ORIGEN FINANCIAL INC
Form 10-K
March 15, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2006

OR

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

Commission File No. 000-50721

ORIGEN FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0145649**
State of Incorporation	I.R.S. Employer I.D. No.

27777 Franklin Road
Suite 1700
Southfield, Michigan 48034
(248) 746-7000

(Address of principal executive offices and telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, Par Value $0.01 per Share

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

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

Indicate by check mark 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 registrant 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

As of June 30, 2006, the aggregate market value of the registrant s stock held by non-affiliates was approximately $109,011,991 (computed by reference to the closing sales price of the registrant s common stock as of June 30, 2006 as reported on the Nasdaq National Market). For this computation, the registrant has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of the registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the registrant.

As of March 1, 2007, there were 25,865,401 shares of the registrant s common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive Proxy Statement to be filed for its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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As used in this report, Company , Us , We , Our and similar terms means Origen Financial, Inc., a Delaware corporation, and, as the context requires, one or more of its subsidiaries.

PART I

ITEM 1. BUSINESS

General

Origen Financial, Inc. is an internally-managed and internally-advised Delaware corporation that is taxed as a real estate investment trust, or REIT. We are a national consumer manufactured housing lender and servicer. Currently, we originate loans in 43 states and we service loans in 47 states. We and our predecessors have originated more than $2.6 billion of manufactured housing loans from 1996 through December 31, 2006 including $282.7 million in 2006. We additionally processed $49.6 million in loans originated under third-party origination agreements in 2006. As of December 31, 2006, our loan servicing portfolio of over 37,600 loans totaled approximately $1.6 billion in loan principal outstanding.

Origen Financial, Inc. was incorporated on July 31, 2003. On October 8, 2003, we began operations when we acquired all of the equity interests of Origen Financial L.L.C. and its subsidiaries. In the second quarter of 2004, we completed the initial public offering of our common stock. Currently, most of our operations are conducted through Origen Financial L.L.C., our wholly-owned subsidiary. We conduct the rest of our business operations through our other wholly-owned subsidiaries, including taxable REIT subsidiaries, to take advantage of certain business opportunities and ensure that we comply with the federal income tax rules applicable to REITs.

Our executive office is located at 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034 and our telephone number is (248) 746-7000. We maintain our servicing operations in Ft. Worth, Texas and have other regional offices located in Duluth, Georgia and Glen Allen, Virginia. As of December 31, 2006, we employed 278 people.

Our website address is www.origenfinancial.com and we make available, free of charge, on or through our website all of our periodic reports, including our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission.

Recent Developments

Servicer Rating

In June 2006, Moody s Investors Service assigned Origen Servicing, Inc. a rating of SQ2- as a Primary Servicer of manufactured housing loans. Origen Servicing, Inc. is a wholly owned subsidiary of Origen Financial, L.L.C. Moody s rating is based on our above average collection ability and average financial stability.

2006 A Securitization

In August 2006, we completed our Origen Manufactured Housing Contract Trust Collateralized Notes, Series 2006-A transaction. In this securitization, a special-purpose subsidiary issued approximately $200.6 million in asset-backed certificates secured by manufactured housing contracts with two separate floating rate classes of AAA rated bonds. Additional credit enhancement was provided through the issuance of a financial guaranty insurance policy by Ambac Assurance Corporation.

James A. Williams

James A. Williams, a member of our Board of Directors, died on January 29, 2007. Mr. Williams, age 64, served as a director since our inception in 2003. Mr. Williams was the Chairman of the Compensation Committee, Chairman of the Audit Committee and a member of the Executive Committee and the Nominating and Governance Committee of our Board of Directors.

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Loan Origination, Acquisition and Underwriting

General

We and our predecessors have originated more than $2.6 billion of manufactured housing loans from 1996 through December 31, 2006, including $282.7 million in 2006. We additionally processed $49.6 million in loans originated under third-party origination agreements in 2006. We originate and intend to continue to originate manufactured housing loans to borrowers who have above average credit profiles and above average income, each as compared to manufactured housing borrowers as a whole.

Although we consider FICO scores in underwriting loans, our primary underwriting tool is TNG , an internally-developed, externally-validated proprietary statistical scoring system that ranks the risk of default for our manufactured home-only loans. Our loan origination activities are conducted through proprietary systems maintained and enhanced by an internal staff of systems professionals. Our home-only loan or chattel origination activities are centralized at our Southfield, Michigan executive offices and our land-home origination activities are centralized at our Ft. Worth, Texas facility.

Dealer, Broker and Correspondent Network

We currently provide new and pre-owned manufactured housing financing through a network of over 900 primarily independent retailers of new and pre-owned manufactured houses and loan brokers specializing in the manufactured housing industry. We are focused on penetrating our existing broker/retailer network to achieve a higher level of approvals and fundings from those approvals. Each loan submitted to us by a retailer or broker must meet the standards for loan terms, advance amounts, down payment requirements, residency type, and other pertinent parameters we have established under our housing loan purchase programs.

We have invested heavily in technology to increase our penetration into the retailer network and to streamline the application, approval and funding process. We have a proprietary web-based delivery system, known as Origen Focus , for application, approval, funding, tracking, and reporting of loans. This system allows for the application to be submitted and tracked over the internet. During 2006, approximately 81% of our application volume was submitted through Origen Focus. Loan applications submitted through Origen Focus seamlessly interface electronically with our other proprietary loan processing systems. Origen Focus also eliminates the need for personnel to input loan applications, improving our productivity and reducing our staffing costs.

We perform initial and periodic reviews of our loan sources. We underwrite their credit profile, industry experience, sales and financing plans. We regularly monitor retailer performance and rank retailers according to their default, delinquency, credit quality, approval and funding ratios, and the volume of loans they submit to us, and, if necessary, we terminate relationships with non-performing retailers.

We have developed a rewards program called Origen Elite Rewards that provides benefits to the loan sources that provide us with the highest quality loans. These benefits include guaranteed same day turnaround for completed applications and other service enhancements, specific pricing incentives and improved financing options for new and pre-owned homes.

We also offer Recovery Rewards , a program that aligns the interests of the retailer, the borrower and the lender. Recovery Rewards provides an incentive to sources whose loans perform, and who assist us in improving recovery on those that do not.

During 2006, we entered into several correspondent relationships to source land-home loans. Given the timing of the formation of these relationships, only $5.0 million in loan volume was realized in 2006. We look to substantially expand this channel of origination in 2007.

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Underwriting

We underwrite home-only loans, using our internally-developed proprietary credit scoring system, TNG. We developed and continue to enhance TNG to predict defaults using empirical modeling techniques. TNG takes into account information about each applicant s credit history, debt and income, demographics, and the terms of the loan. The TNG model is fully integrated into our origination system and is based on our historical lending experience. We have used TNG to back-test all of our home-only loans originated since 1996 by Origen Financial L.L.C., its predecessors and us. Following internal testing and validation, Experian Information Solutions, Inc., a leading consumer credit reporting and risk modeling company, independently validated the TNG model.

All home-only applications are scored by TNG and then reviewed by an underwriter. TNG provides the underwriter a recommendation of pass, fail or review. The recommendations are based upon the underlying TNG score as well as other factors that may arise from the application. TNG alerts underwriters to particular attention areas and provides review recommendations. It also provides a reason for declination on fail recommendations. TNG is used to rescore the application throughout the origination and underwriting process as the initial application information is verified and/or terms and conditions of the loan change. In specially approved markets a comparable appraisal is used to determine chattel manufactured housing values.

We also underwrite mortgage loans, often called land-home loans, collateralized by both the manufactured houses and the underlying real estate. Because the land-home and home-only business lines have different characteristics, predictive modeling has only been possible for the home-only applications. We use our Internal Credit Rating grid and a full property appraisal to underwrite land-home loans. The grid is a traditional underwriting method that primarily takes into account the applicant s credit history, debt capacity and underlying collateral value.

In addition to using our proprietary TNG scoring model, we underwrite loans based upon our review of credit applications to ensure loans will comply with internal company guidelines, which are readily available on our intranet site. Our approach to underwriting focuses primarily on the borrower s creditworthiness and the borrower s ability and willingness to repay the debt, which is evaluated through TNG. Each contract originated by us is individually underwritten and approved or rejected based on the TNG result and an underwriter s evaluation of the terms of the purchase agreement, a detailed credit application completed by the prospective borrower and the borrower s credit report, which includes the applicant s credit history as well as litigation, judgment and bankruptcy information. Once all the applicable employment, credit and property-related information is received, the application is evaluated to determine whether the applicant has sufficient monthly income to meet the anticipated loan payment and other obligations.

Third-Party Originations

We currently provide comprehensive loan origination services for several companies, including Affordable Residential Communities (ARC), Sun Communities, Inc. (Sun Communities) and Hometown America (Hometown), each of which is a nationwide owner-operator of manufactured housing communities. Under these arrangements, we commit to use our origination platform to originate manufactured housing loans for these third parties, which own the loans. We receive upfront commitment fees for these origination services. In addition, we have the right to receive a servicing fee with respect to many of these third party loans, although currently we do not retain servicing rights for the Hometown loans. In the future we may seek to provide origination services to other third parties under similar arrangements. We enter into these types of third-party arrangements primarily to strengthen our relationships within the manufactured housing industry with the goal of creating additional sources of revenue, especially servicing revenue. In addition, the increased loan origination volume provided by these arrangements provides valuable information that we use in our internal credit modeling and securitization program analyses.

Acquisitions of Manufactured Housing Loans and Securities from Existing Securitizations

We believe there may be selective opportunities to acquire existing portfolios of manufactured housing whole loans and bonds in outstanding securitizations backed by manufactured housing loans. In the past we have acquired, and from time to time we may seek to acquire, such assets at attractive prices.

Servicing

We service the manufactured housing loan contracts that we originate or purchase as well as manufactured housing loan contracts owned by third parties. As of December 31, 2006, our loan servicing portfolio of over 37,600 loans totaled approximately $1.6 billion in loan principal outstanding. Our annual servicing fees range from 50 to 150 basis points of the outstanding balance on manufactured housing loans serviced. The vast majority of loans we service are included in securitized loan pools. As opportunities present themselves, we intend to grow our servicing business by acquiring the servicing or subservicing rights to portfolios of manufactured housing loans owned by third parties, including companies that have stopped originating manufactured home loans but continue to own loan portfolios.

Servicing activities include processing payments received, recording and tracking all relevant information regarding the loan and the underlying collateral, collecting delinquent accounts, remitting funds to investors, repossessing houses upon loan default and reselling repossessed houses. Our loan servicing activities are centralized at our national loan servicing center in Ft. Worth, Texas.

Although we strive to continuously reduce delinquency, our primary servicing objectives are to maintain a stream of borrower payments, limit loan defaults, and maximize recoveries on defaulted loans. Accordingly, we perform loss mitigation activities on delinquent loans whereby we maintain the borrower s delinquent status during the payment plan or other loan workout situation. The industry has typically reported borrowers in loss mitigation as current. In our efforts to maximize recoveries on defaulted loans, we may hold repossessed collateral longer to achieve a retail sale to a consumer for a higher price rather than a quicker sale to a reseller at a lower price. This business strategy may cause us to report higher delinquencies, but usually leads to improved default and recovery performance.

Securitizations

We have securitized a substantial portion of our owned manufactured housing loans and intend in the future to originate and acquire manufactured housing loans for securitization. After accumulating enough manufactured housing loans (typically not less than $150 million), we use transactions known as asset-backed securitizations to pay off short term debt, replenish funds for future loan originations, limit credit risk, and lock in the spread between interest rates on borrowings with the interest rates on our manufactured housing loans. In our securitizations, the manufactured housing loans are transferred to a bankruptcy remote trust that then issues bonds, typically both senior and subordinate, collateralized by those manufactured housing loans. By securitizing loans in this way, we eliminate the credit risk on our manufactured housing loans up to the amount of bonds sold to investors. Likewise, the form of securitization is designed to insulate the securitized loans from our creditors if we file for bankruptcy so that the loans supporting the bonds issued by the trust will not be encumbered. This process enables us to fund our business at competitive rates without asset-backed bond investors relying on our corporate credit-worthiness.

In August 2006 we completed our 2006-A securitization of approximately $224.2 million in principal balance of manufactured housing loans.

Insurance

As a complement to our origination and servicing business, we offer property and casualty insurance at the point of sale for manufactured housing loans we have originated or service. Additionally, we have historically placed property and casualty insurance for lapsed policies, primarily for manufactured housing loans we have originated or service. We estimate that the closing of approximately 30% of all manufactured housing loans we originate is delayed because the borrower has not obtained insurance or the insurance policy obtained by the borrower does not meet our guidelines. By offering our borrowers the opportunity to obtain insurance from us, we are able to close loans more quickly and efficiently because all insurance policies placed through us will meet our guidelines.

Competition

The demand for manufactured housing financing is driven by the demand for manufactured housing. Low mortgage rates and the availability of interest-only loans for traditional site built housing has placed manufactured housing at a competitive disadvantage.

The manufactured housing finance industry is very fragmented. The market is served by both traditional and non-traditional consumer finance sources. Several of these financing sources are larger than us and have greater financial resources. In addition, some of the manufactured housing industry s larger manufacturers maintain their own finance subsidiaries to provide financing for purchasers of their manufactured houses. Our largest competitors in the industry include Clayton Homes, Inc., through its subsidiaries 21st Mortgage Corporation and Vanderbilt Mortgage and Finance, Inc., U.S. Bank, San Antonio Federal Credit Union and Triad Financial Services, Inc. Traditional financing sources such as commercial banks, savings and loans, credit unions and other consumer lenders, many of which have significantly greater resources than us and may be able to offer more attractive terms to potential customers, including non-traditional mortgage products, also provide competition in our market. Competition among industry participants can take many forms, including convenience in obtaining a loan, amount and term of the loan, customer service, marketing/distribution channels, loan origination fees, interest rates and credit related factors.

