ORIGEN FINANCIAL INC
Form 10-Q
August 07, 2007

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

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

OR

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

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

Delaware	20-0145649
(State of Incorporation)	(I.R.S. Employer Identification No.)

27777 Franklin Rd. Suite 1700 Southfield, MI	48034
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

Number of shares of Common Stock, $.01 par value, outstanding as of August 1, 2007: 25,877,268

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Certification of Chief Executive Officer
Certification of Chief Financial Officer
Certification of Chief Executive Officer and Chief Financial Officer

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Part I. Financial Information
Item 1. Financial Statements

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

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Assets		
Cash and cash equivalents	$ 1,158	$ 2,566
Restricted cash	19,168	15,412
Investments held to maturity	41,823	41,538
Loans receivable, net of allowance for losses of $7,342 and $8,456, respectively	1,096,461	950,226
Servicing advances	5,833	7,741
Servicing rights	2,323	2,508
Furniture, fixtures and equipment, net	3,294	3,513
Repossessed houses	4,229	3,046
Goodwill	32,277	32,277
Other assets	20,154	14,240
Total assets	$ 1,226,720	$ 1,073,067
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Warehouse financing	$ 145,132	$ 131,520
Securitization financing	817,003	685,013
Repurchase agreements	23,269	23,582
Notes payable servicing advances	557	2,185
Other liabilities	27,414	26,303
Total liabilities	1,013,375	868,603
Stockholders Equity		
Preferred stock, $.01 par value, 10,000,000 shares authorized; 125 shares issued and outstanding at June 30, 2007 and December 31, 2006, $1,000 per share liquidation preference	125	125
Common stock, $.01 par value, 125,000,000 shares authorized; 25,876,868 and 25,865,401 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	259	259
Additional paid-in-capital	220,323	219,759
Accumulated other comprehensive income (loss)	5,751	(625)
Distributions in excess of earnings	(13,113)	(15,054)

Total stockholders equity		213,345		204,464
Total liabilities and stockholders equity	$	1,226,720	$	1,073,067

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Interest Income				
Total interest income	$ 22,583	$ 18,057	$ 43,407	$ 35,265
Total interest expense	14,089	10,282	27,009	19,877
Net interest income before loan losses	8,494	7,775	16,398	15,388
Provision for loan losses	1,806	1,201	3,594	3,326
Net interest income after loan losses	6,688	6,574	12,804	12,062
Non-interest income				
Servicing income	4,451	3,507	8,603	6,973
Other	952	702	1,693	1,415
Total non-interest income	5,403	4,209	10,296	8,388
Non-interest Expenses				
Personnel	6,371	6,300	12,917	12,267
Loan origination and servicing	578	336	1,059	712
State business taxes	167	77	237	175
Other operating	2,150	2,066	4,345	4,158
Total non-interest expense	9,266	8,779	18,558	17,312
Net income before income taxes and cumulative effect of change in accounting principle	2,825	2,004	4,542	3,138
Income tax expense (benefit)	(4)		8	
Net income before cumulative effect of change in accounting principle	2,829	2,004	4,534	3,138
Cumulative effect of change in accounting principle				46
NET INCOME	$ 2,829	$ 2,004	$ 4,534	$ 3,184
Weighted average common shares outstanding, basic	25,292,335	25,110,575	25,251,000	25,046,090
Weighted average common shares outstanding, diluted	25,423,422	25,149,949	25,357,808	25,137,379

Earnings per common share before cumulative effect of change in accounting principle:								
Basic	$	0.11	$	0.08	$	0.18	$	0.12
Diluted	$	0.11	$	0.08	$	0.18	$	0.12
Earnings per common share:								
Basic	$	0.11	$	0.08	$	0.18	$	0.13
Diluted	$	0.11	$	0.08	$	0.18	$	0.13

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 2,829	$ 2,004	$ 4,534	$ 3,184
Other comprehensive income:				
Net unrealized gains on interest rate swaps	7,242	1,527	6,600	2,848
Reclassification adjustment for net gains included in net income	(203)	(12)	(224)	(7)
Total other comprehensive income	7,039	1,515	6,376	2,841
Comprehensive income	$ 9,868	$ 3,519	$ 10,910	$ 6,025

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

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

	2007	2006
Cash Flows From Operating Activities		
Net income	$ 4,534	$ 3,184
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	3,594	3,326
Investment impairment		114
Depreciation and amortization	2,633	3,051
Compensation expense recognized under share-based compensation plans	784	1,092
Cumulative effect of change in accounting principal		(46)
Proceeds from loan sales		577
(Increase) decrease in servicing advances	1,908	(2,365)
(Increase) decrease in other assets	(5,100)	570
Increase (decrease) in accounts payable and other liabilities	3,258	(983)
Net cash provided by operating activities	11,611	8,520
Cash Flows From Investing Activities		
Increase in restricted cash	(3,756)	(459)
Origination and purchase of loans	(204,277)	(139,915)
Principal collections on loans	49,459	41,764
Proceeds from sale of repossessed houses	5,140	5,720
Capital expenditures	(353)	(342)
Net cash used in investing activities	(153,787)	(93,232)
Cash Flows From Financing Activities		
Net proceeds from issuance of common stock	101	
Retirement of common stock	(322)	(288)
Dividends paid	(2,593)	(764)
Proceeds from securitization financing	184,389	
Repayment of securitization financing	(52,478)	(44,249)
Repayment of advances under repurchase agreements	(313)	
Proceeds from warehouse financing	201,480	129,284
Repayment of warehouse financing	(187,868)	(4,506)
Change in notes payable servicing advances, net	(1,628)	(1,431)
Net cash provided by financing activities	140,768	78,046
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,408)	(6,666)
Cash and cash equivalents, beginning of period	2,566	8,307
Cash and cash equivalents, end of period	$ 1,158	$ 1,641
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 26,618	$ 19,394

