

NEW CENTURY REIT INC
Form S-3/A
September 15, 2004
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As filed with the Securities and Exchange Commission on September 15, 2004

Registration No. 333-114707

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 6
TO
FORM S-3
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

NEW CENTURY REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State of other jurisdiction of
incorporation or organization)

56-2451763
(I.R.S. Employer
Identification No.)

18400 Von Karman Avenue, Suite 1000
Irvine, California 92612

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(949) 440-7030

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Brad A. Morrice

President and Chief Operating Officer

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. "

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

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

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

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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

PRELIMINARY PROSPECTUS

Subject to completion

SEPTEMBER 15, 2004

13,500,000 Shares

Common Stock

New Century REIT, Inc. is a mortgage finance company that was recently formed to continue and expand the business of New Century Financial Corporation, or New Century Financial. We expect to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2004.

We are offering 13,500,000 shares of our common stock in this offering. No public market currently exists for our common stock.

Our common stock has been approved for listing on the New York Stock Exchange, or NYSE, under the symbol **NEW**, subject to official notice of issuance. We currently expect the public offering price to be between \$54.00 and \$60.00 per share. The common stock of New Century Financial, our predecessor, is listed on the Nasdaq National Market under the symbol **NCEN**.

Investing in our common stock involves a high degree of risk. Before buying any shares of our common stock, you should carefully consider the risk factors described in Risk factors beginning on page 13, which include the following:

- Ø the current price of New Century Financial common stock may not be indicative of the price of our common stock following this offering;
- Ø we have no operating history as a REIT, and we cannot assure you that our management's past experience will be sufficient to manage our business as a REIT;
- Ø the loans we originate and hold are subprime, rather than prime, and generally have higher delinquency and default rates than prime loans, which could result in losses on our loans;

Ø

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interest rate fluctuations resulting in our interest expense exceeding our interest income would result in operating losses for us and may limit or eliminate our ability to make distributions to you; and

Ø we may not be successful in qualifying as a REIT or maintaining our qualification as a REIT for U.S. federal income tax purposes, in which case we would be subject to U.S. federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for distribution to you.

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

	Per Share	Total
Public offering price	\$	\$
Underwriting discount and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters may also purchase up to an additional 2,025,000 shares of common stock from us at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus. The underwriters may exercise the option to cover over-allotments, if any. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be \$ _____ and the total proceeds, before expenses, to us will be \$ _____.

We expect the shares of common stock to be sold in this offering will be delivered on or around _____, 2004.

UBS Investment Bank

Friedman Billings Ramsey

Merrill Lynch & Co.

Morgan Stanley

Flagstone Securities

Jefferies & Company, Inc.

JMP Securities

Piper Jaffray

The date of this prospectus is _____, 2004.

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You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different. This document may be used only where it is legal to sell these securities. The information in this document may be accurate only on the date of this document.

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We have registered trademarks for FastQu[®] and New Century Mortgage, and we have a registered service mark for the New Century logo. All other brand names or trademarks appearing in this prospectus are the property of their respective holders.

Unless otherwise indicated, the statements in this prospectus assume that we have completed the merger and related transactions which are described in "The merger and related transactions" beginning on page 47.

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Prospectus summary

This is only a summary and does not contain all of the information that you should consider before investing in our common stock. You should also read the entire prospectus, including Risk factors and our financial statements and related notes appearing elsewhere in this prospectus, before deciding to invest in our common stock. In this prospectus, unless the context suggests otherwise, the terms our company, we, our and us refer to New Century REIT, Inc. and our predecessor, New Century Financial, which will be a subsidiary of New Century REIT after completion of the merger (as described below). New Century Financial refers to New Century TRS Holding, Inc., one of our wholly-owned taxable REIT subsidiaries and a successor to New Century Financial, and its subsidiaries. Unless otherwise indicated, the information contained in this prospectus assumes that the shares of our common stock offered pursuant to this prospectus are sold at a public offering price of \$57.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus.

OVERVIEW

We are the nation's second largest subprime mortgage finance company in terms of loan volume. We originate, purchase, retain, sell and service primarily first mortgage products to borrowers nationwide. We focus on lending to individuals whose borrowing needs are generally not fulfilled by traditional financial institutions because they do not satisfy the customary credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae and Freddie Mac. We originate and purchase these loans on the basis of the borrower's ability to repay the mortgage loan, the borrower's historical pattern of debt repayment and the amount of equity in the borrower's property (as measured by the borrower's loan-to-value ratio, or LTV). We have been originating and purchasing subprime loans since 1996 and believe we have developed a comprehensive and sophisticated process of credit evaluation and risk-based pricing that allows us to effectively manage the potentially higher credit risks associated with this segment of the mortgage industry.

Historically, we have sold our loans through both whole loan sales and, beginning in 1997, securitizations structured as sales, whereby we continue to manage the portfolio of mortgage loans because we retain a residual interest in the loans. In January 2003, we began to structure our securitization transactions as financings and, as a result, we have begun to retain a portion of our loan production on our balance sheet to build a loan portfolio to generate interest income. As we continue to accumulate mortgage assets in our portfolio, we expect that the proportion of our earnings generated by our portfolio will increase relative to earnings generated by our mortgage banking operations. We believe that after we qualify as a REIT, this strategy will provide us with a more diversified earnings stream in a tax-efficient manner while allowing us to continue to operate a growing mortgage origination franchise. In addition, our servicing platform was recently rated RPS3, or average, by Fitch Ratings, Inc., or Fitch, and rated average by Standard & Poor's, or S&P, which we believe will allow us to expand our servicing portfolio of loans serviced for third parties. For the first full quarter after the consummation of the merger, we expect that approximately 80% of our pretax earnings will be generated by our taxable REIT subsidiaries and will be subject to taxation at regular corporate rates. We expect that this percentage will decrease over time as we continue to build our portfolio of mortgage loans held for investment. We expect that our taxable REIT subsidiaries will be able to retain some or all of the after-tax earnings they generate to provide for our future growth and may, from time to time, distribute a portion of these earnings to us and, subsequently, to our stockholders, depending on, among other factors, then-current market conditions and our reinvestment opportunities.

According to Inside B&C Lending, an industry trade publication, we were the second largest originator of subprime loans in 2003. During that year, we originated over \$27 billion of mortgage loans, \$8.3 billion of which were originated in the fourth quarter of 2003. We experienced a

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compounded annual growth rate in our origination volume of 87.6% from 2000 to 2003, and had a market share of 8.3% for the year ended December 31, 2003 compared to 3.0% for the year ended December 31, 2000. In the first half of 2004, we originated \$20.7 billion of mortgage loans. Approximately 62% of our mortgage production for the first half of the year consisted of cash-out refinancings, where the borrowers refinanced their existing mortgages and received cash representing a portion of the equity in their homes. For the same period, approximately 32% of our mortgage production was represented by home purchase finance loans. The remainder of our mortgage production was represented by transactions in which borrowers refinanced their existing mortgages to obtain a better interest rate or loan maturity, or rate and term refinance transactions.

We seek to manage the risks associated with the subprime segment of the mortgage industry in a number of ways, including: (i) periodic updating of our underwriting criteria and processes using the latest technology available and investor feedback; (ii) a comprehensive quality assurance program; and (iii) a team of financial analysts who take into account our database of loan performance data and the current economic and interest rate environments to seek to predict the future performance of like pools of loans.

As of June 30, 2004 and December 31, 2003, the delinquency rates on outstanding mortgage loans that were 60 days or more past due and that we previously securitized in either on-balance sheet or off-balance sheet transactions were 3.27% and 6.18%, respectively. As the loans to which these delinquency rates relate continue to age, we expect that the delinquency rate will approach our historical average range of approximately 10% to 20%. Ultimately, we expect that approximately two-thirds of these loans will result in losses with a severity of approximately 40%. Loss severity represents the percentage shortfall of the expected collections on a mortgage loan versus the amount we actually recovered. As a result, we expect the cumulative pool loss rate on the loans we have securitized in on- or off-balance sheet securitizations to range from approximately 3% to 5%. Cumulative pool loss rates are defined as the total losses over the life of a securitization pool divided by the aggregate original principal balance of the mortgage loans in the pool.

We had approximately 4,600 employees as of June 30, 2004. New Century Financial common stock has been quoted on the Nasdaq National Market under the symbol **NCEN** since its initial public offering in June 1997. Our principal executive offices are located at 18400 Von Karman Avenue, Suite 1000, Irvine, California 92612, our telephone number at that location is (949) 440-7030 and our website is www.ncen.com. Information contained on our website does not constitute a part of this prospectus.

BUSINESS STRATEGY

Our business objective is to pursue growth while also seeking to provide more stable, predictable earnings even when the origination environment becomes less favorable. We intend to execute this strategy by:

- Ø strengthening our production franchise by expanding our total loan production and increasing market share and volume on the East Coast and in other metropolitan areas outside of California;
- Ø growing our portfolio of mortgage-related assets by retaining self-originated loans through on-balance sheet securitizations, which we believe will increase net interest income and reduce our reliance on our origination franchise to grow earnings;
- Ø strengthening our balance sheet by increasing our liquidity and capital position with the net proceeds from this offering and future offerings and by increasing available capacity under our lines of credit. We believe these efforts will better protect our franchise and provide the ability to respond to disruptions in the market or other adverse conditions and allow us to meet the REIT distribution and other qualification requirements;

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- Ø actively managing the interest rate and credit risks relating to our portfolio of mortgage-related assets in an effort to generate an attractive risk-adjusted return on our stockholders' equity;
- Ø expanding our servicing platform by taking advantage of our technical capabilities, capitalization and economies of scale; and
- Ø diversifying our revenues by evaluating and executing strategic acquisitions and new business opportunities.

COMPETITIVE ADVANTAGES

We believe that the following competitive strengths distinguish our business model from those of other residential mortgage lenders and REITs and will enable us to implement our business strategy:

- Ø we are the nation's second largest subprime mortgage finance company when measured by loan production volume, with a wholesale network of approximately 31,200 approved independent mortgage brokers and a retail network of 74 branch offices in 29 states;
- Ø our structure and business strategy provide us with the flexibility to both securitize a portion of our loan originations for our portfolio and sell the balance for cash, which we believe allows us to provide a broader product offering, better manage our cash flows and respond to the secondary market environment, thus enhancing the return on our stockholders' equity;
- Ø we have developed long-standing relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS Real Estate Securities. These loan buyers regularly bid on and purchase large loan pools from us and we frequently enter into committed forward loan sale agreements with them. We also have lending relationships with a variety of institutional lenders, including Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets, Morgan Stanley and UBS Real Estate Securities;
- Ø unlike mortgage REITs without origination capabilities, we believe our ability to originate loans through one or more of our qualified REIT subsidiaries and purchase loans originated by one or more of our taxable REIT subsidiaries will allow us to accumulate mortgage loans at a lower cost and with greater reliability than would be available through secondary market purchases;
- Ø we have created a proprietary automated credit grading and pricing methodology that we believe, based upon our historical loan performance, gives us the ability to more effectively evaluate credit risk and more efficiently price our products and which we believe enables us to generate attractive risk-adjusted returns as a result;
- Ø we believe our origination process is easier for our borrowers and brokers to use because of our ability to provide prompt responses and consistent and clear procedures, with an emphasis on ease of use through technology, including our FastQual® system, a Web-based underwriting engine; and
- Ø the members of our senior management team have, on average, over 20 years of experience in the mortgage finance sector, with substantial experience addressing the challenges posed by a variety of interest rate environments, including growing an origination franchise, managing credit risk and developing strong capital market relationships.

THE RESIDENTIAL MORTGAGE MARKET

The residential mortgage market is the largest consumer finance market in the United States. According to the Mortgage Bankers Association of America, or the MBA, lenders in the United States originated over \$3.8 trillion of single-family mortgage loans in 2003 and the MBA is predicting originations of \$2.5 trillion in 2004. The residential mortgage market can generally be bifurcated into conforming and non-conforming mortgage loans. Non-conforming mortgage loans are those mortgage loans generally not

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eligible for sale to Fannie Mae or Freddie Mac due to size and/or credit characteristics. Our loan production focuses on the subprime mortgage segment of the non-conforming market, which consists of loans that generally do not satisfy the credit characteristics of the conforming market.

According to Inside B&C Lending, the subprime mortgage market volume was approximately \$332 billion in 2003, which represented approximately 9% of the overall residential mortgage market. The subprime mortgage market has grown from \$34 billion in 1994 to \$332 billion in 2003, representing a 29% compounded annual growth rate, while the overall single-family residential mortgage market has grown from \$769 billion in 1994 to \$3.8 trillion in 2003, representing a compounded annual growth rate of 19%.

In addition to faster growth, the subprime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused this market segment to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market. For example, for the 10 quarters ended June 30, 2004, the prime loan origination market experienced substantial volatility with a peak quarterly growth rate of approximately 52.2% in the second quarter of 2003, and a peak quarterly decline of approximately 51.9% in the fourth quarter of 2003. In contrast, during the same period the subprime loan origination market experienced a peak growth rate of approximately 39.2% in the second quarter of 2004, did not decline at all during that period and experienced the lowest quarterly increase of approximately 1.6% in the first quarter of 2003. In addition, the subprime market has shown an ability to grow during volatile interest rate environments, as indicated by the subprime market's growth by an average of 16.7% over the three quarters ended June 30, 2004, in contrast to the prime market's decline by an average of 2.3% over these same periods.

OUR REIT STATUS

New Century REIT is a Maryland corporation formed by New Century Financial on April 12, 2004 to succeed to and continue the business of New Century Financial upon completion of the merger of NC Merger Sub, Inc., a wholly-owned subsidiary of New Century REIT, with and into New Century Financial. To date, New Century REIT has not conducted any activities other than those incident to its formation, the execution of the merger agreement and the preparation of this prospectus. Following completion of the merger, New Century REIT will be renamed New Century Financial Corporation. New Century REIT expects to qualify as a REIT for U.S. federal income tax purposes commencing with its taxable year ending December 31, 2004.

THE MERGER AND RELATED TRANSACTIONS

On September 15, 2004, New Century Financial stockholders approved and adopted the merger agreement. Upon completion of the merger of NC Merger Sub with and into New Century Financial, each outstanding share of New Century Financial common stock will be converted into one share of our common stock. The rights of our stockholders will be governed by the Maryland General Corporation Law, or MGCL, as well as our charter and bylaws. New Century REIT will be renamed New Century Financial Corporation, will become the parent company of New Century Financial and will succeed to and continue to operate, directly or indirectly, substantially all of the existing businesses of New Century Financial. New Century Financial will be renamed New Century TRS Holdings, Inc. and will become a wholly-owned taxable REIT subsidiary of New Century REIT. The board of directors, committees of the board of directors and management of New Century Financial immediately prior to the merger will become our board of directors, committees of the board of directors and management. We will also assume all of New Century Financial's stock incentive plans and all rights to acquire shares of New Century Financial common stock under any New Century Financial stock incentive plan will be

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converted into rights to acquire shares of our common stock pursuant to the terms of the stock incentive plans and the other related documents, if any.

We have structured the merger to qualify as a tax-free reorganization for U.S. federal income tax purposes. If the merger so qualifies, no gain or loss will be recognized by New Century Financial, New Century REIT or NC Merger Sub as a result of the merger.

SUMMARY RISK FACTORS

An investment in our common stock involves a high degree of risk. The Risk factors section of this prospectus which begins on page 13 contains a detailed discussion of our most important risks, including, but not limited to, the risks summarized below.

- Ø the current price of New Century Financial common stock may not be indicative of the price of our common stock following this offering;
- Ø we have no operating history as a REIT, and we cannot assure you that our management's past experience will be sufficient to manage our business as a REIT;
- Ø the loans we originate and hold are subprime, rather than prime, and generally have higher delinquency and default rates than prime loans, which could result in losses on our loans;
- Ø the geographic concentration of our mortgage loan originations increases our exposure to risks in those areas, especially California, where approximately 41.3% of the aggregate principal amount of our mortgage loans were secured by property located in that state;
- Ø adverse economic conditions or declining real estate values could harm our operations;
- Ø interest rate fluctuations resulting in our interest expense exceeding our interest income would result in operating losses for us and may limit or eliminate our ability to make distributions to you; and
- Ø we may not be successful in qualifying as a REIT or maintaining our qualification as a REIT for U.S. federal income tax purposes, in which case we would be subject to U.S. federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for making distributions to you.

