IRWIN FINANCIAL CORP
Form 10-K
March 14, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal Year Ended December 31, 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 0-6835

IRWIN FINANCIAL CORPORATION
(Exact name of Corporation as Specified in its Charter)

Indiana **(State or Other Jurisdiction of Incorporation or Organization)**	**35-1286807** **(I.R.S. Employer Identification No.)**
500 Washington Street Columbus, Indiana **(Address of Principal Executive Offices)**	**47201** **(Zip Code)**
(812) 376-1909 **(Corporation s Telephone Number, Including Area Code)**	**www.irwinfinancial.com** **(Web Site)**

Securities registered pursuant to Section 12(b) of the Act:

Title of Class:	**Common Stock***
Title of Class:	**8.70% Cumulative Trust Preferred Securities issued by IFC Capital Trust VI and the guarantee with respect thereto.**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Indicate by check mark whether the Corporation: (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 Corporation 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Corporation s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price for the registrant s common stock on the New York Stock Exchange on June 30, 2007, was approximately $276,290,152.

As of March 7, 2008, there were outstanding 29,600,284 common shares of the Corporation.

* Includes associated rights.

Documents Incorporated by Reference

Selected Portions of the Following Documents	Part of Form 10-K Into Which Incorporated
Definitive Proxy Statement for Annual Meeting Shareholders to be held May 30, 2008	**Part III**
Exhibit Index on Pages 119 through 122	

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Business Development Board Compensation Program
Notice of Restricted Stock Unit Award
Computation or Earnings Per Share
Computation of Ratio of Earnings to Fixed Charges
Code of Conduct
Subsidiaries
Consent of Independent Registered Public Accounting Firm
Consent of Independent Registered Public Accounting Firm
Certification by the CEO
Certification by the CFO
Section 906 Certification by the CEO
Section 906 Certification by the CFO

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About Forward-looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We are including this statement for purposes of invoking these safe harbor provisions.

Forward-looking statements are based on management s expectations, estimates, projections, and assumptions. These statements involve inherent risks and uncertainties that are difficult to predict and are not guarantees of future performance. In addition, our past results of operations do not necessarily indicate our future results. Words that convey our beliefs, views, expectations, assumptions, estimates, forecasts, outlook and projections or similar language, or that indicate events we believe could, would, should, may or will occur (or might not occur) or are likely (or unlikely) to occur, and similar expressions, are intended to identify forward-looking statements. These may include, among other things, statements and assumptions about:

- our projected revenues, earnings or earnings per share, as well as management s short-term and long-term performance goals;
- projected trends or potential changes in asset quality (particularly with regard to loans or other exposures including loan repurchase risk, in sectors in which we deal in real estate or residential mortgage lending), loan delinquencies, charge-offs, reserves, asset valuations, capital ratios or financial performance measures;
- our plans and strategies, including the expected results or costs and impact of implementing or changing such plans and strategies;
- potential litigation developments and the anticipated impact of potential outcomes of pending legal matters;
- predictions about conditions in housing markets, industries associated with housing, the mortgage markets or mortgage industry;
- the anticipated effects on results of operations or financial condition from recent developments or events; and
- any other projections or expressions that are not historical facts.

We qualify any forward-looking statements entirely by these cautionary factors.

Actual future results may differ materially from what is projected due to a variety of factors, including, but not limited to:

- potential deterioration or effects of general economic conditions, particularly in sectors relating to real estate and/or mortgage lending or small business-based manufacturing and services;
- potential effects related to the Corporation s decision to suspend the payment of dividends on its common, preferred and trust preferred securities.
- potential changes in direction, volatility and relative movement (basis risk) of interest rates, which may affect consumer and commercial demand for our products and the management and success of our interest rate risk

management strategies;

competition from other financial service providers for experienced managers as well as for customers;

staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;

the relative profitability of our lending and deposit operations;

the valuation and management of our portfolios, including the use of external and internal modeling assumptions we embed in the valuation of those portfolios and short-term swings in the valuation of such portfolios;

borrowers refinancing opportunities, which may affect the prepayment assumptions used in our valuation estimates and which may affect loan demand;

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unanticipated deterioration in the credit quality or collectibility of our loan and lease assets, including deterioration resulting from the effects of natural disasters;

difficulties in accurately estimating the future repurchase risk of residential mortgage loans due to alleged violations of representations and warrants we made when selling the loans to the secondary market;

unanticipated deterioration or changes in estimates of the carrying value of our other assets, including securities;

difficulties in delivering products to the secondary market as planned;

difficulties in expanding our businesses and obtaining or retaining deposit or other funding sources as needed;

changes in the value of our lines of business, subsidiaries, or companies in which we invest;

changes in variable compensation plans related to the performance and valuation of lines of business where we tie compensation systems to line-of-business performance;

unanticipated outcomes in litigation;

legislative or regulatory changes, including changes in laws, rules or regulations that affect tax, consumer or commercial lending, corporate governance and disclosure requirements, and other laws, rules or regulations affecting the rights and responsibilities of our Corporation, bank or thrift;

regulatory actions that impact our Corporation, bank or thrift, including the memorandum of understanding entered into as of March 1, 2007 between Irwin Union Bank and Trust and the Federal Reserve Bank of Chicago;

changes in the interpretation of regulatory capital or other rules;

the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;

changes in applicable accounting policies or principles or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;

the final disposition of our remaining assets and obligations of our discontinued mortgage banking segment; or

governmental changes in monetary or fiscal policies.

We undertake no obligation to update publicly any of these statements in light of future events, except as required in subsequent reports we file with the Securities and Exchange Commission (SEC).

PART I

Item 1. *Business*

General

We are a bank holding company headquartered in Columbus, Indiana with $155 million of net revenues from continuing operations in 2007 and $6.2 billion in assets at December 31, 2007. We focus primarily on the extension of credit to small businesses and consumers as well as providing the ongoing servicing of those customer accounts. Through our direct and indirect subsidiaries, we currently operate three major lines of business: commercial banking, commercial finance, and home equity lending. In 2006, we sold the majority of our conforming conventional first mortgage banking business.

We conduct our commercial and consumer lending businesses through various operating subsidiaries. Our banking subsidiary, Irwin Union Bank and Trust Company, was organized in 1871. We formed the holding company in 1972. Our direct and indirect major subsidiaries include Irwin Union Bank and Trust Company, a commercial bank, which together with Irwin Union Bank, F.S.B., a federal savings bank, conducts our commercial banking activities; Irwin Commercial Finance Corporation, a commercial finance subsidiary; and Irwin Home Equity Corporation, a consumer home equity lending company. In 2006, we discontinued the majority of operations at Irwin Mortgage Corporation, our mortgage banking company and formerly one of our major subsidiaries.

Our strategy is to position the Corporation as an interrelated group of specialized financial services companies serving niche markets of small businesses and consumers while optimizing the productivity of our capital. We seek to create competitive advantage within the banking industry by serving small businesses and consumers with lending, leasing, deposit, advisory services and specialized mortgage products. Our strategic objective is to create value through well-controlled, profitable growth by attracting, retaining and developing exceptional management teams at our lines of business and parent company who focus on (i) meeting customer needs rather than simply offering banking products or services, (ii) being cost-efficient in our delivery, and (iii) having strong risk management systems. We believe we must continually balance these three factors in order to deliver long-term value to all of our stakeholders. Our lines of business operate as direct and indirect subsidiaries of Irwin Union Bank and Trust (and, in the case of commercial banking, with Irwin Union Bank, F.S.B.). This structure allows us to offer insured deposits and results in regulatory oversight of our business.

Our Internet address is *http://www.irwinfinancial.com.*

We make available free of charge through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file the material with the Securities and Exchange Commission (SEC). Unless otherwise indicated, our Internet website and the information contained or incorporated in it are not intended to be incorporated into this Annual Report on Form 10-K.

Major Lines of Business

Commercial Banking

Our commercial banking line of business provides credit, cash management and personal banking products primarily to small businesses and business owners. We offer commercial banking services through our banking subsidiaries, Irwin Union Bank and Trust Company, an Indiana state-chartered commercial bank, and Irwin Union Bank, F.S.B., a federal savings bank. The commercial banking line of business offers 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. This line of business operates through two charters, each headquartered in Columbus, Indiana:

Irwin Union Bank and Trust Company organized in 1871, is a full service Indiana state-chartered commercial bank with offices currently located throughout nine counties in central and southern Indiana, as

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well as in Grandville (near Grand Rapids), Kalamazoo, Lansing and Traverse City, Michigan; Carson City and Las Vegas, Nevada; and Salt Lake City, Utah.

Irwin Union Bank, F.S.B. is a full-service federal savings bank that began operations in December 2000. Currently we have offices located in Mesa and Phoenix, Arizona; Costa Mesa and Sacramento, California; Louisville, Kentucky; Clayton (near St. Louis), Missouri; Reno, Nevada; Albuquerque, New Mexico; and Milwaukee, Wisconsin. We opened offices in Ohio and Florida in 2007.

We discuss this line of business further in the Commercial Banking section of Management s Discussion and Analysis of Financial Condition and Results of Operation (MD&A) of this report.

Commercial Finance

Established in 1999, our commercial finance line of business originates small-ticket equipment leases throughout the U.S. and Canada and provides equipment and leasehold improvement financing for franchisees (mainly in the quick service restaurant sector) in the United States. The majority of our leases are full payout (no residual), small-ticket assets secured by commercial equipment. We finance a variety of commercial and office equipment types while limiting the industry and geographic concentrations in our lease and loan portfolios. Loans to franchisees often include the financing of real estate as well as equipment. In 2006, this segment expanded its product line to include professional practice financing and information technology leasing to middle and upper middle market companies throughout the United States and Canada.

We discuss this line of business further in the Commercial Finance section of the MD&A of this report.

Home Equity Lending

We established this line of business when we formed Irwin Home Equity Corporation as our subsidiary in 1994, headquartered in San Ramon, California. Irwin Home Equity became a subsidiary of Irwin Union Bank and Trust in 2001. The Board of Irwin Union Bank and Trust recently approved the merger of Irwin Home Equity into the Bank. This will not affect our operations, but may result in more favorable tax treatment for the Corporation. In conjunction with Irwin Union Bank and Trust, Irwin Home Equity originates, purchases, securitizes and services first mortgages and home equity loans and lines of credit nationwide. Our target customers are principally creditworthy, homeowners with limited equity in their homes as well as lenders/third parties that can benefit from specialized servicing. We market our first mortgage and home equity offering principally through mortgage brokers and correspondent lenders and also direct to consumers.

We discuss this line of business further in the Home Equity Lending section of the MD&A of this report.

Discontinuance of Mortgage Banking

We discontinued our mortgage banking line of business with the sale of the majority of the assets of Irwin Mortgage Corporation. We sold the production and most of the headquarters operations of this segment in September 2006. We sold the bulk of our portfolio of mortgage servicing rights to multiple buyers, transferring these assets in early January 2007. We sold our servicing platform in January 2007. Prior to the sales, Irwin Mortgage, a subsidiary of Irwin Union Bank and Trust Company, had engaged in the origination, purchase, sale and servicing of conventional and government agency-backed residential mortgage loans. Irwin Mortgage also engaged in the mortgage reinsurance business through its subsidiary, Irwin Reinsurance Corporation, a Vermont Corporation, which we have retained. Irwin Mortgage no longer originates loans but continues to manage and service loans that were not included in the transfer of assets and to manage residual liabilities and responsibilities from prior activities. This segment is accounted for as discontinued operations.

