and the servicing fees received on the securitized loans are recorded into income as earned. An appropriate allowance for credit losses is maintained on the loans. When a loan securitization is structured as a loan sale, any gains and losses are recognized in the consolidated statements of operations when control of the transferred financial asset is relinquished by the seller. In accordance with Statement of Financial Accounting Standards No. 140 *Accounting For Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* certain assets and income are recorded 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. At the time of the sale these amounts are estimated based upon a declining principal balance of the underlying loans, adjusted by an estimated prepayment and loss rate, and such amounts are capitalized using a discount rate that market participants would use for similar financial instruments. These capitalized assets are recorded as retained interests in loans sold and securitized and capitalized servicing rights. We assess the carrying value of any retained interests for impairment on a monthly basis. Any subsequent changes in fair value of the retained interests are recognized in the consolidated statements of operations. The use of different pricing models or assumptions could produce different financial results. There can be no assurance that our estimates used to determine the value of retained interests and the servicing asset valuations will remain appropriate for the life of the securitization.

**Allowance for Credit Losses:** Our loan portfolio is comprised of manufactured home loans with an average loan balance of less than \$50,000. The allowance for credit losses is determined at the portfolio level and computed by applying loss rate factors to the loan portfolio on a stratified basis using current portfolio performance and delinquency levels (0-30 days, 31-60 days, 61-90 days and more than 90 days delinquent). Our loss rate factors are based on historical loan loss experience and are adjusted for economic conditions and other trends affecting borrowers ability to repay and estimated collateral value. The allowance for loan losses represents an unallocated allowance; there are no elements of the allowance allocated to specific individual loans or to impaired loans.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Liability for Loans Sold With Recourse:** We periodically sell manufactured home loans on a whole-loan basis. At the time of such loan sales, we recognize recourse liabilities pursuant to our future obligations, if any, to the applicable loan purchasers under the provisions of the respective sale agreements. Under existing recourse provisions, we are required to repurchase any loan contract that goes into default, as defined in the respective loan agreement, for the life of each loan sold, at an amount equal to the outstanding principal balance and accrued interest, and refund any purchase premiums. The loan purchasers have no recourse to our other assets for failure of debtors to pay when due.

The loan pools subject to recourse provisions are comprised of manufactured home loans with an average loan balance of less than \$50,000. The estimated recourse liability is calculated based on historical default rates and loss experience for pools of similar loans we originate and service. These loss rates are applied to each pool of loans subject to recourse provisions and the resulting estimated recourse liability represents the present value of the expected obligations under those recourse provisions. The loss rates are adjusted for economic conditions, other trends affecting borrowers' ability to repay and estimated collateral value. The recourse liability is calculated at a portfolio level and there are no elements of the estimated recourse liability allocated to specific loans.

**Derivative Financial Instruments:** We have periodically used derivative instruments, including forward sales of U.S. Treasury securities, U.S. Treasury rate locks and forward interest rate swaps to mitigate interest rate risk related to our loans receivable and anticipated sales or securitizations. We follow the provisions of Statement of Financial Accounting Standards No. 133 ( SFAS 133 ), *Accounting for Derivative Instruments and Hedging Activities* (as amended by Statement of Financial Accounting Standards No. 149). Under SFAS 133, all derivative instruments are recorded on the balance sheet at fair value and changes in fair value are recorded in current earnings or other comprehensive income, depending on whether a derivative instrument qualifies for hedge accounting and, if so, whether the hedge transaction represents a fair value or cash flow hedge.

Hedges are measured for effectiveness both at inception and on an ongoing basis, and hedge accounting is terminated if a derivative instrument ceases to be effective as a hedge or its designation as a hedge is terminated. In the event of termination of a hedge, any gains or losses during the period that a derivative instrument qualified as a hedge are recognized as a component of the hedged item and subsequent gains or losses are recognized in earnings.

Derivative financial instruments that do not qualify for hedge accounting are carried at fair value and changes in fair value are recognized currently in earnings.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Stock Options:** In connection with our formation, we adopted a stock option plan. We have elected to measure compensation cost using the intrinsic value method in accordance with APB Opinion No. 25 *Accounting for Stock Issued to Employees*.

**Goodwill Impairment:** The provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, require that recorded goodwill be tested for impairment on an annual basis. The initial and on-going estimate of our fair value is based on our assumptions and projections. Once determined, the amount is compared to our net book value to determine if a write-down in the recorded value of the goodwill is necessary.

**Results of Operations**

**Comparison of the three months ended June 30, 2004 and 2003.**

***Net Income***

Net income increased \$8.2 million to \$1.7 million for the three months ended June 30, 2004 compared to a net loss of \$6.5 million for the three months ended June 30, 2003. The increase is the result of an increase of \$6.0 million in net interest income after loan losses, an increase of \$0.3 million in non interest income and a decrease in non interest expenses of \$1.9 million as described in more detail below.