Corporate Governance

We have implemented the following corporate governance initiatives to address certain legal requirements promulgated under the Sarbanes-Oxley Act of 2002, as well as Nasdaq corporate governance listing standards:

Our Board of Directors determined that at least one member of the Audit Committee of our Board of Directors qualifies as an audit committee financial expert as such term is defined under Item 401 of Regulation S-K. Each Audit Committee member is independent as that term is defined under applicable SEC and Nasdaq rules.

Our Board of Directors adopted a Financial Code of Ethics for Senior Financial Officers, which governs the conduct of our senior financial officers. A copy of this code is available on our website at www.origenfinancial.com under the heading Investors and subheading Corporate Governance and is also available in print to any stockholder upon written request to Origen Financial, Inc., 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034.

Our Board of Directors established and adopted charters for each of its Audit, Compensation and Nominating and Governance Committees. Each committee is comprised of independent directors. A copy of each of these charters is available on our website at www.origenfinancial.com under the heading Investors and subheading Corporate Governance and is also available in print to any stockholder upon written request to Origen Financial, Inc., 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034.

Our Board of Directors adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees. A copy of this code is available on our website at www.origenfinancial.com under the heading Investors and subheading Corporate Governance and is also available in print to any stockholder upon written request to Origen Financial, Inc., 27777 Franklin Road, Suite 1700, Southfield, Michigan 48034. Additionally, we maintain a Confidential and Anonymous Ethics Complaint Hotline maintained with an independent third party so that employees may confidentially report infractions against our Code of Business Conduct and Ethics to the Compliance Committee. Through this arrangement, each Compliance Committee member has access to two-way anonymous communications with the reporting employee. There are three submission methods (voicemail, email and web form). There is a message management system that provides the member an up-to-date snapshot of all incoming and outgoing communications. The ethics hotline is accessible through our intranet system.

The Sarbanes Oxley Act of 2002 requires the establishment of procedures whereby each member of the Audit Committee of our Board of Directors is able to receive confidential, anonymous communications regarding concerns in the areas of accounting, internal controls or auditing matters. We have established a Confidential and Anonymous Financial Complaint Hotline , or whistleblower hotline, maintained with an independent third party. Through this arrangement, each Audit Committee member has access to two-way anonymous communications with the whistleblower. There are three submission methods (voicemail, e-mail and web form). There is a message management system that provides the member an up-to-date snapshot of all incoming and outgoing communications. The Whistleblower Hotline is accessible through our website at www.origenfinancial.com under the heading Investors .

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ITEM 1A. RISK FACTORS

Our prospects are subject to certain uncertainties and risks. Our future results could differ materially from current results, and our actual results could differ materially from those projected in forward-looking statements as a result of certain risk factors. These risk factors include, but are not limited to, those set forth below, other one-time events, and important factors disclosed previously and from time to time in our other filings with the Securities and Exchange Commission. This report contains certain forward-looking statements.

Risks Related to Our Business

We may not generate sufficient revenue to make or sustain distributions to stockholders.

We intend to distribute to our stockholders substantially all of our REIT net taxable income each year so as to avoid paying corporate income tax on our earnings and to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. Distributions will be made at the discretion of our Board of Directors. Our ability to make and sustain cash distributions is based on many factors, including the performance of our manufactured housing loans, our ability to borrow at favorable rates and terms, interest rate levels and changes in the yield curve and our ability to use hedging strategies to insulate our exposure to changing interest rates. Some of these factors are beyond our control and a change in any such factor could affect our ability to pay future distributions. We cannot assure our stockholders that we will be able to pay or maintain distributions in the future. We also cannot assure stockholders that the level of distributions will increase over time and that our loans will perform as expected or that the growth of our loan acquisition and servicing business will be sufficient to increase our actual cash available for distribution to stockholders.

We may not have access to capital to meet our anticipated needs.

Our ability to achieve our investment objectives depends to a significant extent on our ability to raise equity and to borrow money in sufficient amounts and on sufficiently favorable terms to earn incremental returns and on our ability to securitize our loans. There can be no assurance that we will be able to obtain such funding on terms favorable to us or at all. Even if such funding is available, we may not be able to achieve the degree of leverage we believe to be optimal due to decreases in the proportion of the value of our assets that we can borrow against, decreases in the market value of our assets, increases in interest rates, changes in the availability of financing in the market, conditions then applicable in the lending market and other factors. Our inability to access capital could jeopardize our ability to fund loan originations and continue operations.

We incur indebtedness to fund our operations, and there is no limit on the total amount of indebtedness that we can incur.

We borrow against, or leverage, our assets primarily through repurchase agreements, securitizations of manufactured housing loans and secured and unsecured loans. The terms of such borrowings may provide for us to pay a fixed or adjustable rate of interest, and may provide for any term to maturity that management deems appropriate. The total amount of indebtedness we can incur is not expressly limited by our certificate of incorporation or bylaws. Instead, management has discretion as to the amount of leverage to be employed depending on management s measurement of acceptable risk consistent with the nature of the assets then held by us. We face the risk that we might not be able to meet our debt service obligations and, to the extent we cannot, we might be forced to liquidate some of our assets at disadvantageous prices. Also, our debt service payments will reduce the net income available for distributions to stockholders. Our use of leverage amplifies the risks associated with other risk factors, which could reduce our net income or cause us to suffer a loss.

We may not be able to securitize our manufactured housing loans or do so on favorable terms.

We intend to securitize a substantial portion of the manufactured housing loans we originate. We intend to account for securitizations as secured financings. In a typical securitization, we issue collateralized debt securities of a subsidiary in multiple classes, which securities are secured by an underlying portfolio of manufactured housing loans owned by the subsidiary. Factors affecting our ability to securitize loans and to do so profitably, include:

- conditions in the asset-backed securities markets generally;
- conditions in the manufactured housing asset-backed securities markets specifically, including rating agencies views on the manufactured housing industry;
- the performance of the securities issued in connection with our securitizations;
- the nominal interest rate and credit quality of our loans;
- available market spreads over applicable indices on our cost of funds;
- our relationship with our bond and other investors in our securities and loans;
- our ability to obtain financial guaranty insurance policies, or insurance wraps, to enhance the credit of our securitized borrowing;
- compliance of our loans with the eligibility requirements for a particular securitization;
- our ability to adequately service our loans, including our ability to maintain a servicer rating;
- adverse changes in state and federal regulations regarding high-cost and predatory lending; and
- any material negative rating agency action pertaining to certificates issued in our securitizations.

In addition, federal income tax requirements applicable to REITs may limit our ability to use particular types of securitization structures.

If we are unable to profitably securitize or sell in the whole loan sale market the manufactured housing loans that we originate and that we may invest in from time to time, our net revenues for the duration of our investment in those manufactured housing loans would decline, which would lower our earnings for the time the loans remain in our portfolio. We cannot assure stockholders that we will be able to complete loan securitizations in the future on favorable terms, or at all.

Certain securitization structures may cause us to recognize income for accounting and tax purposes without concurrently receiving the associated cash flow.

Certain securitizations are structured to build overcollateralization over time with respect to the loans that are the subject of the securitization or to accelerate the payment on senior securities to enhance the credit ratings of such securities. Accordingly, these structures may cause us to recognize income without concurrently receiving the associated cash flow. We have used such securitization structures in the past and may use them in the future. These securitization structures and the possible resulting mismatch between income recognition and receipt of cash flow may require us to access the capital markets at times which may not be favorable to us.

Our business may not be profitable in the future.

While we had net income of approximately $7.0 million during the twelve months ended December 31, 2006, we incurred net losses of approximately $2.7 million and $3.0 million during the twelve months ended December 31, 2005 and 2004, respectively. Origen Financial L.L.C., our predecessor company, which we acquired in October 2003, experienced net losses in each year of its existence while growing its loan origination platform and business, including net losses of approximately $23.9 million for the period from January 1, 2003 through October 7, 2003 and $29.2 million for fiscal year 2002. We will need to generate significant revenues to maintain profitability. If we are unable to achieve and maintain sufficient revenue growth, we may not be profitable in the future. Even though we have achieved profitability during the twelve months ended December 31, 2006, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We depend on key personnel, the loss of whom could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of our senior management team. In general, we have entered into employment agreements with these individuals. There is no guarantee that these individuals will renew their employment agreements prior to the termination of the employment agreements, some of which are scheduled to expire in 2007, or that they otherwise will remain employed with us. The market for skilled personnel, especially those with the technical abilities we require, is currently very competitive, and we must compete with much larger companies with significantly greater resources to attract and retain such personnel. The loss of services of one or more key employees may harm our business and our prospects.

Future acquisitions of loan portfolios, servicing portfolios and other assets may not yield the returns we expect.

We may make future acquisitions or investments in loan portfolios, servicing portfolios and bonds in outstanding securitizations backed by manufactured housing loans. The relevant economic characteristics of the assets we may acquire in the future may not generate returns or may not meet a risk profile that our investors find acceptable. Furthermore, we may not be successful in executing our acquisition strategy.

Our profitability may be affected if we are unable to effectively manage interest rate risk and leverage.

We derive our income in part from the difference, or spread, between the interest earned on loans and interest paid on borrowings. In general, the wider the spread, the more we earn. In addition, at any point in time there is an optimal amount of leverage to employ in the business in order to generate the highest rate of return to our stockholders. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. In addition, interest rate changes affect the optimal amount of leverage to employ. This can cause increases or decreases in our spread and can affect our income, require us to modify our leverage strategy and affect returns to our stockholders. Factors such as inflation, recession, unemployment, money supply, international disorders, instability in domestic and foreign financial markets and other factors beyond our control may affect interest rates.

We may pay distributions that result in a return of capital to stockholders, which may cause stockholders to realize lower overall returns.

Until we are able to originate and securitize a sufficient number of loans to achieve our desired asset level and target leverage ratio, we may pay quarterly distributions that result in a return of capital to our stockholders. Any such return of capital to our stockholders will reduce the amount of capital available to us to originate and acquire manufactured housing loans, which may result in lower returns to our stockholders. Return of capital amounted to 5.5% and 77.8% of distributions in 2006 and 2005, respectively.

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Some of our investments are illiquid and their value may decrease.

Some of our assets are and will continue to be relatively illiquid. In addition, certain of the asset-backed securities that we may acquire may include interests that have not been registered under the relevant securities laws, resulting in a prohibition against transfer, sale, pledge or other disposition of those securities except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. Our ability to vary our portfolio in response to changes in economic and other conditions, therefore, may be relatively limited. No assurances can be given that the fair market value of any of our assets will not decrease in the future.

We may engage in hedging transactions, which can limit gains and increase exposure to losses.

Periodically, we have entered into interest rate swap agreements in an effort to manage interest rate risk. An interest rate swap is considered to be a hedging transaction designed to protect us from the effect of interest rate fluctuations on our floating rate debt and also to protect our portfolio of assets from interest rate and prepayment rate fluctuations. We intend to use hedging transactions, primarily interest rate swaps and caps, in the future. The nature and timing of interest rate risk management strategies may impact their effectiveness. Poorly designed strategies may increase rather than mitigate risk. For example, if we enter into hedging instruments that have higher interest rates embedded in them as a result of the forward yield curve, and at the end of the term of these hedging instruments the spot market interest rates for the liabilities that we hedged are actually lower, then we will have locked in higher interest rates for our liabilities than would be available in the spot market at the time and this could result in a narrowing of our net interest rate margin or result in losses. In some situations, we may sell assets or hedging instruments at a loss in order to maintain adequate liquidity. There can be no assurance that our hedging activities will have the desired beneficial impact on our financial condition or results of operations. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates and prepayment rates.

The competition we face could adversely affect our profitability.

The demand for manufactured housing financing is driven by the demand for manufactured housing. Reduced shipments of new houses from manufacturers may constrain our growth. The manufactured housing industry faces competition from the traditional site built housing industry, especially due to the wide availability of esoteric loan products from site built lenders. To the extent that an increase in the demand for site built housing decreases the demand for manufactured housing and manufactured housing financing, we could be adversely affected.

The manufactured housing finance industry is very fragmented. The market is served by both traditional and non-traditional consumer finance sources. Several of these financing sources are larger than us and have greater financial resources. In addition, some of the manufactured housing industry s larger manufacturers maintain their own finance subsidiaries to provide financing for purchasers of their manufactured houses. Our largest competitors in the industry include Clayton Homes, Inc., through its subsidiaries 21st Mortgage Corporation and Vanderbilt Mortgage and Finance, Inc., U.S. Bank, San Antonio Federal Credit Union and Triad Financial Services, Inc. Traditional financing sources such as commercial banks, savings and loans, credit unions and other consumer lenders, many of which have significantly greater resources than us and may be able to offer more attractive terms to potential customers, including non-traditional mortgage products, also provide competition in our market. Competition among industry participants can take many forms, including convenience in obtaining a loan, amount and term of the loan, customer service, marketing/distribution channels, loan origination fees, interest rates and credit related factors. To the extent any competitor expands their activities in the manufactured housing industry, we could be adversely affected.

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The success and growth of our business will depend upon our ability to adapt to and implement technological changes.

Our manufactured housing loan origination business is currently dependent upon our ability to effectively develop relationships with retailers, brokers, correspondents, borrowers and other third parties and to efficiently process loan applications and closings. The origination process is becoming more dependent upon technological advancement, such as the ability to process applications over the internet, accept electronic signatures, to provide process status updates instantly and other customer-expected conveniences that are cost-efficient to our process. Implementing new technology and becoming proficient with it may also require significant capital expenditures. As these requirements increase in the future, we will have to continually develop our technological capabilities to remain competitive or our business will be significantly harmed.

We may experience capacity constraints or system failures that could damage our business.