DISTRIBUTION POLICY

We intend to distribute each year all, or substantially all, of the REIT taxable income generated by us in order to qualify for the tax benefits accorded to REITs under the Internal Revenue Code. From time to time, we may also distribute some or all of the after-tax earnings retained in our taxable REIT subsidiaries to our stockholders, depending on, among other factors, then-current market conditions and our reinvestment opportunities. We expect to declare regular quarterly distributions to our stockholders beginning in the fourth quarter of 2004.

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain) each year. After-tax earnings generated by our taxable REIT subsidiaries and not distributed to us are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. To the extent that we distribute at least 90%, but less than 100% of our REIT taxable income in a taxable year, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, if we fail to distribute an amount during each year equal to the sum of 85% of our REIT ordinary income and 95% of our capital gain net income for that year and any undistributed income from prior periods, we will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed. See Material U.S. federal income tax consequences.

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In addition, in connection with the merger and the other restructuring activities necessary for us to qualify as a REIT, we may, if necessary, declare an immaterial one-time special distribution of the current and accumulated earnings and profits of New Century Credit Corporation, or New Century Credit, which is currently an indirect wholly-owned subsidiary of New Century Financial, to our stockholders payable in cash, or the special E&P distribution, in December 2004. If required, we will make this one-time distribution in January 2005 to our stockholders on the record date for such distribution. The investors in this offering will be eligible to receive the special E&P distribution if those investors hold our common stock on the applicable record date.

RESTRICTIONS ON OWNERSHIP OF OUR COMMON STOCK

In order to assist us in maintaining our qualification as a REIT under the Internal Revenue Code, our charter contains restrictions on the number of shares of our capital stock that a person may own. No person may acquire or hold, directly or indirectly, in excess of 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of any class or series of our capital stock. These ownership limits could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in your best interest. Our board of directors may, in its sole discretion, waive the ownership limit with respect to a particular stockholder if it is presented with evidence satisfactory to it that the ownership of that stockholder will not then or in the future jeopardize our status as a REIT. See Description of our capital stock Transfer restrictions.

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The offering

Common stock offered by us	13,500,000 shares ⁽¹⁾
Common stock to be outstanding after this offering	47,567,884 shares ⁽¹⁾⁽²⁾
Use of proceeds	We intend to use the net proceeds of this offering, which are estimated to be approximately \$725.6 million, based on an assumed public offering price of \$57.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the underwriting discount and estimated offering expenses of approximately \$3.5 million payable by us, primarily for general working capital purposes, including to build a portfolio of self-originated mortgage loans and, if necessary to maintain our REIT status, to purchase mortgage-related assets from third parties.
Risk factors	See Risk factors and other information included in this prospectus for a discussion of some of the factors you should carefully consider before deciding whether to purchase our common stock.
Trading symbol	Our common stock has been approved for listing on the NYSE under the symbol <code>NEW</code> , subject to official notice of issuance.

- (1) Assumes that the underwriters' over-allotment option to purchase up to an additional 2,025,000 shares will not be exercised.
- (2) The common stock to be outstanding after this offering is based on 34,047,884 shares of our common stock issuable to New Century Financial stockholders in connection with the merger as of August 31, 2004 and excludes:
- Ø a total of 5,342,736 shares of our common stock issuable upon the exercise of stock options outstanding on August 31, 2004 with a weighted-average exercise price of \$18.26 per share;
 - Ø a total of 591,225 shares of our common stock available for awards under our stock incentive plans as of August 31, 2004;
 - Ø up to 6,034,686 shares of common stock issuable as of August 31, 2004 upon the conversion of our 3.50% convertible senior notes due 2008 (subject to adjustments under the terms of the convertible notes); and
 - Ø up to 6,034,668 shares of common stock issuable as of August 31, 2004 upon the exercise of a warrant issued in connection with the issuance of the convertible notes.

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Summary historical financial data of New Century Financial

You should read the following summary of historical financial data in conjunction with New Century Financial's historical consolidated financial statements and related notes thereto and Management's discussion and analysis of financial condition and results of operations, which are included elsewhere or incorporated by reference in this prospectus.

The historical financial data set forth below reflects our business strategy before the merger and the other restructuring activities necessary for us to qualify as a REIT. Accordingly, our historical financial results will not be indicative of our future performance (in part due to our expected strategy of increasing our portfolio of mortgage loans originated by one or more of our taxable REIT subsidiaries, which will proportionately reduce the number of loans we sell to third-party investors and which may cause our total gains on sale under generally accepted accounting principles to be lower than we have historically recognized). We have not presented historical financial information for New Century REIT because it was formed on April 12, 2004 and has had minimal operations since then.

The summary historical balance sheet and statement of operations data for the years ended December 31, 2003, 2002 and 2001 of New Century Financial have been derived from the historical financial statements of New Century Financial audited by KPMG LLP, our Independent Registered Public Accounting Firm, whose report with respect thereto is included elsewhere in this prospectus. The financial data for the six months ended June 30, 2004 and 2003 were derived from our unaudited consolidated financial statements and include, in the opinion of management, all normal and recurring adjustments necessary to present the data fairly for such periods. Such selected financial data should be read in conjunction with those financial statements and the notes thereto and with Management's discussion and analysis of financial condition and results of operations also included elsewhere herein.

Statement of operations data:	For the Six Months Ended June 30,		For the Years Ended December 31,		
	2004	2003	2003	2002	2001
	(dollars in thousands, except per share data)				
Revenues:					
Gain on sales of loans	\$ 417,027	\$ 272,084	\$ 611,136	\$ 451,744	\$ 182,612
Interest income(1)	334,905	105,863	329,463	122,331	62,706
Residual interest income	9,358	12,684	24,228	31,723	36,356
Servicing income	13,649	5,821	11,139	432	10,616
Other income	829			16	1,046
Total revenues	775,768	396,452	975,966	606,246	293,336
Expenses(1)	456,915	214,261	552,714	299,910	209,852
Earnings before income taxes	318,853	182,191	423,252	306,336	83,484
Income taxes	129,231	75,637	177,769	126,636	35,464
Net earnings	\$ 189,622	\$ 106,554	\$ 245,483	\$ 179,700	\$ 48,020
Basic earnings per share	\$ 5.72	\$ 3.11	\$ 7.26	\$ 5.19	\$ 1.83
Diluted earnings per share	\$ 4.46	\$ 2.83	\$ 6.56	\$ 4.62	\$ 1.52

(1) Interest income for the six months ended June 30, 2004 and 2003 includes \$176.8 million and \$15.9 million, respectively, related to interest earned on mortgage loans receivable held for investment. Expenses for the six months ended June 30, 2004 and 2003 include

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\$66.4 million and \$4.5 million, respectively, related to interest expense on financing of mortgage loans held for investment and \$37.0 million and \$7.7 million, respectively, related to the provision for loan losses

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on mortgage loans held for investment. Interest income for the year ended December 31, 2003 includes \$104.7 million related to interest earned on mortgage loans receivable held for investment. Expenses for that period include \$36.7 million related to interest expense on financing of mortgage loans held for investment and \$26.3 million related to the provision for loan losses on mortgage loans held for investment.

Other data:	For the Six Months Ended June 30,		For the Years Ended December 31,		
	2004	2003(1) (dollars in thousands, unless otherwise stated)	2003(1)	2002	2001
Purchases	\$6,703,353	\$2,200,161	\$ 6,858,645	\$ 2,535,675	\$ 1,071,150
Refinances:					
Cash out refinances	12,850,155	6,636,318	17,587,036	9,397,259	4,144,887
Rate/term refinances	1,138,715	1,655,989	2,937,157	2,268,562	1,028,934
Total originations	20,692,223	10,492,468	27,382,838	14,201,496	6,244,971
Fixed-rate mortgages	6,659,613	2,617,379	8,197,321	3,708,938	1,143,188
Adjustable-rate mortgages	14,032,610	7,875,089	19,185,517	10,492,558	5,101,783
Total originations	20,692,223	10,492,468	27,382,838	14,201,496	6,244,971
Wholesale	18,781,248	9,561,251	25,187,569	12,392,562	5,068,466
Retail	1,910,975	931,217	2,195,269	1,808,934	1,176,505
Total originations	20,692,223	10,492,468	27,382,838	14,201,496	6,244,971
Weighted average FICO score of loans originated	628	598	612	597	587
Average principal balance of loans originated	\$ 172	\$ 159	\$ 167	\$ 151	\$ 138
Weighted average interest rates:					
Fixed-rate mortgages	7.0%	7.9%	7.3%	8.2%	9.5%
Adjustable-rate mortgages initial rate	6.8%	7.5%	7.3%	8.3%	9.4%
Adjustable-rate mortgages margin over index	5.5%	5.8%	5.8%	6.6%	6.6%
Percentage of loans originated in top two credit grades	86.3%	76.3%	81.1%	58.7%	48.4%
Percentage of loans originated in bottom two credit grades	3.0%	3.6%	3.3%	4.8%	8.1%
Number of retail branch offices at period end	74	68	72	66	65
Number of regional operating centers at period end	26	19	20	19	5
Number of employees at period end	4,624	2,973	3,752	2,487	1,531
Total whole loan sales	\$ 13,803,821	\$ 9,036,341	\$ 20,835,105	\$ 12,419,687	\$ 4,723,350
Total securitizations structured as sales	337,148			845,477	898,244
Total securitizations structured as financings	3,457,776	1,206,015	4,946,781		
Total secondary market transactions	17,598,745	10,242,356	25,781,886	13,265,164	5,621,594
Weighted average premium on whole loan sales	4.04%	4.28%	4.18%	4.37%	4.40%

(1) Certain amounts for prior year s presentation have been reclassified to conform to the current year presentation.

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Balance sheet data:	As of June 30,		As of December 31,		
	2004	2003	2003 (dollars in thousands)	2002	2001
Cash and equivalents	\$ 68,891	\$ 169,085	\$ 269,540	\$ 176,669	\$ 100,263
Restricted cash	322,369	22,732	116,883	6,255	6,416
Mortgage loans held for sale, net	4,784,222	2,138,347	3,422,211	1,920,396	1,011,122
Mortgage loans held for investment, net	9,146,472	1,187,617	4,745,937		
Residual interests in securitizations	190,827	211,469	179,498	246,964	306,908
Other assets	220,929	66,611	200,811	52,644	26,609
Total assets	14,733,710	3,795,861	8,934,880	2,402,928	1,451,318
Credit facilities	4,439,518	2,049,572	3,311,837	1,885,498	987,568
Financing on mortgage loans held for investment, net	9,086,932	1,161,299	4,686,323		
Convertible notes, net	205,349		204,858		
Residual financing					79,941
Subordinated debt					40,000
Other liabilities	258,574	115,153	189,851	130,880	96,048
Total liabilities	13,990,373	3,326,024	8,392,869	2,016,378	1,203,557
Total stockholders' equity	743,337	469,837	\$ 542,011	\$ 386,550	\$ 247,761

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You should carefully consider the risks described below before making an investment decision. Our results of operations, financial condition and business prospects could be harmed by any of these risks. This prospectus and the documents incorporated herein by reference also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus and in documents incorporated by reference into this prospectus. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

We are dependent on external sources of financing, and if we are unable to maintain adequate financing sources, our earnings and our financial position will suffer and jeopardize our ability to continue operations.

To qualify as a REIT under the Internal Revenue Code, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gains). After-tax earnings generated by our taxable REIT subsidiaries and not distributed to us are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. Immediately after this offering, a substantial amount of our business will be conducted through our taxable REIT subsidiaries. We cannot assure you that we will have access to funds to meet the distribution and other REIT qualification requirements. We may be required to borrow funds from one of our corporate subsidiaries or a third party on a short-term basis or liquidate investments to meet the distribution requirements that are necessary to qualify as a REIT, even if management believes that it is not in our best interests to do so. If we do not have access to the necessary funds, we may have to raise capital at inopportune times or borrow funds on unfavorable terms.

In addition, we require substantial cash to support our operating activities and growth plans in our taxable REIT subsidiaries. Our primary sources of cash for our loan origination activities are our warehouse and aggregation credit facilities, our asset-backed commercial paper facility and the proceeds from the sales and securitizations of our loans. From time to time, we finance our residual interests in securitization transactions through the sale of net interest margin securities, or NIMS; however, we have not recently relied on NIMS financing as much as we have in prior years. As of June 30, 2004, we had nine short-term warehouse and aggregation credit facilities and our asset-backed commercial paper facility providing us with approximately \$8.6 billion of committed and \$2.0 billion of uncommitted borrowing capacity to fund loan originations and purchases pending the pooling and sale of such loans. If we cannot maintain or replace these facilities on comparable terms and conditions, we may incur substantially higher interest expense that would reduce our profitability.

During volatile times in the capital and secondary markets, access to warehouse, aggregation and residual financing as well as access to the securitization and secondary markets for the sale of our loans has been severely constricted. Subject to the limitations imposed by REIT tax rules, our taxable REIT subsidiaries are permitted to retain the after-tax income they generate. We may, at some point in the future, borrow funds from one or more of our corporate subsidiaries upon terms that are similar to those that would be required by a third-party lender, or actually obtain a third-party loan for some portion of the required financing amount and then replicate the third-party loan terms in the intercompany

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borrowing. However, if we are unable to maintain adequate financing or other sources of capital are not available, we would be forced to suspend or curtail our operations, which would harm our results of operations, financial condition and business prospects.

In addition, the completion of the merger will require us to obtain the consent of various parties to several of the financing agreements. Our inability to obtain the requisite consents could harm our results of operations, financial condition and business prospects and require us to seek new financing relationships. We cannot assure you that we will be able to obtain such financing relationships on terms favorable to us.

Our management has limited experience operating a REIT and we cannot assure you that our management's past experience will be sufficient to successfully manage our business as a REIT.

The requirements for qualifying as a REIT are highly technical and complex. We have never operated as a REIT and our management has limited experience in complying with the income, asset and other limitations imposed by the REIT provisions of the Internal Revenue Code. Those provisions are complex and the failure to comply with those provisions in a timely manner could prevent us from qualifying as a REIT or could force us to pay unexpected taxes and penalties. In such event, our net income would be reduced and we could incur a loss, which could harm our results of operation, financial condition and business prospects.

If we are unable to accumulate sufficient REIT qualifying assets such that the value of our investment in our taxable REIT subsidiaries is not more than 20% of the value of our total assets at the close of our first taxable quarter following the merger, we will not qualify as a REIT.

To qualify as a REIT, not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries at the close of any calendar quarter. As of June 30, 2004, substantially all of our assets were REIT qualifying assets. However, for a variety of reasons, we may be unable to accumulate sufficient REIT qualifying assets such that the value of our investment in our taxable REIT subsidiaries is not more than 20% of the value of our total assets at the close of our first taxable quarter following the merger. For example:

- ∅ we may not have enough capital, including net proceeds from this offering and borrowings under our credit facilities, to acquire REIT qualifying assets;
- ∅ the value of our taxable REIT subsidiaries may be greater than our current expectations; or
- ∅ there may be insufficient REIT qualifying assets available for purchase on reasonable terms.

If the Internal Revenue Service determines that the value of our investment in New Century Financial and other taxable REIT subsidiaries is more than 20% of the value of our total assets at the close of our first taxable quarter following the merger, we could lose our REIT status. See also "Tax risks related to our status as a REIT" We may not qualify as a REIT if the value of our investment in our taxable REIT subsidiaries exceeds 20% of the value of our total assets at the close of any calendar quarter.

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A prolonged economic slowdown or a lengthy or severe recession could harm our operations, particularly if it results in a decline in the real estate market.