Cash paid for income taxes	$	25	$	
Non-cash financing activities:				
Non-vested common stock issued as unearned compensation	$	328	$	1,322
Loans transferred to repossessed houses and held for sale	$	9,609	$	9,589

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 1 Basis of Presentation

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

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

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

Note 2 Recent Accounting Pronouncements

Accounting for Certain Hybrid Instruments

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

Accounting for Servicing of Financial Assets

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

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

Note 2 Recent Accounting Pronouncements, continued:

Accounting for Uncertainty in Income Taxes

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

Fair Value Measurements

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

Fair Value Option

On February 15, 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. Under SFAS 159, the Company may make an irrevocable election to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. SFAS 159 is effective for years beginning after November 15, 2007. Early adoption within 120 days of the beginning of the Company s 2007 fiscal year is permissible, provided the Company has not yet issued interim financial statements for 2007 and has adopted SFAS 157. The Company did not early adopt SFAS 159 and the future adoption of SFAS 159 is not expected to have a material impact on its financial position or results of operations.

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

Note 3 Per Share Data

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Numerator:				
Net income	$ 2,829	$ 2,004	$ 4,534	$ 3,184
Preferred stock dividends	(4)	(4)	(8)	(8)
Income available to common shareholders	$ 2,825	$ 2,000	$ 4,526	$ 3,176
Denominator:				
Weighted average common shares for basic EPS	25,292	25,111	25,251	25,046
Effect of dilutive securities:				
Incremental shares non-vested stock awards	131	39	107	91
Weighted average common shares for diluted EPS	25,423	25,150	25,358	25,137
Basic EPS	$ 0.11	$ 0.08	$ 0.18	$ 0.13
Diluted EPS	$ 0.11	$ 0.08	$ 0.18	$ 0.13

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

Note 4 Investments

The Company follows the provisions of SFAS No. 115, Accounting For Certain Investments in Debt and Equity Securities, and the American Institute of Certified Public Accountants (AICPA) Statement of Position 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer, in reporting its investments. The investments are carried on the Company s balance sheet at an amortized cost of $41.8 million at June 30, 2007. The fair value of these investments was approximately $42.9 million at June 30, 2007.

Investments Accounted for Under the Provisions of SFAS No. 115

The investments accounted for under the provisions of SFAS 115 are carried on the Company s balance sheet at an amortized cost of $38.2 million at June 30, 2007. These investments consisted of two asset backed securities with principal amounts of $32.0 million and $6.8 million at June 30, 2007. The investments are collateralized by manufactured housing loans and are classified as held-to-maturity. They have contractual maturity dates of July 28, 2033 and December 28, 2033, respectively. As prescribed by the provisions of SFAS 115 the Company has both the intent and ability to hold the investments to maturity. The investments will not be sold in response to changing market conditions, changing fund sources or terms, changing availability and yields on alternative investments or other asset liability management reasons. The investments are regularly measured for impairment through the use of a discounted cash flow analysis based on the historical performance of the underlying loans that collateralize the investments. If it is determined that there has been a decline in fair value below amortized cost and the decline is other-than-temporary, the cost basis of the investment is written down to fair value as a new cost basis and the amount of the write-down is included in earnings. No impairment was recorded relating to these investments during the three and six months ended June 30, 2007 and 2006.

Investments Accounted for Under the Provisions of SOP 03-3

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

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

Note 5 Loans Receivable

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

	June 30, 2007	December 31, 2006
Manufactured housing loans securitized	$ 971,349	$ 825,811
Manufactured housing loans unsecuritized	129,396	130,828
Accrued interest receivable	5,218	4,840
Deferred loan origination costs	3,623	1,271
Discount on purchased loans	(4,870)	(3,155)
Allowance for purchased loans	(913)	(913)
Allowance for loan losses	(7,342)	(8,456)
	$ 1,096,461	$ 950,226

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

Total principal balance of loans serviced that the Company has previously securitized and accounted for as a sale was approximately $120.6 million at June 30, 2007. Delinquency statistics (including repossessed inventory) on those loans are as follows at June 30, 2007 (dollars in thousands):

Days delinquent	No. of Loans	Principal Balance	% of Portfolio
31 60	72	$2,514	2.1%
61 90	27	1,081	0.9%
Greater than 90	64	2,427	2.0%

Note 6 Allowance for Credit Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 7,553	$ 9,670	$ 8,456	$ 10,017
Provision for loan losses	1,806	1,201	3,594	3,326
Gross charge-offs	(4,570)	(4,167)	(10,228)	(8,623)
Recoveries	2,553	2,075	5,520	4,059
Balance at end of period	$ 7,342	$ 8,779	$ 7,342	$ 8,779