***Interest Income***

Interest income increased 98.1% to approximately \$10.3 million compared to approximately \$5.2 million. This increase resulted primarily from an increase of \$256.5 million or 114.1% in average interest earning assets. The increase in interest income was lower than the increase in average loans receivable due primarily to a positive change in the credit quality of the loan portfolio for the period. Generally, higher credit quality loans will carry a lower interest rate. The weighted average interest rate on the loan receivable portfolio was 8.9% compared to 9.2%.

Interest expense decreased \$1.2 million to \$3.3 million compared to \$4.5 million, or 26.9%. The majority of our interest expense relates to interest on our loan funding facilities. Average debt outstanding on our loan funding facilities increased \$102.7 million to \$328.5 compared to \$225.8 million, or 45.5%. The increase in average outstanding debt on our loan funding facilities was partially offset by a decrease in average interest rate on the total debt outstanding which was 3.7% compared to 7.2%. The higher average rate for the three months ended June 30, 2003 was due to the fact that prior to the private placement of our common stock we had to rely partially on a higher-cost fixed rate facility to fund our new originations.

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The following table presents information relative to the average balances and interest rates for the three months ended June 30 (dollars in thousands):

	2004			2003		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest earning assets:						
Manufactured housing loans	\$430,227	\$ 9,578	8.91%	\$223,147	\$5,152	9.24%
Investment securities	34,217	664	7.76%			
Other	16,754	52	1.24%	1,583	9	2.27%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$481,198	\$10,294	8.56%	\$224,730	\$5,161	9.19%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Interest bearing liabilities:						
Loan funding facilities	\$328,469	\$ 3,174	3.87%	\$225,827	\$3,853	6.82%
Repurchase agreement investment securities	23,703	107	1.81%			
Notes payable servicing advances	882	15	6.80%	1,327	16	4.82%
Other				23,749	640	10.78%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$353,054	\$ 3,296	3.73%	\$250,903	\$4,509	7.19%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net interest income and interest rate spread		\$ 6,998	4.83%		\$ 652	2.00%
		<u>          </u>	<u>          </u>		<u>          </u>	<u>          </u>
Net yield on average interest earning assets			5.82%			1.16%
			<u>          </u>			<u>          </u>

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The following table sets forth the changes in net interest income attributable to changes in volume (change in average portfolio volume multiplied by prior period average rate) and changes in rates (change in weighted average interest rate multiplied by prior period average portfolio balance) for the three months ended June 30, 2004 compared to the three months ended June 30, 2003 (in thousands):

	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earning assets:			
Manufactured housing loans	\$4,610	\$ (184)	\$ 4,426
Investment securities	664		664
Other	47	(4)	43
	<u>          </u>	<u>          </u>	<u>          </u>
Total interest income	\$5,321	\$ (188)	\$ 5,133
	<u>          </u>	<u>          </u>	<u>          </u>
Interest bearing liabilities:			
Loan funding facilities	\$ 992	\$(1,671)	\$ (679)
Repurchase agreement - investment securities	100	7	107
Notes payable servicing advances	639	(640)	(1)
Other	1,527	(2,167)	(640)
	<u>          </u>	<u>          </u>	<u>          </u>
Total interest expense	\$3,258	\$(4,471)	\$(1,213)
	<u>          </u>	<u>          </u>	<u>          </u>
Increase in net interest income			\$ 6,346
			<u>          </u>

**Non-interest Income**

Non-interest income is primarily made up of loan servicing related revenue including loan servicing fees, late charges and commissions on force placed insurance. Such revenue increased \$0.6 million to \$3.0 million compared to \$2.7 million, or 11.1%. Loan servicing fees increased \$0.4 million to \$2.4 million compared to \$2.0 million, or 22.5%. The average serviced loan portfolio on which servicing fees are collected increased approximately \$95.4 million or 8.2% for the quarter ended June 30, 2004 compared to the quarter ended June 30, 2003. The weighted average service fee rate increased approximately .09%.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Provision for Losses***

We maintain an allowance for credit losses to cover inherent losses that can be reasonably estimated for loan receivables held on our balance sheet. The level of the allowance is based principally on the outstanding balance of the contracts held on our balance sheet and historical loss trends. We also maintain a recourse liability to cover inherent losses that can be reasonably estimated on loans that we have sold in a true sale transaction but the terms of the sale included recourse provisions.

The provision for credit losses and recourse reserves increased \$0.3 million to \$1.5 million compared to \$1.2 million, or 25.0%. The increase resulted from higher outstanding principal from new loan originations offset by loans charged off. Total net chargeoffs increased to \$2.3 million with \$1.2 million being charged to the allowance for credit losses and \$1.1 million being charged to the recourse liability, compared to total net chargeoffs of \$2.1 million, with \$1.1 million being charged to the allowance for credit losses and \$1.0 million being charged to the recourse liability. As a percentage of average outstanding principal balance (including \$59.3 million and \$88.6 million in average principal balance of loans sold with recourse for the quarters ended June 30, 2004 and 2003, respectively) total net chargeoffs on an annualized basis decreased to 1.8% compared to 2.3%. We expect net chargeoffs as a percentage of average outstanding principal balance to decrease in the future due to the higher credit quality of loans originated in years 2002 through 2004 versus that of loans originated in years 2000 and 2001 and also because the life of the loans we have sold with recourse extend beyond the peak loss periods in a normal loan life cycle.