The risks associated with our business are more acute during periods of economic slowdown or recession because these periods may be accompanied by decreased demand for consumer credit and declining real estate values. Declining real estate values reduce the ability of borrowers to use home equity to support borrowings because they reduce the LTV of the home equity collateral. In addition, because we make a substantial number of loans to credit-impaired borrowers, the actual rates of delinquencies, foreclosures and losses on these loans could be higher during economic slowdowns. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the prices we receive for our loans, or the values of our mortgage loans held for investment or our residual interests in securitizations, which could harm our results of operations, financial condition and business prospects.

Our earnings may decrease because of increases or decreases in interest rates.

Our profitability may be directly affected by changes in interest rates. The following are some of the risks we face related to an increase in interest rates:

- Ø An interest rate increase may harm our earnings by reducing the spread between the interest we receive on our mortgage loans and our funding costs.
- Ø A substantial and sustained increase in interest rates could harm our loan origination volume because refinancings of existing loans, including cash-out refinancings and interest rate-driven refinancings, would be less attractive and qualifying for a purchase loan may be more difficult. Lower origination volume may harm our earnings by reducing origination income, net interest income and gain on sale of loans.
- Ø During periods of rising interest rates, the value and profitability of our loans may be harmed between the date of origination or purchase until the date we sell or securitize the loans.
- Ø When we securitize loans, the value of the residual interests we retain and the income we receive from the securitizations structured as financings are based primarily on the London Inter-Bank Offered Rate, or LIBOR. This is because the interest on the underlying mortgage loans is based on fixed rates payable on the underlying loans for the first two or three years from origination while the holders of the applicable securities are generally paid based on an adjustable LIBOR-based yield. Therefore, an increase in LIBOR reduces the net income we receive from, and the value of, these mortgage loans and residual interests.
- Ø Our adjustable-rate mortgage loans have periodic and lifetime interest rate caps above which the interest rate on the loans may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which these loans are sold may be uncapped. This would reduce the amount of cash we receive over the life of the loans in securitizations structured as financings and our residual interests, and could require us to reduce the carrying value of our residual interests.

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We are also subject to risks from decreasing interest rates. For example, a significant decrease in interest rates could increase the rate at which loans are prepaid, which also could require us to reduce the carrying value of our residual interests. Moreover, if prepayments are greater than expected, the cash we receive over the life of our residual interests would be reduced. Higher-than-expected prepayments could also harm the value of our servicing portfolio. Therefore, any such changes in interest rates could harm our results of operations, financial condition and business prospects.

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Our reliance on cash-out refinancings as a significant source of our origination volume increases the risk that our earnings will be harmed if the demand for this type of refinancing declines.

During the six months ended June 30, 2004, approximately 62% of our loan production volume consisted of cash-out refinancings. Our reliance on cash-out refinancings as a significant source of our origination volume increases the risk that our earnings will be harmed if interest rates rise and the prices of homes decline, which would reduce the demand and production volume for this type of refinancing. A substantial and sustained increase in interest rates could significantly reduce the number of borrowers who would qualify or elect to pursue a cash-out refinancing and result in a decline in that origination source. Similarly, a decrease in home prices would reduce the amount of equity available to be borrowed against in cash-out refinancings and result in a decrease in our loan production volume from that origination source. Therefore, our reliance on cash-out refinancings as a significant source of our origination volume could harm our results of operations, financial condition and business prospects.

The loans we originate and hold are subprime, rather than prime, and generally have delinquency and default rates higher than prime loans, which could result in higher loan losses.

Subprime mortgage loans generally have higher delinquency and default rates than prime mortgage loans. Delinquency interrupts the flow of projected interest income from a mortgage loan, and default can ultimately lead to a loss if the net realizable value of the real property securing the mortgage 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. In whole loan sales, our risk of delinquency typically only extends to the first payment, but when we securitize any of our loans, we continue to be exposed to delinquencies and losses through our residual interests and the loans underlying our on-balance sheet securitization transactions. We are required to establish reserves based on our anticipated delinquencies and losses. We also re-acquire the risks of delinquency and default for loans that we are obligated to repurchase. We attempt to manage these risks with risk-based loan pricing and appropriate underwriting policies and loan collection methods. However, we cannot assure you that such management policies will be successful and, if such policies and methods are insufficient to control our delinquency and default risks and do not result in appropriate loan pricing and appropriate loss reserves, our business, financial condition, liquidity and results of operations could be harmed. As of June 30, 2004, the delinquency rate on mortgage loans that were 60 days or more past due and that we previously securitized in either on- or off-balance sheet transactions was 3.27%. The expected cumulative loss rate on these loans as of June 30, 2004 is approximately 4.0%, determined as the historical cumulative loss rates of more aged loans plus the expected cumulative loss rates on newer loans, which have experienced immaterial losses through June 30, 2004. See Our business Investment and operational policies of New Century REIT.

The geographic concentration of our mortgage loan originations increases our exposure to risks in those areas, especially California.

Over-concentration of our loan originations in any one geographic area increases our exposure to the economic and natural hazard risks associated with that area. For example, in the six months ended June 30, 2003, approximately 41.3% of the aggregate principal amount of our mortgage loans were secured by property located in California. Certain parts of California have experienced an economic downturn in the past and have suffered the effects of certain natural hazards. Declines in the residential real estate markets in which we are concentrated may reduce the values of the properties collateralizing our mortgages,

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increase the risk of delinquency, foreclosure, bankruptcy, or losses and could harm our results of operations, financial condition and business prospects.

Furthermore, if borrowers are not insured for natural disasters, which are typically not covered by standard hazard insurance policies, then they may not be able to repair the property or may stop paying their mortgages if the property is damaged. A natural disaster that results in a significant number of delinquencies would cause increased foreclosures and decrease our ability to recover losses on properties affected by such disasters and would harm our results of operations, financial condition and business prospects.

Likewise, the secondary market pricing for pools of loans that are not geographically diverse is typically less favorable than for a diverse pool. Our inability to originate or purchase geographically diverse pools of loans could harm our results of operations, financial condition and business prospects.

An interruption or reduction in the securitization and whole loan markets would harm our financial position.

We are dependent on the securitization market for the sale of our loans because we securitize loans directly and many of our whole loan buyers purchase our loans with the intention to securitize them. The securitization market is dependent upon a number of factors, including general economic conditions, conditions in the securities market generally and conditions in the asset-backed securities market specifically. In addition, poor performance of our previously securitized loans could harm our access to the securitization market. Accordingly, a decline in the securitization market or a change in the market's demand for our loans could harm our results of operations, financial condition and business prospects.

If we make any acquisitions, we will incur a variety of costs and may never realize the anticipated benefits.

If appropriate opportunities become available, we may attempt to acquire businesses that we believe are a strategic fit with our business. We currently have no agreements to consummate any material acquisitions. If we pursue any such transaction, the process of negotiating the acquisition and integrating an acquired business may result in operating difficulties and expenditures and may require significant management attention that would otherwise be available for ongoing development of our business, whether or not any such transaction is ever consummated. Moreover, we may never realize the anticipated benefits of any acquisition. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could harm our results of operations, financial condition and business prospects.

Our earnings from holding mortgage-backed securities or government securities may be harmed by changes in the level of interest rates, changes to the difference between short and longer term interest rates, changes to the difference between interest rates for these securities compared to other debt instruments, and an absence of or reduction in the availability, at favorable terms, of repurchase financing and other liquidity sources typically utilized by mortgage REITs.

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From time to time, we may purchase mortgage-backed securities or government securities from third parties in order to comply with the income and asset tests necessary to maintain our REIT status. The value of, and return on, the mortgage-backed securities and government securities we hold will be affected by changes in the marketplace for such securities, as well as prepayment speeds in the case of mortgage-backed securities, and may be volatile and significantly different than projected. The securities

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that we hold may produce large losses instead of the income incorporated into our projections. The impact of changes in the marketplace for these securities on our results may be magnified because these holdings could be highly leveraged. Additionally, much of the financing we will use to hold these securities may be cancelable by our lenders on short notice. If our lenders cease providing financing to us on favorable terms, we would be forced to liquidate some or all of these securities, possibly at a substantial loss, which could harm our financial condition, results of operations and business prospects.

A material difference between the assumptions used in the determination of the value of our residual interests and our actual experience could harm our financial position.

As of June 30, 2004, the value on our balance sheet of our residual interests from securitization transactions was \$190.8 million. The value of these residuals is a function of the delinquency, loss, prepayment speed and discount rate assumptions we use. It is extremely difficult to validate the assumptions we use in valuing our residual interests. In the future, if our actual experience differs materially from these assumptions, our cash flow, financial condition, results of operations and business prospects could be harmed.

Our future results may materially differ from the pro forma financial information presented in this prospectus.

Our future results may be materially different from those shown in the pro forma financial statements presented in Unaudited pro forma consolidated condensed financial information beginning on page 50. We may incur certain restructuring charges and adjustments. These charges may be higher or lower than we have estimated, depending on how costly or difficult it is to restructure our operations in order to qualify as a REIT. Furthermore, these charges may decrease our capital that could be used for profitable, income-earning investments in the future.

New legislation could restrict our ability to make mortgage loans, which could harm our earnings.

Several states and cities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing federal Homeownership and Equity Protection Act thresholds for defining a high-cost loan, and establishing enhanced protections and remedies for borrowers who receive such loans. However, many of these laws and rules extend beyond curbing predatory lending practices to restrict commonly accepted lending activities, including some of our activities. For example, some of these laws and rules prohibit any form of prepayment charge or severely restrict a borrower's ability to finance the points and fees charged in connection with the borrower's loan. In addition, some of these laws and regulations provide for extensive assignee liability for warehouse lenders, whole loan buyers and securitization trusts. Because of enhanced risk and for reputational reasons, many whole loan buyers elect not to purchase any loan labeled as a high cost loan under any local, state or federal law or regulation. Accordingly, these laws and rules could severely constrict the secondary market for a significant portion of our loan production. This would effectively preclude us from continuing to originate loans that fit within the newly defined thresholds. For example, after the October 1, 2002 effective date of the Georgia Fair Lending Act, our lenders and secondary market buyers refused to finance or purchase our Georgia loans. As a result, we were forced to cease providing mortgages in Georgia until the law's amendment a few months later. Similar laws have gone into effect in New Jersey, such as the New Jersey Home Ownership Act of 2002, effective as of November 27, 2003, and in New Mexico, such as the New Mexico Home Loan Protection

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Act, effective as of January 1, 2004, that have impacted our ability to originate loans in those states. The potential long-term impact could be as much as a 40% reduction in loans in New Jersey and 60% in New Mexico from previous loan origination volumes. Moreover, some of our competitors who are national banks or federally chartered thrifts may not be subject to these laws and may, therefore, be able to capture market share from us and other lenders. For example, the Office of the Comptroller of the Currency recently issued regulations effective January 7, 2004 that preempt state and local laws that seek to regulate mortgage lending practices by national banks. Passage of such state and local laws could increase compliance costs, reduce fee income and lower origination volume, all of which would harm our results of operations, financial condition and business prospects.

We are no longer able to rely on the Alternative Mortgage Transactions Parity Act to preempt certain state law restrictions on prepayment penalties, which could harm our earnings.

The value of a mortgage loan depends, in part, upon the expected period of time that the mortgage loan will be outstanding. If a borrower pays off a mortgage loan in advance of this expected period, the holder of the mortgage loan does not realize the full value expected to be received from the loan. A prepayment penalty payable by a borrower who repays a loan earlier than expected helps offset the reduction in value resulting from the early payoff. Consequently, the value of a mortgage loan is enhanced to the extent the loan includes a prepayment penalty, and a mortgage lender can offer a lower interest rate and/or lower loan fees on a loan which has a prepayment penalty. Prepayment penalties are an important feature used to obtain value on the loans we originate.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans and, until July 2003, we relied on the federal Alternative Mortgage Transactions Parity Act, or the Parity Act, and related rules issued in the past by the Office of Thrift Supervision, or OTS, to preempt state limitations on prepayment penalties. The Parity Act was enacted to extend to financial institutions, like us, which are not federally chartered depository institutions, the federal preemption that federally chartered depository institutions enjoy. However, on September 25, 2002, the OTS released a new rule that reduced the scope of the Parity Act preemption and, as a result, we are no longer able to rely on the Parity Act to preempt state restrictions on prepayment penalties. The effective date of the new rule, originally January 1, 2003, was subsequently extended by the OTS until July 1, 2003 in response to concerns from interested parties about the burdens associated with compliance. The elimination of this federal preemption has required us to comply with state restrictions on prepayment penalties. These restrictions prohibit us from charging any prepayment penalty in eight states and limit the amount or other terms and conditions of our prepayment penalties in several other states. This may place us at a competitive disadvantage relative to financial institutions that will continue to enjoy federal preemption of such state restrictions. Such institutions are able to charge prepayment penalties without regard to state restrictions and, as a result, may be able to offer loans with interest rate and loan fee structures that are more attractive than the interest rate and loan fee structures that we are able to offer. This competitive disadvantage could harm our results of operations, financial condition and business prospects.

The scope of our lending operations exposes us to risks of noncompliance with an increasing and inconsistent body of complex laws and regulations at the federal, state and local levels.

Because we are authorized to originate mortgage loans in all 50 U.S. states, we must comply with the laws and regulations, as well as judicial and administrative decisions, for all of these jurisdictions, as well as an extensive body of federal law and regulations. The volume of new or modified laws and regulations

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has increased in recent years, and individual cities and counties have begun to enact laws that restrict subprime loan origination activities in those cities and counties. The laws and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. As our operations continue to grow, it may be more difficult to comprehensively identify, to accurately interpret and to 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.

Our failure to comply with these laws can lead to:

- ∅ civil and criminal liability;
- ∅ loss of licensure;
- ∅ damage to our reputation in the industry;
- ∅ inability to sell or securitize our loans;
- ∅ demands for indemnification or loan repurchases from purchasers of our loans;
- ∅ fines and penalties and litigation, including class action lawsuits; or
- ∅ administrative enforcement actions.

Any of these results could harm our results of operations, financial condition and business prospects.

If warehouse lenders and securitization underwriters face exposure stemming from legal violations committed by the companies to whom they provide financing or underwriting services, this could increase our borrowing costs and harm the market for whole loans and mortgage-backed securities.

In June 2003, a California jury found a warehouse lender and securitization underwriter liable in part for fraud on consumers committed by a lender to whom it provided financing and underwriting services. The jury found that the investment bank was aware of the fraud and substantially assisted the lender in perpetrating the fraud by providing financing and underwriting services that allowed the lender to continue to operate, and held the bank liable for 10% of the plaintiff's damages. This is the first case we know of in which an investment bank was held partly responsible for violations committed by the bank's mortgage lender customer. If other courts or regulators adopt this theory, investment banks may face increased litigation as they are named as defendants in lawsuits and regulatory actions against the mortgage companies with which they do business. Some investment banks may exit the business, charge more for warehouse lending or reduce the prices they pay for

whole loans in order to build in the costs of this potential litigation. This could, in turn, harm our results of operations, financial condition and business prospects.

If lenders are prohibited from originating loans in the State of Illinois with fees in excess of 3% where the interest rate exceeds 8%, this could force us to curtail operations in Illinois.

In March 2004, an Illinois Court of Appeals found that the Illinois Interest Act, which caps fees at 3% for loans with an interest rate in excess of 8%, is not preempted by federal law. This ruling contradicts the view of the Federal Circuit Courts of Appeal, most state courts, the OTS and the Illinois Office of the Attorney General. If this ruling is not overturned, we may reduce operations in Illinois since it will reduce the return we and our investors can expect on higher risk loans. Moreover, as a result of this ruling,

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plaintiffs are filing actions against lenders, including us, seeking various forms of relief as a result of any fees received in the past which exceeded the applicable thresholds. Any such actions, if decided against us, could harm our results of operations, financial condition and business prospects.

High delinquencies or losses on the mortgage loans in our securitizations may decrease our cash flows or impair our ability to sell or securitize loans in the future.

Loans we make to lower credit grade borrowers, including credit-impaired borrowers, entail a higher risk of delinquency and higher losses than loans we make to borrowers with better credit. Virtually all of our loans are made to borrowers who do not qualify for loans from conventional mortgage lenders. No assurance can be given that our underwriting criteria or methods will afford adequate protection against the higher risks associated with loans made to lower credit grade borrowers. We continue to be subject to risks of default and foreclosure following the sale of loans through securitization. To the extent such losses are greater than expected, the cash flows we receive through residual interests and from our securitizations structured as financings would be reduced. Increased delinquencies or losses may also reduce our ability to sell or securitize loans in the future. Any such reduction in our cash flows or impairment in our performance could harm our results of operations, financial condition and business prospects.