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

Note 7 Debt

Total debt outstanding was as follows (in thousands):

	June 30, 2007	December 31, 2006
Warehouse financing	$ 145,132	$ 131,520
Securitization financing	817,003	685,013
Repurchase agreements	23,269	23,582
Notes payable servicing advances	557	2,185
	$ 985,961	$ 842,300

Warehouse Financing Citigroup

The Company, through its operating subsidiary Origen Financial L.L.C., currently has a short term securitization facility used for warehouse financing with Citigroup Global Markets Realty Corporation (Citigroup). Under the terms of the agreement, originally entered into in March 2003 and amended periodically, most recently in March 2007, the Company pledges loans as collateral and in turn is advanced funds. The facility has a maximum advance amount of $200 million at an annual interest rate equal to LIBOR plus a spread. Additionally, the facility includes a $50 million supplemental advance amount that is collateralized by the Company s residual interests in its 2004-A, 2004-B, 2005-A, 2005-B, 2006-A and 2007-A securitizations. The facility matures on March 13, 2008. The outstanding balance on the facility was approximately $145.1 million at June 30, 2007. At June 30, 2007 all financial covenants were met.

Securitization Financing 2004-A Securitization

On February 11, 2004, the Company completed a securitization of approximately $238.0 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, 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 5.12%. 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. The outstanding balance on the 2004-A securitization notes was approximately $104.3 million at June 30, 2007.

Securitization Financing 2004-B Securitization

On September 29, 2004, the Company completed a securitization of approximately $200.0 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, issued $169.0 million in notes payable. The notes are stratified into seven different classes and pay interest at a duration-weighted average rate of approximately 5.27%. The notes have a contractual maturity date of June 2013 with respect to the Class A-1 notes; December 2017, with respect to the Class A-2 notes; August 2021, with respect to the Class A-3 notes; and November 2035, with respect to the Class A-4, Class M-1, Class M-2 and Class B-1 notes. The outstanding balance on the 2004-B securitization notes was approximately $105.4 million at June 30, 2007.

Securitization Financing 2005-A Securitization

On May 12, 2005, the Company completed a securitization of approximately $190.0 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, issued $165.3 million in notes payable. The notes are stratified into seven different classes and pay interest at a duration-weighted average rate of approximately 5.30%. The notes have a

contractual maturity date of July 2013 with respect to the Class A-1 notes; May 2018, with respect to the Class A-2 notes; October 2021, with respect to the Class A-3 notes; and June 2036, with respect to the Class A-4, Class M-1, Class M-2 and Class B notes. The outstanding balance on the 2005-A securitization notes was approximately $118.2 million at June 30, 2007.

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

Note 7 Debt (Continued)

Securitization Financing 2005-B Securitization

On December 15, 2005, the Company completed a securitization of approximately $175.0 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, issued $156.2 million in notes payable. The notes are stratified into eight different classes and pay interest at a duration-weighted average rate of approximately 6.15%. The notes have a contractual maturity date of February 2014 with respect to the Class A-1 notes; December 2018, with respect to the Class A-2 notes; May 2022, with respect to the Class A-3 notes; and January 2037, with respect to the Class A-4, Class M-1, Class M-2 , Class B-1 and Class B-2 notes. The outstanding balance on the 2005-B securitization notes was approximately $127.8 million at June 30, 2007.

Securitization Financing 2006-A Securitization

On August 25, 2006, the Company completed a securitization of approximately $224.2 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, issued $200.6 million in notes payable. The notes are stratified into two different classes. The Class A-1 notes pay interest at one month LIBOR plus 15 basis points and have a contractual maturity date of November 2018. The Class A-2 notes pay interest based on a rate established by the auction agent at each rate determination date and have a contractual maturity date of October 2037. Additional credit enhancement was provided through the issuance of a financial guaranty insurance policy by Ambac Assurance Corporation. The outstanding balance on the 2006-A securitization notes was approximately $180.4 million at June 30, 2007.

Securitization Financing 2007-A Securitization

On May 2, 2007, the Company completed a securitization of approximately $200.4 million in principal balance of manufactured housing loans. The securitization was accounted for as a financing. As part of the securitization the Company, through a special purpose entity, issued $184.4 million in notes payable. The notes are stratified into two different classes. The Class A-1 notes pay interest at one month LIBOR plus 19 basis points and have a contractual maturity date of April 2037. The Class A-2 notes pay interest based on a rate established by the auction agent at each rate determination date and have a contractual maturity date of April 2037. Additional credit enhancement was provided through the issuance of a financial guaranty insurance policy by Ambac Assurance Corporation. The outstanding balance on the 2007-A securitization notes was approximately $180.9 million at June 30, 2007.