***Non-interest Expenses***

Personnel expenses increased approximately \$0.1 million or 2.1% to \$4.9 million compared to \$4.8 million. The increase is primarily related to an increase in the number of full time employees. The increase in the number of full time employees is partially offset by an approximate \$0.1 million decrease in the use of temporary employees for the comparable quarters.

Loan origination and servicing expenses decreased to \$246,000 compared to \$298,000, or approximately 17.4%. The decrease is primarily a result of a decrease in repossession expenses resulting from the consolidation and streamlining of much of our repossession operations in our Fort Worth offices.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Other operating expenses, which consist of occupancy and equipment, professional fees, travel and entertainment and miscellaneous expenses decreased approximately \$0.7 million to \$1.6 million compared to \$2.3 million, approximately 30.4%.

Occupancy and equipment, office expense and telephone expense increased a total of approximately \$22,000 to \$990,000 compared to approximately \$968,000, or 2.3%. Professional fees decreased \$904,000 to \$89,000 compared to \$993,000. The primary reason for the decrease related to a reduction in the use of outside professional services. Travel and entertainment expenses increased approximately \$18,000 or 5.6% to \$341,000 compared to \$323,000. Miscellaneous expenses increased approximately \$260,000 to \$294,000 compared to \$34,000. The increase was primarily the result of an increase of approximately \$213,000 in director and officer liability insurance and director fees which were \$222,000 compared to \$9,000. Such increases are a direct result of the additional costs incurred related to our formation as a REIT in October 2003 and our status as a publicly traded company.

**Comparison of the six months ended June 30, 2004 and 2003.**

***Net Income***

Net income increased \$11.0 million to \$2.3 million for the six months ended June 30, 2004 compared to a net loss of \$8.7 million for the six months ended June 30, 2003. The increase is the result of an increase of \$8.5 million in net interest income after loan losses, an increase of \$0.8 million in non interest income and a decrease in non interest expenses of \$1.7 million as described in more detail below.

***Interest Income***

Interest income increased \$9.2 million or 90.2% to approximately \$19.4 million compared to approximately \$10.2 million. This increase resulted primarily from an increase of \$232.2 million or 110.2% in average interest earning assets. The increase in interest income was lower than the increase in average interest earning assets due primarily to a positive change in the credit quality of the loan portfolio for the period. Generally, higher credit quality loans will carry a lower interest rate. The weighted average interest rate on the loan portfolio was 9.1% compared to 9.7%.



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Interest expense decreased \$0.9 million to \$6.3 million compared to \$7.2 million, or 12.5%. The majority of our interest expense relates to interest on our loan funding facilities. Average debt outstanding on our loan funding facilities increased \$90.2 million to \$308.0 compared to \$217.8 million, or 41.4%. The increase in average outstanding debt on our loan funding facilities was partially offset by a decrease in average interest rate on total debt outstanding which was 3.91% compared to 5.92%. The higher average rate for the six months ended June 30, 2003 was due to the fact that prior to the private placement of our common stock we had to rely partially on a higher-cost fixed rate facility to fund our new originations.

The following table presents information relative to the average balances and interest rates for the six months ended June 30 (dollars in thousands):

	2004			2003		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest earning assets:						
Manufactured housing loans	\$408,327	\$18,552	9.09%	\$209,010	\$10,173	9.73%
Investment securities	20,214	762	7.54%			
Other	14,376	80	1.11%	1,685	32	3.80%
<b>Total</b>	<b>\$442,917</b>	<b>\$19,394</b>	<b>8.76%</b>	<b>\$210,695</b>	<b>\$10,205</b>	<b>9.69%</b>
Interest bearing liabilities:						
Loan funding facilities	\$308,014	\$6,161	4.00%	\$217,785	\$6,506	5.97%
Repurchase agreement investment securities	13,919	126	1.81%			
Notes payable servicing advances	1,348	28	4.15%	1,320	35	5.30%
Other				23,749	652	5.49%
<b>Total</b>	<b>\$323,281</b>	<b>\$6,315</b>	<b>3.91%</b>	<b>\$242,854</b>	<b>\$7,193</b>	<b>5.92%</b>
Net interest income and interest rate spread		\$13,079	4.85%		\$3,012	3.77%
Net yield on average interest earning assets			5.91%			2.86%



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The following table sets forth the changes in net interest income attributable to changes in volume (change in average portfolio volume multiplied by prior period average rate) and changes in rates (change in weighted average interest rate multiplied by prior period average portfolio balance) for the six months ended June 30, 2004 compared to the six months ended June 30, 2003 (in thousands):