The loss of our exemption under the Investment Company Act would harm us and the market price of our shares of common stock and our ability to make distributions to our stockholders.

New Century Financial is not currently regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act, and we intend to operate so as to not become regulated as an investment company under the Investment Company Act. For example, we intend to qualify for an exemption under the Investment Company Act that is available to companies that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. Specifically, we intend to invest at least 55% of our assets in mortgage loans or mortgage-related assets securities that represent the entire ownership in a pool of mortgage loans and at least an additional 25% of our assets in mortgages, mortgage-related assets securities, securities of REITs and other real estate-related assets. As of June 30, 2004, 62% of our assets consisted of mortgage loans or mortgage-related assets that represent the entire ownership in a pool of mortgage loans and another 34% of our assets were invested in mortgages, mortgage-related assets, securities of REITs and other real estate-related assets.

If we fail to qualify for that exemption, we may be required to restructure our activities. For example, if the market value of our investments in equity securities were to increase by an amount that caused less than 55% of our assets to be invested in mortgage loans or mortgage-related assets that represent the entire ownership in a pool of mortgage loans, we might have to sell equity securities in order to qualify for an exemption under the Investment Company Act. In the event we must restructure our activities, our results of operations, financial condition and business prospects could be harmed.

Our inability to realize cash proceeds from loan sales and securitizations in excess of the loan acquisition cost could harm our financial position.

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The net cash proceeds received from loan sales consist of the premiums we receive on sales of loans in excess of the outstanding principal balance, plus the cash proceeds we receive from securitizations structured as sales, minus the discounts on loans that we have to sell for less than the outstanding

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principal balance. If we are unable to originate loans at a cost lower than the cash proceeds realized from loan sales, our results of operations, financial condition and business prospects could be harmed.

Our credit facilities are subject to margin calls based on the lender's opinion of the value of our loan collateral. An unanticipated large margin call could harm our liquidity.

The amount of financing we receive under our credit facilities depends in large part on the lender's valuation of the mortgage loans that secure the financings. Each such facility provides the lender the right, under certain circumstances, to reevaluate the loan collateral that secures our outstanding borrowings at any time. In the event the lender determines that the value of the loan collateral has decreased, it has the right to initiate a margin call. A margin call would require us to provide the lender with additional collateral or to repay a portion of the outstanding borrowings. Any such margin call could harm our liquidity, results of operations, financial condition and business prospects.

We face intense competition that could harm our market share and our revenues.

We face intense competition from finance and mortgage banking companies and from Internet-based lending companies. In addition, certain government-sponsored entities, such as Fannie Mae and Freddie Mac, are also expanding their participation in the subprime mortgage industry. These government-sponsored entities have a size and cost-of-funds advantage that allows them to purchase loans with lower rates or fees than we are willing to offer. While the government-sponsored entities presently do not have the legal authority to originate mortgage loans, including subprime loans, they do have the authority to buy loans. A material expansion of their involvement in the market to purchase subprime loans could change the dynamics of the industry by virtue of their sheer size, pricing power and the inherent advantages of a government charter. In addition, if as a result of their purchasing practices, these government-sponsored entities experience significantly higher-than-expected losses, such experience could harm the overall investor perception of the subprime mortgage industry.

Certain large finance companies and conforming mortgage originators also originate subprime mortgage loans to customers similar to the borrowers we serve. Competitors with lower costs of capital have a competitive advantage over us. In addition, establishing a wholesale lending operation such as ours requires a relatively small commitment of capital and human resources. This low barrier to entry permits new competitors to enter our markets quickly and compete with our wholesale lending business. Several new wholesale originators have been formed in recent years and have recruited former senior managers from our Wholesale Division. If these competitors are able to attract some of our key employees and disrupt our broker relationships, it could harm our results of operations, financial condition and business prospects.

Some thrifts, national banks and their operating subsidiaries are also expanding their subprime mortgage lending activities. By virtue of their charters, these institutions are exempt from complying with many of the state and local laws that affect our operations. For example, they are permitted to offer loans with prepayment charges in many jurisdictions where we cannot. If more of these federally chartered institutions are able to use their preemptive ability to provide more competitive pricing and terms than we can offer, it could harm our results of operations, financial condition and business prospects. We may also be forced to expand our operations at a pace that does not allow us to attract a sufficient number of employees with the capability to ensure we are in compliance with the numerous complex regulations applicable to our business as well as to enable us to provide high quality customer service and this could harm our results of operations, financial condition and business prospects.

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In addition, to the extent we must purchase mortgage loans or mortgage-related assets from third parties, we must compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, other lenders and other entities that purchase mortgage loans or mortgage-backed securities, many of which have greater financial resources than we do. As a result, we may not be able to acquire sufficient mortgage-related assets with favorable yields over our borrowing costs, which could harm our results of operations, financial condition and business prospects.

The intense competition in the subprime mortgage industry has also led to rapid technological developments, evolving industry standards and frequent releases of new products and enhancements. As mortgage products are offered more widely through alternative distribution channels, such as the Internet, we may be required to make significant changes to our current wholesale and retail structures and information systems to compete effectively. Our inability to continue enhancing our current Internet capabilities, or to adapt to other technological changes in the industry, could harm our results of operations, financial condition and business prospects.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. When rates change, we expect to record a gain or loss on derivatives, which would be offset by an inverse change in the value of loans or residual interests. Additionally, from time to time, we may enter into hedging transactions in connection with our holdings of mortgage-backed securities and government securities with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items, and futures and forward contracts. Currently, we intend to primarily use Euro Dollar Futures contracts and interest rate swap agreements to manage the interest rate risk of our portfolio of adjustable-rate mortgages; however, our actual hedging decisions will be determined in light of the facts and circumstances existing at the time and may differ from our currently anticipated hedging strategy.

We cannot assure you that our use of derivatives will offset the risks related to changes in interest rates. There have been periods, and it is likely that there will be periods in the future, during which we will incur losses after accounting for our derivative financial instruments. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses, and such losses could harm our results of operations, financial condition and business prospects. See Management's discussion and analysis of financial condition and results of operations Quantitative and qualitative disclosures about market risk.

Complying with REIT requirements may limit our ability to hedge interest rate risk effectively.

The existing REIT provisions of the Internal Revenue Code substantially limit our ability to hedge mortgage-backed securities and government securities and related borrowings. Under these provisions, our aggregate gross income from qualified hedges (which generally include certain financial instruments used to hedge indebtedness incurred or to be incurred to acquire or carry real estate assets), together

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with any other income from certain non-qualifying sources, is limited to not more than 25% of our gross income. In addition, we must limit our aggregate gross income from non-qualified hedges, fees, and certain other non-qualifying sources to not more than 5% of our annual gross income. As a result, we might in the future have to limit our use of advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary. This could increase the cost of our hedging activities or leave us exposed to greater risks associated with changes in interest rates than we would otherwise want to bear, which could harm our results of operations, financial condition and business prospects.

A decline in the quality of servicing could lower the value of our residual interests and our ability to sell or securitize loans and could harm the cash flows from our on-balance sheet securitizations.

In March 2001, we sold to Ocwen Federal Bank FSB the servicing rights on \$4.8 billion of our servicing portfolio, which consisted of 25 separate asset-backed securities. In August 2001, Ocwen began servicing all of our newly originated loans pending their sale or securitization. However, in February 2002, we announced the intent to re-establish our in-house loan servicing platform. By October 1, 2002, we began servicing loans on our in-house servicing platform and at June 30, 2004, loans serviced on our platform totaled \$20.9 billion. Ocwen is expected to continue to service the mortgage loans underlying our residual interests. Poor servicing and collections by third-party servicers could harm the value of our residual interests and our ability to sell or securitize loans, which could harm our results of operations, financial condition and business prospects. Likewise, poor servicing by our own servicing operation could harm the cash flows from our on-balance sheet securitizations, could hamper our ability to sell or securitize loans and could harm our results of operations, financial condition and business prospects.

The complex federal, state and municipal laws governing loan servicing activities could increase our exposure to the risk of noncompliance.

We service loans originated on a nationwide basis. Therefore, we must comply with the laws and regulations, as well as judicial and administrative decisions, of all relevant jurisdictions pertaining to loan servicing, as well as an extensive body of federal laws and regulations. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities. The laws and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. As our servicing operations continue to grow, it may be more difficult to comprehensively identify, to accurately interpret and to 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 the laws and regulations pertaining to loan servicing. Our failure to comply with these laws could lead to, among other things: (i) civil and criminal liability, including potential monetary penalties; (ii) legal defenses delaying or otherwise harming the servicer's ability to enforce loans, or giving the borrower the right to rescind or cancel the loan transactions; (iii) class action lawsuits; and (iv) administrative enforcement actions. This could harm our results of operations, financial condition and business prospects.

We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and our employees.

When we originate mortgage loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and

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such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, and the persons and entities involved are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered from them.

We have controls and processes designed to help us identify misrepresented information in our loan origination operations. We cannot assure you, however, that we have detected or will detect all misrepresented information in our loan originations.

We may be subject to fines or other penalties based upon the conduct of our independent brokers.

The mortgage brokers from which we obtain loans have parallel and separate legal obligations to which they are subject. While these laws may not explicitly hold the originating lenders responsible for the legal violations of mortgage brokers, increasingly federal and state agencies have sought to impose such liability on parties that take assignments of such loans. Recently, for example, the United States Federal Trade Commission, or FTC, entered into a settlement agreement with a mortgage lender where the FTC characterized a broker that had placed all of its loan production with a single lender as the agent of the lender. The FTC imposed a fine on the lender in part because, as principal, the lender was legally responsible for the mortgage broker's unfair and deceptive acts and practices. The United States Justice Department in the past has sought to hold a subprime mortgage lender responsible for the pricing practices of its mortgage brokers, alleging that the mortgage lender was directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. Accordingly, we may be subject to fines or other penalties based upon the conduct of our independent mortgage brokers.

Changes in the volume and cost of loans originated by our Wholesale Division may decrease our loan production and decrease our earnings.

We depend primarily on independent mortgage brokers and, to a lesser extent, on correspondent lenders for the origination and purchase of our wholesale mortgage loans, which constitute the majority of our loan production. These independent mortgage brokers have relationships with multiple lenders and are not obligated by contract or otherwise to do business with us. We compete with these lenders for the independent brokers' business on pricing, service, loan fees, costs and other factors. Competition from other lenders and purchasers of mortgage loans could negatively affect the volume and pricing of our wholesale loans, which could harm our results of operations, financial condition and business prospects.

If many of our borrowers become subject to the Servicemembers Civil Relief Act of 2003, our cash flows from our residual securities and our securitizations structured as financings may be harmed.

Under the Servicemembers Civil Relief Act, which in 2003 re-enacted the Soldiers and Sailors Civil Relief Act of 1940, a borrower who enters military service after the origination of the borrower's mortgage loan generally may not be charged interest above an annual rate of 6% during the period of the borrower's active duty status. The Act also applies to a borrower who was on reserve status and is called to active duty after

origination of the mortgage loan. A prolonged, significant military mobilization as

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part of the war on terrorism or the war in Iraq could increase the number of the borrowers in our securitized pools who are subject to the Act and thereby reduce the interest payments collected from those borrowers. To the extent the number of borrowers who are subject to the Act is significant, the cash flows we receive from loans underlying our on-balance sheet securitizations and from our residual interests would be reduced, which could cause us to reduce the carrying value of our residual interests and would decrease our earnings. In addition, the Act imposes limitations that would impair the ability of the servicer to foreclose on an affected mortgage loan during the borrower's period of active duty status, and, under certain circumstances, during an additional three month period thereafter. Any such reduction in our cash flows or impairment in our performance could harm our results of operations, financial condition and business prospects.

The inability to attract and retain qualified employees could significantly harm our business.

We depend on our wholesale account executives and retail loan officers to attract borrowers by, among other things, developing relationships with financial institutions, other mortgage companies and brokers, real estate agents, borrowers and others. We believe that these relationships lead to repeat and referral business. The market for skilled account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. In addition, if a manager is no longer employed by us, there is an increased likelihood that other members of his or her team will leave our employ as well. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. If we are unable to attract or retain a sufficient number of skilled account executives at manageable costs, we will be unable to continue to originate quality mortgage loans that we are able to sell for a profit, which would harm our results of operations, financial condition and business prospects.

An interruption in or breach of our information systems may result in lost business.

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption or breach in security of our information systems or the third-party information systems on which we rely could cause underwriting or other delays and could result in fewer loan applications being received, slower processing of applications and reduced efficiency in loan servicing. We are required to comply with significant federal and state regulations with respect to the handling of customer information, and a failure, interruption or breach of our information systems could result in regulatory action and litigation against us. We cannot assure you that such failures or interruptions will not occur or if they do occur that they will be adequately addressed by us or the third parties on which we rely. The occurrence of any failures or interruptions could harm our results of operations, financial condition and business prospects.

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

Our mortgage loan origination business is currently dependent upon our ability to effectively interface with our brokers, 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 and provide process status updates instantly and other customer-expected conveniences that are cost-efficient to our process. In addition, we are in the process of implementing a new loan origination system. Implementing and becoming proficient with the new loan origination system and other new technology will require significant financial and personnel resources. There is no guarantee that the implementation of our new

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loan origination system or other new technology will be successful. To the extent that we become reliant on any particular technology or technological solution, we may be harmed to the extent that such technology or technological solution (i) becomes non-compliant with existing industry standards, (ii) fails to meet or exceed the capabilities of our competitors' equivalent technologies or technological solutions, (iii) becomes increasingly expensive to service, retain and update, or (iv) becomes subject to third-party claims of copyright or patent infringement. Any failure to acquire technologies or technological solutions when necessary could limit our ability to remain competitive in our industry and could also limit our ability to increase the cost-efficiencies of our operating model, which would harm our results of operations, financial condition and business prospects.

We may be required to repurchase mortgage loans or indemnify investors if we breach representations and warranties, which could harm our earnings.

When we sell loans, we are required to make customary representations and warranties about such loans to the loan purchaser. Our whole loan sale agreements require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser or make a misrepresentation during the mortgage loan origination process. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. Likewise, we are required to repurchase or substitute loans if we breach a representation or warranty in connection with our securitizations. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against the originating broker or correspondent. Further, if a purchaser enforces its remedies against us, we may not be able to enforce the remedies we have against the sellers. The repurchased loans typically can only be financed at a steep discount to their repurchase price, if at all. They are also typically sold at a significant discount to the unpaid principal balance. Significant repurchase activity could harm our cash flow, results of operations, financial condition and business prospects.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to residential properties and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our cash flow, results of operations, financial condition and business prospects could be harmed.

If we do not manage our growth effectively, our financial performance could be harmed.

In recent years, we have experienced rapid growth that has placed, and will continue to place, certain pressures on our management, administrative, operational and financial infrastructure. As of December 31, 2000, we had approximately 1,511 employees and by June 30, 2004, we had approximately 4,600 employees. Many of these employees have a limited understanding of our systems and controls. The increase in the size of our operations may make it more difficult for us to ensure that we originate quality

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loans and that we service them effectively. We will need to attract and hire additional sales and management personnel in an intensely competitive hiring environment in order to preserve and increase our market share. At the same time, we will need to continue to upgrade and expand our financial, operational and managerial systems and controls.

Various factors may cause the market price of our common stock to become volatile, which could harm our ability to access the capital markets in the future.

The market price of our common stock may experience fluctuations that are unrelated to our operating performance. In particular, the market price of our common stock may be affected by general market price movements as well as developments specifically related to the consumer finance industry and the financial services sector. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts, or a significant reduction in the price of the stock of another participant in the consumer finance industry. This volatility may make it difficult for us to access the capital markets through additional secondary offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet our obligations, which could, in turn, harm our results of operations, financial condition and business prospects.

We may change our policies in ways that harm our financial condition or results of operations.