Repurchase Agreements Citigroup

The Company has entered into four repurchase agreements with Citigroup. Three of the repurchase agreements are for the purpose of financing the purchase of investments in three asset backed securities with principal balances of $32.0 million, $3.1 million and $3.7 million respectively. The fourth repurchase agreement is for the purpose of financing a portion of the Company s residual interest in the 2004-B securitization with a principal balance of $4.0 million. Under the terms of the agreements, the Company sells its interest in the securities with an agreement to repurchase them at a predetermined future date at the principal amount sold plus an interest component. The securities are financed at an amount equal to 75% of their current market value as determined by Citigroup. Typically the repurchase agreements are rolled over for 30 day periods when they expire. The annual interest rates on the agreements are equal to LIBOR plus a spread. The repurchase agreements had outstanding principal balances of approximately $16.8 million, $1.7 million, $2.1 million and $2.7 million, respectively, at June 30, 2007.

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

Note 7 Debt (Continued)

Notes Payable Servicing Advances JPMorgan Chase Bank, N.A.

The Company currently has a revolving credit facility with JPMorgan Chase Bank, N.A. Under the terms of the facility the Company can borrow up to $4.0 million for the purpose of funding required principal and interest advances on manufactured housing loans that are serviced for outside investors. Borrowings under the facility are repaid upon the collection by the Company of monthly payments made by borrowers under such manufactured housing loans. The bank s prime interest rate is payable on the outstanding balance. To secure the loan, the Company has granted JPMorgan Chase a security interest in substantially all its assets excluding securitized assets. The expiration date of the facility is December 31, 2007. The outstanding balance on the facility was approximately $0.6 million at June 30, 2007. At June 30, 2007 all financial covenants under the facility were met.

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

	June 30, 2007		December 31, 2006	
	Average Balance	Average Rate	Average Balance	Average Rate
Warehouse financing Citigroup (1)	$160,322	7.2%	$120,649	7.0%
Securitization financing 2004-A securitization	109,502	5.6%	126,655	5.4%
Securitization financing 2004-B securitization	111,095	5.6%	125,849	5.5%
Securitization financing 2005-A securitization	124,320	5.4%	139,842	5.2%
Securitization financing 2005-B securitization	133,980	5.8%	146,178	5.7%
Securitization financing 2006-A securitization	186,920	5.9%	69,158	6.0%
Securitization financing 2007-A securitization	60,723	5.6%		
Repurchase agreements Citigroup	23,530	6.1%	23,582	5.9%
Note payable servicing advances JPMorgan Chase Bank, N.A.(2)	181	14.2%	447	9.4%

(1) Includes facility fees.

(2) Includes non-use fees.

At June 30, 2007, the total of maturities and amortization of debt during the next five years and thereafter are approximately as follows: 2007 $164.0 million; 2008 $191.5 million; 2009 $94.6 million; 2010 $83.3 million; 2011 $70.6 million and $382.0 million thereafter.

Note 8 Share-Based Compensation Plan

The Company s equity incentive plan has approximately 1.8 million shares of common stock reserved for issuance as either stock options or restricted stock grants. As of June 30, 2007, approximately 237,000 options and 515,000 non-vested stock awards were outstanding under the plan. There were 7,000 stock options cancelled and no stock options granted or exercised during the three and six months ended June 30, 2007. There were 46,500 restricted stock awards granted during the three and six months ended June 30, 2007. 178,958 and 187,291 stock awards vested and 5,067 and 5,567 non-vested stock awards were forfeited during the three and six months ended June 30, 2007, respectively. The compensation cost that has been charged against income for the plan was $392,000 and $784,000 for the three and six months ended June 30, 2007, respectively, and $514,000 and $1,092,000 for the three and six months ended June 30, 2006, respectively. As of June 30, 2007, approximately 287,000 shares of common stock remained available for issuance under the plan.

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

Note 9 Derivative Instruments and Hedging Activity

In connection with the Company s strategy to mitigate interest rate risk and variability in cash flows on its securitizations and anticipated securitizations the Company uses derivative financial instruments such as interest rate swap contracts. It is not the Company s policy to use derivatives to speculate on interest rates. These derivative instruments are intended to provide income and cash flow to offset potential increased interest expense and potential variability in cash flows under certain interest rate environments. In accordance with SFAS 133 the derivative financial instruments are reported on the consolidated balance sheet at their fair value.

The Company documents the relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions, at the inception of the hedging transaction. This process includes linking derivatives to specific liabilities on the consolidated balance sheet. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting.

When hedge accounting is discontinued because the Company determines that the derivative no longer qualifies as a hedge, the derivative will continue to be recorded on the consolidated balance sheet at its fair value. Any change in the fair value of a derivative no longer qualifying as a hedge is recognized in current period earnings. For terminated cash flow hedges or cash flow hedges that no longer qualify as highly effective, the effective position previously recorded in accumulated other comprehensive income is recorded in earnings when the hedged item affects earnings.

Cash Flow Hedge Instruments

The Company evaluates the effectiveness of derivative financial instruments designated as cash flow hedge instruments against the interest payments related to securitizations or anticipated securitization in order to ensure that there remains a high correlation in the hedge relationship and that the hedge relationship remains highly effective. To hedge the effect of interest rate changes on cash flows or the overall variability in cash flows, which affect the interest payments related to its securitization financing being hedged, the Company uses derivatives designated as cash flow hedges under SFAS 133. Once the hedge relationship is established, for those derivative instruments designated as qualifying cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income during the current period, and reclassified into earnings as part of interest expense in the periods during which the hedged transaction affects earnings pursuant to SFAS 133. The ineffective portion of the derivative instrument is recognized in earnings in the current period and is included in interest expense for derivatives hedging future interest payments related to recognized liabilities and other non-interest income for derivatives hedging future interest payments related to forecasted liabilities. No component of the derivative instrument s gain or loss has been excluded from the assessment of hedge effectiveness. During both the three and six months ended June 30, 2007, the Company reduced interest expense by $16,000 due to the ineffective portion of these hedges. During the three and six months ended June 30, 2007, the Company recognized net gains of $2,000 and net losses of $15,000, respectively, in other non-interest income due to the ineffective portion of these hedges. No ineffectiveness was recognized for the three and six months ended June 30, 2006.