	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earning assets:			
Manufactured housing loans	\$9,056	\$ (677)	\$ 8,379
Investment securities	762		762
Other	71	(23)	48
	<u>          </u>	<u>          </u>	<u>          </u>
Total interest income	\$9,889	\$ (700)	\$ 9,189
	<u>          </u>	<u>          </u>	<u>          </u>
Interest bearing liabilities:			
Loan funding facilities	\$1,805	\$(2,150)	\$ (345)
Repurchase agreement investment securities	134	(8)	126
Notes payable servicing advances	645	(652)	(7)
Other	1,797	(2,449)	(652)
	<u>          </u>	<u>          </u>	<u>          </u>
Total interest expense	\$4,381	\$(5,259)	\$ (878)
	<u>          </u>	<u>          </u>	<u>          </u>
Increase in net interest income			\$10,067
			<u>          </u>

***Non-interest Income***

Total non-interest income increased \$0.8 million to \$5.9 million compared to \$5.1 million, or 15.7%. Loan servicing fees increased \$1.3 million to \$4.9 million compared to \$3.6 million, or 36.1%. The average serviced loan portfolio on which servicing fees are collected increased approximately \$78.7 million or 6.7%. The weighted average service fee rate increased approximately .09% as our serviced for others portfolio, which has lower than average servicing rates, continues to pay down and as we add servicing from securitizations at higher than our average servicing portfolio rates.

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***Provision for Losses***

The provision for credit losses and recourse reserves increased \$1.6 million to \$3.4 million compared to \$1.8 million, or 88.9%. The increase resulted from both an increase in outstanding principal due to new loan originations and the amount of loans charged off. Total net chargeoffs increased to \$5.6 million with \$2.5 million being charged to the allowance for credit losses and \$3.1 million being charged to the recourse liability, compared to total net chargeoffs of \$3.9 million, with \$1.6 million being charged to the allowance for credit losses and \$2.3 million being charged to the recourse liability. As a percentage of average outstanding principal balance (including \$66.2 million and \$89.9 million in average principal balance of loans sold with recourse for the six months ended June 30, 2004 and 2003, respectively) total net chargeoffs on an annualized basis decreased to 2.4% compared to 2.6%. We expect net chargeoffs as a percentage of average outstanding principal balance to decrease in the future due to the higher credit quality of loans originated in years 2002 through 2004 versus that of loans originated in years 2000 and 2001 and also because the life of the loans we have sold with recourse extend beyond the peak loss periods in a normal loan life cycle.

***Non-interest Expenses***

Personnel expenses increased approximately \$0.3 million to \$9.3 million compared to \$9.0 million, or 3.33% primarily related to a slight increase in the number of full time employees. The increase in the number of full time employees is partially offset by an approximate \$0.2 million decrease in the use of temporary employees. During June and July of 2004, we hired 10 former employees of Chase Home Finance Manufactured Housing ( Chase ). In May 2004 Chase had announced they were exiting the manufactured housing lending business. While the impact on non-interest expenses was negligible for the second quarter 2004, on an annualized basis the cost will be approximately \$1.5 million

Loan origination and servicing expenses decreased slightly to \$598,000 compared to \$610,000, or approximately 2.0%. The decrease is primarily a result of a decrease in repossession expenses resulting from the consolidation and streamlining of much of our repossession operations in our Fort Worth offices.

Other operating expenses decreased approximately \$0.9 million to \$3.2 compared to \$4.1 million, or approximately 21.9% the details of which are discussed below.

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Occupancy and equipment, office expense and telephone expense decreased a total of approximately \$0.2 million to \$2.0 million compared to approximately \$2.2 million, or 11.2% primarily as a result of consolidating the functions performed in our Ohio office and by relocating our corporate offices from Birmingham, Michigan to Southfield, Michigan in April 2003. Professional fees decreased \$1.0 million to \$0.2 million, or 83.3% compared to \$1.2 million primarily as a result of the reduction in the use of outside professionals. Travel and entertainment expenses decreased approximately \$139,000 or 18.7% to \$605,000 compared to \$744,000. Miscellaneous expenses increased approximately \$517,000 to \$563,000 compared to \$46,000. The increase was primarily the result of an increase of approximately \$463,000 in director and officer liability insurance and director fees which were \$485,000 compared to \$22,000. Such increases are a direct result of the additional costs incurred related to our formation as a REIT in October 2003.

**Receivable Portfolio and Asset Quality**

Net loans receivable outstanding increased 23.7% to \$455.8 million at June 30, 2004 compared to \$368.5 million at December 31, 2003. Loans receivable are comprised of installment contracts and mortgages collateralized by manufactured homes and in some instances real estate.

New loan originations for the quarter ended June 30, 2004 increased 43.0% to \$60.4 million compared to \$42.3 million for the quarter ended June 30, 2003. The increase was due primarily to increased market share resulting from our focus on customer service and the use of technology to deliver our products and services. For the quarter ended 2004 our loan volume was negatively affected by the exit of Chase, as they funded out their pipeline through the end of June 2004. Although, we did receive a large increase in loan applications, as many loan sources moved to find a replacement lender for Chase.

