IRWIN FINANCIAL CORPORATION
Form S-1/A
December 19, 2001

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As filed with the Securities and Exchange Commission on December 19, 2001.

Registration No. 333-69586

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

IRWIN FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Indiana	**6712**	**35-1286807**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

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

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

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

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

Copies to:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after the Registration Statement becomes effective.

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Price Offering	Amount of Registration Fee(1)
Common shares, no par value*	$90,000,000	$22,335

* Including preferred share purchase rights.

(1) Of this fee amount, $18,750 was previously paid with the initial filing of this registration statement.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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

SUBJECT TO COMPLETION, DATED DECEMBER 19, 2001

PROSPECTUS

Shares

IRWIN FINANCIAL CORPORATION

Common Shares

We are offering common shares.

Our common shares are traded on the New York Stock Exchange under the symbol "IFC." On December 18, 2001, the last reported sale price of our common shares as reported on the New York Stock Exchange was $17.50 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 12.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to Irwin Financial Corporation	$	$

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

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

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

Co-lead Managers

Keefe, Bruyette & Woods, Inc.

Stifel, Nicolaus & Company
Incorporated

Co-managers

J.J.B. Hilliard, W.L. Lyons, Inc.

Howe Barnes Investments, Inc.

The date of this prospectus is , 2001

IRWIN FINANCIAL CORPORATION

Commercial Banking	Mortgage Banking	Home Equity Lending	Equipment Leasing	Venture Capital
Irwin Union Bank and Trust; Irwin Union Bank, F.S.B.	Irwin Mortgage Corporation	Irwin Home Equity Corporation	Irwin Capital Holdings Corporation	Irwin Ventures LLC
Founded in 1871 and 2000, respectively	1981 Acquisition	1994 Start-up	1999 Start-up	1999 Start-up
16% of 2000 consolidated net revenues	46% of 2000 consolidated net revenues	35% of 2000 consolidated net revenues	1% of 2000 consolidated net revenues	2% of 2000 consolidated net revenues
Focuses on commercial and personal banking needs of small	Originates, sells and services conforming first mortgage loans	Originates and services prime-quality, high loan-to-value home equity loans	Funding source for leasing companies, brokers and vendors	Investor in early stage companies in financial services or financial

businesses and business owners				services-related technology
Locations in Indiana, Michigan, Arizona, Missouri, Nevada, Utah and Kentucky	National scope, emphasis on first-time home buyers and small brokers	National scope, emphasis on debt consolidation products	U.S. and Canadian focus	National focus
	$6.4 billion in originations in the first nine months of 2001	$803 million in originations in the first nine months of 2001	Acquired 78% ownership interest in a Canadian equipment leasing company in July 2000 Began franchise equipment leasing business in August 2001	
Loan portfolio of $1.4 billion as of September 30, 2001	$11.7 billion servicing portfolio as of September 30, 2001	$2.2 billion managed portfolio as of September 30, 2001	Lease portfolio of $245 million as of September 30, 2001	Five portfolio investments totaling $12.1 million as of September 30, 2001
Headquarters in Columbus, IN	Headquarters in Indianapolis, IN	Headquarters in San Ramon, CA	Headquarters in Bellevue, WA	Headquarters in Columbus, IN

SUMMARY

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

Irwin Financial Corporation

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

Our banking subsidiary, Irwin Union Bank and Trust Company, was organized in 1871 and we formed the holding company in 1972. Our direct and indirect major subsidiaries include Irwin Union Bank and Trust, a commercial bank, which together with Irwin Union Bank, F.S.B., conducts our commercial banking activities; Irwin Mortgage Corporation, a mortgage banking company acquired in 1981; Irwin Home Equity Corporation, a consumer home equity lending company formed in 1994; Irwin Capital Holdings Corporation, an equipment leasing subsidiary; and Irwin Ventures LLC, a venture capital company. At September 30, 2001, we and our subsidiaries had a total of 2,833 employees, including full-time and part-time employees.

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

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
			(dollars in thousands except per share data)				
Net income	$ 33,446	$ 26,114	$ 35,666	$ 33,156	$ 30,503	$ 24,444	$ 22,428
Earnings per common share (diluted)	1.47	1.23	1.67	1.51	1.38	1.08	0.98
Assets	3,079,546	2,149,280	2,422,429	1,680,847	1,946,179	1,496,794	1,300,122
Loans held for sale	651,380	490,690	579,788	508,997	936,788	528,739	446,898
Loans and leases, net	1,689,634	1,105,117	1,221,793	724,869	547,103	602,281	526,175
Deposits	2,175,120	1,320,514	1,443,330	870,318	1,009,211	719,596	640,153
Total shareholders' equity	220,908	181,989	189,925	159,296	145,233	127,983	118,903
Owned first mortgage servicing portfolio	11,667,136	9,963,018	9,196,513	10,488,112	11,242,470	10,713,549	10,810,988
Managed home equity portfolio	2,162,877	1,282,947	1,825,527	842,403	581,241	358,166	230,450
Return on average assets(1)	1.46%	1.82%	1.76%	2.01%	1.85%	1.94%	1.95%
Return on average equity(1)	22.25	20.88	20.83	21.51	22.84	19.80	20.37
Net interest margin(1)	5.21	5.03	5.36	5.01	4.67	5.15	5.12

(1) Annualized for interim periods.