Customer Base

No single part of our lending business is dependent upon a single borrower or upon a very few borrowers nor would the loss of any one loan customer automatically have a materially adverse effect upon our business.

We have a number of funding sources which are important to our operations, some of which are customers of our institutions (e.g., depositors) and for some of which we are customers (e.g., lenders). For example, we are a member (and customer) of the Federal Home Loan Bank of Indianapolis, we have a significant Canadian dollar funding facility with a single bank domiciled in Canada, and we have a significant deposit relationship with one of our commercial banking branches. In those instances where we have significant single relationships, on the funding side of the balance sheet, we examine each relationship more intensively than others and have developed contingency plans for the loss of these significant customer relationships. The loss of any one of these significant relationships would require changes to our funding program.

Competition

We compete nationally in the U.S. in each business, except for commercial banking where our market focus is in selected markets in the Midwest and Western states. In our commercial finance line of business, certain of our equipment leasing products are also offered throughout Canada. We compete against commercial banks, savings banks, credit unions and savings and loan associations, and with a number of non-bank companies including mortgage banks and brokers, insurance companies, securities firms, other finance companies, and real estate investment trusts.

Some of our competitors are not subject to the same degree of regulation as that imposed on bank holding companies, state banking organizations and federal saving banks. In addition, many larger banking organizations, mortgage companies, mortgage banks, insurance companies and securities firms have significantly greater resources than we do. As a result, some of our competitors have advantages over us in name recognition, cost of funds, operating costs, and market penetration.

Employees and Labor Relations

At January 31, 2008 we and our subsidiaries had a total of 1,256 employees, including full-time and part-time employees. We continue a commitment of equal employment opportunity for all job applicants and staff members, and management regards its relations with its employees as satisfactory.

Financial Information About Geographic Areas

We conduct part of our commercial finance line of business in Canadian markets. Net revenues for the last three years in this line of business attributable to Canadian customers were $18 million in 2007, $17 million in 2006, and $12 million in 2005. The remainder of our revenues comes from customers and operations in the United States.

Supervision and Regulation

General

We and our subsidiaries are each extensively regulated under state and federal law. The following is a summary of certain statutes and regulations that apply to us and to our subsidiaries. These summaries are not complete, and you should refer to the statutes and regulations for more information. Also, these statutes and regulations may change in the future, and we cannot predict what effect these changes, if made, will have on our operations.

We are regulated at both the holding company and subsidiary level and are subject to both state and federal examination on matters relating to safety and soundness, including risk management, asset quality and capital adequacy, as well as a broad range of other regulatory concerns including: insider and intercompany transactions, the adequacy of the reserve for loan losses, regulatory reporting, adequacy of systems of internal controls and limitations on permissible activities.

In addition, we are required to maintain a variety of processes and programs to address other regulatory requirements, including: community reinvestment provisions; protection of customer information; identification of suspicious activities, including possible money laundering; proper identification of customers when performing transactions; maintenance of information and site security; and other bank compliance provisions. In a number of instances board and/or management oversight is required as well as employee training on specific regulations.

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Regulatory agencies have a broad range of sanctions and enforcement powers if an institution fails to meet regulatory requirements, including civil money penalties, formal agreements, and cease and desist orders.

Bank Holding Company Regulation

We are registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, and the related regulations, referred to as the BHC Act. We are subject to regulation, supervision and examination by the Federal Reserve, and as part of this process, we must file reports and additional information with the Federal Reserve.

Minimum Capital Requirements

The Federal Reserve imposes risk-based capital requirements on us as a bank holding company. Under these requirements, capital is classified into two categories:

Tier 1 capital, or core capital, consists of

- common stockholders equity;
- qualifying noncumulative perpetual preferred stock;
- qualifying cumulative perpetual preferred stock, and subject to some limitations, our Trust Preferred securities; and
- minority interests in the common equity accounts of consolidated subsidiaries;

less

- Accumulated net gains (losses) on cash flow hedges and increase (decrease) recorded in accumulated other comprehensive income (AOCI) for defined benefit postretirement plans under FAS 158
- goodwill;
- credit-enhancing interest-only strips (certain amounts only); and
- specified intangible assets.

Tier 2 capital, or supplementary capital, consists of

- allowance for loan and lease losses;
- perpetual preferred stock and related surplus;
- hybrid capital instruments including, to the extent not included in Tier 1 Capital, Trust Preferred securities;
- unrealized holding gains on equity securities;
- perpetual debt and mandatory convertible debt securities;

term subordinated debt, including related surplus; and

intermediate-term preferred stock, including related securities.

The Federal Reserve s capital adequacy guidelines require bank holding companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8 percent, at least 4 percent of which must be in the form of Tier 1 capital. Risk-weighted assets include assets and credit equivalent amounts of off-balance sheet items of bank holding companies that are assigned to one of several risk categories, based on the obligor or the nature of the collateral. The Federal Reserve has established a minimum Tier 1 leverage ratio, which is the ratio of Tier 1 capital to total assets (less goodwill and other specified intangible assets), of 3 percent for strong bank holding companies (those rated a composite 1 under the Federal Reserve s rating system). For all other bank holding companies, the minimum Tier 1 leverage ratio is 4 percent. The Federal Reserve considers the Tier 1 leverage ratio in evaluating proposals for expansion or new activities.

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As of December 31, 2007, we had regulatory capital in excess of all the Federal Reserve s minimum levels. Our ratio of total capital to risk weighted assets at December 31, 2007 was 12.6% and our Tier 1 leverage ratio was 10.2%.

Expansion

Under the BHC Act, we must obtain prior Federal Reserve approval for certain activities, such as the acquisition of more than 5% of the voting shares of any company, including a bank or bank holding company. The BHC Act permits a bank holding company to engage in activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident to those banking activities, such as operating a mortgage bank or a savings association, conducting leasing and venture capital investment activities, performing trust company functions, or acting as an investment or financial advisor. See the section on Interstate Banking and Branching below.

Dividends

The Federal Reserve has policies on the payment of cash dividends by bank holding companies. The Federal Reserve believes that a bank holding company experiencing earnings weaknesses should not pay cash dividends (1) exceeding its net income or (2) which only could be funded in ways that would weaken a bank holding company s financial health, such as by borrowing. Also, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to prohibit or limit the payment of dividends by banks (including dividends to bank holding companies) and bank holding companies. See discussion of Dividend Limitations below.

The Federal Reserve expects us to act as a source of financial strength to our banking subsidiaries and to commit resources to support them. In implementing this policy, the Federal Reserve could require us to provide financial support when we otherwise would not consider ourselves able to do so.

In addition to the restrictions on fundamental corporate actions such as acquisitions and dividends imposed by the Federal Reserve, Indiana law also places limitations on our authority with respect to such activities.

In consideration of the Corporation s recent losses, on February 28, 2008, the Board of Directors elected to defer dividend payments on the Corporation s trust preferred securities and elected to discontinue payment of dividends on its non-cumulative perpetual preferred and common stock. Mindful of regulatory policy and the current economic environment, the Board took these steps to maintain the capital strength of the Corporation at a time of elevated uncertainty in the economy. The Board believes the elevated uncertainty in the current environment demands a greater bias to capital retention on a precautionary basis than distribution of cash from retained earnings for maintenance of historic dividends. The Board will reassess its dividend policy regularly. The ability to pay future dividends is subject to the regulatory restrictions referenced above and in the discussion in the section on *Dividend Limitations* below.

Bank and Thrift Regulation

Indiana law subjects Irwin Union Bank and Trust and its subsidiaries to supervision and examination by the Indiana Department of Financial Institutions. Irwin Union Bank and Trust is a member of the Federal Reserve System and, along with its subsidiaries, is also subject to regulation, examination and supervision by the Federal Reserve. Each of the principal subsidiaries of Irwin Union Bank and Trust are routinely subject to examination.

Irwin Union Bank, F.S.B., a direct subsidiary of the bank holding company, is a federally chartered savings bank. Accordingly, it is subject to regulation, examination and supervision by the Office of Thrift Supervision (OTS).

The deposits of Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (FDIC) to the maximum extent permitted by law, which is currently $100,000 per depositor for all accounts in the same title and capacity, other than individual retirements accounts, certain eligible deferred compensation plans, and so-called Keogh plans or HR 10 plans, which currently are insured up to a maximum of $250,000 per participant in the aggregate, such maximums in each case to be adjusted for inflation beginning in 2010. As a result, Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are subject to FDIC supervision and regulation.

Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. must file reports with the Federal Reserve and the OTS, respectively, and with the FDIC concerning their activities and financial condition. Also, before establishing branches or entering into certain transactions such as mergers with, or acquisitions of, other financial institutions, Irwin Union Bank and Trust must obtain regulatory approvals from the Indiana Department of Financial Institutions and the Federal Reserve, and Irwin Union Bank, F.S.B. must obtain approval from the OTS.

Capital Requirements

The Federal Reserve imposes requirements on state member banks such as Irwin Union Bank and Trust regarding the maintenance of adequate capital substantially identical to the capital regulations applicable to bank holding companies described in the section on *Bank Holding Company Regulation Minimum Capital Requirements.* While retaining the authority to set capital ratios for individual banks, these regulations prescribe minimum total risk-based capital, Tier 1 risk-based capital and leverage (Tier 1 capital divided by average total assets) ratios. The Federal Reserve requires banks to hold capital commensurate with the level and nature of all of the risks, including the volume and severity of problem loans, to which they are exposed.

As with the regulations applicable to bank holding companies, the Federal Reserve requires all state member banks to meet a minimum ratio of qualifying total capital to weighted risk assets of 8 percent, of which at least 4 percent should be in the form of Tier 1 capital.

The minimum ratio of Tier 1 capital to total assets, or the leverage ratio, for banking institutions rated composite 1 under the uniform rating system of banks and not experiencing or anticipating significant growth is 3 percent. For all other institutions, the minimum ratio of Tier 1 capital to total assets is 4 percent. Banking institutions with supervisory, financial, operational, or managerial weaknesses are expected to maintain capital ratios well above the minimum levels, as are institutions with high or inordinate levels of risk. Banks experiencing or anticipating significant growth are also expected to maintain capital, including tangible capital positions, well above the minimum levels. A majority of such institutions generally have operated at capital levels ranging from 1 to 2 percent above the stated minimums. Higher capital ratios could be required if warranted by the particular circumstances or risk profiles of individual banks. The standards set forth above specify minimum supervisory ratios based primarily on broad credit risk considerations. Banks, including ours, are generally expected to operate with capital positions above the minimum ratios.

At December 31, 2007, Irwin Union Bank and Trust had a total risk-based capital ratio of 12.5%, compared to our internal Policy minimum of 12%. Irwin Union Bank and Trust had a Tier 1 capital ratio of 10.7%, and a leverage ratio of 10.6%.

The risk-based capital guidelines also provide that an institution s exposure to declines in the economic value of the institution s capital due to changes in interest rates must be considered as a factor by the agencies in evaluating the capital adequacy of a bank or savings association. This assessment of interest rate risk management is incorporated into the banks overall risk management rating and used to determine management s effectiveness.