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

Note 9 Derivative Instruments and Hedging Activity (Continued)

During the three and six months ended June 30, 2007 the Company reclassified net gains of approximately $203,000 and $224,000, respectively, from accumulated other comprehensive income into earnings, attributable to previously terminated cash flow hedges, which have been recorded as an adjustment to interest expense. During the three and six months ended June 30, 2006 the Company reclassified net losses of approximately $12,000 and $7,000, respectively, from accumulated other comprehensive income into earnings. Net unrealized gains of approximately $5.8 million related to cash flow hedges were included in accumulated other comprehensive income as of June 30, 2007. The Company expects to reclassify net gains of approximately $248,000 from accumulated other comprehensive income into earnings during the next twelve months. The remaining amounts in accumulated other comprehensive income are expected to be reclassified into earnings by April 2018. As of June 30, 2007 the fair value of the Company s derivatives accounted for as cash flow hedges approximated an asset of $4.2 million, which is included in other assets in the consolidated balance sheet and a liability of $44,000, which is included in other liabilities in the consolidated balance sheet.

Derivatives Not Designated as Hedge Instruments

As of June 30, 2007, the Company had two open interest rate swap contracts which were not designated as hedges. These interest rate swap contracts were entered into in connection with other interest rate swap contracts which are accounted for as cash flow hedges for the purpose of hedging the variability in expected cash flows from the variable-rate debt related to the Company s 2006-A and 2007-A securitizations. Changes in the fair values of the interest rate swap contracts not designated and documented as hedges are recorded through earnings each period and are included in other non-interest income. During the three and six months ended June 30, 2007, the Company recognized net losses, related to the changes in the fair values of these contracts, of approximately $67,000 and $35,000, respectively. The fair value of these contracts at June 30, 2007 approximated a liability of $11,000, which is included in other liabilities in the consolidated balance sheet. The Company did not have any derivatives which were not designated as hedge instruments during the three and six months ended June 30, 2006.

Note 10 Stockholders Equity

On March 1, 2007, the Company declared a dividend of $0.04 per common share payable to holders of record as of March 26, 2007. On April 2, 2007 those dividends were paid and totaled approximately $1.0 million.

On May 3, 2007, the Company declared a dividend of $0.06 per common share payable to holders of record as of May 18, 2007. On May 31, 2007 those dividends were paid and totaled approximately $1.6 million.

In September 2005, the Securities and Exchange Commission declared effective the Company s shelf registration statement on Form S-3 for the proposed offering, from time to time, of up to $200 million of our common stock, preferred stock and debt securities. In addition to such debt securities, preferred stock and other common stock the Company may sell under the registration statement from time to time, we have registered for sale 1,540,000 shares of our common stock pursuant to a sales agreement that we have entered into with Brinson Patrick Securities Corporation. Sales under the agreement commenced on June 5, 2007. The Company sold 15,863 shares of common stock under the sales agreement with Brinson Patrick Securities Corporation during the three and six months ended June 30, 2007, at the price of our common stock prevailing at the time of each sale. The Company received net proceeds of $101,000 as a result of these sales.

Note 11 Subsequent Events

On July 31, 2007, the Company declared a dividend of $0.08 per common share payable to holders of record as of August 16, 2007. Payment of the dividend is planned for August 31, 2007.

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

This Quarterly Report on Form 10-Q contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we intend that such forward-looking statements will be subject to the safe harbors created thereby. For this purpose, any statements contained in this Form 10-Q that relate to prospective events or developments are deemed to be forward-looking statements. Words such as believes, forecasts, anticipates, intends, plans, expects, wi similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and financial performance, but involve known and unknown risks and uncertainties, both general and specific to the matters discussed in this Form 10-Q. These risks and uncertainties may cause our actual results to be materially different from any future results expressed or implied by such forward-looking statements. Such risks and uncertainties include:

- the performance of our manufactured housing loans;
- our ability to borrow at favorable rates and terms;
- conditions in the asset-backed securities market generally and the manufactured housing asset-backed securities market specifically, including rating agencies views on the manufactured housing industry;
- the supply of manufactured housing loans;
- interest rate levels and changes in the yield curve (which is the curve 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;
- general economic conditions in the markets in which we operate;

and those referenced in Item 1A, under the headings entitled Risk Factors contained in our Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission. All forward-looking statements included in this document are based on information available to us on the date of this Form 10-Q. 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 our consolidated financial condition and results of operations as of and for the periods ended June 30, 2007 in this Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Overview

In October 2003, we began operations upon the acquisition of all of the equity interests of Origen Financial L.L.C. We also took steps to qualify Origen Financial, Inc. as a REIT. In the second quarter of 2004, we completed the initial public offering of our common stock. Currently, most of our operations are conducted through Origen Financial L.L.C., 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

Recent Developments

We completed a securitization of approximately $200.4 million in principal balance of manufactured housing loans on May 2, 2007. The securitization was accounted for as a financing. As part of the securitization we issued $184.4 million in notes payable. The notes are stratified into two different classes. The Class A-1 notes pay interest at one month LIBOR plus 19 basis points and have a contractual maturity date of April 2037. The Class A-2 notes pay interest based on a rate established by the auction agent at each rate determination date and have a contractual maturity date of April 2037.