Recent Developments

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

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

We believe these new rules apply to many, if not all, of the securitization transactions historically done by our home equity line of business to fund loan production. The residual assets we now own exceed the 25% concentration limit in the new capital treatment rules. On a pro forma basis adjusted to give effect to the sale of $75 million of our common shares in this offering, and assuming conservatively that all of our residual assets are subject to the new capital treatment, our residual assets as of September 30, 2001, comprised 51% of our consolidated Tier 1 capital. We are taking steps to materially reduce the levels of our residuals as a percentage of Tier 1 capital. On November 29, 2001, we sold $12.3 million of our residual interests in our home equity loans previously securitized in September 2000. This represents our fourth sale of residual assets in the last two years. See the "Capitalization" section on page 43 for a table showing our pro forma capital ratios giving effect to the new capital treatment. By the end of 2002, we expect our residual interests to have declined to approximately 35% of Tier 1 capital, falling to approximately 20% by the end of 2003.

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

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

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

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

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

After the initial transition period, as the portfolio of on-balance sheet home equity loans continues to grow, we should record increased levels of net interest income sufficient to cover ongoing expenses. We would then expect to be in a position to resume profitable growth in this line of business. We currently anticipate that our home equity lending line of business will return to profitability in 2003.

Taking these factors into account, we expect consolidated net income to decline in 2002 but then to increase significantly in 2003. Management currently estimates that consolidated net income will be approximately $36 million in 2002 and approximately $54 million in 2003. These estimates include $2.7 million of after-tax interest expense on our convertible trust preferred securities, which would be added back to net income for purposes of calculating fully diluted earnings per share under generally accepted accounting principles. These estimates are based on various factors and current assumptions management believes are reasonable, including current industry forecasts of a variety of economic and competitive factors. However, projections are inherently uncertain, and our actual earnings may differ significantly from these estimates due to uncertainties and risks related to our business, including those described in the "Risk Factors" section beginning on page 12 and elsewhere in this prospectus.

While our financial results in 2002 will likely be significantly different than our historical performance for the reasons discussed above, management anticipates that after 2002, we can again achieve our long-term financial objectives of at least 12.5% annual earnings per share growth and greater than 15% return on equity.

Strategy

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

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

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

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

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

We believe our historical growth and profitability is the result of our endeavors to pursue complementary consumer and commercial lending niches through our bank holding company structure, our experienced management, our diverse product and geographic markets, and our willingness and ability to align the compensation structure of each of our lines of business with the interests of our stakeholders. Through various economic environments and cycles, we have had a relatively stable revenue and earnings stream on a consolidated basis generated primarily through internal growth rather

than acquisitions. Over the five-year and ten-year periods ending December 31, 2000, respectively, our financial performance has been as follows:

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

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

our net revenues[1] compounded at an average annual growth rate of 13.19% and 19.44%;

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

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

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

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

Major Lines of Business

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

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

	Nine Months Ended September 30,	Year Ended December 31,

	Nine Months Ended September 30,		Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
	(in thousands)						
Commercial banking	$ 5,917	$ 5,350	$ 7,090	$ 7,345	$ 6,509	$ 5,587	$ 4,254
Mortgage banking	25,305	9,944	13,006	23,063	28,853	21,300	20,422
Home equity lending	10,669	10,515	18,494	12,606	(6,668)	1,710	(816)
Equipment leasing	(2,731)	(2,366)	(2,563)	(843)			
Venture capital	(3,099)	4,077	2,723	656			
Other[1]	(2,615)	(1,406)	(3,084)	(9,671)	1,809	(4,153)	(1,432)
Total consolidated net income	$ 33,446	$ 26,114	$ 35,666	$ 33,156	$ 30,503	$ 24,444	$ 22,428

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

Commercial Banking

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

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

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

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

At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
2001	2000	2000	1999	1998	1997	1996
(dollars in thousands)						

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
Commercial Banking:							
Net income	$ 5,917	$ 5,350	$ 7,090	$ 7,345	$ 6,509	$ 5,587	$ 4,254
Total assets	1,527,909	1,061,797	1,167,559	789,560	607,992	539,233	503,507
Total loans	1,415,547	974,539	1,067,980	720,493	514,950	410,272	336,580
Allowance for loan and lease losses	12,219	8,559	9,228	7,375	6,680	5,525	4,790
Total deposits	1,292,546	924,272	998,892	710,899	567,526	486,481	453,879
Return on average assets	0.60%	0.79%	0.74%	1.08%	1.15%	1.08%	0.92%
Return on average equity	10.03	12.98	12.39	13.89	15.49	15.42	13.35
Net interest margin	3.81	4.38	4.25	4.82	4.75	4.61	4.67
Efficiency ratio	69.86	71.28	71.00	68.06	66.60	64.62	69.66
Nonperforming assets to total assets	0.16	0.20	0.23	0.15	0.31	0.60	0.76
Allowance for loan losses to total loans	0.86	0.88	0.86	1.02	1.30	1.35	1.43
Net charge-offs to average loans	0.12	0.10	0.12	0.16	0.13	0.34	0.34