If our systems or third-party systems cannot be expanded to support increased loan originations, acquisitions of loan portfolios or additional servicing opportunities, or if such systems fail to perform effectively, we could experience:

- disruptions in servicing and originating loans;
- reduced borrower satisfaction;
- delays in the introduction of new loan services; or
- vulnerability to internet hacker raids,

any of which could impair our reputation, damage the Origen brand, or otherwise have a material adverse effect on our business, operating results and financial condition.

Our ability to provide high-quality service also depends on the efficient and uninterrupted operation of our technology infrastructure. Even though we have developed a redundant infrastructure to protect our systems and operations, our systems are vulnerable to damage or interruption from human error, natural disasters, telecommunication failures, break-ins, sabotage, failure to adequately document the operation of software and hardware systems and procedures, computer viruses, intentional acts of vandalism and similar events. If any of these events were to occur, our business could be materially and adversely affected. Although we maintain business interruption insurance to compensate for losses that could occur for any of these risks, such insurance may not be sufficient to cover a significant loss.

If the prepayment rates for our manufactured housing loans are higher than expected, our results of operations may be significantly harmed.

Prepayments of our manufactured housing loans, whether due to refinancing, repayments, repossessions or foreclosures, in excess of management s estimates could adversely affect our future cash flow as a result of the resulting loss of any servicing fee revenue and net interest income on such prepaid loans. Prepayments can result from a variety of factors, many of which are beyond our control, including changes in interest rates and general economic conditions.

If we are unable to maintain our network of retailers, brokers and correspondents, our loan origination business will decrease.

A significant majority of our originations of manufactured housing loans comes from retailers and brokers. The retailers and brokers with whom we do business are not contractually obligated to do business with us. Further, our competitors may also have relationships with these retailers and brokers and actively compete with us in our efforts to strengthen our retailer and broker networks. Accordingly, we cannot assure stockholders that we will be successful in maintaining our retailer and broker networks, the failure of which could adversely affect our ability to originate manufactured housing loans.

Part of our loan acquisition growth strategy involves the creation of correspondent relationships. To the extent we are not successful in forming these relationships, our loan acquisition volume could suffer.

We may not realize the expected recovery rate on the resale of a manufactured house upon its repossession or foreclosure.

Most states impose requirements and restrictions relating to resales of repossessed manufactured houses and foreclosed manufactured houses and land, and obtaining deficiency judgments following such sales. In addition to these requirements and restrictions, our ability to realize the expected recovery rate upon such sales may be affected by depreciation or loss of or damage to the manufactured house. Federal bankruptcy laws and related state laws also may impair our ability to realize upon collateral or enforce a deficiency judgment. For example, in a Chapter 13 proceeding under federal bankruptcy law, a court may prevent us from repossessing a manufactured house or foreclosing on a manufactured house and land. As part of the debt repayment plan, a bankruptcy court may reduce the amount of our secured debt to the market value of the manufactured house at the time of the bankruptcy, leaving us as a general unsecured creditor for the remainder of the debt. A Chapter 7 bankruptcy debtor, under certain circumstances, may retain possession of his or her house, while enforcement of our loan may be limited to the value of our collateral.

Data security breaches may subject us to liability or tarnish our reputation.

In the ordinary course of our business, we acquire and maintain confidential customer information. While we take great care in protecting customer information, we may incur liability if it is accessed by third parties and our customers suffer negative consequences, such as identity theft. We have taken precautions to guarantee the safety of all of our customers confidential information. We also periodically review all of our data security policies and procedures in an effort to avoid data breaches. However, there can be no guarantee that we will not be subject to future claims arising from data breaches. In addition, our relationships with our borrowers, retailers and brokers may be harmed if our reputation is tarnished by any such incident.

Risks Related to the Manufactured Housing Industry

Manufactured housing loan borrowers may be relatively high credit risks.

Manufactured housing loans make up substantially our entire loan portfolio. Typical manufactured housing loan borrowers may be relatively higher credit risks due to various factors, including, among other things, the manner in which borrowers have handled previous credit, the absence or limited extent of borrowers prior credit history, limited financial resources, frequent changes in or loss of employment and changes in borrowers personal or domestic situations that affect their ability to repay loans. Consequently, the manufactured housing loans we originate and have an ownership interest in bear a higher rate of interest, have a higher probability of default and may involve higher delinquency rates and greater servicing costs relative to loans to more creditworthy borrowers. Our profitability depends upon our ability to properly evaluate the creditworthiness of borrowers and price each loan accordingly and efficiently service the contracts by limiting our delinquency and default rates and foreclosure and repossession costs and by maximizing our recovery rates. To the extent that aggregate losses on the resale of repossessed and foreclosed houses exceed our estimates, our profitability will be adversely affected.

Delinquency interrupts the flow of projected interest income from a manufactured housing loan, and default can ultimately lead to a loss if the net realizable value of the collateral or real property securing the manufactured housing loan is insufficient to cover the principal and interest due on the loan. Also, our cost of financing and servicing a delinquent or defaulted loan is generally higher than for a performing loan. We bear the risk of delinquency and default on loans beginning when we originate them and continuing even after we sell loans with a retained interest or securitize them. We also reacquire the risks of delinquency and default for loans that we are obligated to repurchase. Repurchase obligations are typically triggered in sales or securitizations if the loan materially violates our representations or warranties. If we experience higher-than-expected levels of delinquency or default in pools of loans that we service, resulting in higher than anticipated losses, our servicing rights may be terminated, which would result in a loss of future servicing income and damage to our reputation as a loan servicer.

We attempt to manage these risks with risk-based loan pricing and appropriate underwriting policies and loan collection methods. However, if such policies and methods are insufficient to control our delinquency and default risks and do not result in appropriate loan pricing, our business, financial condition, liquidity and results of operations could be significantly harmed.

The manufactured housing industry has been in a downturn.

The manufactured housing industry historically has been cyclical and is generally subject to many of the same national and regional economic and demographic factors that affect the housing industry generally. These factors, including consumer confidence, inflation, regional population and employment trends, availability of and cost of alternative housing, weather conditions and general economic conditions, tend to impact manufactured housing buyers to a greater degree than buyers of traditional site built houses. In addition, sales of manufactured houses typically peak during the spring and summer seasons and decline to lower levels from mid-November through February. Due to aggressive underwriting practices by some industry lenders that led to increased defaults, decreased recovery rates on repossessions, the continued excessive inventory of repossessed houses and unfavorable volatility in the secondary markets for manufactured housing loans, companies in the manufactured housing finance business have generally not been profitable since 1998. Some of the industry s largest lenders have exited the business. Although we believe that our business plan will be profitable in the long term, there can be no assurance that we will in fact be profitable either in the long term or the short term.

Wide spreads between interest rates for manufactured housing loans and traditional site built housing loans decrease the relative demand for manufactured houses.

In the current interest rate environment and with the proliferation of non-traditional mortgage products, traditional site built houses have become more affordable relative to manufactured houses. If the difference between interest rates for manufactured housing loans and traditional site built housing loans does not decrease, demand for manufactured housing loans may decrease, which would decrease our loan originations.

Any substantial economic slowdown could increase delinquencies, defaults, repossessions and foreclosures and reduce our ability to originate loans.

Periods of economic slowdown or recession may be accompanied by decreased demand for consumer credit, decreased real estate values, and an increased rate of delinquencies, defaults, repossessions and foreclosures. We originate loans to some borrowers who make little or no down payment, resulting in high loan-to-value ratios. A lack of equity in the house may reduce the incentive a borrower has to meet his payment obligations during periods of financial hardship, which might result in higher delinquencies, defaults, repossessions and foreclosures. These factors would reduce our ability to originate loans and increase our losses on loans in which we have a residual or retained interest. In addition, loans we originate during an economic slowdown may not be as valuable to us because potential investors in or purchasers of our loans might reduce the premiums they pay for the loans or related bonds to compensate for any increased risks arising during such periods. Any sustained increase in delinquencies, defaults, repossessions or foreclosures is likely to significantly harm the pricing of our future loan sales and securitizations and also our ability to finance our loan originations.

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Our business may be significantly harmed by a slowdown in the economy of California where we conduct a significant amount of business.

We have no geographic concentration limits on our ability to originate, purchase or service loans. For the year ended December 31, 2006, approximately 53% by principal balance and 36% by number of loans of the loans we originated were in California. As of December 31, 2006, approximately 36% of our loans receivable by principal balance was in California. An overall decline in the economy or the residential real estate market in California or in any other state in which we have a high concentration of loans could decrease the value of manufactured houses and increase the risk of delinquency. This, in turn, would increase the risk of default, repossession or foreclosure on manufactured housing loans in our portfolio or that we have sold to others. Geographic concentration could adversely affect our ability to securitize pools of manufactured housing loans.

Depreciation in the value of manufactured houses may decrease sales of new manufactured houses and lead to increased defaults and delinquencies.

Over the last several years, the value of manufactured houses has tended to depreciate over time. This depreciation makes pre-owned houses, even relatively new ones, significantly less expensive than new manufactured houses, thereby decreasing the demand for new houses, which negatively affects the manufactured housing lending industry. Additionally, rapid depreciation may cause the fair market value of borrowers manufactured houses to be less than the outstanding balance of their loans. In cases where borrowers have negative equity in their houses, they may not be able to resell their manufactured houses for enough money to repay their loans and may have less incentive to continue to repay their loans, which may lead to increased delinquencies and defaults.

Tax Risks of Our Business and Structure

Distribution requirements imposed by law limit our flexibility in executing our business plan, and we cannot assure stockholders that we will have sufficient funds to meet our distribution obligations.

To maintain our status as a REIT for federal income tax purposes, we generally are required to distribute to our stockholders at least 90% of our REIT taxable net income each year. REIT taxable net income is determined without regard to the deduction for dividends paid and by excluding net capital gains. We are also required to pay federal income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income (including net capital gains) each year. In addition, to the extent such income is not subject to corporate tax, we are required to pay a 4% nondeductible excise tax on the amount, if any, by which certain distributions we pay with respect to any calendar year are less than the sum of 85% of our ordinary income for that calendar year, 95% of our capital gain net income for the calendar year and any amount of our income that was not distributed in prior years.

We intend to distribute to our stockholders at least 90% of our REIT taxable net income each year in order to comply with the distribution requirements of the Internal Revenue Code and to avoid federal income tax and the nondeductible excise tax. Differences in timing between the receipt of income and the payment of expenses in arriving at REIT taxable net income and the effect of required debt amortization payments could require us to borrow funds on a short-term basis, access the capital markets or liquidate investments to meet the distribution requirements that are necessary to achieve the federal income tax benefits associated with qualifying as a REIT even if our management believes that it is not in our best interest to do so. We cannot assure our stockholders that any such borrowing or capital market financing will be available to us or, if available to us, will be on terms that are favorable to us. Borrowings incurred to pay distributions will reduce the amount of cash available for operations. Any inability to borrow such funds or access the capital markets, if necessary, could jeopardize our REIT status and have a material adverse effect on our financial condition.

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We may suffer adverse tax consequences and be unable to attract capital if we fail to qualify as a REIT.

Since our taxable period ended December 31, 2003, we have been organized and operated, and intend to continue to operate, so as to qualify for taxation as a REIT under the Internal Revenue Code. Although we believe that we have been and will continue to be organized and have operated and will continue to operate so as to qualify for taxation as a REIT, we cannot assure stockholders that we have been or will continue to be organized or operated in a manner to so qualify or remain so qualified. Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. In addition, frequent changes may occur in the area of REIT taxation, which require us to continually monitor our tax status.

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable net income at regular corporate rates. Moreover, unless entitled to relief under certain statutory provisions, (generally requiring reasonable cause for any REIT testing violations), we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. This treatment would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability to us for the years involved. In addition, distributions to stockholders would no longer be required to be made. Even if we qualify for and maintain our REIT status, we will be subject to certain federal, state and local taxes on our property and certain of our operations.

Our use of taxable REIT subsidiaries will cause income from our servicing and insurance activities to be subject to corporate level tax and may cause us to restrict our business activities.

To preserve our qualification as a REIT, we conduct all of our servicing and insurance activities through one or more taxable REIT subsidiaries. A taxable REIT subsidiary is subject to federal income tax, and state and local income tax where applicable, as a regular C corporation. Accordingly, net income from activities conducted by our taxable REIT subsidiaries is subject to corporate level tax. In addition, under the Internal Revenue Code, no more than 20% of the total value of the assets of a REIT may be represented by securities of one or more taxable REIT subsidiaries. This limitation may cause us to restrict the use of certain securitization transactions and limit the growth of our taxable REIT subsidiaries with the potential for decreased revenue.

Our ability to sell and securitize our loans is limited due to various federal income tax rules applicable to REITs.

Under the Internal Revenue Code, a REIT is subject to a 100% tax on its net income derived from prohibited transactions. The phrase prohibited transactions refers to the sales of inventory or assets held primarily for sale to customers in the ordinary course of a taxpayer s business. A taxpayer who engages in such sales is typically referred to as a dealer. If the Internal Revenue Service does not respect the legal structure of certain of our third party loan origination programs (see Business Loan Origination, Acquisition and Underwriting Third-Party Originations), we may be subject to the prohibited transactions tax on any net income derived from these origination programs.

The Internal Revenue Service has taken the position that if a REIT securitizes loans using a real estate mortgage investment conduit (REMIC) structure, then such activity will cause the REIT to be treated as a dealer, with the result that the 100% tax would apply to the net income generated from such activity. If we securitize loans using a REMIC, we intend to do so through one or more taxable REIT subsidiaries, which will not be subject to such 100% tax, but will be taxable at regular corporate federal income tax rates. We also may securitize mortgage assets through the issuance of non-REMIC securities, whereby we retain an equity interest in the mortgage-backed assets used as collateral in the securitization transaction. The issuance of any such instruments could result, however, in a portion of our assets being classified as a taxable mortgage pool, which would be treated as a separate corporation for U.S. federal income tax purposes, which in turn could adversely affect the treatment of our stockholders for federal income tax purposes or jeopardize our status as a REIT.