Insurance of Deposit Accounts

As FDIC-insured institutions, Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are required to pay deposit insurance premiums based on the risk they pose to the Deposit Insurance Fund. As a result of the Federal Deposit

Insurance Reform Act of 2005, the FDIC adopted a revised risk-based assessment system to determine assessment rates to be paid by member institutions such as Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. Under this revised assessment system, risk is defined and measured using an institution s supervisory ratings with certain other risk measures, including certain financial ratios. The annual rates for 2007 for institutions in risk category I range from 5 to 7 basis points; the rate for institutions in risk category II is 10 basis points; and the rate for institutions in risk category III is 28 basis points. These rates may be offset by a one-time assessment credit held by an institution, based on the assessment base of that institution as of December 31, 1996, and in the future by dividends that may be declared by the FDIC if the deposit reserve ratio increases above a certain amount. The FDIC may raise or lower these assessment rates based on various factors to achieve a reserve ratio, which the FDIC currently has set at 1.25 percent of insured deposits.

In addition to deposit insurance fund assessments, the FDIC assesses all insured deposits a special assessment to fund the repayment of debt obligations of the Financing Corporation (FICO). FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation. At December 31, 2007, the annualized rate established by the FDIC for the FICO assessment was 1.14 basis points (0.00014%) per $100 of insured deposits.

Dividend Limitations

Under Indiana law, certain dividends require notice to, or approval by, the Indiana Department of Financial Institutions, and Irwin Union Bank and Trust may not pay dividends in an amount greater than its net profits then available, after deducting losses and bad debts.

In addition, as a state member bank, Irwin Union Bank and Trust may not, without the approval of the Federal Reserve, declare a dividend if the total of all dividends declared in a calendar year, including the proposed dividend, exceeds the total of its net income for that year, combined with its retained net income of the preceding two years, less any required transfers to the surplus account. As a result of our losses in 2007, the bank cannot declare a dividend to us without regulatory approval until such time that current year earnings plus earnings from the last two years exceeds dividends during the same periods. We sought and were granted such approval for a $15 million dividend in the second quarter of 2007. Our ability to pay dividends on our Trust Preferred, non-cumulative perpetual preferred, and common stock is dependent on our ability to dividend from Irwin Union Bank and Trust, for which prior approval would be necessary.

In consideration of the Corporation s recent losses, on February 28, 2008, the Board of Directors elected to defer dividend payments on the Corporation s trust preferred securities and elected to discontinue payment of dividends on its non-cumulative perpetual preferred and common stock. See the discussion above on *Dividends* in the section on *Bank Holding Company Regulation*.

In most cases, savings and loan associations, such as Irwin Union Bank, F.S.B., are required either to apply to or to provide notice to the OTS regarding the payment of dividends. The savings association must seek approval if it does not qualify for expedited treatment under OTS regulations, or if the total amount of all capital distributions for the applicable calendar year exceeds net income for that year to date plus retained net income for the preceding two years, or the savings association would not be adequately capitalized following the dividend, or the proposed dividend would violate a prohibition in any statute, regulation or agreement with the OTS. In other circumstances, a simple notice is sufficient.

Our ability and the ability of Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. to pay dividends also may be affected by the various capital requirements and the prompt corrective action standards described below under Other Safety and Soundness Regulations. Our rights and the rights of our shareholders and our creditors to participate in any distribution of the assets or earnings of our subsidiaries also is subject to the prior claims of creditors of our subsidiaries including the depositors of a bank subsidiary.

Interstate Banking and Branching

Under federal law, banks are permitted, if they are adequately or well-capitalized, in compliance with Community Reinvestment Act requirements and in compliance with state law requirements (such as age-of-bank limits and deposit caps), to merge with one another across state lines and to create a main bank with branches in separate states. After establishing branches in a state through an interstate merger transaction, a bank may establish and acquire additional branches at any location in the state where any bank involved in the interstate merger could have established or acquired branches under applicable federal and state law.

As a federally chartered savings bank, Irwin Union Bank, F.S.B. has greater flexibility in pursuing interstate branching than an Indiana state bank. Subject to certain exceptions, a federal savings association generally may establish or operate a branch in any state outside the state of its home office if the association meets certain statutory requirements.

Community Reinvestment

Under the Community Reinvestment Act (CRA), banking and thrift institutions have a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Institutions are rated on their performance in meeting the needs of their communities. Performance is tested in three areas: (a) lending, which evaluates the institution s record of making loans in its assessment areas; (b) investment, which evaluates the institution s record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and business; and (c) service, which evaluates the institution s delivery of services through its branches, ATMs and other activities. The CRA requires each federal banking agency, in connection with its examination of a financial institution, to assess and assign one of four ratings to the institution s record of meeting the credit needs of its community and to take this record into account in evaluating certain applications by the institution, including applications for charters, branches and other deposit facilities, relocations, mergers, consolidations, acquisitions of assets or assumptions of liabilities, and savings and loan holding company acquisitions. Irwin Union Bank and Trust received a satisfactory rating, and Irwin Union Bank, F.S.B. received an outstanding rating, on their most recent CRA performance evaluations.

Other Safety and Soundness Regulations

Under current law, the federal banking agencies possess broad powers to take prompt corrective action in connection with depository institutions that do not meet minimum capital requirements. The law establishes five capital categories for insured depository institutions for this purpose: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. To be considered well-capitalized under these standards, an institution must maintain a total risk-based capital ratio of 10% or greater; a Tier 1 risk-based capital ratio of 6% or greater; a leverage capital ratio of 5% or greater; and not be subject to any order or written directive to meet and maintain a specific capital level for any capital measure. An adequately capitalized institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%. Federal savings banks must meet three minimum capital standards: an 8% risk-based capital ratio, a 4% leverage ratio (or 3% for those assigned a composite rating of 1), and a 1.5% tangible capital ratio. Federal law also requires the bank regulatory agencies to implement systems for prompt corrective action for institutions that fail to meet minimum capital requirements within the five capital categories, with progressively more severe restrictions on operations, management and capital distributions according to the category in which an institution is placed. Failure to meet capital requirements can also cause an institution to be directed to raise additional capital. Federal law also mandates that the agencies adopt safety and soundness standards relating generally to operations and management, asset quality and executive compensation, and authorizes administrative action against an institution that fails to meet such standards.

Brokered Deposits

Brokered deposits include funds obtained, directly or indirectly, by or through a deposit broker for deposit into one or more deposit accounts. Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. Due to its capital ratios, Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are permitted to, and do, accept brokered deposits.

Anti-Money Laundering Laws

Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are subject to the Bank Secrecy Act and its implementing regulations and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. Among other things, these laws and regulations require Irwin Union Bank and Trust and Irwin Union Bank F.S.B to take steps to prevent the use of each institution for facilitating the flow of illegal or illicit money, to report

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large currency transactions and to file suspicious activity reports. Each bank also is required to develop and implement a comprehensive anti-money laundering compliance program. Banks also must have in place appropriate know your customer policies and procedures. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Compliance with Consumer Protection Laws

The lending activities of Irwin Union Bank and Trust and its subsidiaries, Irwin Commercial Finance and Irwin Home Equity, are regulated by the Federal Reserve. Federal Reserve regulations and policies, such as restrictions on affiliate transactions and real estate lending policies relating to asset quality and prudent underwriting of loans, apply to our residential lending activities. The Indiana Department of Financial Institutions has comparable supervisory and examination authority over Irwin Commercial Finance and Irwin Home Equity due to their status as subsidiaries of Irwin Union Bank and Trust.

Our subsidiaries also are subject to federal and state consumer protection and fair lending statutes and regulations including the Equal Credit Opportunity Act, the Fair Housing Act, the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act and the Home Mortgage Disclosure Act. In many instances, these acts contain specific requirements regarding the content and timing of disclosures and the manner in which we must process and execute transactions. Some of these rules provide consumers with rights and remedies, including the right to initiate private litigation. Specifically, these acts, among other things:

- require lenders to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- require certain lenders to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

In addition, banking subsidiaries are subject to a number of federal and state regulations that offer consumer protections to depositors, including account terms and disclosures, funds availability and electronic funds transfers.

As part of the home equity line of business in conjunction with its subsidiary, Irwin Home Equity, Irwin Union Bank and Trust originates home equity loans through its branch in Carson City, Nevada. Irwin Union Bank and Trust uses interest rates and loan terms in its home equity loans and lines of credit that are authorized by Nevada law, but might not be authorized by the laws of the states in which the borrowers are located. As a state member bank insured by the FDIC, Irwin Union Bank and Trust is authorized by Section 27 of the FDIA to charge interest at rates allowed by the laws of the state where the bank is located, including at a branch located in a state other than the Bank s home state, regardless of any inconsistent state law, and to apply these rates to loans to borrowers in other states. Irwin Union Bank and Trust relies on Section 27 of the FDIA and the FDIC opinion in conducting its home equity lending business described above. Any change in Section 27 of the FDIA or in the FDIC s interpretation of this provision, or any successful challenge as to the permissibility of these activities, could require that we change the terms of some of our loans or the manner in which we conduct our home equity line of business.

Irwin Union Bank and Trust entered into a memorandum of understanding with the Federal Reserve Bank of Chicago as of March 1, 2007 to enhance the consumer compliance function and compliance oversight programs of the Bank and its subsidiaries. Under the memorandum of understanding, which is considered an informal

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agreement, Irwin Union Bank and Trust agreed, among other things, to enhance the Bank-wide perspective on consumer compliance oversight and the risk assessment process, undertake an initial and ongoing review of lending policies and procedures, improve the risk monitoring, issues tracking, training and control programs of the Bank, and enhance the resources devoted to this area. In addition, the Bank agreed to and did provide quarterly written progress reports to the Federal Reserve Bank of Chicago with respect to these matters through the required period ending September 30, 2007. We believe we have been responsive in developing and implementing plans to address the issues raised by the Federal Reserve Bank of Chicago. We are waiting for the Federal Reserve Bank of Chicago to perform a validation of the actions we took to address their concerns. However, if the Federal Reserve Bank of Chicago concludes the actions we took are not sufficient, we could experience additional regulatory action.

Proposed Federal and State Laws and Regulations

Currently, there are a number of proposed and recently enacted federal, state and local laws and regulations and guidance, including changes to the Truth in Lending Act and accompanying regulations, addressing mortgage lending, purchasing and servicing practices. Many of these laws and regulations focus on borrowers with blemished credit or nontraditional mortgage products, while others take a broader approach. For example, Congress is considering several bills to combat abuses in the mortgage lending market and to provide substantial new protections to mortgage consumers. While it is not possible to predict which of these bills will pass, key provisions of the bills under consideration would:

- establish a federal duty of care owed by mortgage originators to mortgage applicants and borrowers;
- prohibit steering of borrowers into subprime loans if they qualify for prime loans;
- establish minimum federal standards for licensing or registration of mortgage originators, including brokers and bank loan officers;
- establish minimum underwriting standards for all mortgages, including requiring lenders to determine that borrowers have a reasonable ability to repay and that loans provide borrowers a tangible net benefit;
- extend limited liability to secondary market securitizers who acquire, package and sell interests in home mortgage loans that do not meet these standards;
- establish new loan servicing and appraisal standards, and impose penalties for violations of these standards; and
- expand and enhance consumer protections for certain high-cost, sub-prime and non-traditional loans.

Congress and the Treasury Department also are considering various proposals to expand federal housing finance programs to address liquidity concerns and improve consumer access to mortgage credit, as well as to allow consumers to modify the interest rates, loan maturities or principal balances on mortgages secured by a borrower s principal residence.

The Federal Reserve has issued a proposal to modify the regulations governing the Truth in Lending Act that would, among other things, apply the following protections to all loans secured by a consumer s principal dwelling, regardless of the loan s Annual Percentage Rate: (1) lenders would be prohibited from making payments, directly or indirectly, to mortgage brokers, including through yield-spread premiums, unless the broker previously entered into a written agreement with the consumer disclosing the broker s total compensation and other facts; (2) creditors and mortgage brokers would be prohibited from coercing a real estate appraiser to misstate a home s value; and (3) companies that service mortgage loans would be prohibited from engaging in certain practices. While the final form of the rules cannot be predicted, it is expected the Fed will issue a final regulation by mid-2008.