Our investment and financing policies and our policies with respect to other activities, including our growth, debt capitalization, distributions, REIT status and operating policies are determined by our board of directors. Our board of directors may change these policies at any time without a vote of our stockholders. A change in these policies might harm our financial condition, results of operations or business prospects.

Compliance with the Sarbanes-Oxley Act of 2002 and proposed and recently enacted changes in securities laws and regulations are likely to increase our costs.

The Sarbanes-Oxley Act of 2002 and rules and regulations promulgated by the Securities and Exchange Commission and the NYSE have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices for public companies, including ourselves. These rules and regulations could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly to serve on our audit committee.

RISKS RELATED TO OUR COMMON STOCK

There has been no prior public market for our common stock.

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Before this offering, there has been no public market for New Century REIT common stock. Among the factors considered in determining the offering price of our common stock, in addition to prevailing market conditions, were the historical performance of New Century Financial, estimates regarding our business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to market valuation of companies in related businesses. The public offering price of New Century REIT common stock may bear no relationship to the price at which its common stock will trade upon completion of this offering. The stock market may experience price and volume fluctuations and you may not be able to sell your shares at or above the public offering price.

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We cannot be sure that a public trading market for New Century REIT common stock will develop or be maintained.

Even though our common stock has been approved for listing on the NYSE, subject to official notice of issuance, there can be no assurance that an established and liquid trading market for our common stock will develop or that it will continue if it does develop. The representatives of the underwriters have advised us that they intend to make a market in our common stock. However, neither the representatives of the underwriters nor any other market maker is obligated to make a market in such shares, and any such market making may be discontinued at any time in the sole discretion of the party making such market.

Our stock price and trading volume may be volatile, which could result in substantial losses for our stockholders.

Even if an active trading market develops for our common stock after this offering, the market price of our common stock may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- ∅ general market and economic conditions;
- ∅ actual or anticipated changes in our future financial performance;
- ∅ changes in market interest rates;
- ∅ competitive developments, including announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships or capital commitments;
- ∅ the operations and stock performance of our competitors;
- ∅ developments in the mortgage lending industry or the financial services sector generally;
- ∅ the impact of new state or federal legislation or court decisions restricting the activities of lenders or suppliers of credit in our market;
- ∅ fluctuations in our quarterly operating results;
- ∅ changes in financial estimates by securities analysts;

Ø additions or departures of senior management and key personnel; and

Ø actions by institutional stockholders.

If the market price of our common stock declines significantly, you may be unable to resell your common stock at or above the public offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly, including a decline below the initial public offering price, in the future. In addition, the stock market in general can experience considerable price and volume fluctuations.

We have not established a minimum distribution level and we may not have the ability to make distributions to you in the future.

We intend to make quarterly distributions following the end of the first full fiscal quarter after completion of this offering and to make distributions to our stockholders of all or substantially all of our

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REIT taxable income, excluding net capital gains, in each year. We have not established a minimum distribution level and we may not be able to make distributions. In addition, some of our distributions may include a return of capital. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and other factors as our board of directors may deem relevant from time to time. We cannot predict our ability to make distributions to you in the future.

Future sales of shares of our common stock, including shares of common stock by our insiders, may depress the price of our common stock.

Any sales of a substantial number of shares of our common stock, or the perception that those sales might occur, may cause the market price of our common stock to decline. Our directors and some of our officers have agreed with the underwriters not to sell the common stock they hold earlier than 90 days after the date of this prospectus; provided, however, that Messrs. Cole, Morrice and Gotschall are each permitted to sell or transfer up to 200,000 shares of our common stock consistent with past practices for tax planning purposes. We are unable to predict whether significant numbers of shares will be sold in the open market in anticipation of or following a sale by insiders.

Based on the number of shares of New Century Financial common stock outstanding on August 31, 2004, upon completion of this offering, we will have approximately 47,567,884 shares of common stock outstanding, and approximately 49,592,884 shares outstanding if we issue shares of our common stock upon exercise of the underwriters' option to purchase additional shares. All shares of our common stock that will be outstanding following the merger and this offering will be freely transferable, except for the restrictions on ownership contained in our charter, restrictions on transfers of shares held by our directors and some of our officers which are subject to the lock-up agreements described above and restrictions on resales by our affiliates pursuant to Rule 145(d) of the Securities Act. Beginning 91 days following the date of this prospectus, approximately 4,548,595 shares of our common stock outstanding on August 31, 2004 will no longer be subject to lock-up restrictions and will be tradable subject to the provisions of Rule 145. In addition, as of August 31, 2004, there were outstanding options to purchase 5,342,736 shares of New Century Financial's common stock. New Century Financial's 3.50% convertible senior notes due 2008 are convertible into 6,034,686 shares of our common stock as of August 31, 2004, subject to adjustments under the terms of the convertible notes. In addition, New Century Financial has a warrant outstanding that is exercisable for up to 6,034,668 shares of our common stock as of August 31, 2004, subject to anti-dilution and other customary adjustments. This warrant may be settled in cash, in shares or in a combination of cash or shares, at our option, and is exercisable upon maturity of the convertible notes described above. We have granted registration rights with respect to approximately 3,060,492 shares of our common stock and all of the shares underlying the convertible notes. In the future, we may grant additional options or grant additional registration rights with respect to our common stock.

Our board of directors may authorize the issuance of additional shares that may cause dilution and may depress the price of our common stock.

Our charter permits our board of directors, without your approval, to:

Ø authorize the issuance of additional common or preferred stock in connection with future equity offerings, acquisitions of securities or other assets of companies; and

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classify or reclassify any unissued common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares, including the issuance of shares of preferred

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stock that have preference rights over the common stock with respect to dividends, liquidation, voting and other matters or shares of common stock that have preference rights over your common stock with respect to voting.

The issuance of additional shares of our common stock could be substantially dilutive to your shares and may depress the price of our common stock.

Future offerings of debt securities, which would be senior to our common stock in liquidation, or equity securities, which would dilute our existing stockholders' interests and may be senior to our common stock for the purposes of distributions, may harm the market price of our common stock.

In the future, we will seek to access the capital markets from time to time by making additional offerings of debt and/or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, preferred stock or common stock. We will not be precluded by the terms of our charter documents from issuing additional indebtedness. Accordingly, we could become more highly leveraged, resulting in an increase in debt service that could harm our ability to make expected distributions to stockholders and in an increased risk of default on our obligations. If we were to liquidate, holders of our debt and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets before the holders of our common stock. Additional equity offerings by us may dilute your interest in us or reduce the market price of your shares of our common stock, or both. Our preferred stock, if issued, could have a preference on distribution payments that could limit our ability to make a distribution to you. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. Thus, you will bear the risk of our future offerings reducing the market price of your shares of our common stock and diluting your interest in us.

If you purchase shares in this offering, you will experience immediate and substantial dilution.

We expect the offering price of our common stock to be higher than the book value per share of our common stock immediately following this offering and our completion of the merger. Accordingly, if you purchase common stock in this offering, you will experience immediate dilution of approximately \$26.28 in net tangible book value per share following our completion of the merger. This means that investors who purchase shares will likely pay a price per share that exceeds the net book value of our tangible assets after subtracting our liabilities following our completion of the merger.

Moreover, to the extent that we issue options or warrants to purchase our common stock in the future and those options or warrants are exercised, you may experience further dilution.

TAX RISKS RELATED TO OUR STATUS AS A REIT

Your investment has various federal income tax risks.

Although the provisions of the Internal Revenue Code relevant to your investment are generally described in Material U.S. federal income tax consequences, we strongly urge you to consult with your own tax advisor concerning the effects of federal, state and local income tax law on an investment in our common stock and on your individual tax situation.

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We may be unable to comply with the requirements applicable to REITs or compliance with such requirements could harm our financial condition.

We intend to qualify as a REIT under the Internal Revenue Code, which will afford us significant tax advantages. The requirements for this qualification, however, are highly technical and complex and our management has limited experience in operating a REIT. Even a technical or inadvertent mistake could jeopardize our REIT status. The determination that we qualify as a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 75% of our gross income must come from real estate sources and 95% of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws, mainly interest and dividends. We are subject to various limitations on our ownership of securities, including a limitation that the value of our investment in taxable REIT subsidiaries, including New Century Financial and its subsidiaries, cannot exceed 20% of our total assets. In addition, at the end of each calendar quarter, at least 75% of our assets must be qualifying real estate assets, government securities and cash and cash items. The need to comply with these asset ownership requirements may cause us to acquire other assets that are qualifying real estate assets for purposes of the REIT requirements (for example, interests in other mortgage loan portfolios or mortgage-related assets) but are not part of our overall business strategy and might not otherwise be the best investment alternative for us. Moreover, we may be unable to acquire sufficient qualifying REIT assets, due to our inability to obtain adequate financing or otherwise, in which case we may fail to qualify as a REIT.

To qualify as a REIT, we must distribute to our stockholders with respect to each year at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding any net capital gain). After-tax earnings generated by our taxable REIT subsidiaries and not distributed to us are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We could be required to seek to borrow funds on a short-term basis even if conditions are not favorable for borrowing, or to sell loans from our portfolio potentially at disadvantageous prices, to meet the REIT distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax. These alternatives could harm our financial condition and could reduce amounts available to originate mortgage loans.

If we fail to qualify or remain qualified as a REIT, our distributions will not be deductible by us, and we will be subject to federal income tax on our taxable income. This would substantially reduce our earnings, our cash available to pay distributions and your yield on your investment in our stock. We would not be required to make any distributions to stockholders. The resulting tax liability, in the event of our failure to qualify as a REIT, might cause us to borrow funds, liquidate some of our investments or take other steps that could negatively affect our operating results. Moreover, if our REIT status is terminated because of our failure to meet a technical REIT requirement or if we voluntarily revoke our election, we generally would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost.

We may not qualify as a REIT if the value of our investment in our taxable REIT subsidiaries exceeds 20% of the value of our total assets at the close of any calendar quarter.

To qualify as a REIT, not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries at the close of any calendar quarter, subject to a

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30-day cure period following the close of the quarter (except that no cure period is available during the initial qualification as a REIT). See Material U.S. federal income tax consequences Asset tests. Our taxable REIT subsidiaries, including New Century Financial and its subsidiaries, conduct a substantial portion of our business activities, including a majority of our loan origination and servicing activities. Under our current business plan, we expect to accumulate a significant amount of earnings in our taxable REIT subsidiaries. We will monitor the value of our investment in New Century Financial and our other taxable REIT subsidiaries in relation to our other assets to comply with the 20% asset test. There cannot be complete assurance that we will be successful in that effort. In certain cases, we may need to borrow from third parties to acquire additional qualifying REIT assets or increase the amount and frequency of dividends from our taxable REIT subsidiaries in order to comply with the 20% asset test. Moreover, there can be no assurance that the Internal Revenue Service will not disagree with those determinations. If the Internal Revenue Service determines that the value of our investment in New Century Financial and other taxable REIT subsidiaries was more than 20% of the value of our total assets at the close of any calendar quarter, we could lose our REIT status.

We may incur excess inclusion income that would increase the tax liability of our stockholders.

In general, dividend income that a tax-exempt entity receives from us should not constitute unrelated business taxable income as defined in Section 512 of the Internal Revenue Code. If we realize excess inclusion income and allocate it to stockholders, however, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the stockholder is foreign, it would generally be subject to U.S. federal income tax withholding on this income without reduction pursuant to any otherwise applicable income-tax treaty. U.S. stockholders would not be able to offset such income with net operating losses.

Excess inclusion income could result if we held a residual interest in a real estate mortgage investment conduit, or REMIC. Excess inclusion income also may be generated if we were to issue debt obligations with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage-backed securities securing those debt obligations. We may enter into various repurchase agreements that have differing maturity dates and afford the lender the right to sell any pledged mortgage securities if we default on our obligations. In addition, we may engage in non-REMIC collateralized mortgage obligation, or CMO, securitizations. The Internal Revenue Service may determine that these borrowings give rise to excess inclusion income that should be allocated among our stockholders. Finally, we may invest in equity securities of other REITs and it is possible that we might receive excess inclusion income from those investments.

Our use of taxable REIT subsidiaries may affect the price of our common stock relative to the stock price of other REITs.

Following our election to be taxed as a REIT, we will conduct a substantial portion of our mortgage loan origination and servicing activities through one or more taxable REIT subsidiaries and possibly one or more qualified REIT subsidiaries. Taxable REIT subsidiaries are corporations subject to corporate-level tax. This REIT/taxable REIT subsidiary structure may cause the market to place a lower value on our common stock than the stock of other publicly-traded REITs, which may not use taxable REIT subsidiaries as extensively as we plan to following our election to be taxed as a REIT.

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Even if we qualify as a REIT, the income earned by our taxable REIT subsidiaries will be subject to federal income tax and we could be subject to an excise tax on non-arm s-length transactions with our taxable REIT subsidiaries.

Our taxable REIT subsidiaries, including New Century Financial and its subsidiaries, expect to earn income from activities that are prohibited for REITs, and will owe income taxes on the taxable income from these activities. For example, we expect that New Century Financial and its subsidiaries will earn income from our loan origination and sales activities, as well as from other origination and servicing functions, which would generally not be qualifying income for purposes of the gross income tests applicable to REITs or might otherwise be subject to adverse tax liability if the income were generated by a REIT. New Century Financial and its subsidiaries will be taxable as C corporations and will be subject to federal, state and local income tax at the applicable corporate rates on their taxable income, notwithstanding our qualification as a REIT.

In the event that any transactions between us and New Century Financial and its subsidiaries are not conducted on an arm s-length basis, we could be subject to a 100% excise tax on certain amounts from such transactions. We believe that all such transactions will be conducted on an arm s-length basis, but there can be no assurance that the Internal Revenue Service will not successfully contest the arm s-length nature of such transactions or that we will otherwise be able to avoid application of the 100% excise tax. Any such tax could affect our overall profitability and the amounts of distributions to our stockholders.

We may, at some point in the future, borrow funds from one or more of our corporate subsidiaries. Although any such intercompany borrowings will be structured so as to constitute indebtedness for all tax purposes, no assurance can be given that the Internal Revenue Service will not challenge such arrangements, in which case the borrowing may be recharacterized as a dividend distribution to us by our subsidiary. Any such recharacterization may cause us to fail one or more of the REIT requirements.

Complying with REIT requirements might cause us to forego otherwise attractive opportunities, including certain acquisitions.

In order to qualify as a REIT for U.S. federal income tax purposes, we must satisfy tests concerning, among other things, our sources of income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may cause us to forego opportunities, including certain acquisitions, we would otherwise pursue.

The tax imposed on REITs engaging in prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing loans, that would be treated as sales for federal income tax purposes.

A REIT s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property but including any mortgage loans held in inventory primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to sell a loan or securitize the loans in a manner that was treated as a sale of such inventory for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans other than through our taxable REIT subsidiaries and may limit the structures we utilize for our securitization transactions even

though such sales or structures might otherwise be beneficial for us. In addition, this prohibition may limit our ability to restructure our portfolio of mortgage loans from time to time even if we believe it would be in

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our best interest to do so. However, the sales of loans we expect to make from New Century Financial and its subsidiaries following the merger will not be subject to this prohibited transaction tax since New Century Financial and its subsidiaries will be taxable REIT subsidiaries.

Misplaced reliance on legal opinions or statements by issuers of mortgage-backed securities and government securities could result in a failure to comply with REIT gross income or assets tests.

When purchasing mortgage-backed securities and government securities, we may rely on opinions of counsel for the issuer or sponsor of such securities, or statements made in related offering documents, for purposes of determining whether and to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income that qualifies under the REIT gross income tests. The inaccuracy of any such opinions or statements may harm our REIT qualification and result in significant corporate level tax.

We may not qualify as a REIT if we fail to distribute as of the end of calendar year 2004 any undistributed earnings and profits that are attributable to New Century Credit.