Critical Accounting Policies

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The financial information contained within our statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, or relieving a liability. In many instances we use a discount factor to determine the present value of assets and liabilities. A change in the discount factor could increase or decrease the values of those assets and liabilities and such changes would result in either a beneficial or adverse impact to our financial results. We use historical loss factors, adjusted for current conditions, to determine the inherent loss that may be present in our loan portfolio. Other estimates that we use are fair value of derivatives and expected useful lives of our depreciable assets. We value our derivative contracts at fair value using either readily available, market quoted prices or from information that can be extrapolated to approximate a market price. Any change in the estimates of future forfeitures of unvested stock awards and stock options could increase or decrease compensation expense. We are subject to US GAAP that may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Understanding our accounting policies is fundamental to understanding our consolidated financial position and consolidated results of operations. Details regarding our critical accounting policies are described fully in Note 1 in the Notes to Consolidated Financial Statements in our 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

Results of Operations
Comparison of the three months ended June 30, 2007 and 2006
Net Income

Net income increased $0.8 million to $2.8 million for the three months ended June 30, 2007 compared to net income of $2.0 million for the same period in 2006. The increase is the result of an increase of $0.1 million in net interest income after loan losses and an increase of $1.2 million in non-interest income offset by an increase in non-interest expenses of $0.5 million as described in more detail below.

Interest Income

Interest income increased 24.9% to approximately $22.6 million compared to approximately $18.1 million. This increase resulted primarily from an increase of approximately $230.2 million or 26.1% in average interest earning assets from $883.1 million to $1.1 billion. The increase in average interest earning assets was almost entirely due to an increase in manufactured housing loans. The weighted average net interest rate on the loans receivable portfolio decreased to 8.1% from 8.2% due to a continuing positive change in the credit quality of the loan portfolio. Generally, higher credit quality loans will carry a lower interest rate.

Interest expense increased $3.8 million, or 36.9%, to $14.1 million from $10.3 million. The majority of our interest expense relates to interest on our loan funding facilities. Average debt outstanding on our loan funding facilities increased $227.2 million to $929.9 million compared to $702.7 million, or 32.3%. The average interest rate on total debt outstanding increased from 5.7% to 5.9%. The higher average interest rate for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 was primarily due to increases in the base LIBOR rate.

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

	2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest earning assets:						
Manufactured housing loans (1)	$ 1,051,994	$ 21,364	8.12%	$ 824,897	$ 16,927	8.21%
Investment securities	41,254	962	9.33%	41,350	926	8.96%
Other	20,033	258	5.15%	16,839	204	4.85%
Total	$ 1,113,281	$ 22,584	8.11%	$ 883,086	$ 18,057	8.18%
Interest bearing liabilities (2):						
Loan funding facilities	$ 929,909	$ 13,723	5.90%	$ 702,681	$ 9,924	5.65%
Repurchase agreements	23,478	360	6.13%	23,582	348	5.90%
Notes payable servicing advances(3)	146	6	16.44%	326	10	12.27%
Total	$ 953,533	$ 14,089	5.91%	$ 726,589	$ 10,282	5.66%
Net interest income and interest rate spread		$ 8,495	2.20%		$ 7,775	2.52%
			3.05%			3.52%

Net yield on average interest earning assets (4)

(1) Net of loan servicing fees.

(2) Includes facility fees.

(3) Includes non-use fees.

(4) Amount is calculated as net interest income divided by total average interest earning assets.

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

The following table sets forth the changes in the components of net interest income for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 (in thousands). The changes in net interest income between periods have been reflected as attributable to either volume or rate changes. For the purposes of this table, changes that are not solely due to volume or rate changes are allocated to rate changes.

	Volume	Rate	Total
Interest earning assets:			
Manufactured housing loans	$ 4,660	$ (223)	$ 4,437
Investment securities	(2)	38	36
Other	39	15	54
Total interest income	$ 4,697	$ (170)	$ 4,527
Interest bearing liabilities:			
Loan funding facilities	$ 3,209	$ 590	$ 3,799
Repurchase agreements	(2)	14	12
Notes payable servicing advances	(5)	1	(4)
Total interest expense	$ 3,202	$ 605	$ 3,807
Increase in net interest income			$ 720

Non-interest Income

Non-interest income increased $1.2 million, or 28.6%, to $5.4 million from $4.2 million. This increase was primarily attributable to an increase of $1.0 million in servicing revenue, including loan servicing fees and late charges. The increase in servicing revenue was primarily attributable to an increase of $0.15 billion or 9.7%, from $1.54 billion to $1.69 billion, in the average serviced loan portfolio, on which servicing fees are collected.