Executive Officers

Our executive officers are elected annually by the Board of Directors and serve until their successors are qualified and elected. In addition to our Chief Executive Officer, Chairman and President, Mr. William I. Miller (51), who also serves as a director, our executive officers are listed below as of January 31, 2008.

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Gregory F. Ehlinger (45) has been our Chief Financial Officer since August of 1999. He was a Senior Vice President from August 1999 to February 5, 2008. He has been one of our officers since August 1992.

Bradley J. Kime (47) has been President of our Commercial Banking line of business since May 2003 and President of Irwin Union Bank F.S.B. since December 2000. He has served in several executive officer positions since joining Irwin in 1986.

Joseph R. LaLeggia (46) has been President of our Commercial Finance line of business since July of 2002. He has served in executive officer positions since joining Irwin in 2000.

Jocelyn Martin-Leano (46) has served as President of our Home Equity line of business since July 1, 2006, having been Interim President for the six months prior to that. She has served in executive officer positions since joining Irwin in 1995.

Matthew F. Souza (51) was named Chief Administrative Officer as of February 5, 2008. He was our Senior Vice President-Ethics from August 1999 to February 5, 2008, and has been our Secretary and an officer since 1986.

Item 1A. *Risk Factors*

An investment in our securities involves a number of risks. We urge you to read all of the information contained in this Report on Form 10-K. In addition, we urge you to consider carefully the following factors in evaluating an investment in our common shares.

Risks Relating to General Economic Conditions and Interest Rates.

We may be adversely affected by a general deterioration in economic conditions.

The risks associated with our business become more acute in periods of a slowing economy or slow growth such as we experienced in the latter half of 2007 and which has continued so far into 2008. Economic declines may be accompanied by a decrease in demand for consumer and commercial credit and declining real estate and other asset values. The credit quality of commercial loans and leases where the activities of the borrower or vendor are related to housing and other real estate markets may decline in periods of stress in these industries. Delinquencies, foreclosures and losses generally increase during economic slowdowns or periods of slow growth. We expect that our servicing costs and credit losses will increase during periods of economic slowdown or slow growth such as the one we are presently experiencing.

In our home equity line of business, a material decline in real estate values may reduce the ability of borrowers to use home equity to support borrowings and could increase the loan-to-value ratios of loans we have previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a default. A decline in real estate values could also materially reduce the amount of home equity loans we produce and lower runoff in our existing portfolio, effectively extending the average life of the loans in the portfolio (and therefore prolonging the period we are exposed to losses).

We may be adversely affected by interest rate changes.

We and our subsidiaries are subject to interest rate risk. Changes in interest rates will affect the value of loans, deposits and other interest-sensitive assets and liabilities on our balance sheet. Our income may be at risk because changes in interest rates also affect our net interest margin and the value of assets and derivatives that we sell from time to time or that are subject to either mark-to-market accounting or lower-of-cost-or-market accounting, such as loans held for sale, mortgage servicing rights and derivatives instruments.

Reductions in interest rates expose us to write-downs in the carrying value of the mortgage servicing and other servicing assets we hold on our balance sheet. These assets are recorded at the lower of their cost or market value and a valuation allowance is recorded for any impairment. Decreasing interest rates often lead to increased prepayments in the underlying loans, which requires that we write down the carrying value of these servicing assets. The change in value of these assets, if improperly hedged or mismanaged, could adversely affect our operating results in the period in which the impairment occurs.

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Our lines of business mainly depend on earnings derived from net interest income. Net interest income is the difference between interest earned on loans and investments and the interest expense paid on other borrowings, including deposits at our banks and other funding liabilities we have. Our interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities, including the monetary policies of the Federal Reserve that cause our funding costs and yields on new or variable rate assets to change.

Although we take measures intended to manage the risks of operating in changing interest rate environments, we cannot eliminate interest rate sensitivity. Our goal is to ensure that interest rate sensitivity does not exceed prudent levels as determined by our Board of Directors in certain policies. Our risk management techniques include modeling interest rate scenarios, using financial hedging instruments, and match-funding certain loan assets. There are costs and risks associated with our risk management techniques, and these could be substantial.

Finally, to reduce the effect interest rates have on our businesses, we periodically invest in derivatives and other interest-sensitive instruments. While our intent in purchasing these instruments is to reduce our overall interest rate sensitivity, the performance of these instruments can, at times, cause volatility in our results either due to factors such as basis risk between the derivatives and the hedged item, timing of accounting recognition differences or other such factors.

Risks Relating to an Investment in Us.

We have recently had financial performance below that of peers and have lost money in each of the past four quarters.

In 2007 and the first and third quarters of 2006, we lost money, due in large part to the sale of our conforming mortgage banking segment and conditions in the residential mortgage and real estate industries.

While our current projections indicate that we will return to profitability in 2008, the uncertainty of all forecasts has increased substantially.

> The unexpected losses sustained by the Corporation in the third and fourth quarters of 2007 can be directly traced to the unprecedented dislocation in the housing markets, rising unemployment, and less liquidity in certain portions of the credit markets.
>
> > The size of the third quarter loss in 2007 was primarily driven by the adjustment to the repurchase reserve in discontinued operations, reflecting a spike in repurchase demands in the third quarter. While we believe that the risk of needing additional reserves is declining as time passes (additional reserves were not required in the fourth quarter), this repurchase risk remains.
> >
> > The size of the loss in the fourth quarter of 2007 was primarily driven by the acceleration of delinquencies at home equity in that quarter. The allowance for loan losses in this segment at the end of the fourth quarter was established assuming this negative trend continues into 2008.

While we believe we are addressing the factors that caused this underperformance, there can be no assurance if and when our results will surpass that of our peers.

We may need additional capital in the future and adequate financing may not be available to us on acceptable terms, or at all.

While we anticipate that we would be able to access capital markets as necessary to fund the growth of our business, the uncertainty of continued access increased due to market conditions in 2007. Our current capital levels exceed our internal policies. However, in consideration of the Corporation s recent losses, on February 28, 2008, the Board of Directors elected to curtail additional corporate borrowings at the parent company level, with certain exceptions, in an aggregate amount greater than the indebtedness currently outstanding until such time as the Board determines that economic conditions and our profitability have improved. The restriction on additional borrowings does not apply to our subsidiaries Irwin union Bank and Trust Company or Irwin Union Bank, FSB. If we were to seek additional capital in the future to fund growth of our operations or to maintain our regulatory capital above well-capitalized standards, there is no assurance we would be able to obtain additional debt or equity financing, or, if available, it will be obtainable in amounts and on terms attractive or acceptable to us. If we choose to raise equity capital on unattractive terms, it could be highly dilutive to current shareholders. If we are unable to obtain the funding we need, we may be unable to develop our products and services, take advantage of future opportunities or respond to competitive pressures, which could have a material adverse effect on us.

Our operations may be adversely affected if we are unable to secure adequate funding; our use of wholesale funding sources and securitizations exposes us to potential liquidity risk.

Our discontinued mortgage banking line of business was a net provider of liquidity to the Corporation. Our divestiture of this segment has caused us to seek alternative funding sources to contribute to our other lines of business, which sources might be more expensive than those previously used.

Due to the sale of mortgage servicing rights and the loss of escrow deposits associated with those servicing rights, we have increased our reliance on wholesale funding, such as Federal Home Loan Bank borrowings and brokered deposits in recent quarters. Because wholesale funding sources are affected by general capital market conditions, the availability of funding from wholesale lenders may be dependent on the confidence these investors have in commercial and consumer finance businesses. We also have a significant deposit relationship with one of our commercial banking branches. While we have processes in place to monitor and mitigate these funding risks, the continued availability to us of these funding sources is uncertain, and we could be adversely impacted if our business segments become disfavored by wholesale lenders or large depositors. In addition, brokered deposits may be difficult for us to retain or replace at attractive rates as they mature. Our financial flexibility could be severely constrained if we are unable to renew our wholesale funding or if adequate financing is not available in the future at acceptable rates of interest. We may not have sufficient liquidity to continue to fund new loans or lease originations and we may need to liquidate loans or other assets unexpectedly in order to repay obligations as they mature.

Historically, we have financed or sold the majority of our second mortgage loan originations into the secondary market through the use of securitizations. This market closed to all participants in the middle of 2007. We expect it to remain closed indefinitely. In addition, certain of our high loan-to-value home equity loans are not readily marketable, and we may not be able to sell assets at favorable prices when necessary. This could adversely affect our profitability and/or liquidity for future originations and purchases of loans.

We have regulatory restrictions on our ability to receive dividends from bank subsidiaries.

Irwin Union Bank and Trust may not, without the approval of the Federal Reserve and the Indiana Department of Financial Institutions, declare a dividend if the total of all dividends declared in a calendar year, including the proposed dividend, exceeds the total of its net income for that year, combined with its retained net income of the preceding two years, less any required transfers to the surplus account. During the past two years, Irwin Union Bank and Trust dividends have exceeded net income during the same period. As a result, the bank cannot declare a dividend to us without regulatory approval until such time that current year earnings plus earnings from the last two years exceeds dividends during the same periods. We last sought and were granted such approval for a $15 million dividend in the second quarter of 2007, but similar responses to future requests are not guaranteed. We are mindful that the Federal Reserve has publicly expressed the belief that a bank holding company experiencing earnings weaknesses should not pay cash dividends (1) exceeding its net income or (2) which only could be funded in ways that would weaken a bank holding company s financial health, such as by borrowing. Our Board of Directors has therefore elected to defer dividend payments on the Corporation s trust preferred securities and elected to discontinue payment of dividends on its non-cumulative perpetual preferred and common stock. Our ability to pay dividends in the future depends on our ability to dividend from Irwin Union Bank and Trust to the Corporation, for which prior approval from our regulators and additional action by our Board of Directors will be necessary.

We have credit risk inherent in our asset portfolios.

In our businesses, some borrowers may not repay loans that we make to them. As all financial institutions do, we maintain an allowance for loan and lease losses and other reserves to absorb the level of losses that we think is probable in our portfolios. However, our allowance for loan and lease losses may not be sufficient to cover the loan and lease losses that we actually may incur. While we maintain a reserve at a level management believes is adequate, our charge-offs could exceed these reserves. If we experience defaults by borrowers in any of our businesses to a greater extent than anticipated, our earnings could be negatively impacted.

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Certain of our consumer mortgage products are not sold by many financial institutions.

As a low-volume, niche-oriented originator, product design is important to differentiate us in consumer mortgage lending. We have developed our lines of business by identifying niches that we believe offer us a competitive opportunity. For this reason, the performance of our financial assets may be less predictable than those of other lenders. We may not have the same history of delinquency and loss experience to utilize in pricing and structuring some of our products as do lenders offering more seasoned asset types, and it may be more difficult to sell or securitize certain, more innovative, products.

We rely heavily on our management team and key personnel, and the unexpected loss of key managers and personnel may affect our operations adversely.

Our overall financial performance depends heavily on the performance of key managers and personnel. Our historical success was influenced strongly by our ability to attract and to retain senior management that is experienced in the niches within banking and financial services for which they are responsible. Our ability to retain executive officers and the current management teams of each of our lines of business continues to be important to implement our strategies successfully.