To qualify as a REIT, we cannot have as of the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT C corporation, or C corporation E&P. As part of the formation transactions, we expect to acquire all of the capital stock of New Century Credit, which is currently an indirect wholly-owned subsidiary of New Century Financial. After the acquisition, New Century Credit will become a qualified REIT subsidiary and we may succeed to any of New Century Credit's C corporation E&P. If we succeed to that C corporation E&P, we will be required to distribute any such C corporation E&P as of the close of our first taxable year as a REIT. You generally would be subject to tax on the distribution of New Century Credit's C corporation E&P at ordinary income tax rates. It appears that stockholders who are taxed as U.S. individuals would generally be taxed at a maximum rate of 35% on that distribution, rather than the 15% rate applicable to certain corporate dividends, even though that distribution would be attributable to non-REIT C corporation E&P. Legislation introduced in Congress would treat our distribution of C corporation E&P as eligible for the 15% rate applicable to certain corporate dividends. We can provide no assurance that such legislation will be enacted into law.

A national accounting firm will prepare an estimate of New Century Credit's C corporation E&P, which we will use to determine the amount of the special E&P distribution that we must make to purge New Century Credit's C corporation E&P, if any. However, the determination of C corporation E&P is extremely complex and the computations by our national accounting firm are not binding on the Internal Revenue Service. If the Internal Revenue Service were to successfully assert that we failed to distribute an amount at least equal to the inherited C corporation E&P of New Century Credit as of the close of our first taxable year as a REIT, we could fail to qualify as a REIT.

We may be harmed by changes in tax laws applicable to REITs, or the reduced 15% tax rate on certain corporate dividends.

Our business may be harmed by changes to the laws and regulations affecting us, including changes to securities laws and changes to the Internal Revenue Code applicable to the taxation of REITs. New legislation may be enacted into law or new interpretations, rulings or regulations could be adopted, any of which could harm us and our stockholders, potentially with retroactive effect.

Generally, dividends paid by REITs are not eligible for the 15% U.S. federal income tax rate on certain corporate dividends, with certain exceptions discussed under the caption Material U.S. federal income

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tax consequences Taxation of U.S. holders of our common stock. The more favorable treatment of regular corporate dividends could cause domestic non-corporate investors to consider stocks of other corporations that pay dividends as more attractive relative to stocks of REITs. It is not possible to predict whether the reduced 15% tax rate on certain corporate dividends will affect the market price of our common stock following this offering or what the effect will be.

In addition, legislation has been introduced from time to time that would amend certain rules relating to REITs. As of the date hereof, it is not possible to predict with any certainty whether any such legislation will be enacted.

RISKS RELATED TO THIS OFFERING

The stock ownership limit imposed by our charter may inhibit market activity in our stock and may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year after our first REIT taxable year. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provide that, unless exempted by our board of directors, no person may own more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of any class or series of our capital stock. Our directors also have authority under our charter to impose a similar ownership limitation as to any separate class or series of preferred stock we may issue in the future. Our board of directors may grant an exemption from that ownership limit in its sole discretion, subject to such conditions, representations and undertakings as it may determine that are consistent with ensuring compliance with the REIT provisions of the Internal Revenue Code. Our charter also prohibits anyone from buying shares if the purchase would result in us losing our REIT status. If you or anyone else acquires shares in excess of the ownership limit or in violation of the ownership requirements of the Internal Revenue Code for REITs, we:

- ∅ will consider the transfer to be null and void;
- ∅ will not reflect the transaction on our books;
- ∅ may institute legal action to enjoin the transaction;
- ∅ will not pay dividends or other distributions with respect to those shares;
- ∅ will not recognize any voting rights for those shares; and

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Ø will consider the shares held in trust for the benefit of a charitable beneficiary as designated by us.

The trustee shall sell the shares held in trust and the owner of the excess shares will be entitled to the lesser of:

- (1) the price paid by the transferee;
 - (2) if the transferee did not purchase the excess shares, the closing price for the shares on the national securities exchange on which our common stock is listed or quoted on the day of the event causing the shares to be held in trust; or
 - (3) the price received by the trustee from the sale of the shares.
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This ownership limit could delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in your best interest and may result in the entrenchment of our board of directors and management regardless of performance.

We expect to enter into employment agreements with some of our executive officers that will provide them with benefits in the event their employment is terminated following a change of control.

We intend to enter into employment agreements with members of our senior executive management team, including Messrs. Cole, Morrice, Gotschall, Flanagan and Rank and Ms. Dodge. These employment agreements will provide the executives with severance benefits if their employment ends under specified circumstances following a change in control. We may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationship with the individuals involved. In addition, the severance benefits could increase the cost to a potential acquirer of us and thereby prevent or discourage a change of control that might involve a premium price for your shares or otherwise be in your best interest.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control of New Century REIT.

Certain provisions of Maryland law and our charter and bylaws could have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control of us, and may have the effect of entrenching our management and members of our board of directors, regardless of performance. These provisions include the following:

- Ø **Classified board of directors.** Our board of directors will be divided into three classes with staggered terms of office of three years each. The classification and staggered terms of office of our directors will make it more difficult for a third party to gain control of our board of directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of our board of directors.
- Ø **Removal of directors.** Under our charter, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed only for cause and only by the affirmative vote of at least two-thirds of all votes entitled to be cast by its stockholders generally in the election of directors.
- Ø **Number of directors, board vacancies, term of office.** Under our bylaws, we have elected to be subject to certain provisions of Maryland law which vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the board even if the remaining directors do not constitute a quorum. These provisions of Maryland law, which are applicable even if other provisions of Maryland law or the charter or bylaws provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholder as would otherwise be the case, and until his or her successor is elected and qualified.
- Ø **Limitation on stockholder requested special meetings.** Our bylaws provide that our stockholders have the right to call a special meeting only upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast by the stockholders

at such meeting.

Ø **Advance notice provisions for stockholder nominations and proposals.** Our bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other

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business before, any meeting of our stockholders. This bylaw provision limits the ability of our stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

Ø **Exclusive authority of our board to amend our bylaws.** Our bylaws provide that our board of directors has the exclusive power to adopt, alter or repeal any provision of the bylaws or to make new bylaws. Thus, our stockholders may not effect any changes to our bylaws.

Ø **Preferred stock.** Under our charter, our board of directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders.

Ø **Duties of directors with respect to unsolicited takeovers.** Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (1) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (2) authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholders rights plan, (3) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (4) act or fail to act solely because of the effect of the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law the act of the directors of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

Ø **Ownership limit.** In order to preserve our status as a REIT under the Internal Revenue Code, our charter generally prohibits any single stockholder, or any group of affiliated stockholders, from beneficially owning more than 9.8% of our outstanding common or preferred stock unless our board of directors waives or modifies this ownership limit.

Ø **Maryland Business Combination Act.** The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, certain issuances of shares of stock and other specified transactions, with an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Our board of directors has adopted a resolution exempting us from this statute. However, our board of directors may repeal or modify this resolution in the future, in which case the provisions of the Maryland Business Combination Act will be applicable to business combinations between us and other persons.

Ø **Maryland Control Share Acquisition Act.** Maryland law provides that control shares of a corporation acquired in a control share acquisition shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. Control shares means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one tenth or more but less than one third, one third or more but less than a majority or a majority or more of all voting power. A control share acquisition means the acquisition of control shares, subject to certain exceptions. If voting rights or control shares acquired in a control share acquisition are not approved

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at a stockholders' meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of its shares from the Maryland Control Share Acquisition Act. However, our board of directors may amend its bylaws in the future to repeal or modify this exemption, in which case any of our control shares acquired in a control share acquisition will be subject to the Maryland Control Share Acquisition Act.

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Special note about forward-looking statements

This prospectus and the documents incorporated by reference herein include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words believe, expect, will, anticipate, intend, estimate, project, plan, assume, or other similar expressions, although not all forward-looking statements contain these identifying words. Statements regarding the following subjects contained or incorporated by reference in this prospectus are forward-looking by their nature:

- ∅ our business strategy;

- ∅ our understanding of our competition;

- ∅ our ability to complete the merger and this offering;

- ∅ market trends;

- ∅ projected sources and uses of funds from operations;

- ∅ potential liability with respect to legal proceedings; and

- ∅ potential effects of proposed legislation and regulatory action.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and are applicable only as of the date on the cover of this prospectus or, in the case of forward-looking statements incorporated by reference, as of the date of the filing that includes the statement. New risks and uncertainties arise from time to time, and it is impossible for us to predict these matters or how they may affect us. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our stockholders or our noteholders. Such factors include, but are not limited to:

- ∅ those identified under Risk factors from pages 13 through 39;

- ∅ those identified from time to time in New Century Financial's public filings with the Securities and Exchange Commission;

- ∅ the negative impact of economic slowdowns or recessions;

- Ø the effect of changes in interest rates;
 - Ø our limited experience managing a REIT;
 - Ø the condition of the secondary markets for our products;
 - Ø our access to funding sources and our ability to renew, replace or add to our existing repurchase arrangements and existing credit facilities on terms comparable to the current terms;
 - Ø the assumptions underlying our residual values and repurchase allowances;
 - Ø the impact of new state or federal legislation or court decisions on our operations;
 - Ø the impact of new state or federal legislation or court decisions restricting the activities of lenders or suppliers of credit in our market;
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Special note about forward-looking statements

- Ø an increase in the prepayment speed or default rate of our borrowers;
- Ø the effect of competition from finance and mortgage banking companies and from Internet-based lending companies;
- Ø our ability to adequately hedge our residual values;
- Ø the initiation of a margin call under our credit facilities;
- Ø the ability of our servicing operations to maintain high performance standards;
- Ø our ability to expand origination volume while maintaining low overhead;
- Ø our ability to attract and retain qualified employees, including, in particular, our senior executives;
- Ø our ability to adapt to and implement technological changes;
- Ø the stability of residential property values;
- Ø our ability to close our forward sale commitments;
- Ø management's ability to manage our growth and planned expansion; and
- Ø the outcome of litigation or regulatory actions pending against us.

We have no duty to, and do not intend to, update or revise the forward-looking statements in this prospectus after the date of this prospectus, even if subsequent events cause us to become aware of new risks or cause our expectations to change regarding the forward-looking matters discussed in this prospectus. We have identified some of the important factors that could cause future events to differ from our current expectations and they are described in this prospectus under the caption "Risk factors" as well as in our most recent Annual Report on Form 10-K, as amended, all of which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this prospectus.

This prospectus contains market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified their data.

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Use of proceeds

We estimate that the net proceeds from this offering will be approximately \$725.6 million, based on an assumed public offering price of \$57.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the underwriting discount and estimated offering expenses of approximately \$3.5 million payable by us. If the underwriters exercise in full their option to purchase up to an additional 2,025,000 shares of our common stock in this offering, our net proceeds will be approximately \$835.0 million. We intend to use the net proceeds we receive from this offering for general working capital purposes, substantially all of which will be used to build a portfolio of self-originated mortgage loans and, if necessary to maintain our REIT status, to purchase mortgage-related assets from third parties.

We may need a significant amount of time to fully invest the available net proceeds we receive from this offering in our intended investments and to implement fully our leveraging strategy to increase the total amount of our investments to our desired level. Initially, we may invest a portion of our net proceeds from this offering in interest-bearing, short-term, investment grade securities that are consistent with our intention to qualify as a REIT. We will not leverage our temporary investment in these securities. We expect these temporary investments to provide a lower net return than we hope to achieve from our long-term intended use of the net proceeds we receive from this offering.

Table of Contents**Market prices of New Century Financial common stock**

New Century Financial's common stock has been quoted on the Nasdaq National Market under the symbol NCEN since its initial public offering in June 1997. The following table sets forth, for the periods indicated, the high and low bid prices for New Century Financial's common stock as quoted on the Nasdaq National Market:

	Common Stock Price	
	High	Low
Year ended December 31, 2002		
First Quarter	\$ 15.93	\$ 7.87
Second Quarter	23.32	14.16
Third Quarter	23.19	13.50
Fourth Quarter	18.74	10.89
Year ended December 31, 2003		
First Quarter	\$ 21.75	\$ 16.34
Second Quarter	34.06	20.68
Third Quarter	31.45	21.51
Fourth Quarter	41.04	28.27
Year ending December 31, 2004		
First Quarter	\$ 51.80	\$ 37.91
Second Quarter	\$ 50.76	\$ 38.50
Third Quarter (through September 14, 2004)	\$ 56.88	\$ 43.27

On April 5, 2004, the last full trading day prior to the public announcement of our plan to convert to a REIT, the closing sale price of New Century Financial's common stock, as reported on the Nasdaq National Market, was \$45.40 per share. On September 14, 2004, the latest practicable date before the printing of this prospectus, the closing sale price of New Century Financial's common stock, as reported on the Nasdaq National Market was \$55.75 per share. Such stock prices and the stock prices set forth above give effect to the three-for-two stock split effected by a stock dividend paid in July 2003. As of August 31, 2004, the number of holders of record of New Century Financial's common stock was 62 and the number of outstanding shares of New Century Financial's common stock was 34,047,884.

Our common stock has been approved for listing on the NYSE, subject to official notice of issuance. The historical trading prices of New Century Financial's common stock are not necessarily indicative of the future trading prices of our common stock because, among other things, the current stock price of New Century Financial reflects the current market valuation of New Century Financial's current business and assets and does not necessarily take into account the changes in New Century Financial's business and operations that may occur in connection with the merger and the other restructuring activities necessary for us to qualify as a REIT.

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Distribution policy; the special E&P distribution

We expect to make regular quarterly distributions to our stockholders beginning in the fourth quarter of 2004. The actual timing and amount of such distributions, however, will be as determined and declared by our board of directors and will depend on our financial condition, earnings, and other factors, many of which are beyond our control. In order to maintain our qualification as a REIT under the Internal Revenue Code, we are required to distribute (within a certain period after the end of each year) at least 90% of our REIT taxable income for such year (determined without regard to the dividends paid deduction and by excluding net capital gain). After-tax earnings generated by our taxable REIT subsidiaries and not distributed to us are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. To the extent that we do not distribute 100% of our REIT taxable income, we will be taxed on any undistributed amounts. In addition, we cannot assure you that we will have access to funds to meet the distribution and other REIT qualification requirements. We anticipate paying quarterly distributions during January, April, July and October of each year for the preceding quarter. We anticipate that distributions generally will be paid from cash available for distribution (generally equal to cash from operations and investing activities less capital expenditures and principal amortization on indebtedness); however, to the extent that cash available for distribution is insufficient to make such distributions, we intend to borrow funds from one of our subsidiaries or a third party in order to make distributions consistent with this policy. We cannot assure you as to the amount, if any, of future distributions.

In addition, in connection with our plan to qualify as a REIT, we may, if necessary, make an immaterial one-time special E&P distribution to our stockholders. Under the Internal Revenue Code, neither a REIT nor any of its qualified REIT subsidiaries is permitted to retain earnings and profits accumulated during years when the company or its predecessor was taxed as a C corporation. Therefore, in order to qualify as a REIT, we may be required to distribute the current and accumulated earnings and profits of New Century Credit that we succeed to, if any, by paying a one-time special distribution to our stockholders in cash. A national accounting firm is preparing, and will provide prior to the date of the merger, a computation of New Century Credit's earnings and profits for this purpose. Based on this computation, we will make the corresponding special one-time cash distribution, if required, in an amount that is intended to equal or exceed the earnings and profits, if any, that we will inherit from New Century Credit. Any such special E&P distribution will be declared in December 2004 and payable in January 2005 to our stockholders on the record date for such distribution. The investors in this offering will be eligible to receive the special E&P distribution if those investors hold our common stock on the applicable record date.

Table of Contents**Capitalization**

The following table sets forth:

Ø New Century Financial's actual capitalization as of June 30, 2004; and

Ø our capitalization as of June 30, 2004, as adjusted to give effect to the merger, the sale of shares of our common stock in this offering at an assumed public offering price of \$57.00 per share, after deducting the underwriting discount and estimated expenses payable by us in connection with this offering and the application of the net proceeds received by us in this offering as described under the heading "Use of proceeds."

You should read this table in conjunction with our audited consolidated financial statements, which are included elsewhere in or incorporated by reference into this prospectus.