The following table sets forth the average loan balance, weighted average loan coupon and weighted average initial term of the loan receivable portfolio (dollars in thousands):

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
	<hr/>	<hr/>
Principal balance loans receivable	\$465,297	\$380,174
Number of loans receivable	11,088	9,154
Average loan balance	\$ 42	\$ 42
Weighted average loan coupon (a)	10.05%	10.23%
Weighted average initial term	21 years	22 years

(a) The weighted average loan coupon includes an imbedded servicing fee rate resulting from securitization or sale of the loan but accounted for as a financing.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Delinquency statistics for the manufactured home loan portfolio are as follows (dollars in thousands):

<b>Days delinquent</b>	<b>June 30, 2004</b>			<b>December 31, 2003</b>		
	<b>No. of Loans</b>	<b>Principal Balance</b>	<b>% of Portfolio</b>	<b>No. of Loans</b>	<b>Principal Balance</b>	<b>% of Portfolio</b>
31-60	169	\$6,287	1.4%	193	\$7,068	1.9%
61-90	79	2,919	0.6%	83	2,943	0.8%
Greater than 90	147	6,157	1.3%	158	6,575	1.7%

We define non-performing loans as those loans that are 90 or more days delinquent in contractual principal payments. For the three and six months ended June 30, 2004 the average outstanding principal balance of non-performing loans was approximately \$6.0 million and \$6.4 million, respectively compared to \$4.1 million and \$4.0 million for the three and six months ended June 30, 2003. Non-performing loans as a percentage of average loan receivables were 1.4% and 1.6%, respectively for the three and six months ended June 30, 2004 compared to 1.9% for both the three and six months ended June 30, 2003, primarily as a result of higher average balances and improved credit quality in the loan portfolio in 2004.

The allowance for credit losses was \$4.5 million at June 30, 2004 compared to \$3.6 million at December 31, 2003. The increase in the allowance for credit losses is primarily due to a higher loan portfolio balance offset by chargeoffs. The allowance for credit losses as a percentage of net loans receivable was approximately 1.0% at June 30, 2004 and December 31, 2003. Net chargeoffs were \$2.3 million and \$5.6 million for the three and six months ended June 30, 2004, respectively compared to \$2.1 million and \$3.9 million for the three and six months ended June 30, 2003, respectively. Based on the analysis we performed related to the allowance for credit losses as described above under Critical Accounting Policies, we believe that our allowance for credit losses is currently adequate to cover inherent losses in our loan portfolio that can be reasonably estimated.

Our asset quality statistics for the first and second quarters of 2004 reflect improving conditions in the economy and the industry. They also reflect the improving underwriting and origination practices we put into place in 2002. Continued improvement in delinquency statistics are expected to result in lower levels of non-performing assets and net charge-offs. Lower levels of non-performing assets and net chargeoffs should have a positive effect on earnings through decreases in the provision for credit losses and servicing expenses as well as increases in net interest income.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Liquidity and Capital Resources**

We require capital to fund our loan originations, acquire manufactured home loans originated by third parties and expand our loan servicing operations. At June 30, 2004, we had approximately \$14.5 million in available cash and cash equivalents. As a REIT, we will be required to distribute at least 90% of our taxable income to our stockholders on an annual basis. Therefore, as a general matter, it is unlikely we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash provided from operations and external sources of capital. Historically, we have satisfied our liquidity needs through cash generated from operations, sales of our common and preferred stock, borrowings on our credit facilities and loan sales and securitizations.

Cash used in operating activities during the six months ended June 30, 2004, totaled \$93.3 million versus \$75.0 million for the six months ended June 30, 2003. Cash used to originate loans increased 39.4%, or \$34.5 million for the six months ended June 30, 2004 compared to the six months ended June 30, 2003. Principal collections on loans held for sale totaled \$30.7 million for the six months ended June 30, 2004 as compared to \$16.9 million for the six months ended June 30, 2003, an increase of \$13.8 million, or 81.7%. The increase in collections is primarily related to the increase in the average outstanding loan portfolio balance, which was \$408.3 million for the six months ended June 30, 2004 compared to \$211.8 million for the six months ended June 30, 2003 in addition to improved credit quality and decreased delinquency.

Cash used in investing activities was \$34.5 million in the six months ended June 30, 2004 versus \$0.7 million for the six months ended June 30, 2003. The primary reason for the increase in the use of cash was the purchase of a \$32.0 million asset backed security and a \$3.1 million asset backed security. The securities are collateralized by manufactured home loans and are classified as held-to-maturity. They have contractual maturity dates of July 28, 2033 and December 28, 2033 and effective yields of 6.88% and 7.88%, respectively.

The primary sources of cash during the six months ended June 30, 2004 were approximately \$200.0 million in net proceeds from a securitized financing transaction we completed in February 2004 and approximately \$62.9 million from the issuance of our common stock. Proceeds from the securitization and from the issuance of common stock were used primarily to pay down the aggregate balances of the notes outstanding under our loan funding facility with Citigroup and fund new loan originations.