Ownership of our common stock is concentrated in persons affiliated with us.

Our Chairman and CEO, William I. Miller, currently has voting control, including common shares beneficially held through employee stock options that are exercisable within 60 days of January 31, 2008, of approximately 38% of our common shares. Together with Mr. Miller, directors and executive officers of Irwin beneficially own, including the right to acquire common stock through employee stock options that are exercisable within 60 days of January 31, 2008, more than 40% of our common shares. These persons likely have the ability to substantially control the outcome of all shareholder votes and to direct our affairs and business. This voting power would enable them to cause actions to be taken that may prove to be inconsistent with the interests of non-affiliated shareholders.

Our future success depends on our ability to compete effectively in a highly competitive financial services industry.

The financial services industry, including commercial banking, mortgage lending, and commercial finance, is highly competitive, and we and our operating subsidiaries encounter strong competition for deposits, loans and other financial services in all of our market areas in each of our lines of business. Our principal competitors include other commercial banks, savings banks, savings and loan associations, mutual funds, money market funds, finance companies, trust companies, insurers, leasing companies, credit unions, mortgage companies, real estate investment trusts (REITs), private issuers of debt obligations, and suppliers of other investment alternatives, such as securities firms. Many of our non-bank competitors are not subject to the same degree of regulation as we and our subsidiaries are and have advantages over us in providing certain services. Many of our competitors are significantly larger than we are and have greater access to capital and other resources, lower operating costs, and lower cost of funds. Also, our ability to compete effectively in our lines of business is dependent on our ability to adapt successfully to technological changes within the banking and financial services industry.

Our shareholder rights plan, provisions in our restated articles of incorporation, our by-laws, and Indiana law may delay or prevent an acquisition of us by a third party.

Our Board of Directors has implemented a shareholder rights plan which, combined with Indiana law, and absent the consent and approval of our Board, contain provisions which have certain anti-takeover effects. While the purpose of these plans is to strengthen the negotiating position of the Board in the event of a hostile takeover attempt, the overall effects of the plan may be to render more difficult or to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a larger block of our shares and the removal of incumbent directors and key management. If triggered, the rights will cause substantial dilution to a person or group that attempts to acquire us without approval of our Board of Directors, and under certain circumstances, the rights beneficially owned by the person or group may become void. The plan also may have the effect of limiting the participation of certain shareholders in transactions such as mergers or tender offers whether or not such transactions are favored by incumbent directors and key management.

Our restated articles of incorporation and our by-laws as well as Indiana law contain provisions that make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions also could discourage proxy contests and may make it more difficult for you and other shareholders to elect your own representatives as directors and take other corporate actions.

Our by-laws do not permit cumulative voting of shareholders in the election of directors, allowing the holders of a majority of our outstanding shares to control the election of all our directors. We have a staggered board which means that only one-third of our board can be replaced by shareholders at any annual meeting. Directors may not be removed by shareholders. As a result of his share ownership position, our Chairman, William I. Miller, will likely be able to exercise effective control over the outcome of any shareholder vote. Our by-laws also provide that only our Board of Directors, and not our shareholders, may adopt, alter, amend and repeal our by-laws.

Indiana law provides several limitations that may discourage potential acquirers from purchasing our common shares. In particular, Indiana law prohibits business combinations with a person who acquires 10% or more of our common shares during the five-year period after the acquisition of 10% by that person or entity, unless the acquirer receives prior approval for the acquisition of the shares or business combination from our Board of Directors.

These and other provisions of Indiana law and our governing documents are intended to provide the Board of Directors with the negotiating leverage to achieve a more favorable outcome for our shareholders in the event of an offer for the Company. However, there is no assurance that these same anti-takeover provisions could have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our shareholders.

We are the defendant in class actions and other lawsuits that could subject us to material liability.

Our subsidiaries have been named as defendants in lawsuits that allege we violated state and federal laws in the course of making loans and leases. Among the allegations are that we charged impermissible and excessive rates and fees and participated in fraudulent financing. Some of these cases either seek or have attained class action status, which generally involves a large number of plaintiffs and could result in potentially increased amounts of loss. We have not established reserves for all of these lawsuits due to either lack of probability of loss or inability to accurately estimate potential loss. If decided against us, the lawsuits have the potential to affect us materially. The *Legal Proceedings* section in Part I, Item 3 of this Report describes in more detail the lawsuits in which we are named as defendants that potentially could result in material liability.

Our business may be affected adversely by Internet fraud.

We are inherently exposed to many types of operational risk, including those caused by the use of computer, internet and telecommunications systems. These may manifest themselves in the form of fraud by employees, by customers, other outside entities targeting us and/or our customers that use our internet banking, electronic banking or some other form of our telecommunications systems. Given the growing level of use of electronic, internet-based, and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place.

Our business may be affected adversely by the highly regulated environment in which we operate.

We and our subsidiaries are subject to extensive federal and state regulation and supervision. Our failure to comply with these requirements can lead to, among other remedies, administrative enforcement actions, termination or suspension of our licenses, rights of rescission for borrowers, and class action lawsuits. Legislation and regulations have had, may continue to have or may have significant impact on the financial services industry. Regulatory or legislative changes could make regulatory compliance more difficult or expensive for us, causing us to change or limit some of our consumer loan products or the way we operate our different lines of business. Future changes could affect the profitability of some or all of our lines of business.

Our subsidiary, Irwin Union Bank and Trust, entered into a memorandum of understanding, which is considered an informal agreement, with the Federal Reserve Bank of Chicago as of March 1, 2007 to enhance the consumer compliance function and compliance oversight programs of Irwin Union Bank and Trust and its subsidiaries. Irwin Union Bank and Trust agreed to and did provide quarterly written progress reports to the Federal Reserve Bank of Chicago with respect to these matters, through the required period ending September 30, 2007. We believe we have been responsive in developing and implementing plans to address the issues raised by the Federal Reserve Bank of Chicago. We are waiting for the Federal Reserve Bank of Chicago to perform a validation of the actions we took to address their concerns. However, if the Federal Reserve Bank of Chicago concludes the actions we took are not sufficient, we could experience additional regulatory action.

The consumer lending business in which we engage is highly regulated and has been the subject of increasing legislative and regulatory initiatives. Federal, state and local government agencies and/or legislators have adopted and continue to consider legislation to restrict lenders ability to charge rates and fees in connection with residential mortgage loans. In general, these proposals involve lowering the existing federal Homeownership and Equity Protection Act thresholds for defining a high-cost loan, and establishing enhanced protections and remedies for borrowers who receive these loans. Frequently referred to as predatory lending legislation, many of these laws and rules to which we are subject also restrict commonly accepted lending activities, such as offering balloon loan features and prepayment charges. These laws, regulations and initiatives have, and could further, limit our ability to originate consumer loans with various fees and what we believe are risk-based interest rates, and may impose additional regulatory restrictions on our business in certain states.

Because we originate home equity loans from our banking branch in Nevada, federal law permits us to charge interest rates and certain fees associated with the interest rate permitted by Nevada law regardless of where the borrowers may reside. Nonetheless, from time to time regulators and customers from other states have questioned our ability to charge certain fees, such as prepayment penalties, to residents of their states. A change in federal or state law or regulation, or an adverse interpretation or decision by a court in litigation on this issue, may affect the rates and fees we charge on home equity loans made to borrowers outside Nevada.

Our regulators have policies that can restrict the payment of cash dividends from our banking subsidiaries to us and from us to our shareholders. While we have paid dividends on our Trust Preferred, Non Cumulative Perpetual Preferred and common stock in the past, our Board has recently decided to suspend such payments. There is no certainty that we will resume such payments in the future.

Like other registrants, we are subject to the requirements of the Sarbanes-Oxley Act of 2002. Failure to have in place adequate programs and procedures could cause us to have gaps in our internal control environment, putting the Corporation and its shareholders at risk of loss.

These and other potential changes in government regulation or policies could increase our costs of doing business and could adversely affect our operations and the manner in which we conduct our business.

Item 1B. ***Unresolved Staff Comments***

Not Applicable.

Item 2. ***Properties***

Our main office is located at 500 Washington Street, Columbus, Indiana, in space owned by Irwin Union Bank and Trust. The location and general character of our other materially important physical properties as of January 31, 2008 are as follows:

Irwin Union Bank and Trust

The main office is located in four buildings at 435, 500, 520 and 526 Washington Street, Columbus, Indiana. Irwin Union Realty Corporation, a wholly-owned subsidiary of Irwin Union Bank and Trust, owns these buildings in fee simple and leases them to Irwin Union Bank and Trust. Additionally, one or the other of Irwin Union Bank and Trust or Irwin Union Realty owns the branch properties in fee at seven other locations in Bartholomew County, Indiana. These properties have no major encumbrances. Irwin Union Bank and Trust or Irwin Union Realty owns or leases nine other branch offices in Central and Southern Indiana, four offices in Michigan, two offices in Nevada, and one in Utah.

Irwin Union Bank, F.S.B.

The home office is located at 500 Washington Street, Columbus Indiana. Irwin Union Bank, F.S.B. has eleven branch offices located in Arizona(2), California (2), Florida, Kentucky, Missouri, Nevada, Ohio, New Mexico and Wisconsin. All offices are leased.

Irwin Commercial Finance Corporation

The main office of Irwin Commercial Finance Corporation is located at 500 Washington Street, Columbus, Indiana. The office of our domestic commercial finance operation, Irwin Commercial Finance Corporation, Equipment Finance, formerly Irwin Business Finance Corporation is in Bellevue, Washington and is leased. Our Canadian commercial finance subsidiary, Irwin Commercial Finance Canada Corporation (formerly Onset Capital Corporation), leases its main office in Vancouver, British Columbia, Canada, and leases its three processing centers in Calgary, Alberta; Toronto, Ontario; and Montreal, Quebec. The main offices of our franchise lending subsidiary, Irwin Franchise Capital Corporation, are located in Montvale, New Jersey and Purchase, New York and are both leased. The franchise subsidiary also leases office space in Columbus, Ohio. In addition, Irwin Franchise Capital owns the building that houses its telesales center in Columbus, Nebraska.

Irwin Home Equity

The main office is located at 12677 Alcosta Boulevard, Suite 500, San Ramon, California. Irwin Home Equity occupies one other office at this location and an office in Charlotte, North Carolina. All three offices are leased.

Irwin Mortgage

The bulk of the remaining activities of this discontinued operation are conducted from an office located at 10500 Kincaid Drive, Fishers, Indiana, which is leased.

Item 3. *Legal Proceedings*

Culpepper v. Inland Mortgage Corporation

On February 29, 2008, the United States Court of Appeals for the 11th Circuit denied the plaintiffs petition for rehearing and petition for rehearing en banc. The denial let stand the 11th Circuit s July 2, 2007 affirmance of the district court s decision in favor of our indirect subsidiary Irwin Mortgage Corporation (formerly Inland Mortgage Corporation). This lawsuit was filed in April 1996 in the United States District Court for the Northern District of Alabama, seeking class action status and alleging Irwin Mortgage s payment of broker fees to mortgage brokers violated the federal Real Estate Settlement Procedures Act. In its July 2, 2007 decision affirming summary judgment in favor of Irwin Mortgage, the court of appeals held that plaintiffs had failed to show that the total compensation Irwin Mortgage paid to the mortgage brokers was unreasonable in light of the services provided. The court of appeals also held that the district court had not abused its discretion in decertifying the plaintiffs class because individual issues predominated, making class certification inappropriate. The plaintiffs have until May 29, 2008 to file a petition for a writ of certiorari seeking discretionary review by the United States Supreme Court. This action will conclude if a petition for certiorari is not filed, or is denied. We have not established any reserves for this case.