Special rules apply to a REIT, however, including a qualified REIT subsidiary that is classified as a taxable mortgage pool. In this event, neither the REIT nor the qualified REIT subsidiary will be subject to the corporate tax generally applicable to taxable mortgage pools. As described below, however, the REIT s stockholders may have to report excess inclusion income.

A portion of our income from assets held directly by or through a qualified REIT subsidiary that is classified as a taxable mortgage pool may represent phantom taxable income.

A portion of our income from a qualified REIT subsidiary that would otherwise be classified as a taxable mortgage pool may be treated as excess inclusion income, which would be subject to the distribution requirements that apply to us and could therefore adversely affect our liquidity. Generally, a stockholder s share of excess inclusion income would not be allowed to be offset by any operating losses otherwise available to the stockholder. Tax exempt entities that own shares in a REIT must treat their allocable share of excess inclusion income as unrelated business taxable income. A REIT must also pay federal tax, at the highest corporate marginal tax rate, on any excess inclusion income allocated to disqualified organizations (e.g., governmental agencies and tax exempt organizations not subject to the tax on unrelated business income). Any portion of a REIT dividend paid to foreign stockholders that is allocable to excess inclusion income will not be eligible for exemption from the 30% withholding tax (or reduced treaty rate) on dividend income.

We may pay distributions that are in excess of our current and accumulated earnings and profits, which may cause our stockholders to incur adverse federal income tax consequences.

We may pay quarterly distributions to our stockholders in excess of 100% of our estimated REIT taxable net income. Distributions in excess of our current and accumulated earnings and profits are not treated as a dividend and generally will not be taxable to a taxable U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder s adjusted tax basis in his or her common stock. Instead, any such distribution generally will constitute a return of capital, which will reduce the stockholder s adjusted basis and could result in the recognition of increased gain or decreased loss to the stockholder upon a sale of the stockholder s stock.

Other Risks

We operate in a highly regulated industry and failure to comply with applicable laws and regulations at the federal, state or local level could negatively affect our business.

Currently, we originate both chattel, or home-only, loans and loans collateralized by both the manufactured house and real property, or land-home loans, in 43 states. We also currently conduct servicing operations in 47 states. Most states where we operate require that we comply with a complex set of laws and regulations. These laws, which include installment sales laws, consumer lending laws, mortgage lending laws and mortgage servicing laws, differ from state to state, making uniform operations difficult. Most states periodically conduct examinations of our contracts and loans for compliance with state laws. In addition to state laws regulating our business, our consumer lending and servicing activities are subject to numerous federal laws and the rules and regulations promulgated there-under.

These federal and state laws and regulations and other laws and regulations affecting our business, including zoning, density and development requirements and building and environmental rules and regulations, create a complex framework in which we originate and service manufactured housing loans. Moreover, because these laws and regulations are constantly changing, it is difficult to comprehensively identify, accurately interpret, properly program our technology systems and effectively train our personnel with respect to all of these laws and regulations, thereby potentially increasing our exposure to the risks of noncompliance with these laws and regulations. As a result, we have not always been, and may not always be, in compliance with these requirements, including licensing requirements.

Our failure to comply with these laws and regulations can lead to:

- defaults under contracts we have with third parties, which could cause those contracts to be terminated or renegotiated on less favorable terms;

- civil fines and penalties and criminal liability;

- loss of licenses, exemptions or other approved status, which could in turn require us temporarily or permanently to cease our affected operations;

- demands for indemnification, loan repurchases or modification of our loans;

- class action lawsuits; and

- administrative enforcement actions.

The increasing number of federal, state and local anti-predatory lending laws may restrict our ability to originate or increase our risk of liability with respect to certain manufactured housing loans and could increase our cost of doing business.

In recent years, several federal, state and local laws, rules and regulations have been adopted, or are under consideration, that are intended to eliminate so-called predatory lending practices. These laws, rules and regulations impose certain restrictions on loans on which certain points and fees or the annual percentage rate, or APR, exceeds specified thresholds. Some of these restrictions expose a lender to risks of litigation and regulatory sanction no matter how carefully a loan is underwritten. In addition, an increasing number of these laws, rules and regulations seek to impose liability for violations on purchasers of loans, regardless of whether a purchaser knew of or participated in the violation. It is against our policy to engage in predatory lending practices and we have generally avoided originating loans that exceed the APR or points and fees thresholds of these laws, rules and regulations. These laws, rules and regulations may prevent us from making certain loans and may cause us to reduce the APR or the points and fees on loans that we do make. In addition, the difficulty of managing the risks presented by these laws, rules and regulations may decrease the availability of warehouse financing and the overall demand for our loans in the secondary market, making it difficult to fund, sell or securitize our loans. If nothing else, the growing number of these laws, rules and regulations will increase our cost of doing business as we are required to develop systems and procedures to ensure that we do not violate any aspect of these new requirements.

We may be subject to fines, judgments or other penalties based upon the conduct of third parties with whom we do business.

The majority of our business consists of purchasing from retailers retail installment sales contracts for the sale of a manufactured house. These contracts are subject to the Federal Trade Commission s Holder Rule, which makes us subject generally to the same claims and defenses that a consumer might have against the retailer that sold the consumer his or her manufactured house up to the value of the payments made by the consumer. Increasingly federal and state agencies, as well as private plaintiffs, have sought to impose third-party or assignee liability on purchasers or originators of loans even where the Holder Rule and similar laws do not specifically apply. We attempt to mitigate our risk for this liability by ending our relationships with retailers whose practices we believe may put us at risk and limiting our retailer network to retailers that have the ability to indemnify us against these types of claims. Although we routinely seek indemnification from retailers in these situations, there is no assurance that we will not be liable for these types of claims or that the retailer will indemnify us if we are held liable.

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Common stock eligible for future sale may have adverse effects on our share price.

We cannot predict the effect, if any, of future sales of shares of our common stock (including shares of common stock issuable upon the exercise of currently outstanding options, and non-vested shares issued under our 2003 Equity Incentive Plan), or the availability of shares for future sales, or the market price of our common stock. Sales of substantial amounts of common stock, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock. We also may issue from time to time additional shares of common stock and we may grant registration rights in connection with these issuances. Sales of substantial amounts of shares of common stock or the perception that these sales could occur may adversely affect the prevailing market price for our common stock. In addition, the sale of these shares could impair our ability to raise capital through a sale of additional equity securities.

Market interest rates may affect the value of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution or interest rate on our securities or seek securities paying higher distributions or interest. It is likely that the public valuation of our common stock will be based primarily on the earnings that we derive from the difference between the interest earned on our loans less net credit losses and the interest paid on borrowed funds. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common stock.

Our rights and the rights of our stockholders to take action against our directors are limited, which could limit stockholders recourse in the event of certain actions.

Our certificate of incorporation limits the liability of our directors for money damages for breach of a fiduciary duty as a director, except under limited circumstances. As a result, we and our stockholders may have more limited rights against our directors than might otherwise exist. Our bylaws require us to indemnify each director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

Our board of directors may change our investment and operational policies and practices without a vote of our stockholders, which limits stockholder control of our policies and practices.

Our major policies, including our policies and practices with respect to investments, financing, growth, debt capitalization, REIT qualification and distributions, are determined by our Board of Directors. Although we have no present intention to do so, our board of directors may amend or revise these and other policies from time to time without a vote of our stockholders. Accordingly, our stockholders will have limited control over changes in our policies. Our organizational documents do not limit the amount of indebtedness that we may incur. Although we intend to maintain a balance between our total outstanding indebtedness and the value of our assets, we could alter this balance at any time. If we become highly leveraged, then the resulting increase in debt service could adversely affect our ability to make payments on our outstanding indebtedness and harm our financial condition.

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Certain provisions of Delaware law and our governing documents may make it difficult for a third-party to acquire us.

9.25% Ownership Limit. In order to qualify and maintain our qualification as a REIT, not more than 50% of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals. Thus, ownership of more than 9.25% of our outstanding shares of common stock by any single stockholder has been restricted, with certain exceptions, for the purpose of maintaining our qualification as a REIT under the Internal Revenue Code.

The 9.25% ownership limit, as well as our ability to issue additional shares of common stock or shares of other stock (which may have rights and preferences over the common stock), may discourage a change of control of the Company and may also: (1) deter tender offers for the common stock, which offers may be advantageous to stockholders; and (2) limit the opportunity for stockholders to receive a premium for their common stock that might otherwise exist if an investor were attempting to assemble a block of common stock in excess of 9.25% of the outstanding shares of the Company or otherwise effect a change of control of the Company.

Preferred Stock. Our charter authorizes the Board of Directors to issue up to 10,000,000 shares of preferred stock and to establish the preferences and rights (including the right to vote and the right to convert into shares of common stock) of any shares issued. The power to issue preferred stock could have the effect of delaying or preventing a change in control of the Company even if a change in control were in the stockholders interest.

Section 203. Section 203 of the Delaware General Corporation Law is applicable to certain types of corporate takeovers. Subject to specified exceptions listed in this statute, Section 203 of the Delaware General Corporation Law provides that a corporation may not engage in any business combination with any interested stockholder for a three-year period following the date that the stockholder becomes an interested stockholder. Although these provisions do not apply in certain circumstances, the provisions of this section could discourage offers from third parties to acquire us and increase the difficulty of successfully completing this type of offer.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our executive offices are located in approximately 25,000 square feet of leased space at 27777 Franklin Road, Suite 1700 and Suite 1640, Southfield, Michigan 48034. The lease, which terminates on August 31, 2011, provides for monthly rent of approximately $47,000. Certain of our officers and directors own interests in the company from which we lease our executive offices.

We also lease office space for our offices in other locations. We currently have a lease expiring in October 2007 for approximately 3,750 square feet of office space in Duluth, Georgia with a current monthly rent of approximately $5,000; a lease expiring July 2009 for approximately 3,800 square feet of office space in Glen Allen, Virginia with a current monthly rent of approximately $6,000; and a lease expiring in June 2012 for approximately 42,000 square feet of office space in Fort Worth, Texas with a current monthly rent of approximately $30,000.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings arising in the ordinary course of business. All such proceedings, taken together, are not expected to have a material adverse impact on our results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

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PART II
ITEM 5. MARKET FOR THE COMPANY S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
Market Information

Our common stock has been listed on the Nasdaq National Market (Nasdaq) since May 5, 2004 under the symbol ORGN. On March 1, 2007, the closing sales price of our common stock was $5.88 per share and the common stock was held by approximately 73 holders of record. The following table presents the per share high and low prices of our common stock for the periods indicated as reported by the Nasdaq National Market. The stock prices reflect inter-dealer prices, do not include retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

	High	Low
Fiscal Year Ended December 31, 2005		
First quarter	$8.75	$6.65
Second quarter	$7.64	$6.58
Third quarter	$8.24	$6.69
Fourth quarter	$7.66	$6.37
Fiscal Year Ended December 31, 2006		
First quarter	$7.24	$5.95
Second quarter	$6.79	$5.74
Third quarter	$6.48	$5.61
Fourth quarter	$6.99	$5.27

The following table presents the distributions per common share that were paid with respect to each quarter for 2005 and 2006.

	Distribution per share
Fiscal Year Ended December 31, 2005	
First quarter	$ 0.06
Second quarter	$ 0.06
Third quarter	$ 0.06
Fourth quarter	$
Fiscal Year Ended December 31, 2006	
First quarter	$ 0.03
Second quarter	$ 0.03
Third quarter	$ 0.03
Fourth quarter	$ 0.04*

* Declared on March 1, 2007 and payable to holders of record as of March 26, 2007. Payment is planned for April 2, 2007.

In order to qualify for the tax benefits accorded to REITs under the Internal Revenue Code, we must, and we intend to, make distributions to our stockholders each year in an amount at least equal to (i) 90% of our REIT taxable net income (before the deduction for dividends paid and not including any net capital gain), plus (ii) 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code, minus (iii) any excess non-cash income. Differences in timing between the receipt of income and the payment of expenses and the effect of required debt amortization payments could require us to borrow funds on a short-term basis, access the capital markets or liquidate investments to meet this distribution requirement.

The actual amount and timing of distributions will be at the discretion of our Board of Directors and will depend upon our actual results of operations. To the extent not inconsistent with maintaining our REIT status, we may maintain accumulated earnings of our taxable REIT subsidiaries in those subsidiaries.

In the future, our Board of Directors may elect to adopt a dividend reinvestment plan.

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Equity Compensation Plan Information

The following table reflects information about the securities authorized for issuance under our equity compensation plans as of December 31, 2006.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of Outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	243,500	$ 10.00	275,987
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	243,500	$ 10.00	275,987

Stockholder Return Performance Presentation

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on our common stock against the cumulative total return of a broad market index composed of all issuers listed on the Nasdaq National Market (NASDAQ) and the SNL Finance REITs Index for the period beginning on May 5, 2004 (the date of our initial public offering) and ending on December 31, 2006. This line graph assumes a $100 investment on May 5, 2004, a reinvestment of dividends and actual decrease of the market value of our common stock relative to an initial investment of $100. The comparisons in this table are required by the applicable SEC regulations and are not intended to forecast or be indicative of possible future performance of our common stock.