On February 11, 2004, we completed a securitized financing transaction for approximately \$240.0 million of loans, which was funded by issuing bonds in the approximate amount of \$200 million, at a duration weighted average interest cost of 5.13%. We structured the transaction to issue classes of bonds with different estimated maturity dates and average lives to better meet investor demands. The outstanding balance of the 2004-A Notes issued was approximately \$183.4 million at June 30, 2004.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

We currently have a loan funding facility with Citigroup. Under the terms of the agreement, originally entered into in March 2003 and revised in November 2003 to split the loans into two pools, one under a note due in April 2004 and one under a note due in November 2004, we pledge loans as collateral and in turn are advanced funds. On March 30, 2004 the terms of the agreement were modified by segregating the pledged loans into three separate pools designated 2004-1A, 2004-1B and 2004-1C. The maximum advance amount on 2004-1A (for new loan production) was set at \$170.0 million, the fixed advance amount on 2004-1B (for loans originated in 2003) was set at approximately \$71.6 million and the maximum amount on 2004-1C (for loans acquired from third parties) was set at \$150.0 million. The modification added a stratified advance rate for each pool and reduced the stated interest rate on all three pools. Additionally, the maturity date was fixed on 2004-1A at March 29, 2005, on 2004-1B at November 16, 2004 and on 2004-1C at March 28, 2006. At June 31, 2004 the outstanding balance on the notes issued under the facility was approximately \$131.0 million.

We currently are entered into two separate repurchase agreements with Citigroup Global Markets, Inc. for the purpose of financing the purchase of investments in two asset backed securities with principal balances of \$32.0 million and \$3.1 million, respectively. Under the terms of the agreements we sell our interest in the securities with an agreement to repurchase the interests at a predetermined future date at the principal amount sold plus an interest component. The securities were financed at an amount equal to 75% of the current market value as determined by Citigroup. At June 30, 2004 the repurchase agreements had outstanding principal balances of approximately \$19.6 million and \$1.9 million, respectively and maturity dates of July 28, 2004 and July 6, 2004, respectively. The annual interest rates on the agreements are equal to LIBOR plus a spread.

We currently have a revolving credit facility with Bank One. Under the terms of the facility we can borrow up to \$7 million for the purpose of funding required principal and interest advances on manufactured home loans that are serviced for outside investors. Borrowings under the facility are repaid upon our collection of monthly payments made by borrowers. The outstanding balance under the facility accrues interest at the bank's prime rate. To secure the loan, we have granted the bank a security interest in substantially all of our assets excluding securitized loans. The facility terminates on December 31, 2004. At June 30, 2004 there was no balance outstanding on this facility.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

In addition to borrowings under our credit facilities, we have fixed contractual obligations under various lease agreements. Our contractual obligations were comprised of the following as of June 30, 2004:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>4 - 5 years</b>	<b>Thereafter</b>
Notes payable Citigroup (1)	\$ 130,989	\$ 96,351	\$ 34,638	\$	\$
Notes payable 2004 A securitization (2)	183,406	2,506	10,179	6,960	163,761
Repurchase agreement (3)	21,554	21,554			
Notes payable servicing advances (4)					
Operating leases	2,687	870	1,697	120	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Contractual Obligations</b>	<b>\$ 338,636</b>	<b>\$ 121,281</b>	<b>\$ 46,514</b>	<b>\$ 7,080</b>	<b>\$ 163,761</b>

- (1) Origen Financial L.L.C. and Origen Securitization Company, LLC are borrowers under the short-term securitization facility with Citigroup.
- (2) Origen Financial L.L.C. through a special purpose entity Origen Manufactured Housing Trust 2004-A, is the issuer of the notes payable under the 2004 A securitization.
- (3) Origen Financial L.L.C. is the borrower under the Citigroup repurchase agreement.
- (4) Origen Financial L.L.C. is the borrower under the Bank One line of credit.

In May 2004 we completed an initial public offering of our common stock. In June 2004, the underwriters for the offering purchased additional shares by exercising their over allotment option. Aggregate net proceeds from these transactions were approximately \$62.9 million after discount and expenses, which were used primarily to pay down the aggregate balances of the notes outstanding under our loan funding facility with Citigroup and fund new loan originations. The net proceeds from this offering, cash generated from operations and borrowings under our Citigroup facility will enable us to meet our liquidity needs for approximately 12 months depending on market conditions which may affect loan origination volume, loan purchase opportunities and the availability of securitizations. If adverse market conditions require or if loan purchase opportunities become available, we may seek additional funds through additional credit facilities or additional sales of our common or preferred stock sooner than anticipated.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Our long-term liquidity and capital requirements consist primarily of funds necessary to originate and hold manufactured home loans, acquire and hold manufactured home loans originated by third parties and expand our loan servicing operations. We expect to meet our long-term liquidity requirements through cash generated from operations, but we will require external sources of capital, including sales of shares of our common and preferred stock and third-party borrowings. We intend to continue to access the asset-backed securities market for the long-term financing of our loans in order to match the interest rate risk between our loans and the related long-term funding source. Our ability to meet our long-term liquidity needs depends on numerous factors, many of which are outside of our control. These factors include general market interest rate levels, the shape of the yield curve and spreads between rates on U.S. Treasury obligations and securitized bonds, all of which affect investors' demand for securitized debt.