Cohens v. Inland Mortgage Corporation

In October 2003, our indirect subsidiary, Irwin Mortgage Corporation, was named as a defendant, along with others, in an action filed in the Supreme Court of New York, County of Kings. The plaintiffs, a mother and two children, alleged they were injured from lead contamination while living in premises allegedly owned by the defendants. The suit sought approximately $41 million in damages and alleged negligence, breach of implied warranty of habitability and fitness for intended use, loss of services and the cost of medical treatment. On February 1, 2008, the parties agreed in principle to settle this case for a nonmaterial amount, subject to approval by the court.

Litigation in Connection with Loans Purchased from Community Bank of Northern Virginia

Our subsidiary, Irwin Union Bank and Trust Company, is a defendant in several actions in connection with loans Irwin Union Bank purchased from Community Bank of Northern Virginia (Community).

Hobson v. Irwin Union Bank and Trust Company was filed on July 30, 2004 in the United States District Court for the Northern District of Alabama. As amended on August 30, 2004, the *Hobson* complaint, seeks certification of both a plaintiffs and a defendants class, the plaintiffs class to consist of all persons who obtained loans from Community and whose loans were purchased by Irwin Union Bank. *Hobson* alleges that defendants violated the Truth-in-Lending Act (TILA), the Home Ownership and Equity Protection Act (HOEPA), the Real Estate Settlement Procedures Act (RESPA) and the Racketeer Influenced and Corrupt Organizations Act (RICO). On October 12, 2004, Irwin filed a motion to dismiss the *Hobson* claims as untimely filed and substantively defective.

Kossler v. Community Bank of Northern Virginia was originally filed in July 2002 in the United States District Court for the Western District of Pennsylvania. Irwin Union Bank and Trust was added as a defendant in December 2004. The *Kossler* complaint seeks certification of a plaintiffs class and seeks to void the mortgage loans as illegal contracts. Plaintiffs also seek recovery against Irwin for alleged RESPA violations and for conversion. On September 9, 2005, the *Kossler* plaintiffs filed a Third Amended Class Action Complaint. On October 21, 2005, Irwin filed a renewed motion seeking to dismiss the *Kossler* action.

The plaintiffs in *Hobson* and *Kossler* claim that Community was allegedly engaged in a lending arrangement involving the use of its charter by certain third parties who charged high fees that were not representative of the services rendered and not properly disclosed as to the amount or recipient of the fees. The loans in question are allegedly high cost/high interest loans under Section 32 of HOEPA. Plaintiffs also allege illegal kickbacks and fee splitting. In *Hobson*, the plaintiffs allege that Irwin was aware of Community s alleged arrangement when Irwin purchased the loans and that Irwin participated in a RICO enterprise and conspiracy related to the loans. Because Irwin bought the loans from Community, the *Hobson* plaintiffs are alleging that Irwin has assignee liability under HOEPA.

If the *Hobson* and *Kossler* plaintiffs are successful in establishing a class and prevailing at trial, possible RESPA remedies could include treble damages for each service for which there was an unearned fee, kickback or overvalued service. Other possible damages in *Hobson* could include TILA remedies, such as rescission, actual damages, statutory damages not to exceed the lesser of $500,000 or 1% of the net worth of the creditor, and attorneys fees and costs; possible HOEPA remedies could include the refunding of all closing costs, finance charges and fees paid by the borrower; RICO remedies could include treble plaintiffs actually proved damages. In addition, the *Hobson* plaintiffs are seeking unspecified punitive damages. Under TILA, HOEPA, RESPA and RICO, statutory remedies include recovery of attorneys fees and costs. Other possible damages in *Kossler* could include the refunding of all origination fees paid by the plaintiffs.

Irwin Union Bank and Trust Company is also a defendant, along with Community, in two individual actions *(Chatfield v. Irwin Union Bank and Trust Company, et al.* and *Ransom v. Irwin Union Bank and Trust Company, et al.)* filed on September 9, 2004 in the Circuit Court of Frederick County, Maryland, involving mortgage loans Irwin Union Bank purchased from Community. On July 16, 2004, both of these lawsuits were removed to the United States District Court for the District of Maryland. The complaints allege that the plaintiffs did not receive disclosures required under HOEPA and TILA. The lawsuits also allege violations of Maryland law because the plaintiffs were allegedly charged or contracted for a prepayment penalty fee. Irwin believes the plaintiffs received the required disclosures and that Community, a Virginia-chartered bank, was permitted to charge prepayment fees to Maryland borrowers.

Under the loan purchase agreements between Irwin and Community, Irwin has the right to demand repurchase of the mortgage loans and to seek indemnification from Community for the claims in these lawsuits. On September 17, 2004, Irwin made a demand for indemnification and a defense to *Hobson, Chatfield* and *Ransom.* Community denied this request as premature.

In response to a motion by Irwin, the Judicial Panel On Multidistrict Litigation consolidated *Hobson, Chatfield* and *Ransom* with *Kossler* in the Western District of Pennsylvania for all pretrial proceedings. The Pennsylvania District Court had been handling another case seeking class action status, *Kessler v. RFC, et al.*, also involving

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Community and with facts similar to those alleged in the Irwin consolidated cases. The *Kessler* case had been settled, but the settlement was appealed and set aside on procedural grounds. Subsequently, the parties in *Kessler* filed a motion for approval of a modified settlement, which would provide additional relief to the settlement class. Irwin is not a party to the *Kessler* action, but the resolution of issues in *Kessler* may have an impact on the Irwin cases. The Pennsylvania District Court has effectively stayed action on the Irwin cases until issues in the *Kessler* case are resolved. On January 25, 2008, the Pennsylvania District Court approved and certified for settlement purposes the modified *Kessler* settlement, finding the proposed modified *Kessler* settlement to be fair and reasonable, and directed the parties to supply a proposed notice plan. We have established an immaterial reserve for the Community litigation based upon SFAS 5 guidance and the advice of legal counsel.

Putkowski v. Irwin Home Equity Corporation and Irwin Union Bank and Trust Company

On August 12, 2005, our indirect subsidiary, Irwin Home Equity Corporation, and our direct subsidiary, Irwin Union Bank and Trust Company (collectively, Irwin), were named as defendants in litigation seeking class action status in the United States District Court for the Northern District of California for alleged violations of the Fair Credit Reporting Act. In response to Irwin s motion to dismiss filed on October 18, 2005, the court dismissed the plaintiffs complaint with prejudice on March 23, 2006. Plaintiffs filed an appeal in the U.S. Court of Appeals for the 9th Circuit on April 13, 2006. On January 25, 2008, the parties agreed in principle to settle this litigation for a nonmaterial amount.

We and our subsidiaries are from time to time engaged in various matters of litigation, including the matters described above, other assertions of improper or fraudulent loan practices or lending violations, and other matters, and we have a number of unresolved claims pending. In addition, as part of the ordinary course of business, we and our subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral, and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, we believe that damages, if any, and other amounts relating to pending matters are not likely to be material to our consolidated financial position or results of operations, except as described above. Reserves are established for these various matters of litigation, when appropriate under SFAS 5, based in part upon the advice of legal counsel.

Item 4. ***Submission of Matters to a Vote of Security Holders***

During the fourth quarter of 2007, no matters were submitted to a vote of our security holders, through the solicitation of proxies or otherwise.

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.***

Our stock is listed on the New York Stock Exchange under the symbol IFC. The following table sets forth certain information regarding trading in, and cash dividends paid with respect to, the shares of our common stock in each quarter of the two most recent calendar years. The approximate number of shareholders of record on March 7, 2008, was 1,831.

Stock Prices and Dividends:

	Price Range		Quarter	Cash	Total Dividends
	High	Low	End	Dividends	For Year
2006					
First quarter	$ 21.96	$ 19.10	$ 19.33	$ 0.11	
Second quarter	21.20	17.92	19.39	0.11	
Third Quarter	20.25	18.08	19.56	0.11	
Fourth Quarter	23.00	19.34	22.63	0.11	$ 0.44
2007					
First quarter	$ 22.95	$ 18.21	$ 18.64	$ 0.12	
Second quarter	18.74	14.63	14.97	0.12	
Third Quarter	15.75	9.32	11.02	0.12	
Fourth Quarter	12.21	7.21	7.35	0.12	$ 0.48

On February 28, 2008, the Board of Directors elected to defer dividend payments on the Corporation s trust preferred securities and elected to discontinue payment of dividends on its non-cumulative perpetual preferred and common stock. These steps are being undertaken to maintain the capital strength of the Corporation at a time of elevated uncertainty in the economy.

Interest on the subordinated debt underlying the trust preferred securities will continue to accrue at its scheduled rate and cash dividends will be paid to holders prior to the resumption of dividends on the non-cumulative perpetual preferred and common stock.

The Board took action on the perpetual preferred and common stock as it believes, in a total stakeholder balance, that the elevated uncertainty in the current environment demands a greater bias to capital retention on a precautionary basis than distribution of cash from retained earnings for maintenance of historic dividends.

The Board will reassess its dividend policy regularly, with an eye towards resuming the cash payment of the deferred dividends on trust preferred securities and recommencing dividends on the non-cumulative perpetual preferred and common stock once the level of uncertainty in the current market declines and the profitability of the Corporation supports such dividends. The ability to pay future dividends will be subject to the regulatory restrictions discussed above.

Sales of Unregistered Securities:

There were no sales of unregistered securities.

Issuer Purchases of Equity Securities:

In 2006, the Board of Directors of the Corporation approved the repurchase of up to two million shares or up to $50 million of common stock of the Corporation. In 2006 and in early 2007, we repurchased $15 million through this plan. Due to our operating losses and deteriorating conditions in the capital markets, we discontinued our

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common stock repurchases. We do not plan on repurchasing common stock in the foreseeable future. The following table shows our repurchase activity for the past three months:

Calendar Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plan or Program
October		$		$ 34,977,252
November				$ 34,977,252
December		$		$ 34,977,252
Total		$		$ 34,977,252

Item 6. ***Selected Financial Data***

Five-Year Selected Financial Data

The figures in the table below are for Continuing Operations and, unless otherwise indicated, specifically exclude results for those operations now designated Discontinued Operations (see Footnote 2 in the Notes to the Consolidated Financial Statements).