	As of	
	June 30, 2004	
	Actual	As adjusted
	(in thousands, except share amounts)	
Financing on mortgage loans held for investment(1)	\$ 9,086,932	\$ 9,086,932
Convertible notes	205,349	205,349
Notes payable	30,485	30,485
Total long-term debt	9,322,766	9,322,766
Stockholders' equity:		
Preferred stock, par value \$0.01: 7,500,000 shares authorized and no shares issued and outstanding actual; 10,000,000 shares authorized and no shares issued and outstanding as adjusted		
Common stock, par value \$0.01: 100,000,000 shares authorized and 33,905,609 shares issued and outstanding actual; 300,000,000 shares authorized and 47,405,609 shares issued and outstanding, as adjusted	\$ 340	\$ 475
Additional paid in capital	49,310	774,776
Accumulated other comprehensive income	16,591	16,591
Retained earnings, restricted	686,061	686,061
Treasury stock, at cost	(70)	(70)
Deferred compensation costs	(8,895)	(8,895)
Total stockholders' equity	\$ 743,337	\$ 1,468,938
Long-term debt and total stockholders' equity	\$ 10,066,103	\$ 10,791,704

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Included in financing on mortgage loans held for investment and notes payable is \$1.8 billion and \$13.6 million, respectively, of financing which matures within one year of June 30, 2004.

The table above excludes the following shares:

Ø a total of 5,342,736 shares of our common stock issuable upon exercise of options outstanding on August 31, 2004 with a weighted-average exercise price of \$18.26 per share;

Ø a total of 591,225 shares of our common stock available for awards under our stock incentive plans as of August 31, 2004;

Ø up to 6,034,686 shares of common stock issuable as of August 31, 2004 upon the conversion of our 3.50% convertible senior notes due 2008 (subject to adjustments under the terms of the convertible notes); and

Ø up to 6,034,668 shares of common stock issuable as of August 31, 2004 upon the exercise of a warrant issued in connection with the issuance of the convertible notes.

Subsequent to the date as of which information is presented in the table above we granted an option to the underwriters of this offering to purchase up to 2,025,000 shares of our common stock from us, solely to cover over-allotments.

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Dilution

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of the shares of our common stock issued by us in our offering and the net tangible book value per share of our common stock after giving effect to the merger and immediately after this offering. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of our outstanding common stock, after giving effect to:

- Ø the issuance of shares of our common stock in connection with the merger; and
- Ø the sale of the common stock offered by us in this prospectus, at an assumed public offering price of \$57.00 per share, and our receipt of approximately \$725.6 million in net proceeds from this offering, after deducting the underwriting discount and commissions as described in Use of proceeds and estimated offering expenses.

Assuming the merger was completed on June 30, 2004, our pro forma net tangible book value would have been approximately \$1,456.2 million, or \$30.72 per share of common stock. This amount represents an immediate dilution in pro forma net tangible book value of \$26.28 per share of common stock to new investors. The following table illustrates this dilution.

Public offering price	\$ 57.00
Net tangible book value per share as of June 30, 2004	\$ 21.55
Increase in net tangible book value per share to existing stockholders attributable to new investors	\$ 9.17
Pro forma net tangible book value per share after this offering	\$ 30.72
Dilution per share to new investors	\$ 26.28

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The merger and related transactions

After the pricing of this offering but prior to the closing of this offering, NC Merger Sub will merge with and into New Century Financial pursuant to the agreement and plan of merger dated April 21, 2004, by and among New Century Financial, New Century REIT and NC Merger Sub, or the merger agreement. This discussion is qualified in its entirety by reference to the complete merger agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part. We encourage you to read the merger agreement in its entirety. See Where you can find additional information about New Century REIT, Inc.

STRUCTURE AND COMPLETION OF THE MERGER

We recently formed NC Merger Sub, of which we are the sole stockholder. The merger agreement provides that NC Merger Sub will merge with and into New Century Financial, whereupon the separate corporate existence of NC Merger Sub will cease and New Century Financial will be the surviving entity of the merger. Upon the effectiveness of the merger, each outstanding share of common stock of New Century Financial will be converted into one share of our common stock and we will assume all obligations to deliver securities under New Century Financial's incentive options. For a description of the treatment of the convertible senior notes of New Century Financial and the related call option and warrant, see Treatment of convertible senior notes and related call option and warrant. In connection with the merger, we will change our name to New Century Financial Corporation and will succeed to and continue to operate substantially all of the existing business of New Century Financial and its subsidiaries.

OTHER EFFECTS OF THE MERGER

We expect the following to occur in connection with the merger:

- Ø **Stockholder rights.** The rights of our stockholders will be governed by the MGCL and our charter and bylaws. See also Description of our capital stock.
- Ø **Directors and officers.** The board of directors, committees of the board of directors and management of New Century Financial immediately prior to the merger will become our board of directors, committees of the board of directors and management.
- Ø **Benefit plans.** We will assume all of New Century Financial's stock incentive plans, including the 2004 Performance Incentive Plan, and all rights to acquire shares of New Century Financial common stock under any New Century Financial stock incentive plan will be converted into rights to acquire shares of our common stock pursuant to the terms of the stock incentive plans and the other related documents, if any.
- Ø **Convertible senior notes.** We will execute a supplemental indenture covering New Century Financial's 3.50% convertible senior notes due 2008. As a party to the indenture, we will be obligated to issue shares of our common stock upon conversion of any convertible notes not otherwise converted prior to the merger and the other restructuring activities necessary for us to qualify as a REIT.

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- Ø **Distributions.** We will assume all of New Century Financial's obligations with respect to any distributions to its stockholders that have been declared by New Century Financial but not paid prior to the completion of the merger. In addition, we may, if required, declare a special E&P distribution in December 2004 and make the special distribution in January 2005 to our stockholders on the record date for such distribution.
- Ø **NYSE listing of our common stock.** Our common stock has been approved for listing on the NYSE under the symbol NEW, subject to official notice of issuance.
-

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The merger and related transactions

COMPLETION OF THE MERGER

The merger of NC Merger Sub with and into New Century Financial will become effective at the time the certificate of merger is accepted for filing by the Secretary of State of Delaware in accordance with the Delaware General Corporation Law, or the DGCL, or later if so specified in the certificate of merger. It is anticipated that the merger will be completed immediately after the pricing of this offering but prior to the closing of this offering.

TREATMENT OF CONVERTIBLE SENIOR NOTES AND RELATED CALL OPTION AND WARRANT

Treatment of convertible senior notes

On July 8, 2003 and July 14, 2003, New Century Financial issued \$210 million of convertible senior notes due July 3, 2008 pursuant to Rule 144A under the Securities Act. The convertible notes bear interest at a rate of 3.50% per year and, as of March 17, 2004, became convertible into New Century Financial common stock. The conversion rate of the convertible notes is subject to adjustment upon the occurrence of certain events, including the payment of certain dividends and distributions on New Century Financial common stock, the splitting of New Century Financial common stock, the combination of New Century Financial common stock and certain other events. In particular, the conversion rate adjusts if the quarterly dividend yield is above 0.4375%, which equates to an annualized dividend yield of 1.75%. Adjustments to the conversion rate resulting from quarterly cash dividends may not cause the conversion rate to exceed 35.3274 shares per \$1,000 principal amount of convertible notes, or 7,418,754 shares. As a result of the merger, the convertible notes will become convertible into shares of our common stock at the same conversion rate as is in effect on the date of the merger, subject to further adjustment upon the occurrence of certain events. In order to implement these provisions, New Century Financial and New Century REIT will execute a supplemental indenture at the closing of the merger.

On October 15, 2003, New Century Financial filed a registration statement with the Securities and Exchange Commission, which has become effective, to permit the public resale of the convertible notes and New Century Financial common stock issuable upon conversion of the convertible notes. In connection with this offering, we will further amend the registration statement to permit the public resale of the convertible notes and our common stock, rather than New Century Financial's common stock, issuable upon conversion of the convertible notes.

Treatment of call option and warrant

In connection with the issuance of the convertible notes, New Century Financial entered into two agreements whereby it simultaneously purchased a call option and sold a warrant relating to shares of its common stock. New Century Financial can exercise the call option at any time to acquire 6,034,675 shares of its common stock at a price of \$34.80 per share. The holder of the warrant can, for a limited period of time upon maturity of the convertible notes, exercise the warrant to purchase from New Century Financial up to 6,034,668 shares of its common stock at a price of \$47.59 per share, subject to certain anti-dilution and other customary adjustments. The warrant may be settled in cash, in shares of New Century Financial common stock or a combination of cash and shares, at the option of New Century Financial. As a result of the merger, the call option and warrant will only be exercisable for shares of our common stock rather than New Century Financial common stock. The calculation agent of the warrant can reduce the exercise price of the warrant to account for changes in volatility, expected dividends and broker's ability to

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margin and liquidity of our common stock relative to the shares of New Century Financial common stock.

After we qualify to be taxed as a REIT, we may explore transactions to repurchase the convertible notes or induce the noteholders to convert the convertible notes into shares of our common stock. We may also explore the possibility of exercising our call option, inducing exercise or cancellation of the warrant or otherwise settling the transactions with our counterparty.

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The merger and related transactions

ACCOUNTING CONSEQUENCES

For accounting purposes, the merger will be treated as a recapitalization of New Century Financial with New Century REIT as the acquiror (a reverse merger). The accounting basis used to initially record the assets and liabilities in NC Merger Sub is the carryover basis of New Century Financial.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The parties have structured the merger so that it is anticipated that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes. If the merger so qualifies, no gain or loss will be recognized by New Century Financial, NC Merger Sub or New Century REIT as a result of the merger.

This summary is general in nature and does not discuss all of the tax consequences to New Century Financial, NC Merger Sub, New Century REIT or to you that may result from the merger or related transactions. Accordingly, we strongly urge you to consult with your own tax advisor to determine the particular U.S. federal, state or local or foreign income or other tax consequences to you of these transactions.

For a discussion of the material U.S. federal income tax consequences of an investment in our common stock, see [Material U.S. federal income tax consequences](#) beginning on page 126.

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Unaudited pro forma consolidated condensed financial information

The following tables present selected financial data from the unaudited pro forma consolidated statement of operations for the six months ended June 30, 2004 and year ended December 31, 2003 and from the unaudited pro forma consolidated balance sheet as of June 30, 2004. The unaudited pro forma consolidated statement of operations presents the effects of the anticipated transactions as though they occurred on January 1, 2004 and 2003, but calculated as they are expected to occur based on actual data as of June 30, 2004 and December 31, 2003. The unaudited pro forma balance sheet is presented as if the merger and the other restructuring activities necessary for us to qualify as a REIT, including this offering, had occurred on June 30, 2004. The selected unaudited pro forma consolidated financial data are based on the estimates and assumption set forth in the notes to such statements, which are preliminary and have been made solely for the purposes of developing such pro forma information. The selected unaudited pro forma consolidated financial data are not necessarily indicative of the financial position or operating results that would have been achieved had the merger and the other restructuring activities necessary for us to qualify as a REIT, including this offering, been completed as of the dates indicated, nor are they necessarily indicative of future financial position or operating results. This information should be read in conjunction with the New Century Financial historical consolidated financial statements and related notes included in or incorporated by reference into this prospectus.

The pro forma financial results assume that all relevant REIT qualifying tests, as dictated by Internal Revenue Service rules, were met for the entire year. We have not performed these calculations and it is unlikely that certain tests would have been met.

The payment of a quarterly distribution has not been reflected in the pro forma financial results. To qualify as a REIT, at least 90% of our REIT taxable income (determined without regard to dividends paid deductions and by excluding any net capital gain) is required to be distributed to our stockholders.

Table of Contents**Unaudited pro forma consolidated condensed financial information****New Century Financial Corporation****Unaudited pro forma consolidated condensed statement of operations****For the six months ended June 30, 2004**

(in thousands, except per share data)

	As Reported for the Six Months Ended June 30, 2004	Pro Forma Adjustments	Pro Forma for the Six Months Ended June 30, 2004
Revenues:			
Gain on sale of loans	\$ 417,027	\$	\$ 417,027
Interest income	334,905		334,905
Residual interest income	9,358		9,358
Servicing and other income	14,478		14,478
	<u>775,768</u>		<u>775,768</u>
Expenses:			
Personnel	189,966		189,966
Interest	123,270		123,270
General and administrative	72,976		72,976
Provision for loan losses on mortgage loans held for investment	36,981		36,981
Advertising and promotion	20,656		20,656
Professional services	13,066		13,066
	<u>456,915</u>		<u>456,915</u>
Total expenses	456,915		456,915
Earnings before income taxes	318,853		318,853
Income taxes	129,231		129,231
	<u>189,622</u>		<u>189,622</u>
Net earnings	\$ 189,622	\$	\$ 189,622
Basic earnings per share	\$ 5.72	\$	\$ 4.07
Diluted earnings per share	\$ 4.46	\$	\$ 3.40
Basic weighted average shares outstanding	33,129	13,500	46,629
Diluted weighted average shares outstanding	43,089	13,500	56,589

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

Table of Contents**Unaudited pro forma consolidated condensed financial information****New Century Financial Corporation****Unaudited pro forma consolidated condensed statement of operations****For the year ended December 31, 2003**

(in thousands, except per share data)

	As Reported for the Year Ended December 31, 2003	Pro Forma Adjustments	Pro Forma for the Year Ended December 31, 2003
Revenues:			
Gain on sale of loans	\$ 611,136	\$	\$ 611,136
Interest income	329,463		329,463
Residual interest income	24,228		24,228
Servicing income	11,139		11,139
	<hr/>	<hr/>	<hr/>
Total revenues	975,966		975,966
Expenses:			
Personnel	248,796		248,796
Interest	117,575		117,575
General and administrative	105,301		105,301
Provision for loan losses on mortgage loans held for investment	26,304		26,304
Advertising and promotion	26,118		26,118
Professional services	28,620		28,620
	<hr/>	<hr/>	<hr/>
Total expenses	552,714		552,714
	<hr/>	<hr/>	<hr/>
Earnings before income taxes	423,252		423,252
Income taxes	177,769		177,769
	<hr/>	<hr/>	<hr/>
Net earnings	\$ 245,483	\$	\$ 245,483
	<hr/>	<hr/>	<hr/>
Basic earnings per share	\$ 7.26	\$	\$ 5.19
	<hr/>	<hr/>	<hr/>
Diluted earnings per share	\$ 6.56	\$	\$ 4.82
	<hr/>	<hr/>	<hr/>
Basic weighted average shares outstanding	33,835	13,500	47,335
Diluted weighted average shares outstanding	37,410	13,500	50,910

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

Table of Contents**Unaudited pro forma consolidated condensed financial information****New Century Financial Corporation****Unaudited pro forma consolidated condensed balance sheet****As of June 30, 2004**

(in thousands, except share amounts)

	As Reported at June 30, 2004	Pro Forma Adjustments	Pro Forma at June 30, 2004
Assets			
Cash and cash equivalents	\$ 68,891	\$ 729,101	\$ 797,992
Restricted cash	322,369		322,369
Mortgage loans held for sale, net	4,784,222		4,784,222
Mortgage loans held for investment, net	9,146,472		9,146,472
Residual interests in securitizations	190,827		190,827
Mortgage servicing assets	1,373		1,373
Accrued interest receivable	42,880		42,880
Income taxes, net	67,953		67,953
Office property and equipment	38,609		38,609
Prepaid expenses and other assets	70,114		70,114
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 14,733,710	\$ 729,101	\$ 15,462,811
	<u> </u>	<u> </u>	<u> </u>
Liabilities and Stockholders Equity			
Credit facilities	\$ 4,439,518	\$	\$ 4,439,518
Financing on mortgage loans held for investment, net	9,086,932		9,086,932
Convertible notes, net	205,349		205,349
Notes payable	30,485		30,485
Accounts payable and accrued liabilities	228,089	3,500	231,589
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	13,990,373	3,500	13,993,873
	<u> </u>	<u> </u>	<u> </u>
Stockholders equity:			
Preferred stock, \$0.01 par value. Authorized 7,500,000 shares; no shares issued and outstanding at June 30, 2004			
Common stock, \$0.01 par value. Authorized 100,000,000 shares; issued and outstanding 33,905,609 (actual) and 47,405,609 (pro forma) at June 30, 2004			
	340	135	475
Additional paid-in capital	49,310	725,466	774,776
Accumulated other comprehensive income	16,591		16,591
Retained earnings, restricted	686,061		686,061
	<u> </u>	<u> </u>	<u> </u>
	752,302	725,601	1,477,903
Treasury stock, 2,500 shares at June 30, 2004, at cost held for investment	(70)		(70)
Deferred compensation costs	(8,895)		(8,895)
	<u> </u>	<u> </u>	<u> </u>
Total stockholders equity	743,337	725,601	1,468,938
	<u> </u>	<u> </u>	<u> </u>

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Total liabilities and stockholders equity	\$ 14,733,710	\$ 729,101	\$ 15,462,811
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See accompanying notes to unaudited pro forma consolidated condensed financial statements.