The risks associated with the manufactured housing business become more acute in any economic slowdown or recession. Periods of economic slowdown or recession may be accompanied by decreased demand for consumer credit and declining asset values. In the manufactured housing business, any material decline in collateral values increases the loan-to-value ratios of loans previously made, thereby weakening collateral coverage and increasing the size of losses in the event of default. Delinquencies, repossessions, foreclosures and losses generally increase during economic slowdowns or recessions. For our finance customers, loss of employment, increases in cost-of-living or other adverse economic conditions would impair their ability to meet their payment obligations. Higher industry inventory levels of repossessed manufactured homes may affect recovery rates and result in future impairment charges and provision for losses. In addition, in an economic slowdown or recession, servicing and litigation costs generally increase. Any sustained period of increased delinquencies, repossessions, foreclosures, losses or increased costs would adversely affect our financial condition and results of operations.

These same risks also affect our ability to securitize loans. Continued access to the securitization market is very important to our business. Numerous factors affect our ability to complete a successful securitization, including factors beyond our control. These include general market interest rate levels, the shape of the yield curve and spreads between rates on U.S. Treasury obligations and securitized bonds, all of which affect investors' demand for securitized debt. When these factors are unfavorable our ability to successfully complete securitization transactions is impeded and our liquidity and capital resources are affected negatively. There can be no assurance that current favorable conditions will continue or that unfavorable conditions will not return.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of loss arising from adverse changes in market prices and interest rates. Our market risk arises from interest rate risk inherent in our financial instruments. We are not currently subject to foreign currency exchange rate risk or commodity price risk.

Our variable rate debt totaled \$152.5 million and \$183.1 million at June 30, 2004 and June 30, 2003, respectively, under which we paid interest at various LIBOR rates plus a spread. If LIBOR increased or decreased by 1.0% during the six months ended June 30, 2004 and 2003, we believe our interest expense would have increased or decreased by approximately \$814,000 and \$381,800, respectively based on the \$185.7 million and \$160.1 million average balance outstanding under our variable rate debt facilities for the six months ended June 30, 2004 and June 30, 2003, respectively. The increase or decrease in interest expense related to an increase or decrease in LIBOR is mitigated somewhat due to the fact that our average variable rate debt outstanding for the six months ended June 30, 2004 and 2003 was hedged for portions of the periods through the use of interest rate swap agreements with average notional amounts of \$173.4 million and \$165.9 million, respectively thus minimizing the effect of changes in the benchmark LIBOR rate. We had no variable rate interest earning assets outstanding during the six months ended June 30, 2004 or 2003.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The following table shows the contractual maturity dates of our assets and liabilities at June 30, 2004. For each maturity category in the table the difference between interest-earning assets and interest-bearing liabilities reflects an imbalance between repricing opportunities for the two sides of the balance sheet. The consequences of a negative cumulative gap at the end of one year suggests that, if interest rates were to rise, liability costs would increase more quickly than asset yields, placing negative pressure on earnings.

	<b>Maturity</b>				<b>Total</b>
	<b>0 to 3 Months</b>	<b>4 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	
<b>Assets</b>					
Cash and equivalents	\$14,540	\$	\$	\$	\$ 14,540
Restricted cash	6,531				6,531
Loans receivable, net of allowance for loss	1,875	5,916	53,126	394,899	455,816
Investments				34,658	34,658
Furniture, fixtures and equipment, net	181	567	1,520		2,268
Goodwill				32,277	32,277
Other assets	9,919	7,558	6,881	2,685	27,043
<b>Total assets</b>	<b>\$33,046</b>	<b>\$ 14,041</b>	<b>\$ 61,527</b>	<b>\$464,519</b>	<b>\$573,133</b>
<b>Liabilities and Stockholders</b>					
<b>Equity</b>					
Warehouse financing	\$ 431	\$ 95,920	\$ 34,638	\$	\$130,989
Securitization financing	603	1,903	17,139	163,761	183,406
Repurchase agreements	21,554				21,554
Notes payable servicing advances					
Recourse liability	589	1,326	2,722	1,041	5,678
Other liabilities	12,847	403		609	13,859
<b>Total liabilities</b>	<b>36,024</b>	<b>99,552</b>	<b>54,499</b>	<b>165,411</b>	<b>355,486</b>
Preferred stock				125	125
Common stock				251	251
Paid-in-capital				218,714	218,714
Accumulated other comprehensive loss					

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Unearned stock compensation	(477)	(1,911)	(1,173)		(3,561)
Retained Earnings				2,118	2,118
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total stockholders equity	<u>(477)</u>	<u>(1,911)</u>	<u>(1,173)</u>	<u>221,208</u>	<u>217,647</u>
Total liabilities and stockholders equity	<u>\$35,547</u>	<u>\$ 97,641</u>	<u>\$ 53,326</u>	<u>\$386,619</u>	<u>\$573,133</u>
Interest sensitivity gap	\$ (2,501)	\$ (83,600)	\$ 8,201	\$ 77,900	
Cumulative interest sensitivity gap	\$ (2,501)	\$ (86,101)	\$ (77,900)	\$	
Cumulative interest sensitivity gap to total earning assets	(0.44%)	(15.02%)	(13.59%)		