	At or For Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands except per share data)				
For the year:					
Net revenues	$ 154,789	$ 266,959	$ 260,881	$ 283,994	$ 135,175
Noninterest expense	199,767	210,688	204,039	203,778	144,637
Income (loss) before income taxes	(44,978)	56,271	56,842	80,216	(9,462)
Provision for income taxes	(20,848)	18,870	20,595	31,492	(5,321)
Net (loss) income from continuing operations	(24,130)	37,401	36,247	48,724	(4,141)
(Loss) income from discontinued operations	(30,543)	(35,674)	(17,260)	19,721	76,958
Net (loss) income	$ (54,673)	$ 1,727	$ 18,987	$ 68,445	$ 72,817

Common Share Data:					
Earnings per share from continuing operations:					
Basic	$ (0.87)	$ 1.27	$ 1.27	$ 1.72	$ (0.15)
Diluted	(0.90)	1.25	1.26	1.64	(0.15)
Cash dividends per share	0.48	0.44	0.40	0.32	0.28
Book value per common share	15.22	17.30	17.90	17.61	15.36
Dividend payout ratio[1]	(25.69)%	759.12%	60.18%	13.24%	10.76%
Weighted average shares basic	29,337	29,501	28,518	28,274	27,915
Weighted average shares diluted	29,344	29,690	28,841	31,278	28,240
Shares outstanding end of period	29,226	29,736	28,618	28,452	28,134
At year end:					
Assets	$ 6,166,105	$ 6,237,958	$ 6,646,524	$ 5,235,820	$ 4,988,359
Residual interests	12,047	10,320	22,116	56,101	71,491
Loans held for sale	6,134	237,510	513,554	227,880	204,535
Loans and leases	5,696,230	5,238,193	4,477,943	3,440,689	3,147,094
Allowance for loan and lease losses	144,855	74,468	59,223	43,441	63,005
Servicing assets	23,234	31,949	34,445	47,807	31,949
Deposits	3,325,488	3,551,516	3,898,993	3,395,263	2,899,662
Other borrowings	802,424	602,443	997,444	237,277	429,758
Collateralized debt	1,213,139	1,173,012	668,984	547,477	590,131
Other long-term debt	233,873	233,889	270,160	270,172	270,184
Shareholders equity	459,300	530,502	512,334	501,185	432,260

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	At or For Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands except per share data)				
Selected Financial Ratios:					
Performance Ratios on continuing operations:					
Return on average assets	(0.4)%	0.6%	0.6%	0.9%	(0.1)%
Return on average equity	(4.8)	7.1	7.5	10.3	(1.1)
Net interest margin(2)	4.50	4.71	4.97	5.46	5.82
Noninterest income to revenues(3)	9.5	14.8	19.7	28.6	(10.7)
Efficiency ratio(4)	68.9	69.8	70.8	68.3	79.4
Loans and leases and loans held for sale to deposits(5)	126.4	117.3	108.0	80.7	87.1
Average interest-earning assets to average interest-bearing liabilities	112	119	126	132	132
Asset Quality Ratios:					
Allowance for loan and lease losses to:					
Total loans and leases	2.5%	1.4%	1.3%	1.3%	2.0%
Non-performing loans and leases	190	199	158	129	142
Net charge-offs to average loans and leases	1.2	0.5	0.3	0.7	1.1
Non-performing assets to total assets	1.5	0.9	0.8	0.9	1.1
Non-performing assets to total loans and leases and other real estate owned	1.6	1.0	1.2	1.3	1.7
Ratio of Earnings to Fixed Charges:					
Including deposit interest	0.8x	1.2x	1.4x	2.0x	0.9x
Excluding deposit interest	0.6	1.5	2.1	3.3	0.8
Capital Ratios:					
Average shareholders equity to average assets	8.3%	8.1%	8.0%	9.0%	7.6%
Tier 1 capital ratio	10.2	11.4	10.7	13.0	11.4
Tier 1 leverage ratio	10.2	11.5	10.3	11.6	11.2
Total risk-based capital ratio	12.6	13.4	13.1	15.9	15.1

(1) Dividends paid as a percentage of earnings from total operations.

(2) Net interest income divided by average interest-earning assets.

(3) Revenues consist of net interest income plus noninterest income.

(4) Noninterest expense divided by net interest income plus noninterest income.

(5) Excludes first (but not second) mortgage loans held for sale and loans collateralizing secured financings.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Strategy

Our strategy is to position the Corporation as an interrelated group of specialized financial services companies serving niche markets of small businesses and consumers while optimizing the productivity of our capital. We seek to create competitive advantage within the banking industry by serving small businesses and consumers with lending, leasing, deposit, advisory services and specialized mortgage products. Our strategic objective is to create value through well-controlled, profitable growth by attracting, retaining and developing exceptional management teams at our lines of business and parent company who focus on (i) meeting customer needs rather than simply offering banking products or services, (ii) being cost-efficient in our delivery, and (iii) having strong risk management systems. We believe we must continually balance these three factors in order to deliver long-term value to all of our stakeholders.

We have developed several tactics to meet these goals:

1. *Identify market niches.* Based on our assessment of long-term market, customer and competitive trends and opportunities, we focus on product or market niches in banking for small businesses and consumers where our understanding of customer needs and ability to meet them creates added value that permits us not to have to compete primarily on price. We do not believe it is necessary to be the largest or leading market share company in any of our product lines to earn an adequate risk-adjusted return, but we do believe it is important that we are viewed as a preferred provider of those product offerings in our niche segments. At present we provide small businesses and consumers with lending, leasing, deposit, advisory services and specialized mortgage products.

2. *Attract, develop and retain exceptional management with niche expertise.* We participate in lines of business only when we have attracted senior managers who have proven track records in the niche for which they are responsible. Our structure allows managers to focus their efforts on understanding their customers, meeting the needs of the markets they serve cost effectively, and identifying and controlling the risks inherent in their activities. This structure also promotes accountability among managers of each segment. We attempt to create a mix of short-term and long-term rewards that provide these managers with the incentive to achieve well-controlled, profitable growth over the long term.

3. *Diversify capital and earnings risk.* We diversify our revenues, credit risk, and application of capital across complementary lines of business and across different regions as a key part of our risk management. For example, the customers of our commercial bank have different growth and risk profiles in the Midwest and West. These markets perform differently due to differences in local economies, affecting both demand and credit quality of our products. Our home equity segment lends to consumers on a national basis, building a diversified portfolio where demand and credit quality fluctuate depending, in part, on local market conditions. Our customers credit needs 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.

4. *Focus on organic growth.* We primarily focus on growth through organic expansion of existing lines of business as we believe this approach often provides a better risk/return profile. Over the past ten years, we have made only a few acquisitions. Those have typically not been in competitive bidding situations.

5. *Identify opportunities for coordination and efficiencies across the Bank.* We have recently increased our attention to the identification of areas in which we can better coordinate and consolidate non-customer facing operations within our segments. Our objective is to improve risk management and operating efficiency without diminishing our ability to provide a high level of service to our customers. Our efforts to date have focused on the centralization of certain risk management functions, as well as improvements in information technologies, procurement, and transactional accounting through shared services.

6. *Create and maintain risk management systems appropriate to our size, scale and scope.* These systems are an integral part of a well-managed banking organization and are as important to our future success as hiring good people and offering products and services in attractive niches. We are engaged in a multiyear process of enhancing our management depth and systems for assuring that we operate our businesses within the risk appetite established by our board of directors. The system we are creating provides centralized guidance and support from staff with demonstrated risk management expertise, who provide an independent perspective assessing and assisting the risk management processes and systems that are an integral part of each of our managers responsibilities.

We believe long-term growth and profitability will result from our endeavors to serve attractive niches within commercial and consumer banking, our experienced management, our diverse products and geographic markets, and our focus on risk management systems.

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Outlook

We expect to return to profitability by the second half of the year and possibly sooner. Depending primarily on the delinquency and charge-off levels in our home equity and commercial banking portfolios (and the additions to the allowance for loans and lease losses driven by those statistics), we believe profitability in the second half of the year should be enough to make us profitable for the full year in 2008.

The substantial loss we sustained in 2007 can be directly traced to the unprecedented dislocation in the housing markets (and a spike in mortgage repurchase demands at our Discontinued Operations in the third quarter), rising unemployment, and less liquidity in certain portions of the credit markets. While only the rise in repurchase demands has abated so far, the steps taken during 2007 to increase our reserves and decrease our operating expenses should enable us to return to profitability.

We have three principal financial goals this year:

1. As noted above, the first is to return to profitability. Given current and predicted conditions in the economy, we believe this is achievable, although our plans indicate a level of profitability well below our long-term targets.

2. Manage our balance sheet to maintain strong capital and good liquidity through this period of economic stress.

3. Manage our credit relationships and servicing and collections platforms to minimize our credit loss exposures.

In 2006, we reached a conclusion about the commoditization and irrational pricing of the first mortgage business. Accordingly, we sold our interests in that segment. We were not, however, able to predict the severity or widespread nature of the losses sustained over the past two years, driven by the unexpectedly rapid and dramatic changes in the residential housing markets, borrower attitudes about defaulting on their mortgages, and borrower fraud. In times of elevated uncertainty, few can make accurate predictions. We believe the most appropriate response to the current economic environment is to plan conservatively and carefully in case conditions do not improve soon.

As such, over the past several quarters we have focused on constraining balance sheet growth and reducing overall operating expenses, while strengthening our credit underwriting, servicing, collections, and risk management areas. This has had a drag on recent results, but we think our actions position us for improved results in 2008. In addition, we have added substantially to loss reserves. In 2007 we added $135 million to reserves, more than double our actual losses of $64 million. This addition to reserves has increased the ratio of reserves to loans and leases from 1.4 percent to 2.5 percent. If our assumptions about the degree to which actual (i.e., realized) losses will increase in 2008 due to economic conditions prove true, these reserves the expense for which we have already recognized will help in managing our way to profitability in spite of a difficult economic environment.

Our consumer segments home equity and discontinued operations had substantial losses in 2007. We believe 2008 will be better in both.

In our home equity segment, we had several set-backs in 2007.

1. Secondary market liquidity for non-conforming mortgage products shut-down in 2007. As a risk-mitigation step, we accelerated the securitization of loans in the second quarter and were able to match-fund $300 million of loans prior to that market collapsing in the summer.

This securitization, like most we have done in this segment, has served to limit our risk of catastrophic loss. This is a very important risk mitigating factor in sizing our ultimate risk to defaults in this segment. Please refer to the section on Home Equity Servicing and Credit Quality in the discussion of the home equity segment for additional information. In short, while we bear some risk of loss on these securitized loans, our loss is limited to the degree of overcollateralization we accepted in selling the loans to the securitization trusts. We are not obligated to, nor do we expect that we would, support the bonds issued by these trusts by providing cash or other security interest to the trusts in the future should the underlying home equity loan performance be insufficient to support debt service to bondholders. In addition, it should be noted that such a potential debt service short-fall to the bondholders would not be considered an event of default by Irwin as we are not the obligors on these securitization bonds. As of December 31, 2007, the overcollateralization embedded in the home equity securitization trusts, or the amount we have risk to future losses, totaled approximately $150 million.

2. The lack of secondary market liquidity in the second half of the year (and continuing into 2008) meant, however, that we needed to modify our product offerings significantly and limit our production to the amount we wished to hold on balance sheet. This significantly reduced our production and led us to meaningfully reduce staff. In total, we reduced staff (FTE s) by 152 or 31 percent, incurring severance-related charges of $4 million. In this segment, we have reduced our annualized non-interest expense by about $12 million.

3. A disproportionate share of our realized and expected losses have arisen from a portfolio we originated prior to 2007 and held in for sale classification in early 2007. These loans were underwritten to third-party credit guidelines and as mortgage market conditions deteriorated in 2007, these third-party buyers left the market. We ceased origination of these types of loans as soon as secondary market outlets for them were withdrawn. Rather than selling into a depressed market, we reclassified these loans, approximately $167 million, into held-for-investment status, having marked them to then current market. Throughout 2007, the credit quality of these loans continued to deteriorate, leading to heightened charge-offs and higher provisions.

These issues notwithstanding, we now have a smaller, but very motivated team in this segment, a highly-rated servicing platform, and we believe, a good opportunity, with some stabilization in the housing markets, to lower our losses in 2008 particularly in the second half of the year and possibly sooner. This segment is unlikely to return to profitability until delinquencies in its portfolio not only cease to rise, but start to fall meaningfully. At the present time, we cannot predict when that will be. However, even reducing our loss in the home equity segment should allow consolidated results to return solidly to profitability. Until the residential real estate markets in the US normalize and we can assess the long-term attractiveness of the mortgage markets, we will continue to limit production in this segment and seek to reduce the size of our home equity portfolio over time.