Provision for Losses

Monthly provisions are made to the allowance for loan losses in order to maintain a level that is adequate to absorb inherent losses in the manufactured housing loan portfolio. The level of the allowance is based principally on the outstanding balance of the contracts held on our balance sheet, current loan delinquencies and historical loss trends. The provision for loan losses increased 50.0% to $1.8 million from $1.2 million. The provision for loan losses for the three months ended June 30, 2006 was reduced by approximately $710,000 as the result of a reduction in the portion of the allowance for loan losses initially established for estimated losses related to Hurricane Katrina and Hurricane Rita. No such reduction was recorded during the three months ended June 30, 2007. Net charge-offs were $2.0 million for the three months ended June 30, 2007 compared to $2.1 million for the three months ended June 30, 2006. As a percentage of average outstanding principal balance total net charge-offs, on an annualized basis, decreased to 0.8% compared to 1.0%. Current loan delinquencies are summarized under the heading Receivable Portfolio and Asset Quality.

Non-interest Expenses

Personnel expenses increased approximately $0.1 million, or 1.6%, to $6.4 million compared to $6.3 million. The increase is primarily the result of a $0.2 million increase in salaries and bonuses, partially offset by a decrease of $0.1 million in stock compensation expenses.

Loan origination and servicing expenses increased approximately $0.3 million to $0.6 million from $0.3 million. The increase is primarily the result of an increase in lending activity in conjunction with timing differences related to the capitalization and amortization of certain loan origination and servicing expenses.

Other operating expenses, which consist of occupancy and equipment, professional fees, travel and entertainment and miscellaneous expenses increased approximately $0.1 million to $2.2 million, or approximately 4.8%, compared to $2.1 million. This increase is primarily the result of a $0.1 million increase in occupancy and equipment expenses.

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Results of Operations

Comparison of the six months ended June 30, 2007 and 2006

Net Income

Net income increased $1.3 million to $4.5 million for the six months ended June 30, 2007 compared to net income of $3.2 million for the same period in 2006. The increase is the result of an increase of $0.7 million in net interest income after loan losses and an increase of $1.9 million in non-interest income offset by an increase in non-interest expenses of $1.3 million as described in more detail below.

Interest Income

Interest income increased 22.9% to approximately $43.4 million compared to approximately $35.3 million. This increase resulted primarily from an increase of approximately $207.7 million or 24.1% in average interest earning assets from $861.8 million to $1.07 billion. The increase in average interest earning assets was almost entirely due to an increase in manufactured housing loans. The weighted average net interest rate on the loans receivable portfolio decreased to 8.1% from 8.2% due to a continuing positive change in the credit quality of the loan portfolio. Generally, higher credit quality loans will carry a lower interest rate.

Interest expense increased $7.1 million, or 35.7%, to $27.0 million from $19.9 million. The majority of our interest expense relates to interest on our loan funding facilities. Average debt outstanding on our loan funding facilities increased $205.1 million to $886.9 million compared to $681.8 million, or 30.1%. The average interest rate on total debt outstanding increased from 5.6% to 5.9%. The higher average interest rate for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 was primarily due to increases in the base LIBOR rate.

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

	2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest earning assets:						
Manufactured housing loans (1)	$ 1,010,441	$ 41,062	8.13%	$ 803,846	$ 33,028	8.22%
Investment securities	41,243	1,913	9.28%	41,356	1,877	9.08%
Other	17,842	432	4.84%	16,594	360	4.34%
Total	$ 1,069,526	$ 43,407	8.12%	$ 861,796	$ 35,265	8.18%
Interest bearing liabilities (2):						
Loan funding facilities	$ 886,862	$ 26,276	5.93%	$ 681,814	$ 19,192	5.63%
Repurchase agreements	23,530	720	6.12%	23,582	661	5.61%
Notes payable servicing advances(3)	181	13	14.36%	498	24	9.64%
Total	$ 910,573	$ 27,009	5.93%	$ 705,894	$ 19,877	5.63%
Net interest income and interest rate spread		$ 16,398	2.18%		$ 15,388	2.55%
			3.07%			3.57%

Net yield on average interest earning assets (4)

(1) Net of loan servicing fees.

(2) Includes facility fees.

(3) Includes non-use fees.

(4) Amount is calculated as net interest income divided by total average interest earning assets.

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The following table sets forth the changes in the components of net interest income for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 (in thousands). The changes in net interest income between periods have been reflected as attributable to either volume or rate changes. For the purposes of this table, changes that are not solely due to volume or rate changes are allocated to rate changes.

	Volume	Rate	Total
Interest earning assets:			
Manufactured housing loans	$ 8,488	$ (454)	$ 8,034
Investment securities	(5)	41	36
Other	27	45	72
Total interest income	$ 8,510	$ (368)	$ 8,142
Interest bearing liabilities:			
Loan funding facilities	$ 5,772	$ 1,312	$ 7,084
Repurchase agreements	(1)	60	59
Notes payable servicing advances	(15)	4	(11)
Total interest expense	$ 5,756	$ 1,376	$ 7,132
Increase in net interest income			$ 1,010

Non-interest Income

Non-interest income increased $1.9 million, or 22.6%, to $10.3 million from $8.4 million. This increase was primarily attributable to an increase of $1.6 million in servicing revenue, including loan servicing fees and late charges. The increase in servicing revenue was primarily attributable to an increase of $0.13 billion or 8.5%, from $1.53 billion to $1.66 billion, in the average serviced loan portfolio, on which servicing fees are collected.