	Period Ending			
Index	05/05/04	12/31/04	12/31/05	12/31/06
Origen Financial, Inc.	100.00	97.60	95.84	93.62
NASDAQ Composite	100.00	111.97	114.41	126.29
SNL Finance REITs Index	100.00	127.38	101.92	129.10

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ITEM 6. SELECTED FINANCIAL DATA

	Origen Financial, Inc.				Origen Financial L.L.C. (4)	
	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Period from October 8 through December 31, 2003 (1)	Period from January 1 through October 7, 2003	Year Ended December 31, 2002
Operating Statement Data:						
Interest income on loans	$ 74,295	$ 59,391	$ 42,479	$ 7,339	$ 16,398	$ 9,963
Gain on sale and securitization of loans					28	2,719
Servicing and other revenues	17,787	14,651	11,184	2,880	7,329	7,703
Total revenue	92,082	74,042	53,663	10,219	23,755	20,385
Interest expense	43,498	28,468	15,020	2,408	11,418	5,935
Provisions for loan loss, recourse liability and write down of residual interests	7,069	13,633	10,210	768	9,849	18,176
Distribution of preferred interest					1,662	
Other operating expenses	34,566	34,600	31,399	5,546	24,754	25,461
Total expenses	85,133	76,701	56,629	8,722	47,683	49,572
Income (loss) before income taxes and cumulative effect of change in accounting principle	6,949	(2,659)	(2,966)	1,497	(23,928)	(29,187)
Provision for income taxes(2)	24					
Cumulative effect of change in accounting principle	46					
Net income (loss)	$ 6,971	$ (2,659)	$ (2,966)	$ 1,497	$ (23,928)	$ (29,187)
	$ 0.28	$ (0.11)	$ (0.14)	$ 0.10	$	$

Earning (loss) per share Diluted(3)						
Distributions paid per share	$ 0.09	$ 0.22	$ 0.35	0.098		
Balance Sheet Data:						
Loans receivable, net of allowance for losses	$ 950,226	$ 768,410	$ 563,268	$ 368,040	$ 279,300	$ 173,764
Servicing rights	2,508	3,103	4,097	5,131	5,892	7,327
Retained interests in loan securitizations			724	749	785	5,833
Goodwill	32,277	32,277	32,277	32,277	18,332	18,332
Cash and other assets	88,056	89,213	82,181	37,876	22,894	22,492
Total assets	$ 1,073,067	$ 893,003	$ 682,547	$ 444,073	$ 327,203	$ 227,748
Total debt	842,300	669,708	455,914	277,441	273,186	196,031
Preferred interest in subsidiary					45,617	
Other liabilities	26,303	23,344	23,167	24,312	22,345	21,413
Members /Stockholders Equity/Capital	204,464	199,951	203,466	142,320	(13,945)	10,304
Other Information						
Cash Flow Data: (provided by/(used in))						
From operating activities	$ 16,287	$ 18,167	$ 8,606	$ (8,841)	$ (7,642)	$ 115,251
From investing activities	(193,265)	(229,183)	(245,125)	(85,665)	(112,547)	(188,277)
From financing activities	171,238	210,030	238,886	100,254	121,110	73,032
Selected Ratios						
Return on average assets	0.70%	(0.33)%	(0.52)%	1.43%	(8.52)%	(18.79)%
Return on average equity	3.45%	(1.29)%	(1.56)%	4.21%	(1352.96)%	(91.29)%
Average equity to average assets	20.29%	25.63%	33.03%	33.91%	0.63%	20.58%

(1) Origen Financial, Inc. began operations on October 8, 2003 as a REIT with Origen Financial L.L.C. as a wholly-owned subsidiary.

(2)

As a REIT, Origen Financial, Inc. is not required to pay federal corporate income taxes on its net income that is currently distributed to its stockholders. As a limited liability company, Origen Financial L.L.C. does not incur income taxes.

(3) As a limited liability company, Origen Financial L.L.C. did not report earnings per share.

(4) Origen Financial L.L.C. is our predecessor for accounting purposes. However, we believe that its business, financial statements and results of operations are quantitatively different from ours. Its results of operations reflect capital constraints and corporate and business strategies, including

commercial mortgage loan origination and servicing, which are different than ours. We also have elected to be taxed as a REIT. Accordingly, we believe the historical financial results of Origen Financial L.L.C. are not indicative of our future performance.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto.

Management s discussion and analysis of financial condition and results of operations and liquidity and capital resources contained within this Form 10-K is more clearly understood when read in conjunction with our historical financial statements and the related notes. The notes to the financial statements provide information about us, as well as the basis for presentation used in this Form 10-K.

Overview

In October 2003, we began operations upon the acquisition of all of the equity interests of Origen Financial L.L.C. We also took steps to qualify Origen Financial, Inc. as a REIT. In the second quarter of 2004, we completed the initial public offering of our common stock. Currently, most of our operations are conducted through Origen Financial L.L.C., our wholly-owned subsidiary. We conduct the rest of our business operations through our other wholly-owned subsidiaries, including taxable REIT subsidiaries, to take advantage of certain business opportunities and ensure that we comply with the federal income tax rules applicable to REITs.

In June 2006, Moody s Investors Service assigned Origen Servicing, Inc. a rating of SQ2- as a Primary Servicer of manufactured housing loans. Origen Servicing, Inc. is a wholly owned subsidiary of Origen Financial, L.L.C. Moody s rating is based on our above average collection ability and average financial stability.

In August 2006, we completed our Origen Manufactured Housing Contract Trust Collateralized Notes, Series 2006-A transaction. In this securitization, a special-purpose subsidiary issued approximately $200.6 million in asset-backed certificates secured by manufactured housing contracts with two separate floating rate classes of AAA rated bonds. Additional credit enhancement was provided through the issuance of a financial guaranty insurance policy by Ambac Assurance Corporation.

Despite difficult industry conditions, including the inverted yield curve and another decline in manufactured housing shipments, we experienced a 5.5% increase in loan origination volume in 2006 as compared to 2005. Our portfolio performance, as measured by delinquencies, continued to improve as loans 60 or more days delinquent decreased from 1.3% of the loan portfolio at December 31, 2005 to 0.9% at December 31, 2006. Additionally, we have experienced improvements in recovery rates on the re-marketing of repossessed or foreclosed assets. The execution of our securitizations has continued to improve, as we have seen overcollateralization levels in our securitizations fall from 18.0% for our 2004-A securitization to 10.5% for our 2006-A securitization. However, rising interest rates, the flattening yield curve and competition have prevented us from raising rates on our loans originated and as a result we have seen decreases in our interest rate margin.

Critical Accounting Policies

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

Securitizations Structured as Financings

We engage in securitizations of our manufactured housing loan receivables. We have structured all loan securitizations occurring since 2003 as financings for accounting purposes under Statement of Financial Accounting Standards No. 140 (SFAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125. In the future, we intend to continue to structure and account for our securitizations as financings. When a loan securitization is structured as a financing, the financed asset remains on our books along with the recorded liability that evidences the financing, typically bonds. Income from both the loan interest spread and the servicing fees received on the securitized loans are recorded into income as earned. An appropriate allowance for credit losses is maintained on the loans. Deferred debt issuance costs and discount related to the bonds are amortized on a level yield basis over the estimated life of the bonds.

Loans Receivable

Loans receivable consist of manufactured housing loans under contracts collateralized by the borrowers manufactured houses and in some instances, related land. All loans receivable are classified as held for investment and are carried at amortized cost, except for loans purchased with evidence of deterioration of credit quality since origination, which are described below. Interest on loans is credited to income when earned. Loans receivable include accrued interest and are presented net of deferred loan origination fees and costs and an allowance for estimated loan losses.

Allowance for Loan Losses

Determining an appropriate allowance for loan losses involves a significant degree of estimation and judgment. The process of estimating the allowance for loan losses may result in either a specific amount representing the impairment estimate or a range of possible amounts. Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, provides guidance on accounting for loan losses associated with pools of loans and requires the accrual of a loss when it is probable that an asset has been impaired and the amount of the loss can be reasonably estimated. Our loan portfolio is comprised of manufactured housing loans with an average loan balance of less than $50,000. The allowance for loan losses is developed at the portfolio level and the amount of the allowance is determined by establishing a calculated range of probable losses. A lower range of probable losses is calculated by applying historical loss rate factors to the loan portfolio on a stratified basis using current portfolio performance and delinquency levels (0-30 days, 31-60 days, 61-90 days and greater than 90 days delinquent). An upper range of probable losses is calculated by the extrapolation of probable loan impairment based on the correlation of historical losses by vintage year of origination. Financial Accounting Standards Board Interpretation No. 14, Reasonable Estimation of the Amount of a Loss an interpretation of FASB Statement No. 5, states that a creditor should recognize the amount that is the best estimate within the estimated range of loan losses. Accordingly, the determination of an amount within the calculated range of losses is in recognition of the fact that historical charge-off experience, without adjustment, may not be representative of current impairment of the current portfolio of loans because of changed circumstances. Such changes may relate to changes in the age of loans in the portfolio, changes in the creditor s underwriting standards, changes in economic conditions affecting borrowers in a geographic region, or changes in the business climate in a particular industry.

Loan Pools and Debt Securities Acquired with Evidence of Deterioration of Credit Quality

We account for loan pools and debt securities acquired with evidence of deterioration of credit quality at the time of acquisition in accordance with the provisions of the American Institute of Certified Public Accountants (AICPA) Practice Bulletin 6 (PB 6), Amortization of Discounts on Certain Acquired Loans, as well as the AICPA s Statement of Position 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer . The carrying values of such purchased loan pools and debt securities were approximately $29.6 million and $3.6 million, respectively, at December 31, 2006 and $35.1 million and $3.8 million, respectively, at December 31, 2005, and are included in loans receivable and investments held to maturity, respectively, in the consolidated balance sheet.

We adopted the provisions of SOP 03-3 in January 2005 and apply those provisions to loan pools and debt securities acquired after December 31, 2004. The provisions of SOP 03-3 that relate to decreases in expected cash flows amend PB 6 for consistent treatment and apply prospectively to receivables acquired before January 1, 2005. Purchased loans and debt instruments acquired before January 1, 2005 will continue to be accounted for under PB 6, as amended, for provisions related to decreases in expected cash flows. Under the provisions of SOP 03-3, each static pool of loans and debt securities is statistically modeled to determine its projected cash flows. We consider historical cash collections for loan pools and debt securities with similar characteristics as well as expected prepayments and estimate the amount and timing of undiscounted expected principal, interest and other cash flows for each pool of loans and debt security. An internal rate of return is calculated for each static pool of receivables based on the projected cash flows and applied to the balance of the static pool. The resulting revenue recognized is based on the internal rate of return applied to the remaining balance of each static pool of accounts. Each static pool is analyzed at least quarterly to assess the actual performance compared to the expected performance. To the extent there are differences in actual performance versus expected performance, the internal rate of return is adjusted prospectively to reflect the revised estimate of cash flows over the remaining life of the static pool. Beginning January 2005, if revised cash flow estimates are less than the original estimates, SOP 03-3 requires that the internal rate of return remain unchanged and an immediate impairment be recognized. For loans acquired with evidence of deterioration of credit quality, if cash flow estimates increase subsequent to recording an impairment, SOP 03-3 requires reversal of the previously recognized impairment before any increases to the internal rate of return are made. For any remaining increases in estimated future cash flows for loan pools or debt securities acquired with evidence of deterioration of credit quality, we adjust the amount of accretable yield recognized on a prospective basis over the remaining life of the loan pool or debt security.

Application of the interest method of accounting requires the use of estimates to calculate a projected internal rate of return for each pool. These estimates are based on historical cash collections. If future cash collections are materially different in amount or timing than projected cash collections, earnings could be affected, either positively or negatively. Higher collection amounts or cash collections that occur sooner than projected cash collections will have a favorable impact on yields and revenues. Lower collection amounts or cash collections that occur later than projected cash collections will have an unfavorable impact and result in an immediate impairment being recognized.

Derivative Financial Instruments

We have periodically used derivative instruments, including forward sales of U.S. Treasury securities, U.S. Treasury rate locks and forward interest rate swaps to mitigate interest rate risk related to our loans receivable and anticipated securitizations. We follow the provisions of Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities (as amended by Statement of Financial Accounting Standards No. 149). All derivatives are recorded on the balance sheet at fair value. On the date a derivative contract is entered into, we designate the derivative as a hedge of either a forecasted transaction or the variability of cash flow to be paid (cash flow hedge). Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in current earnings. Any ineffectiveness is recorded in current earnings.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objectives and strategy for undertaking the hedge transaction. This process includes linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with SFAS 133.

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

Share-Based Compensation

In connection with our formation, we adopted an equity incentive plan. We adopted the provisions of Statement of Financial Accounting Standards No. 123 revised (SFAS 123(R)), Share-Based Payment, on January 1, 2006, using the modified-prospective transition method, in order to account for our equity incentive plan. In connection with the adoption of SFAS 123(R) we recorded a cumulative effect of a change in accounting principle in the amount of $46,000 to reflect the change in accounting for forfeitures. Results for prior periods have not been restated. SFAS 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. Under this pronouncement, all forms of share-based payments to employees, including employee stock options, are treated the same as other forms of compensation by recognizing the related cost in the income statement. The expense of the award would generally be measured at fair value at the grant date. The fair value of each option granted would be determined using a binomial option-pricing model based on assumptions related to annualized dividend yield, stock price volatility, risk free rate of return and expected average term. Prior to January 1, 2006, as permitted under the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended, we chose to recognize compensation expense using the intrinsic value-based method of valuing stock options prescribed in APB No. 25, Accounting for Stock Issued to Employees and related interpretations. Under the intrinsic value-based method, compensation cost is measured as the amount by which the quoted market price of our common stock at the date of grant exceeds the stock option exercise price. All options we granted prior to the adoption of SFAS 123(R) were granted at a fixed price not less than the market value of the underlying common stock on the date of grant and, therefore, were not included in compensation expense, prior to the adoption of SFAS No. 123(R).

Goodwill Impairment

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

Income Taxes

We have elected to be taxed as a REIT as defined under Section 856(c)(1) of the Internal Revenue Code of 1986, as amended (the Code). In order for us to qualify as a REIT, at least ninety-five percent (95%) of our gross income in any year must be derived from qualifying sources. In addition, a REIT must distribute at least ninety percent (90%) of its REIT taxable net income to its stockholders.

Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. In addition, frequent changes occur in the area of REIT taxation, which requires us to continually monitor our tax status.