In our Discontinued Operations, we have largely wound-up operational issues, but took significant charges in 2007 to reserve for loan repurchase risks, reflecting a spike in repurchase demands in the third quarter. Our reserve held-up well with no additional repurchase reserves needed in the fourth quarter. The risk of needing additional reserves is declining as time passes; it has been nearly a year and a half since we originated our last loan in this segment. We are maintaining a limited number of qualified staff who continue to manage our residual liabilities and responsibilities from prior activities.

We expect our commercial banking segment to have improved results in 2008, but the degree of improvement will depend on economic conditions in their principal markets in the Midwest and West. In 2007, slow deposit and loan growth, excess staffing, narrowing net interest margins, and increases in our loan loss provision including covering the costs of a loan fraud which accounted for nearly 40 percent of the 2007 losses in this segment all contributed to a disappointing year. Through selective staff reductions and strengthening of our capabilities in areas such as deposit sales, we believe net income can increase, notwithstanding what we believe will be difficult economic headwinds and higher credit costs.

Finally, we also anticipate income growth in our commercial finance segment. This portion of the Corporation has performed well by managing the environment with good product positioning, credit quality, and healthy net interest margins.

The past two years have been very challenging for our organization. We have taken a number of steps to maintain our financial strength throughout the period. As a result, we are in a good capital and liquidity position to weather the current difficult environment for banks. For example:

Our lead bank, Irwin Union Bank and Trust, began the year 2007 with a risk-weighted capital ratio of 12.8 percent. In spite of losing $45 million in 2007, the Bank ended the year with a risk-weighted capital ratio of 12.5 percent. This compares to our Capital Policy Limit of 12.0 percent. We maintained this strong capital by proactively reducing our balance sheet to maintain capital ratios above our internal limits through asset sales, participations, credit tightening, production limitations and run off.

We have a Liquidity Policy and liquidity contingency plans which have been in place for several years. These have been functioning well in this time of stress. The primary metric used in liquidity planning is Available-But-Unused Funds or ABU. While ABU has declined in the past year, principally reflecting the loss of escrow deposits as the Corporation reduced its risk profile by selling substantially all its Mortgage Servicing Rights (MSRs), liquidity remained good. The current level of ABU is in excess of $500 million, comfortably above the Board s policy limit for ABU of $375 million.

Our Board of Directors has taken added steps to help ensure we have a strong capital base with which to weather the uncertainties in the current market and outlook. The Board has elected to defer dividend payments on the Corporation s trust preferred securities and elected to discontinue payment of dividends on its non-cumulative perpetual preferred and common stock to further bolster capital. The Board took these actions as it believes, in a total stakeholder balance, that the elevated uncertainty in the current environment demands a greater bias to capital retention on a precautionary basis than to distribution of cash from retained earnings for maintenance of historic dividends.

Our current outlook for 2008 is that we will return to profitability. The Board will reassess its dividend policy regularly with an eye towards resuming the cash revenue of the deferred dividends on trust preferred securities and recommencing dividends on the non-cumulative perpetual preferred and common stock once the level of uncertainty in the current market declines and the profitability of the Corporation supports such dividends. The ability to pay future dividends will be subject to the regulatory restrictions discussed above.

Critical Accounting Policies/Management Judgments and Accounting Estimates

Accounting estimates are an integral part of our financial statements and are based upon data analysis and judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from our current judgments or that our use of different assumptions could result in materially different estimates. The following is a description of the critical accounting policies we apply to material financial statement items, all of which require the use of accounting estimates and/or judgment:

Valuation of Mortgage Servicing Rights

When we securitize or sell loans, we may retain the right to service the underlying loans sold. For cases in which we retain servicing rights, a portion of the cost basis of loans sold is allocated to a servicing asset based on its fair value relative to the loans sold and the servicing asset combined. Servicing rights associated with first mortgages are carried at lower of cost or fair market value. We use a combination of observed pricing on similar, market-traded servicing rights and internal valuation models that calculate the present value of future cash flows to determine the fair value of the servicing assets. These models are supplemented and calibrated to market prices using inputs from independent servicing brokers, industry surveys and valuation experts. In using this valuation method, we incorporate assumptions that we believe market participants would use in estimating future net servicing income, which include, among other items, estimates of the cost of servicing per loan, the discount rate, float value, an inflation rate, ancillary income per loan, prepayment speeds, and default rates.

For servicing assets associated with second mortgages and high loan-to-value first mortgages, the fair value measurement method of reporting these servicing rights was elected beginning January 1, 2007, in accordance with SFAS 156, Accounting for Servicing of Financial Assets. Under the fair value method, we measure servicing assets at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur.

All remaining servicing rights follow the amortization method for subsequent measurement whereby these servicing rights are amortized in proportion to and over the period of estimated net servicing income.

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Allowance for Loan and Lease Losses and Repurchase Reserves

The allowance for loan and lease losses (ALLL) is an estimate based on management s judgment applying the principles of SFAS 5, Accounting for Contingencies, SFAS 114, Accounting by Creditors for Impairment of a Loan, and SFAS 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. The allowance is maintained at a level we believe is adequate to absorb probable losses inherent in the loan and lease portfolio. We perform an assessment of the adequacy of the allowance on a quarterly basis.

Within the allowance, there are specific and expected loss components. The specific loss component is assessed for loans we believe to be impaired in accordance with SFAS 114. We have defined impairment as nonaccrual loans. For loans determined to be impaired, we measure the level of impairment by comparing the loan s carrying value to fair value using one of the following fair value measurement techniques: present value of expected future cash flows, observable market price, or fair value of the associated collateral. An allowance is established when the fair value implies a value that is lower than the carrying value of that loan. In addition to establishing allowance levels for specifically identified impaired loans, management determines an allowance for all other loans in the portfolio for which historical experience indicates that certain losses exist. These loans are segregated by major product type, and in some instances, by aging, with an estimated loss ratio applied against each product type and aging category. The loss ratio is generally based upon historic loss experience for each loan type as adjusted for certain environmental factors management believes to be relevant.

It is our policy to promptly charge off any loan, or portion thereof, which is deemed to be uncollectible. This includes, but is not limited to, any loan rated Loss by the regulatory authorities. Impaired commercial credits are considered on a case-by-case basis. The amount charged off includes any accrued interest. Unless there is a significant reason to the contrary, consumer loans are charged off when deemed uncollectible, but generally no later than when a loan is past due 180 days.

See the Credit Risk section of Management s Discussion and Analysis and Footnote 6 to the consolidated financial statements for further discussion.

In addition to the ALLL, at our discontinued mortgage banking segment we have recorded a reserve for potential losses resulting from repurchases in instances where there were origination errors. Such errors include inaccurate appraisals, errors in underwriting, and ineligibility for inclusion in loan programs of government-sponsored entities which programs relieve us of future credit losses. In determining reserve levels for repurchases, we estimate the number of loans with origination errors, the year in which the loss will occur, and the severity of the loss upon occurrence applied to an average loan amount. Inaccurate assumptions in setting this reserve could result in changes in future reserves.

Accounting for Deferred Taxes

Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. We make this measurement using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. We recognize deferred tax assets, in part, based on estimates of future taxable income. Events may occur in the future that could cause the ability to realize these deferred tax assets to be in doubt, requiring the need for a valuation allowance.

Incentive Servicing Fees

For whole loan sales of certain home equity loans, in addition to our normal servicing fee, we have the right to an incentive servicing fee (ISF) that will provide cash payments to us if a pre-established return for the certificate holders and certain structure-specific loan credit and servicing performance metrics are met. Generally the structure-specific metrics involve both a delinquency and a loss test. The delinquency test is satisfied if, as of the last business day of the preceding month, delinquencies on the current pool of mortgage loans are less than or equal to a given percentage. The loss test is satisfied if, on the last business day of the preceding month, the percentage of cumulative losses on the original pool of mortgage loans is less than or equal to the applicable percentage as outlined in the specific deal documents. We receive ISF payments monthly once the pre-established

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return has been paid to the certificate holder, if the delinquency and loss percentages are within guidelines. If we are terminated or replaced for cause as servicer under the securitization, the cash flow stream under the ISF contract terminates.

We account for ISFs similar to management contracts under Emerging Issues Task Force Topic No. D-96, Accounting for Management Fees Based on a Formula. Accordingly, we recognize revenue on a cash basis as the pre-established performance metrics are met and cash is due.

Consolidated Overview

	2007	% Change	2006	% Change	2005
Net (loss) income from continuing operations (millions)	$ (24.1)	(165)%	$ 37.4	3%	$ 36.2
Net (loss) income (millions)	(54.7)	(3,266)%	1.7	(91)%	19.0
Basic earnings per share from continuing operations	(0.87)	(169)%	1.27	0%	1.27
Basic earnings per share	(1.91)	(3,283)%	0.06	(91)%	0.67
Diluted earnings per share from continuing operations	(0.90)	(172)%	1.25	(1)%	1.26
Diluted earnings per share	(1.94)	(3,980)%	0.05	(92)%	0.66
Return on average equity from continuing operations	(4.8)%		7.1%		7.5%
Return on average assets from continuing operations	(0.4)%		0.6%		0.6%

As discussed below, the financial statements, footnotes, schedules and discussion within this report conform to the presentation required for discontinued operations pursuant to the sale of our mortgage banking line of business and specifically exclude results for those operations now designated Discontinued Operations (see Footnote 2 of the Notes to the Consolidated Financial Statements).

Consolidated Income Statement Analysis

Net Income from Continuing Operations

We recorded a net loss from continuing operations of $24 million for the year ended December 31, 2007, down from net income from continuing operations of $37 million for the year ended December 31, 2006, and $36 million in 2005. Net loss per share (diluted) from continuing operations was $0.90 for the year ended December 31, 2007, down from income of $1.25 per share in 2006 and $1.26 per share in 2005. Return on equity from continuing operations was (4.8)% for the year ended December 31, 2007, 7.1% in 2006 and 7.5% in 2005. The decrease in 2007 earnings from continuing operations relates to the significant deterioration of the mortgage markets. This disruption led to large losses in the home equity segment as a result of increasing provision for loans losses. During 2007, we provided $135 million in loan loss provision compared to $35 million in 2006 and $27 million in 2005. This provision is based on significant revisions in our expectations of future losses that have not yet been incurred. We believe these reserves adequately reflect our risk of loss in the current and expected environment. Our need for higher or lower reserves will change as likelihood of customer defaults changes.

Net Interest Income from Continuing Operations

Net interest income from continuing operations for the year ended December 31, 2007 totaled $262 million, up 2% from 2006 net interest income from continuing operations of $257 million and up 13% from 2005.

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The following table shows our daily average consolidated balance sheet and interest rates at the dates indicated. We do not show interest income on a tax equivalent basis because it is not materially different from the results in the table.

	December 31,								
	2007			2006			2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
ssets									
nterest-earning assets:									
nterest-bearing eposits with financial nstitutions	$ 49,587	$ 2,668	5.38%	$ 72,110	$ 2,925	4.06%	$ 80,508	$ 1,816	2.26%
ederal funds sold	13,765	619	4.50	30,419	1,527	5.02	15,064	387	2.57
esidual interests	10,458	1,100	10.52	13,512	1,536	11.37	39,942	6,948	17.40
nvestment securities	138,866	7,647	5.51	117,164	5,816	4.96	107,220	5,813	5.42