Provision for Losses

Monthly provisions are made to the allowance for loan losses in order to maintain a level that is adequate to absorb inherent losses in the manufactured housing loan portfolio. The level of the allowance is based principally on the outstanding balance of the contracts held on our balance sheet, current loan delinquencies and historical loss trends. The provision for loan losses increased 9.1% to $3.6 million from $3.3 million. The provision for loan losses for the six months ended June 30, 2006 was reduced by approximately $960,000 as the result of a reduction in the portion of the allowance for loan losses initially established for estimated losses related to Hurricane Katrina and Hurricane Rita. No such reduction was recorded during the six months ended June 30, 2007. Net charge-offs were $4.7 million for the six months ended June 30, 2007 compared to $4.6 million for the six months ended June 30, 2006. As a percentage of average outstanding principal balance total net charge-offs, on an annualized basis, decreased to 0.9% compared to 1.1%. Current loan delinquencies are summarized under the heading Receivable Portfolio and Asset Quality.

Non-interest Expenses

Personnel expenses increased approximately $0.6 million, or 4.9%, to $12.9 million compared to $12.3 million. The increase is primarily the result of a $0.2 million increase in health insurance expenses and a $0.4 million increase in salaries and bonuses. We terminated our self-insured health insurance plan effective December 31, 2006, and replaced such plan with a fully-insured plan. The increase in health insurance costs relates to non-recurring carry-over claims under the terminated plan. Any future carry-over claims are expected to be minimal.

Loan origination and servicing expenses increased approximately $0.4 million to $1.1 million from $0.7 million. The increase is primarily the result of an increase in lending activity in conjunction with timing differences related to

the capitalization and amortization of certain loan origination and servicing expenses.

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 increased approximately $0.1 million to $4.3 million, or approximately 2.4%, compared to $4.2 million. This increase is primarily the result of a $0.1 million increase in occupancy and equipment expenses.

Receivable Portfolio and Asset Quality

Net loans receivable outstanding increased 15.8% to $1.10 billion at June 30, 2007 compared to $0.95 billion at December 31, 2006. Loans receivable are comprised of installment contracts and mortgages collateralized by manufactured houses and in some instances real estate.

New loan originations for the three months ended June 30, 2007 increased 36.2% to $104.6 million compared to $76.8 million for the three months ended June 30, 2006. We additionally processed $31.9 million and $16.9 million in loans originated under third-party agreements for the three months ended June 30, 2007 and 2006, respectively. New loan originations for the six months ended June 30, 2007 increased 31.5% to $183.2 million compared to $139.3 million for the six months ended June 30, 2006. We additionally processed $54.7 million and $20.2 million in loans originated under third-party agreements for the six months ended June 30, 2007 and 2006, respectively.

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):

	June 30, 2007	December 31, 2006
Principal balance of loans receivable	$1,100,745	$ 956,639
Number of loans receivable	22,709	20,300
Average loan balance	$ 55	$ 47
Weighted average loan coupon (1)	9.43%	9.50%
Weighted average initial term	20 years	20 years

(1) The weighted average loan coupon includes an imbedded servicing fee rate resulting from the securitization of the loans that are accounted for as financings.

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

	June 30, 2007			December 31, 2006		
Days delinquent	No. of Loans	Principal Balance	% of Portfolio	No. of Loans	Principal Balance	% of Portfolio
31 60	197	$6,497	0.6%	248	$9,354	1.0%
61 90	63	2,318	0.2%	86	3,159	0.3%
Greater than 90	147	5,808	0.5%	131	5,416	0.6%

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, 2007, the average outstanding principal balance of

non-performing loans was approximately $5.5 million and $5.4 million, respectively, compared to $5.4 million and $6.1 million for the three and six months ended June 30, 2006. Non-performing loans as a percentage of average loans receivable was 0.6% and 0.6% for the three and six months ended June 30, 2007, respectively, as compared to 0.6% and 0.6% for the three and six months ended June 30, 2006, respectively.

The improvement in our asset quality statistics reflects our continued emphasis on the credit quality of our borrowers and the improved underwriting and origination practices we have put into place. Lower levels of non-performing assets and net charge-offs should have a positive effect on future earnings through decreases in the provision for credit losses and servicing expenses as well as increases in net interest income.

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At June 30, 2007 we held 188 repossessed houses owned by us compared to 145 houses at December 31, 2006. The book value of these houses, including repossession expenses, based on the lower of cost or market value was approximately $4.2 million at June 30, 2007 compared to $3.0 million at December 31, 2006, an increase of $1.2 million or 40.0%.

The allowance for credit losses decreased $1.2 million to $7.3 million at June 30, 2007 from $8.5 million at December 31, 2006. Despite the 15.9% increase in the gross loans receivable balance, net of loans accounted for under the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position 03-3 (SOP 03-3), “