We have received a legal opinion to the effect that based on various assumptions and qualifications set forth in the opinion, Origen Financial, Inc. has been organized and has operated in conformity with the requirements for qualification as a REIT under the Code for its taxable years ended December, 31, 2006, 2005 and 2004. There is no assurance that the Internal Revenue Service will not decide differently from the views expressed in counsel s opinion and such opinion represents only the best judgment of counsel and is not binding on the Internal Revenue Service or the courts.

As a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on the ordinary taxable income we distribute to our stockholders as dividends. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to U.S. federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if we qualify as a REIT, we may be subject to certain state and local income taxes and to U.S. federal income and excise taxes on our undistributed taxable income. In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries, if any, is subject to federal and state income taxes. An income tax allocation is required to be estimated on our taxable income generated by our taxable REIT subsidiaries. Deferred tax components arise based upon temporary differences between the book and tax basis of items such as the allowance for loan losses, accumulated depreciation, share-based compensation and goodwill.

Financial Condition

December 31, 2006 Compared to December 31, 2005

At December 31, 2006 and 2005 we held loans representing approximately $956.6 million and $781.7 million of principal balances, respectively. Net loans outstanding constituted over 88% and 86% of our total assets at December 31, 2006 and 2005, respectively. Approximately $215.3 million of the loans on our balance sheet at December 31, 2006 were included in our August 2006 securitization, and will continue to be carried on our balance sheet as the securitization transaction was structured as a financing. To the extent loans on our balance sheet are eligible on an individual basis and not already included in our securitized pools, we plan to securitize such loans and issue asset-backed bonds through periodic transactions in the asset-backed securitization market. The timing of any securitization will depend on prevailing market conditions and the availability of sufficient total loan balances to constitute an efficient transaction.

New loan originations for the year ended December 31, 2006 increased 5.5% to $282.7 million compared to $268.0 million for the year ended December 31, 2005. The increase was primarily due to our focus on customer service and the use of technology to deliver our products and services. We additionally processed $49.6 million and $32.0 million in loans originated under third-party origination agreements for the years ended December 31, 2006 and 2005, respectively.

During the year ended December 31, 2006, we purchased $4.2 million in loans from Sun Home Services, Inc., a subsidiary of Sun Communities, Inc. (Sun Communities). The purchase price approximated fair value. An affiliate of Sun Communities owns approximately 19% of our outstanding common stock. We did not purchase any loans from Sun Communities or its affiliates during the year ended December 31, 2005.

The carrying amount of loans receivable consisted of the following at December 31 (in thousands):

	2006	2005
Manufactured housing loans securitized	$ 825,811	$ 695,701
Manufactured housing loans unsecuritized	130,828	85,949
Accrued interest receivable	4,840	4,078
Deferred loan origination costs (fees)	1,271	(2,100)
Discount on purchased loans	(3,155)	(4,773)
Allowance for purchased loans	(913)	(428)
Allowance for loan losses	(8,456)	(10,017)
	$ 950,226	$ 768,410

The following table sets forth the average individual loan balance, weighted average loan yield, and weighted average initial term at December 31 (dollars in thousands):

	2006	2005
Number of loans receivable	20,300	17,277
Average loan balance	$ 47	$ 45
Weighted average loan coupon (a)	9.50%	9.56%
Weighted average initial term	20 years	20 years

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

Delinquency statistics for the loan receivable portfolio at December 31 are as follows (dollars in thousands):

		2006			2005	
Days delinquent	No. of Loans	Principal Balance	% of Portfolio	No. of Loans	Principal Balance	% of Portfolio
31 60	248	$9,354	1.0%	215	$8,182	1.0%
61 90	86	3,159	0.3%	68	2,561	0.3%
Greater than 90	131	5,416	0.6%	192	7,480	1.0%

We define non-performing loans as those loans that are 90 or more days delinquent in contractual principal payments. The average balance of non-performing loans was $5.7 million for the year ended December 31, 2006 compared to $6.9 million for the year ended December 31, 2005, a decrease of $1.2 million, or 17.4%. Non-performing loans as a percentage of average outstanding principal balance were 0.6% for the year ended December 31, 2006 compared to 1.1% for the year ended December 31, 2005.

The improvement in our asset quality statistics for the year ended December 31, 2006 compared to the year ended December 31, 2005 reflects our continued emphasis on the credit quality of our borrowers and the improved underwriting and origination practices we have put into place. Lower levels of non-performing assets and net charge-offs should have a positive effect on future earnings through decreases in the provision for credit losses and servicing expenses as well as increases in net interest income.

At December 31, 2006 we held 145 repossessed houses owned by us compared to 162 houses at December 31, 2005, a decrease of 17 houses, or 10.5%. The book value of these houses, including repossession expenses, based on the lower of cost or market value, was approximately $3.0 million at December 31, 2006 compared to $3.5 million at December 31, 2005, a decrease of $0.5 million, or 14.3%.

The allowance for loan losses decreased $1.5 million to $8.5 million at December 31, 2006 from $10.0 million at December 31, 2005. Despite the 24.9% increase in the gross loans receivable balance, net of loans accounted for under SOP 03-3 the allowance for loan losses decreased 15.0% due to improvements in delinquency rates and net charge-offs. Loans delinquent over 60 days decreased $1.4 million or 14.0% from $10.0 million at December 31, 2005 to $8.6 million at December 31, 2006. The allowance for loan losses as a percentage of gross loans receivable, net of loans accounted for under SOP 03-3, was approximately 0.92% at December 31, 2006 compared to approximately

1.35% at December 31, 2005. Net charge-offs were $8.6 million and $10.0 million for the years ended December 31, 2006 and 2005, respectively.

Changes to our underwriting practices, processes, credit scoring models, systems and servicing techniques beginning in 2002 have resulted in demonstrably superior performance by loans originated in and subsequent to 2002 as compared to loans originated by our predecessors prior to 2002. The pre-2002 loans, despite representing a diminishing percentage of our owned loan portfolio, have had a disproportionate negative impact on our financial performance.

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The following tables indicate the impact of such legacy loans:

Loan Pool Unpaid Principal Balance (dollars in thousands) (1)

	2001 and prior	2002 and subsequent
At December 31, 2006		
Dollars	$ 46,612	$915,329
Percentage of total	4.8%	95.2%
At December 31, 2005		
Dollars	$ 56,622	$732,033
Percentage of total	7.2%	92.8%

Static Pool Performance (dollars in thousands) (1)

	2001 and prior	2002 and subsequent
2006		
Dollars defaulted	$ 5,382	$13,216
Net recovery percentage	36.7%	48.1%
Net losses	$ 3,977	$ 7,042
2005		
Dollars defaulted	$ 8,752	$12,272
Net recovery percentage	39.9%	49.4%
Net losses	$ 6,707	$ 5,312
2004		
Dollars defaulted	$ 11,848	$ 8,940
Net recovery percentage	37.8%	49.2%
Net losses	$ 12,242	$ 4,004

(1) Includes owned portfolio, repossessed inventory and loans sold with recourse.

While representing less than 5% of the owned loan portfolio at December 31, 2006, the pre-2002 loans accounted for almost 29% of the defaults and 36% of the losses during 2006. Additionally, recovery rates were substantially lower for the pre-2002 loans leading to higher losses as compared to loans from 2002 and later. Management believes that as these loans become a smaller percentage of the owned loan portfolio, the negative impact on earnings will diminish.

Through our wholly-owned subsidiary, Origen Servicing, Inc., we provide loan servicing for manufactured housing loans that we and our predecessors have originated or purchased, and for loans originated by third parties. As of December 31, 2006 we serviced approximately $1.6 billion of loans, consisting of approximately $647.2 million of loans serviced for others, as compared to approximately $1.5 billion of loans, consisting of approximately $731.3 million of loans serviced for others, as of December 31, 2005. Included in the loans serviced for others were

$127.9 million and $150.3 million of loans as of December 31, 2006 and 2005, respectively, which we or our predecessors originated and subsequently sold in two pre-2003 securitization transactions. As part of our contractual services, certain of our servicing contracts require us to advance uncollected principal and interest payments at a prescribed cut-off date each month to an appointed trustee on behalf of the investors in the loans. We are reimbursed by the trust in the event such delinquent principal and interest payments remain uncollected during the next reporting period. Also, as part of the servicing function, in order to protect the value of the housing asset underlying the loan, we are required to advance certain expenses such as taxes, insurance costs and costs related to the foreclosure or repossession process as necessary. Such expenditures are reported to the appropriate trustee for reimbursement. At December 31, 2006, we had servicing advances outstanding of approximately $7.7 million compared to $9.0 million at December 31, 2005, a decrease of 14.4%.

As a result of the acquisition of Origen Financial L.L.C., our predecessor company, on October 8, 2003, which was accounted for as a purchase, we recorded the net assets acquired at fair value, which resulted in recording goodwill of $32.3 million. No impairment of goodwill was recorded during the year ended December 31, 2006.

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Bonds outstanding, relating to securitized financings utilizing asset-backed structures, totaled $685.0 million and $578.5 million at December 31, 2006 and 2005, respectively. These bonds relate to five securitized transactions: Origen 2004-A, issued in February 2004, Origen 2004-B, issued in September 2004, Origen 2005-A, issued in May 2005, Origen 2005-B, issued in December 2005 and Origen 2006-A, issued in August 2006. Bonds outstanding for each securitized transaction were as follows at December 31 (in thousands):

	Original Issuance	2006	2005
Origen 2004 A	$ 200,000	$ 113,408	$ 138,257
Origen 2004 B	169,000	114,443	136,229
Origen 2005 A	165,300	128,668	150,471
Origen 2005 B	156,187	137,454	153,546
Origen 2006 A	200,646	191,040	
		$ 685,013	$ 578,503

At December 31, 2006 our total borrowings under our warehouse financing facility with Citigroup Global Markets Realty Corporation (Citigroup) were $131.5 million compared to $65.4 million at December 31, 2005. We use the Citigroup facility to fund loans we originate or purchase until such time as they can be included in one of our securitization transactions. We used the proceeds of our August 2006 securitization to reduce borrowings outstanding on the Citigroup facility.

We currently have a revolving credit facility with JPMorgan Chase Bank, N.A. Under the terms of the facility we can borrow up to $4.0 million for the purpose of funding required principal and interest advances on manufactured housing loans that are serviced for outside investors. Borrowings under the facility are repaid upon our collection of monthly payments made by borrowers on such manufactured housing loans. The outstanding balance on the facility was approximately $2.2 million at both December 31, 2006 and 2005. The expiration date of the facility is December 31, 2007.

Stockholders equity was $204.5 million and $200.0 million at December 31, 2006 and 2005, respectively. We had net income of $7.0 million and declared and paid distributions of $2.3 million during the year ended December 31, 2006.

Results of Operations for the Years Ended December 31, 2006 and December 31, 2005

Loan originations increased $14.7 million, or 5.5% to $282.7 million from $268.0 million for the years ended December 31, 2006 and 2005, respectively. We additionally processed $49.6 million and $32.0 million in loans originated under third party origination agreements during the years ended December 31, 2006 and 2005, respectively. Chattel loans comprised approximately 91% and 97% of loans originated during the years ended December 31, 2006 and 2005, respectively. The other loans originated, in each year, were land-home loans, which represent manufactured housing loans that are additionally collateralized by real estate.

Interest income on loans increased $14.5 million, from $55.2 million to $69.7 million, or 26.3%. This increase in interest income resulted primarily from an increase in the average outstanding balance of manufactured housing loan receivables of $184.7 million from $667.1 million to $851.8 million, or 27.7%. The increase in the average receivable balance was partially offset by a decrease in the average yield on the portfolio from 8.3% to 8.2%. The decrease in the yield on the portfolio was due to competitive conditions resulting in lower interest rates on new originations and a continuing positive change in the credit quality of the loan portfolio. Generally, higher credit quality loans will carry a lower interest rate.

Interest income on other interest earning assets increased from $4.2 million to $4.6 million. The increase was primarily the result of an increase of in the average yield on interest earning assets other than manufactured housing loans and investment securities from 2.9% to 5.1%.

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Interest expense increased $15.0 million, or 52.6%, to $43.5 million from $28.5 million. The majority of our interest expense relates to interest on our loan funding facilities. Average debt outstanding increased $184.9 million to $752.4 million compared to $567.5 million, or 32.6%. The average interest rate on total debt outstanding increased from 5.0% to 5.8%. The higher average interest rate for the year ended December 31, 2006 was primarily due to increases in the base LIBOR rate.

The following table presents information relative to the average balances and interest rates of our interest earning assets and interest bearing liabilities for the years ended December 31 (dollars in thousands):

	2006			2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest earning assets:						
Manufactured housing loans (1)	$ 851,758	$ 69,702	8.18%	$ 667,089	$ 55,164	8.27%
Investment securities	41,291	3,750	9.08%	40,442	3,761	9.30%
Other	16,609	843	5.08%	16,029	466	2.91%
Total	$ 909,658	$ 74,295	8.17%	$ 723,560	$ 59,391	8.21%
Interest bearing liabilities (2):						
Loan funding facilities	$ 728,331	$ 42,058	5.77%	$ 544,002	$ 27,465	5.05%
Repurchase agreements	23,582	1,398	5.93%	22,793	950	4.17%
Notes payable servicing advance	447	42	9.40%	710	53	7.46%
Total	$ 752,360	$ 43,498	5.78%	$ 567,505	$ 28,468	5.02%
Net interest income and interest rate spread		$ 30,797	2.39%		$ 30,923	3.19%
Net yield on average interest earning assets (3)			3.39%			4.27%

(1) Net of loan servicing fees.

(2) Includes facility fees.

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

The following table sets forth the changes in the components of net interest income for the year ended December 31, 2006 compared to the year ended December 31, 2005 (in thousands). The changes in net interest income between periods have been reflected as attributable to either volume or rate changes. For the purposes of this table, changes that are not solely due to volume or rate changes are allocated to rate.