Mortgage Banking

In our mortgage banking line of business we originate, purchase, sell and service conventional and government agency-backed residential mortgage loans throughout the United States. We established this line of business when we acquired our subsidiary, Irwin Mortgage Corporation, in 1981. Most of our mortgage originations either are insured by an agency of the federal government, such as the Federal Housing Authority, or FHA, and the Veterans Administration, or VA, or, in the case of conventional mortgages, meet requirements for resale to the Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or FHLMC. This allows us to remove substantially all of the credit risk of these loans from our balance sheet. We sell mortgage loans to

institutional and private investors but may retain servicing rights to the loans we originate or purchase from correspondents. We believe this balance between mortgage loan originations and mortgage loan servicing provides us a natural hedge against interest rate changes, which has helped stabilize our revenue stream.

We originate mortgage loans through retail offices, direct marketing and our Internet website. We also purchase mortgage loans through mortgage brokers. We consider this part of our business wholesale lending. At September 30, 2001, Irwin Mortgage operated 95 production and satellite offices in 29 states. Our mortgage banking line of business is currently our largest contributor to revenue, comprising 55.2% of our total revenues for the nine months ended September 30, 2001, compared to 48.8% for the first nine months of 2000. Our mortgage banking line of business contributed 75.7% of our net income for the first nine months of 2001, compared to 38.1% for the same period in 2000.

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

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
	(dollars in thousands)						
Mortgage Banking:							
Net income	$ 25,305	$ 9,944	$ 13,006	$ 23,063	$ 28,853	$ 21,300	$ 20,422
Net interest income	18,026	11,757	15,401	21,745	26,244	17,577	17,178

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
Provision for loan losses	154	66	357	(1,998)	(1,721)	(1,383)	(455)
Loan origination fees	43,007	25,417	34,688	46,311	59,328	41,045	43,463
Gain on sale of loans	74,602	33,977	45,601	72,395	97,724	53,332	41,333
Loan servicing fees	37,876	38,939	50,309	54,247	55,217	50,194	45,573
Gain on sale of bulk servicing	6,079	14,432	27,528	9,005	829	1,512	1,224
Amortization and impairment of servicing assets, net of hedging	(23,818)	(21,606)	(37,490)	(24,566)	(29,805)	(15,843)	(13,897)
Total net revenue	159,822	106,445	140,932	180,767	207,238	147,657	135,310
Total mortgage originations	6,388,294	2,986,445	4,091,573	5,876,750	8,944,615	5,397,338	5,085,625
Refinancings to total originations	49.80%	13.70%	16.39%	28.64%	49.54%	22.53%	18.95%
Servicing sold to originations	27.95	85.12	99.35	79.89	56.95	71.82	60.87
Owned first mortgage servicing portfolio	$ 11,667,136	$ 9,963,018	$ 9,196,513	$ 10,488,112	$ 11,242,470	$ 10,713,549	$ 10,810,988
Bulk sales of servicing	610,610	1,473,787	2,526,006	1,216,718	99,929	536,971	1,481,433
Capitalized servicing	152,910	133,288	121,555	132,648	113,131	81,610	71,415
Capitalized servicing to servicing portfolio	1.3%	1.3%	1.3%	1.3%	1.0%	0.8%	0.7%
Weighted average coupon	7.46	7.73	7.76	7.51	7.56	7.85	7.83

Home Equity Lending

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

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

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

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

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

In light of greater uncertainty in the national economy, during the third quarter of 2001, we increased loss reserves and the aggregate discount rate on our interest-only strips to 2.48% and 18.8%, respectively, from 2.53% and 16.8%, respectively, in the second quarter of 2001, to account for potential increased future losses and increased uncertainty about future volatility in actual cash flows. These changes led to mark-to-market impairment from loss reserve and discount rate assumptions of $14.6 million and $7.6 million, respectively, during the third quarter of 2001. We also increased our assumption for future prepayment speeds to 24.9% from 22.9% in the second quarter of 2001, which resulted in impairment charges of $9.4 million.

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

	At or For Nine Months Ended September 30,		At or For Year Ended December 31,				
	2001	2000	2000	1999	1998	1997	1996
	(dollars in thousands)						
Home Equity Lending:							
Net interest income	$ 47,240	$ 21,254	$ 35,593	$ 18,852	$ 5,495	$ 7,129	$ 7,755
Provision for loan losses	(584)	(134)	(461)				