We believe the negative effect of a rise in interest rates is reduced by the anticipated securitization of our loans receivable which fixes our cost of funds associated with the loans over the lives of such loans.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

In conjunction with the loan funding facility with Citigroup, we entered into six interest rate swap agreements in an effort to manage interest rate risk on our floating rate notes payable. The interest rate swaps expired on April 12, 2004. The interest rate swaps were structured to be hedges against changes in the benchmark interest rate (LIBOR) of the floating rate notes. We designated the swaps as hedges for accounting purposes. The hedges were highly effective and had a minimal impact on the results of operations.

The following table shows our financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, and the instruments' fair values at June 30, 2004.

	<b>Contractual Maturity</b>						<b>Total Fair Value</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Thereafter</b>	
	<b>(Dollars in thousands)</b>						
Interest sensitive assets:							
Loans receivable	\$ 3,798	\$ 9,638	\$ 9,205	\$10,174	\$11,245	\$411,756	\$455,816
Average interest rate	10.05%	10.05%	10.05%	10.05%	10.05%	10.05%	10.05%
Interest bearing deposits	16,754						16,754
Average interest rates	1.19%						1.19%
Loan sale proceeds receivable	207	359	302	258	223	1,224	2,573
Average interest rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Investments						34,658	34,658
Average interest rate						6.97%	6.97%
Residual interests						749	749
Average interest rate						15.00%	15.00%
<b>Total interest sensitive assets</b>	<b>\$20,759</b>	<b>\$ 9,997</b>	<b>\$ 9,507</b>	<b>\$10,432</b>	<b>\$11,468</b>	<b>\$448,387</b>	<b>\$510,550</b>
Interest sensitive liabilities:							
Borrowings:							
Warehouse financing	67,887	28,857	36,245				130,989
Average interest rate	3.69%	3.69%	3.69%				3.69%
Securitization financing	1,855	2,703	2,990	3,308	3,660	168,890	183,406
Average interest rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Repurchase agreements	21,554						21,554

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Average interest rate	1.79%						1.79%
Recourse liability	929	1,532	897	538	355	1,427	5,678
Average interest rate	10.57%	10.57%	10.57%	10.57%	10.57%	10.57%	10.57%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total interest sensitive liabilities	\$92,225	\$33,092	\$38,132	\$ 3,846	\$ 4,015	\$170,317	\$341,627
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**Item 4. Controls and Procedures**

- (a) Under the supervision and with the participation of the Company's management, including the Chief Executive Officer, Ronald A. Klein, and Chief Financial Officer, W. Anderson Geater, Jr., the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report, pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information the Company is required to disclose in its filings with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.
- (b) There have been no significant changes in the Company's internal control over financial reporting during the quarterly period ended June 30, 2004, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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**PART II OTHER INFORMATION**

**ITEM 2. Changes in Securities and Use of Proceeds**

- (a) In May 2004, we completed an initial public offering of 8,000,000 shares common stock, \$0.01 par value at an offering price of \$8.00 per share. Lehman Brothers Inc. was the managing underwriter of the offering, and Credit Suisse First Boston LLC and Flagstone Securities, LLC were co-managers of the offering. In June 2004, the underwriters purchased an additional 625,900 shares of common stock at the initial offering price of \$8.00 per share pursuant to their over-allotment option. Our registration statement was declared effective by the SEC on May 5, 2004 (Registration No. 333-112516). We received aggregate gross offering proceeds of \$69.0 million from these transactions and paid aggregate underwriting commissions of \$4.8 million. Aggregate other offering costs paid totaled \$1.3 million. Net offering proceeds after deducting underwriting commissions and other offering costs was \$62.9 million. We used approximately \$52.0 million of the net proceeds of this offering to repay a portion of the short-term borrowings incurred under our Citigroup financing arrangement. We have used the remainder of the net offering proceeds to fund manufactured home loans in the ordinary course of our business.

**ITEM 6. Exhibits and Reports on Form 8-K**

- (a) Exhibits:

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.

- (b) Reports of Form 8-K:

- a. Form 8-K, dated June 3, 2004 furnished for the purpose of reporting, under Item 12 Results of Operations and Financial Condition, the Company's 2004 first quarter earnings and results of operations.
- b. Form 8-K, dated June 10, 2004 furnished for the purpose of reporting, under Item 5 Other Events, the Company's announcement of the exercise of the over-allotment option granted to the underwriters of the Company's initial public offering.

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**SIGNATURES**

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

Dated: August 16, 2004

ORIGEN FINANCIAL, INC.

BY: /s/ W. Anderson Geater, Jr.  
W. Anderson Geater, Jr., Chief  
Financial Officer and Secretary  
(Duly authorized officer and principal  
financial officer)

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**ORIGEN FINANCIAL, INC.**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.