	Volume	Rate	Total
Interest earning assets:			
Manufactured housing loans	$ 15,271	$ (733)	$ 14,538
Investment securities	79	(90)	(11)
Other	17	360	377
Total interest income	$ 15,367	$ (463)	$ 14,904
Interest bearing liabilities:			
Loan funding facilities	$ 9,306	$ 5,287	$ 14,593
Repurchase agreements	33	415	448
Notes payable servicing advances	(20)	9	(11)
Total interest expense	$ 9,319	$ 5,711	$ 15,030
Decrease in net interest income			$ (126)

Monthly provisions are made to the allowance for general loan losses in order to maintain a level that is adequate to absorb inherent losses in the manufactured housing loan portfolio. The provision for loan losses decreased 44.1% to $7.1 million from $12.7 million. The provision for the year ended December 31, 2005 included approximately $3.5 million related to the effects of Hurricane Katrina and Hurricane Rita and approximately $0.8 million of losses related to the charge-off of loans repurchased from Vanderbilt Mortgage and Finance, Inc. (Vanderbilt) under a previous repurchase agreement. Net charge-offs were $8.6 million for the year ended December 31, 2006 compared to $10.0 million for the year ended December 31, 2005. As a percentage of average outstanding principal balance total net charge-offs decreased to 1.0% compared to 1.5%.

An impairment of $0.5 million and $0.4 million in the carrying value of a previously purchased loan pool was recognized during the years ended December 31, 2006 and 2005, respectively, as a result of changes in projected cash flows.

Non-interest income for the year ended December 31, 2006 totaled $17.8 million as compared to $14.7 million for 2005, an increase of 21.1%. The primary components of non-interest income are fees and other income from loan servicing and insurance operations. The increase in non-interest income is primarily due to the increase in the average serviced loan portfolio on which servicing fees are collected from $1.4 billion to $1.6 billion.

Total non-interest expense for the year ended December 31, 2006 was $34.1 million as compared to $35.1 million for 2005. Following is a discussion of the decrease of $1.0 million, or 2.8%.

Personnel expenses increased approximately $1.2 million, or 5.3%, to $23.8 million compared to $22.6 million. The increase is primarily the result of a $0.9 million increase in salaries and temporary office staffing expenses, a $0.9 million increase in annual performance bonuses and incentives and a $0.2 million increase in health insurance expenses, offset by a decrease of $0.8 million in share-based compensation expenses.

Loan origination and servicing expenses amounted to approximately $1.6 million for both the year ended December 31, 2006 and 2005.

Write-down of residual interest decreased from $0.7 million to zero. Securitized loan transactions completed during years 2002 and 2001 were structured as loan sales for accounting purposes. As a result, our predecessor companies recorded an asset representing their residual interests in the loans at the time of sale, based on the discounted values of the projected cash flows over the expected life of the loans sold. During the year ended December 31, 2005, we wrote-off our remaining $0.7 million residual interest in the 2002-A securitization as a result of the effects of Hurricane Katrina and Hurricane Rita. Since 2002, neither we nor our predecessor has structured a securitization transaction as a sale for accounting purposes, nor is it our intention to do so in the future. There were no write-downs of residual interests during the year ended December 31, 2006. As of December 31, 2006 and 2005 we had no retained interests in loan securitizations remaining on our consolidated balance sheet.

During the year ended December 31, 2005 we incurred a loss of $0.8 million as a result of our buy-out of our recourse obligation with Vanderbilt.

As a national loan originator and servicer of manufactured housing loans, we are required to be licensed in all states in which we conduct business. Accordingly, we are subject to taxation by the states in which we conduct business. Depending on the individual state, taxes may be based on proportioned revenue, net income, capital base or asset base. During the year ended December 31, 2006 we incurred state taxes of $0.3 million as compared to $0.4 million during the year ended December 31, 2005.

Other operating expenses, which consist of occupancy and equipment, professional fees, travel and entertainment and miscellaneous expenses decreased $0.6 million, or 6.7%, from $8.9 million to $8.3 million. Professional fees decreased by $0.3 million, or 15.8% from $1.9 million to $1.6 million. Occupancy and equipment, office expense and telephone expense increased a total of $0.5 million, or 11.1%, from $4.5 million to $5.0 million. Travel and entertainment expense was $1.4 million during both 2006 and 2005. Miscellaneous expenses were $0.3 million and $1.1 million during the years ended December 31, 2006 and 2005, respectively.

Income tax expenses for the year ended December 31, 2006 were approximately $24,000. There were no income tax expenses for the year ended December 31, 2005.

Results of Operations for the Years Ended December 31, 2005 and December 31, 2004

Loan originations increased $25.0 million, or 10.3% to $268.0 million from $243.0 million for the years ended December 31, 2005 and 2004, respectively. We additionally processed $32.0 million and $9.9 million in loans originated under third party origination agreements during the years ended December 31, 2005 and 2004, respectively. Chattel loans comprised approximately 97% of loans originated in both 2005 and 2004. The balance of loans originated, in each year, were land-home loans, which represent manufactured housing loans that are additionally collateralized by real estate.

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Interest income on loans increased $15.3 million, from $39.9 million to $55.2 million, or 38.3%. This increase in interest income resulted primarily from an increase in the average outstanding balance of manufactured housing loans receivable of $202.5 million from $464.6 million to $667.1 million, or 43.6%. The increase in the average receivable balance was partially offset by a decrease in the average yield on the portfolio from 8.6% to 8.3%. The decrease in the yield on the portfolio was due to competitive conditions resulting in lower interest rates on new originations and a continuing positive change in the credit quality of the loan portfolio. Generally, higher credit quality loans will carry a lower interest rate.

Interest income on other interest earning assets increased from $2.6 million to $4.2 million. The increase was primarily the result of an increase of $1.4 million in interest income on asset-back security investments, which are collateralized by manufactured housing loans. Investments in such securities amounted to $41.9 million and $37.6 million at December 31, 2005 and 2004, respectively.

Interest expense increased $13.5 million, or 90.0%, to $28.5 million from $15.0 million. The majority of our interest expense relates to interest on our loan funding facilities. Average debt outstanding increased $204.9 million to $567.5 million compared to $362.6 million, or 56.5%. The average interest rate on total debt outstanding increased from 4.1% to 5.0%. The higher average interest rate for the year ended December 31, 2005 was primarily due to increases in the base LIBOR rate.

The following table presents information relative to the average balances and interest rates of our interest earning assets and interest bearing liabilities for the years ended December 31 (dollars in thousands):

	2005			**2004**		
	Average Balance	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
Interest earning assets:						
Manufactured housing loans (1)	$ 667,089	$ 55,164	8.27%	$ 464,578	$ 39,862	8.58%
Investment securities	40,442	3,761	9.30%	28,109	2,397	8.53%
Other	16,029	466	2.91%	18,855	220	1.17%
Total	$ 723,560	$ 59,391	8.21%	$ 511,542	$ 42,479	8.30%
Interest bearing liabilities (2):						
Loan funding facilities	$ 544,002	$ 27,465	5.05%	$ 344,502	$ 14,582	4.23%
Repurchase agreements	22,793	950	4.17%	17,573	399	2.27%
Notes payable servicing advance	710	53	7.46%	553	39	7.05%
Total	$ 567,505	$ 28,468	5.02%	$ 362,628	$ 15,020	4.14%
Net interest income and interest rate spread		$ 30,923	3.19%		$ 27,459	4.16%
Net yield on average interest earning assets (3)			4.27%			5.37%

(1) Net of loan servicing fees.

(2) Includes facility fees.

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

The following table sets forth the changes in the components of net interest income for the year ended December 31, 2005 compared to the year ended December 31, 2004 (in thousands). The changes in net interest income between periods have been reflected as attributable to either volume or rate changes. For the purposes of this table, changes that are not solely due to volume or rate changes are allocated to rate.

	Volume	Rate	Total
Interest earning assets:			
Manufactured housing loans	$ 17,376	$ (2,074)	$ 15,302
Investment securities	1,052	312	1,364
Other	(33)	279	246
Total interest income	$ 18,395	$ (1,483)	$ 16,912
Interest bearing liabilities:			
Loan funding facilities	$ 8,444	$ 4,439	$ 12,883
Repurchase agreements	119	432	551
Notes payable servicing advances	11	3	14
Total interest expense	$ 8,574	$ 4,874	$ 13,448
Increase in net interest income			$ 3,464

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Monthly provisions are made to the allowance for general loan losses in order to maintain a level that is adequate to absorb inherent losses in the manufactured housing loan portfolio. The provision for credit losses increased 78.9% to $12.7 million from $7.1 million. The provision includes approximately $3.5 million related to the effects of Hurricane Katrina and Hurricane Rita. Net charge-offs were $10.0 million for the year ended December 31, 2005 compared to $10.5 million for the year ended December 31, 2004. As a percentage of average outstanding principal balance total net charge-offs decreased to 1.5% compared to 2.3%. We expect net charge-offs as a percentage of average outstanding principal balance to continue to decrease in the future due to the fact that the owned portfolio of loans at December 31, 2005 has a larger concentration of loans originated in the years 2002 through 2005 than was the case for the owned portfolio at December 31, 2004.

An impairment of $0.4 million in the carrying value of a previously purchased loan pool was recognized during 2005 as a result of the hurricanes.

Non-interest income for the year ended December 31, 2005 totaled $14.7 million as compared to $11.2 million for year 2004, an increase of 31.3%. The primary components of non-interest income are fees and other income from loan servicing and insurance operations. Loan servicing fees comprised approximately 94% of non-interest income in 2005 and approximately 83% in 2004, reflecting the overall increase in the serviced loan portfolio. The average serviced loan portfolio on which servicing fees are collected increased approximately 7.7%, from $1.3 billion to $1.4 billion.

Total non-interest expense for the year ended December 31, 2005 was $35.1 million as compared to $34.6 million for 2004. Following is a discussion of the increase of $0.5 million, or 1.4%.

Personnel expenses increased approximately $0.7 million, or 3.2%, to $22.6 million compared to $21.9 million. The increase is primarily the result of a $0.4 million increase in stock compensation expense related to restricted stock granted to certain directors, officers and employees from $2.1 million for the year ended December 31, 2004 to $2.5 million for the year ended December 31, 2005, and an increase of $0.2 million in salaries and commissions from $14.5 million for the year ended December 31, 2004 to $14.7 million for the year ended December 31, 2005. The increase in salaries was primarily due to staffing needs resulting from our efforts to comply with Sarbanes Oxley requirements and the increase in commissions was due the increase in loan origination volume.

Loan origination and servicing expenses increased $0.2 million, or 14.3% from $1.4 million to $1.6 million. The increase is directly related to an increase in loan originations from $243.0 million to $268.0 million, and an increase in the average servicing portfolio from $1.3 billion to $1.4 billion for the years ended December 31, 2005 and 2004, respectively. The increase was primarily due to increased market share resulting from our focus on customer service and the use of technology to deliver our products and services.

The provision for recourse liability decreased $2.9 million, or 93.5% from $3.1 million to $0.2 million as a result of our buy-out of our recourse obligation with Vanderbilt. As a result of the buyout, we no longer will be required to take as a charge against earnings, over the remaining life of the loan pool, the difference between the book amount of the recourse liability, which was based on net present value, and the then current dollars paid out to satisfy the recourse requirement.

Write-down of residual interest increased $0.7 million due to the write-off of our residual interest in the 2002-A securitization as a result of the effects of Hurricane Katrina and Hurricane Rita. Securitized loan transactions completed during years 2002 and 2001 were structured as loan sales for accounting purposes. As a result, our predecessor companies recorded an asset representing their residual interests in the loans at the time of sale, based on the discounted values of the projected cash flows over the expected life of the loans sold. During the year ended December 31, 2005, we wrote-off our remaining $0.7 million residual interest in the 2002-A securitization as a result of the effects of Hurricane Katrina and Hurricane Rita. Since 2002, neither we nor our predecessor has structured a securitization transaction in a manner requiring gain on sale treatment, nor is it our intention to do so in the future. As of December 31, 2005 we had no retained interests in loan securitizations remaining on our consolidated balance sheet.

We incurred a loss of $0.8 million as a result of our buy-out of our recourse obligation with Vanderbilt.

As a national loan originator and servicer of manufactured housing loans, we are required to be licensed in all states in which we conduct business. Accordingly, we are subject to taxation by the states in which we conduct business. Depending on the individual state, taxes may be based on proportioned revenue, net income, capital base or asset base. During the year ended December 31, 2005 we incurred state taxes of $0.4 million as compared to $0.3 million during the year ended December 31, 2004.

Other operating expenses, which consist of occupancy and equipment, professional fees, travel and entertainment and miscellaneous expenses increased $1.1 million, or 14.1%, from $7.8 million to $8.9 million. This increase is primarily the result of a $1.0 million, or 111.1% increase in professional fees from $0.9 million to $1.9 million. The increase in professional fees is primarily due to Sarbanes Oxley compliance related costs. Occupancy and equipment, office expense and telephone expense increased a total of $0.1 million, or 2.2%, from $4.4 million to $4.5 million. Travel and entertainment expense was $1.4 million during both 2005 and 2004. Miscellaneous expenses were $1.1 million during both 2005 and 2004.

Liquidity and Capital Resources

We require capital to fund our loan originations, acquire manufactured housing loans originated by third parties and expand our loan servicing operations. At December 31, 2006 we had approximately $2.6 million in available cash and cash equivalents. As a REIT, we will be required to distribute at least 90% of our REIT taxable income (as defined in the Internal Revenue Code) to our stockholders on an annual basis. Therefore, as a general matter, it is unlikely we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash provided from operations and external sources of capital. Historically, we have satisfied our liquidity needs through cash generated from operations, sales of our common and preferred stock, borrowings on our credit facilities and securitizations.

Cash provided by operating activities during the year ended December 31, 2006, totaled $16.0 million versus $18.2 million for the year ended December 31, 2005. Cash used in investing activities was $193.0 million for the year ended December 31, 2006 versus $229.2 million for the year ended December 31, 2005. Cash used to originate and purchase loans decreased 6.0%, or $18.4 million, to $288.4 million for the year ended December 31, 2006 compared to $306.8 million for the year ended December 31, 2005. Principal collections on loans totaled $86.6 million for the year ended December 31, 2006 as compared to $75.6 million for the year ended December 31, 2005, an increase of $11.0 million, or 14.6%. The increase in collections is primarily related to the increase in the average outstanding loan portfolio balance, which was $851.8 million for the year ended December 31, 2006 compared to $667.1 million for the year ended December 31, 2005, in addition to improved credit quality and decreased delinquency as a percentage of outstanding loan receivable balance.

The primary source of cash during the year ended December 31, 2006 was our 2006-A securitized financing transaction completed in August 2006. We securitized approximately $224.2 million in principal balance of manufactured housing loans, which was funded by issuing bonds of approximately $200.6 million. Approximately $199.2 million of proceeds was used to reduce the aggregate balance of notes outstanding under our Citigroup warehouse financing facility.

Continued access to the securitization market is very important to our business. The proceeds from successful securitization transactions generally are applied to paying down our other short-term credit facilities giving us renewed borrowing capacity to fund new loan originations. Numerous factors affect our ability to complete a successful securitization, including factors beyond our control. These include general market interest rate levels, the shape of the yield curve and spreads between rates on U.S. Treasury obligations and securitized bonds, all of which affect investors demand for securitized debt. In the event these factors are unfavorable our ability to successfully complete securitization transactions is impeded and our liquidity and capital resources are affected negatively. There can be no assurance that current favorable conditions will continue or that unfavorable conditions will not return.

We currently have a short term securitization facility used for warehouse financing with Citigroup. Under the terms of the agreement, originally entered into in March 2003 and amended periodically, most recently in July 2006, we pledge loans as collateral and in turn we are advanced funds. The facility has a maximum advance amount of $200 million at an annual interest rate equal to LIBOR plus a spread. Additionally, the facility includes a $35 million supplemental advance amount that is collateralized by certain of our residual interests in our securitizations. The facility matures on March 22, 2007. The outstanding balance on the facility was approximately $131.5 million and $65.4 million at December 31, 2006 and 2005, respectively. It is anticipated that the facility will be renewed on terms no less favorable than the current terms.

Additionally, we have four repurchase agreements with Citigroup. Three of the repurchase agreements are for the purpose of financing the purchase of investments in three asset backed securities with principal balances of $32.0 million, $3.1 million and $3.7 million respectively. The fourth repurchase agreement is for the purpose of financing a portion of our residual interest in the 2004-B securitization with a principal balance of $4.0 million. Under the terms of the agreements we sell our interest in the securities with an agreement to repurchase them at a predetermined future date at the principal amount sold plus an interest component. The securities are financed at an amount equal to 75% of their current market value as determined by Citigroup. Typically the repurchase agreements are rolled over for 30 day periods when they expire. The annual interest rates on the agreements are equal to LIBOR plus a spread. The repurchase agreements had outstanding principal balances of approximately $16.8 million, $1.7 million, $2.1 million and $3.0 million, respectively, at both December 31, 2006 and 2005.

Under the terms of our revolving credit facility with JPMorgan Chase Bank, N.A. we may borrow up to $4.0 million to fund required principal and interest advances on manufactured housing loans that we service for outside investors. Borrowings under the facility are repaid when we collect monthly payments made by borrowers under such manufactured housing loans. The bank s prime interest rate is payable on the outstanding balance. To secure the loan, we have granted JPMorgan Chase Bank, N.A. a security interest in substantially all our assets excluding securitized assets. The expiration date of the facility is December 31, 2007. The outstanding balance on the facility was approximately $2.2 million at both December 31, 2006 and 2005.

In September 2005, the Securities and Exchange Commission declared effective our shelf registration statement on Form S-3 for the proposed offering, from time to time, of up to $200 million of our common stock, preferred stock and debt securities. In addition to such debt securities, preferred stock and other common stock we may sell under the registration statement, we have registered for sale 1,540,000 shares of our common stock pursuant to a sales agreement that we have entered into with Brinson Patrick Securities Corporation. It is anticipated that these shares of common stock will be sold at the price of our common stock prevailing at the time of sale.

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In addition to borrowings under our credit facilities and issuances of securitized notes, we have fixed contractual obligations under various lease agreements. Our contractual obligations were comprised of the following as of December 31, 2006 (in thousands):

	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Notes payable Citigroup (1)	$ 131,520	$ 98,640	$ 32,880	$	$
Notes payable 2004-A securitization (2)	113,408	23,290	25,504	19,079	45,535
Notes payable 2004-B securitization (3)	114,443	23,725	29,109	19,698	41,911
Notes payable 2005-A securitization (4)	128,668	24,332	34,655	21,311	48,370
Notes payable 2005-B securitization (5)	137,454	21,177	37,133	22,626	56,518
Notes payable 2006-A securitization (6)	191,040	25,825	44,846	34,395	85,974
Repurchase agreement (7)	23,582	23,582			
Notes payable servicing advances (8)	2,185	2,185			
Operating leases	5,248	1,118	2,154	1,779	197
Total contractual obligations	$ 847,548	$ 243,874	$ 206,281	$ 118,888	$ 278,505

(1) Origen Financial L.L.C. and Origen Securitization Company, LLC, one of our special purpose entity subsidiaries, are borrowers under the short-term securitization facility with Citigroup.

(2) Origen Financial L.L.C. through a special purpose entity, Origen Manufactured Housing Contract Trust 2004-A, is the issuer of the

notes payable under the 2004-A securitization.

(3) Origen Financial L.L.C. through a special purpose entity, Origen Manufactured Housing Contract Trust 2004-B, is the issuer of the notes payable under the 2004-B securitization.

(4) Origen Financial L.L.C. through a special purpose entity, Origen Manufactured Housing Contract Trust 2005-A, is the issuer of the notes payable under the 2005-A securitization.

(5) Origen Financial L.L.C. through a special purpose entity, Origen Manufactured Housing Contract Trust 2005-B, is the issuer of the notes payable under the 2005-B securitization.

(6)

Origen Financial L.L.C. through a special purpose entity, Origen Manufactured Housing Contract Trust 2006-A, is the issuer of the notes payable under the 2006-A securitization.

(7) Origen Financial L.L.C. is the borrower under the Citigroup repurchase agreement.

(8) Origen Financial L.L.C. is the borrower under the servicing advance facility with JPMorgan Chase Bank, N.A.

We need cash to pay interest expense on our securitized bonds and credit facilities. We expect the total interest expense to be in excess of $43.8 million during the twelve months ending December 31, 2007.

Our long-term liquidity and capital requirements consist primarily of funds necessary to originate and hold manufactured housing loans, acquire and hold manufactured housing loans originated by third parties and expand our loan servicing operations. We expect to meet our long-term liquidity requirements through cash generated from operations, but we will require external sources of capital, which may include sales of shares of our common stock, preferred stock, debt securities, convertible debt securities and third-party borrowings (either pursuant to our shelf registration statement on Form S-3 or otherwise). We intend to continue to access the asset-backed securities market for the long-term financing of our loans in order to match the interest rate risk between our loans and the related long-term funding source. Our ability to meet our long-term liquidity needs depends on numerous factors, many of which are outside of our control. These factors include general capital market and economic conditions, general market interest rate levels, the shape of the yield curve and spreads between rates on U.S. Treasury obligations and securitized bonds, all of which affect investors demand for equity and debt securities, including securitized debt securities.

Cash generated from operations, borrowings under our Citigroup facility, loan securitizations, borrowings against our securitized loan residuals, convertible debt, equity interests or additional debt financing arrangements (either pursuant to our shelf registration statement on Form S-3 or otherwise) will enable us to meet our liquidity needs for at least the next twelve months depending on market conditions which may affect loan origination volume, loan purchase opportunities and the availability of securitizations. If market conditions require, loan purchase opportunities become available, or favorable capital opportunities become available, we may seek additional funds through additional credit facilities or additional sales of our common or preferred stock.

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

Forward-Looking Statements

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

- the performance of our manufactured housing loans;
- our ability to borrow at favorable rates and terms;
- the supply of manufactured housing loans;
- interest rate levels and changes in the yield curve (which is the curve formed by the differing Treasury rates paid on one, two, three, five, ten and 30 year term debt);
- our ability to use hedging strategies to insulate our exposure to changing interest rates;
- changes in, and the costs associated with complying with, federal, state and local regulations, including consumer finance and housing regulations;
- applicable laws, including federal income tax laws;
- general economic conditions in the markets in which we operate;

and those referenced in Item 1A, under the headings entitled Risk Factors contained in this Form 10-K and our other filings with the Securities and Exchange Commission. All forward-looking statements included in this document are based on information available to us on the date of this Form 10-K. We do not intend to update or revise any forward-looking statements that we make in this document or other documents, reports, filings or press releases, whether as a result of new information, future events or otherwise.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

The outstanding balance of our variable rate debt, under which we paid interest at various LIBOR rates plus a spread, totaled $348.3 million and $91.2 million at December 31, 2006 and 2005, respectively. If LIBOR increased or decreased by 1.0% during the years ended December 31, 2006 and 2005, we believe our interest expense would have increased or decreased by approximately $2.1 million and $1.6 million, respectively, based on the $213.8 million and $155.0 million average balance outstanding under our variable rate debt facilities for the years ended December 31, 2006 and 2005, respectively. We had no variable rate interest earning assets outstanding during the years ended December 31, 2006 or 2005.

The following table shows the contractual maturity dates of our assets and liabilities at December 31, 2006. For each maturity category in the table the difference between interest-earning assets and interest-bearing liabilities reflects an imbalance between re-pricing opportunities for the two sides of the balance sheet. The consequences of a negative cumulative gap at the end of one year suggests that, if interest rates were to rise, liability costs would increase more quickly than asset yields, placing negative pressure on earnings (dollars in thousands).

			Maturity		
	0 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and equivalents	$ 2,566	$	$	$	$ 2,566
Restricted cash	15,412				15,412
Investments				41,538	41,538
Loans receivable, net	29,835	89,045	376,917	454,429	950,226
Servicing advances	4,903	2,838			7,741
Servicing rights	91	274	1,048	1,095	2,508
Furniture, fixtures and equipment, net	281	878	2,354		3,513
Repossessed houses	1,523	1,523			3,046
Goodwill				32,277	32,277
Other assets	4,687	3,163	2,576	3,814	14,240
Total assets	$ 59,298	$ 97,721	$ 382,895	$ 533,153	$ 1,073,067
Liabilities and Stockholders Equity					
Warehouse financing	$ 24,660	$ 73,980	$ 32,880	$	$ 131,520
Securitization financing	30,139	88,210	288,356	278,308	685,013
Repurchase agreements	23,582				23,582
Notes payable servicing advances	2,185				2,185
Other liabilities	21,301	767		4,235	26,303
Total liabilities	101,867	162,957	321,236	282,543	868,603
Preferred stock				125	125
Common stock				259	259
Additional paid-in-capital				219,759	219,759
	21	(44)	232	(834)	(625)

Accumulated other comprehensive loss					
Distributions in excess of earnings				(15,054)	(15,054)
Total stockholders equity	21	(44)	232	204,255	204,464
Total liabilities and stockholders equity	$ 101,888	$ 162,913	$ 321,468	$ 486,798	$ 1,073,067
Interest sensitivity gap	$ (42,590)	$ (65,192)	$ 61,427	$ 46,355	
Cumulative interest sensitivity gap	$ (42,590)	$ (107,782)	$ (46,355)		
Cumulative interest sensitivity gap to total assets	(3.97)%	(10.04)%	(4.32)%		

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

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Our hedging strategies use derivative financial instruments, such as interest rate swap contracts, to mitigate interest rate risk and variability in cash flows on our securitizations and anticipated securitizations. It is not our policy to use derivatives to speculate on interest rates. These derivative instruments are intended to provide income and cash flow to offset potential increased interest expense and potential variability in cash flows under certain interest rate environments.

We held five separate open derivative positions at December 31, 2006. All five of these positions were interest rate swaps. One of the positions is an interest rate swap related to our 2006-A securitization which locks in the interest rate on the outstanding balance of the 2006-A variable rate notes at 5.48% for the life of the notes. The outstanding notional balance on this interest rate swap was $193.4 million at December 31, 2006.

We held three interest rate swaps for the purpose of locking in the interest rate on a portion of our anticipated 2007-A securitization transaction. The agreements fix the interest rate on notional amounts of $30 million, $30 million and $25 million at 5.23%, 5.14% and $4.96%, respectively. Each of the three swaps has a scheduled termination date of September 2016.

At December 31, 2006 we held one interest rate swap which was not accounted for as a hedge. Under the agreement, at December 31, 2006, we paid one month LIBOR and received a fixed rate of 5.48% on an outstanding notional balance of $1.6 million. The scheduled termination date of this swap agreement is April 2020.

The following table shows our financial instruments that are sensitive to changes in interest rates and are categorized by contractual maturity at December 31, 2006, (dollars in thousands):

	Contractual Maturity						
	2006	**2007**	**2008**	**2009**	**2010**	**There-after**	**Total**
Interest sensitive assets							
Interest bearing deposits	$ 17,031	$	$	$	$	$	$ 17,031
Average interest rate	5.08%						5.08%
Investments						41,538	41,538
Average interest rate						9.08%	9.08%
Loans receivable, net	118,880	111,919	99,931	87,898	77,169	454,429	950,226
Average interest rate	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Derivative asset	121					24	145
Average interest rate	4.98%					4.98%	4.98%
Total interest sensitive assets	$ 136,032	$ 111,919	$ 99,931	$ 87,898	$ 77,169	$ 495,991	$ 1,008,940
Interest sensitive liabilities							
Warehouse financing							