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Unaudited pro forma consolidated condensed financial information

New Century Financial Corporation

Notes to unaudited pro forma consolidated condensed financial statements

June 30, 2004 and December 31, 2003

The unaudited pro forma consolidated condensed financial statements present our financial position as of June 30, 2004, and our historic results of operations for the six months ended June 30, 2004 and the year ended December 31, 2003 and the adjustments and adjusted financial position as of June 30, 2004 and the adjustments and adjusted results of operations for the six months ended June 30, 2004 and the year ended December 31, 2003, reflecting the following assumptions:

- (i) the sale of \$769.5 million in common stock, at a price of \$57.00, which is the midpoint of the price range set forth on the cover page of this prospectus, net of underwriters' discount of 5.25% and estimated offering expenses of \$3.5 million.

- (ii) no adjustment has been made to income tax expense for the six months ended June 30, 2004 or year ended December 31, 2003 because substantially all of the REIT portfolio acquisition transactions are expected to consist of mortgage loans generated in the second half 2004.

These adjustments do not necessarily reflect the actual changes that would have occurred if the merger and the other restructuring activities necessary for us to qualify as a REIT, including this offering had occurred in the first six months of 2004 or 2003 and, therefore, the pro forma consolidated condensed financial statements are not indicative of expected future financial position or operating results.

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Selected financial data

The following table presents a summary of New Century Financial's historical consolidated financial data as of the dates and for the periods indicated.

The selected consolidated statements of operations for the fiscal years ended December 31, 2003, 2002, 2001, 2000 and 1999 and the balance sheet data as of December 31, 2003, 2002, 2001, 2000 and 1999 have been derived from New Century Financial's audited consolidated financial statements and related notes thereto incorporated by reference into this prospectus. The financial data for the six months ended June 30, 2004 and 2003 were derived from our unaudited consolidated financial statements and include, in the opinion of management, all normal and recurring adjustments necessary to present the data fairly for such periods. Such selected financial data should be read in conjunction with those financial statements and the notes thereto and with Management's discussion and analysis of financial condition and results of operations also included elsewhere herein.

The information in the following table may not be comparable to our operations on a going-forward basis because, among other things, we will not pay federal income tax on our REIT taxable income that we distribute to our stockholders and expect to pay quarterly distributions of at least 90% of our REIT taxable income. Therefore, our historical results and management's discussion of these results may not be indicative of our future performance.

Statement of operations data:	For the		For the Years Ended December 31,				
	Six Months Ended						
	June 30,		2003	2002	2001	2000	1999
	2004	2003	(Dollars in thousands, except per share data)				
Revenues:							
Gain on sales of loans	\$ 417,027	\$ 272,084	\$ 611,136	\$ 451,744	\$ 182,612	\$ 14,952	\$ 121,672
Interest income(1)	334,905	105,863	329,463	122,331	62,706	67,351	61,457
Residual interest income	9,358	12,684	24,228	31,723	36,356	49,868	27,385
Servicing income	13,649	5,821	11,139	432	10,616	30,092	23,428
Other income	829			16	1,046	1,653	
Total revenues	775,768	396,452	975,966	606,246	293,336	163,916	233,942
Expenses(1)	456,915	214,261	552,714	299,910	209,852	200,697	167,056
Earnings (loss) before income taxes	318,853	182,191	423,252	306,336	83,484	(36,781)	66,886
Income taxes (benefit)	129,231	75,637	177,769	126,636	35,464	(13,756)	27,377
Net earnings (loss)	\$ 189,622	\$ 106,554	\$ 245,483	\$ 179,700	\$ 48,020	\$ (23,025)	\$ 39,509
Basic earnings (loss) per share	\$ 5.72	\$ 3.11	\$ 7.26	\$ 5.19	\$ 1.83	\$ (1.17)	\$ 1.73
Diluted earnings (loss) per share	\$ 4.46	\$ 2.83	\$ 6.56	\$ 4.62	\$ 1.52	\$ (1.17)	\$ 1.41

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Dividend per share	\$	0.36	\$	0.14	\$	0.33	\$	0.13
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- (1) Interest income for the six months ended June 30, 2004 and 2003 includes \$176.8 million and \$15.9 million, respectively, related to interest earned on mortgage loans receivable held for investment. Expenses for the six months ended June 30, 2004 and 2003 include \$66.4 million and \$4.5 million, respectively, related to interest expense on financing of mortgage loans held for investment and \$37.0 million and \$7.7 million, respectively, related to the provision for loan losses on mortgage loans held for investment. Interest income for the year ended December 31, 2003 includes \$104.7 million related to interest earned on mortgage loans receivable held for investment. Expenses for that period include \$36.7 million related to interest expense on financing of mortgage loans held for investment and \$26.3 million related to the provision for loan losses on mortgage loans held for investment.

Table of Contents**Selected financial data**

Balance sheet data:	As of June 30,		As of December 31,				
	2004	2003	2003	2002	2001	2000	1999
(Dollars in thousands)							
Cash and cash equivalents	\$ 68,891	\$ 169,085	\$ 269,540	\$ 176,669	\$ 100,263	\$ 10,283	\$ 4,496
Restricted cash	322,369	22,732	116,883	6,255	6,416		
Mortgage loans held for sale, net	4,784,222	2,138,347	3,422,211	1,920,396	1,011,122	400,089	442,653
Mortgage loans held for investment, net	9,146,472	1,187,617	4,745,937				
Residual interests in securitizations	190,827	211,469	179,498	246,964	306,908	361,646	364,689
Other assets	220,929	66,611	200,811	52,644	26,609	75,143	51,871
Total assets	14,733,710	3,795,861	8,934,880	2,402,928	1,451,318	847,161	863,709
Credit facilities	4,439,518	2,049,572	3,311,837	1,885,498	987,568	404,446	428,726
Financing on mortgage loans held for investment, net	9,086,932	1,161,299	4,686,323				
Convertible notes, net	205,349		204,858				
Residual financing					79,941	176,806	177,493
Subordinated debt					40,000	40,000	20,000
Other liabilities	258,574	115,153	189,851	130,880	96,048	63,760	64,527
Total liabilities	13,990,373	3,326,024	8,392,869	2,016,378	1,203,557	685,012	690,746
Total stockholders' equity	743,337	469,837	\$ 542,011	\$ 386,550	\$ 247,761	\$ 152,149	\$ 172,963

Operating statistics:	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2004	2003(1)	2003(1)	2002	2001	2000	1999
(Dollars in thousands)							
Loan origination and purchase activities:							
Wholesale originations	\$ 18,781,248	\$ 9,561,251	\$ 25,187,569	\$ 12,392,562	\$ 5,068,466	\$ 3,041,761	\$ 2,894,517
Retail originations	1,910,975	931,217	2,195,269	1,808,934	1,176,505	1,110,596	1,185,747
Total loan originations and purchases	\$ 20,692,223	\$ 10,492,468	27,382,838	14,201,496	6,244,971	4,152,357	4,080,264
Average principal balance per loan	172	159	167	151	138	108	102
Percent of loans secured by first mortgages	96.5%	98.6%	98.6%	99.6%	99.3%	95.3%	96.7%
Weighted average initial loan-to-value ratio	84.4%	81.4%	82.1%	79.6%	78.7%	78.6%	78.8%
Originations by product type:							
ARMs	\$ 14,032,610	\$ 7,875,089	\$ 19,185,517	\$ 10,492,558	\$ 5,101,783	\$ 3,052,481	\$ 2,610,475
Fixed-rate mortgages	6,659,613	2,617,379	8,197,321	3,708,938	1,143,188	1,099,876	1,469,789
Weighted average interest rates:							
Fixed rate mortgages	7.0%	7.9%	7.3%	8.2%	9.5%	11.0%	10.2%
ARMs initial rates	6.8%	7.5%	7.3%	8.3%	9.4%	10.4%	9.8%
ARMs margin over index	5.5%	5.8%	5.8%	6.6%	6.6%	6.2%	6.2%
Secondary market transactions:							
Loans sold through whole loan transactions	\$ 13,803,821	\$ 9,036,341	\$ 20,835,105	\$ 12,419,687	\$ 4,723,350	\$ 3,133,205	\$ 1,033,006
Securitizations structured as sales	337,148			845,477	898,244	1,029,477	3,017,658
Loans acquired to securitize							(61,312)
Total sales	14,140,969	9,036,341	20,835,105	13,265,164	5,621,594	4,162,682	3,989,352
	3,457,776	1,206,015	4,946,781				

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Securitizations structured as
financings

Total secondary market transactions	\$ 17,598,745	\$ 10,242,356	\$ 25,781,886	\$ 13,265,164	\$ 5,621,594	\$ 4,162,682	\$ 3,989,352
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(1) Certain amounts for prior year s presentation have been reclassified to conform to the current year presentation.

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Management's discussion and analysis of financial condition and results of operations

Because of the impact of taxes, distributions and the change in business focus following the merger and the other restructuring activities necessary for us to qualify as a REIT, our historical results of operations may not be comparable to the results of our operations following the merger and those activities.

THE COMPANY

New Century Financial is one of the nation's largest mortgage finance companies in terms of subprime loan volume, providing first and second mortgage products to borrowers nationwide through our subsidiaries. New Century Financial was incorporated in Delaware in November 1995 and commenced lending operations in February 1996. We offer mortgage products designed for borrowers who generally do not satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae and Freddie Mac. In connection with our loan origination business, we originate and purchase loans on the basis of the borrower's perceived ability to repay the mortgage loan, the borrower's historical pattern of debt repayment and the amount of equity in the borrower's property (as measured by the borrower's LTV). We have been originating and purchasing these types of loans since 1996 and we have created a proprietary automated credit grading and pricing methodology that we believe, based upon our historical loan performance, gives us the ability to more effectively evaluate credit risk and more efficiently price our products.

Our borrowers generally have considerable equity in the property securing the loan (as evidenced by the average LTV of loans we originated in the first half of 2004 of 78.2%), but have impaired or limited credit profiles or higher debt-to-income ratios than traditional mortgage lenders allow. Our borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income, as well as individuals who prefer the prompt and personalized service we provide. We originate and purchase loans through wholesale and retail channels. Wholesale loans are originated or purchased from independent mortgage brokers by the Wholesale Division of one of our wholly-owned subsidiaries, New Century Mortgage. We do not purchase bulk pools of loans from third parties, although we do purchase closed loans on a flow basis from our correspondent lenders. Retail originations are made through New Century Mortgage's network of branch offices and its centralized telemarketing unit. After originating or purchasing loans, we then sell those loans through whole loan sales or securitizations. We may structure securitizations as sales (off-balance sheet securitizations) or financings (on-balance sheet securitizations). Under the on-balance sheet securitization structure, we do not recognize a gain on sale at the time of the transaction, but rather recognize net interest income as payments are received on the underlying loans.

OVERVIEW

Our origination business relies on our ability to originate and purchase mortgage loans at a reasonable cost and to sell a portion of those loans in the secondary mortgage market at prices that result in an attractive operating margin. We measure our operating margin as the sum of the price we receive for our loans, plus the net interest we earn for the period of time we hold the loans, less the cost to originate the loans. For the past several years we have executed a secondary marketing strategy that included a combination of both whole loan sales and securitizations of our loans.

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Loan origination volumes in our industry have historically fluctuated from year to year and are affected by such external factors as home values, the level of consumer debt and the overall condition of the economy. In addition, the premiums we received from the secondary market for our loans have also

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fluctuated, and have also been influenced by the overall condition of the economy and, more importantly, the interest rate environment. As a consequence, the business of originating and selling loans is cyclical.

Historically, we structured our securitizations as sales for financial reporting purposes, and the gain on sale from loans sold through securitizations was a significant percentage of our revenues. During 2003, we shifted our strategy to address the cyclical nature of our earnings with the goal of generating a more stable long-term earnings stream. Our principal strategy to achieve this goal is to hold loans on our balance sheet. Because our financing facilities are short-term in nature and generally do not allow loans to be financed through the facility for longer than 180 days, a securitization structure offers the most attractive means to finance loans on our balance sheet. Consequently, during 2003 we structured our securitizations as financings rather than sales. To support the goal of matching the timing of cash flows with the recognition of earnings on our loans, we make an initial cash investment so that the securitization trusts begin to return cash flow to us beginning in the first month following securitization. Therefore, we require cash and capital to make an initial investment, as well as to support the loans on our balance sheet. During 2003 and the first half of 2004, we sold roughly 80% of our loans through whole loan sales, providing the cash and capital to support the 20% we added to our balance sheet. Our goal is to continue to add mortgage loans to our balance sheet in order to reduce the reliance on the origination and sale of loans for earnings and cash flows.

While we expect to continue to grow the amount of mortgage loans on our balance sheet, a significant portion of our net income will still come from our origination franchise. Cash-out refinance loans were 62.1% of our total origination, home purchase loans were 32.4% and rate and term refinance loans were 5.5% in the first six months of 2004, compared to 63.2%, 21.0% and 15.8% in the first six months of 2003. Our geographic expansion and focus on increasing our home purchase business have resulted in the shift in mix between home purchase and rate and term refinancings. We believe that our current rate of business is sustainable and that our origination strategies and initiatives are consistent with that belief. If we are successful in maintaining this mix, our exposure to interest rate cyclicity will be reduced.

The principal metric we use to measure the value of the origination franchise is the operating margin described above, which has three components: (i) gain on sale of loans; (ii) net interest income; and (iii) loan origination or acquisition costs.

Gain on sale of loans

Gain on sale of loans is affected by the condition of the secondary market for our loans. This market has been very strong for at least the past two years, partly as a result of the interest rate environment (low short-term rates relative to long-term rates, also known as a steep yield curve). In the past few quarters, as interest rates began to rise, the underlying factors that affect secondary market pricing remained relatively stable. However, because we and other lenders did not necessarily raise the interest rates we charge our borrowers with the overall interest rate environment, pricing has declined, reducing overall gain on sale margins.

Net interest income

We typically hold our mortgage loans held for sale for a period of 30 to 45 days before they are sold in the secondary market. During that time, we earn the coupon rate of interest paid by the borrower and we pay interest to the lenders that provide our financing facilities. During 2003, the difference between these interest rates was typically in excess of 5%. More recently, the margin has decreased to between 4% and 5% as

short-term rates have increased greater than our average coupon rates. We manage the timing of

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our sales to optimize the net interest income we earn on the loans, while preserving the ability to sell the loans at the maximum price.

Loan origination or acquisition costs

We also measure and monitor the cost to originate our loans. Such costs include the points and fees we may pay to brokers or correspondents, net of fees we receive from borrowers, plus our operating expenses associated with the origination business. We typically refer to this as our loan acquisition costs. For the past few years, our loan acquisition costs have steadily decreased as a result of growth and technology initiatives. We continue to focus on reducing our loan acquisition costs so that we can maintain a strong operating margin in periods when the secondary market for our loans is not as favorable.

Loan originations and purchases

As of June 30, 2004, our Wholesale and Retail Divisions operated through 26 regional operating centers. The Wholesale Division originated or purchased \$18.8 billion in loans during the six months ended June 30, 2004. As of June 30, 2004, our Retail Division originated loans through 74 sales offices, including our centralized telemarketing unit. Our Retail Division originated or purchased \$1.9 billion in loans during the six months ended June 30, 2004.

During the six months ended June 30, 2004, cash-out refinance loans were 62.1% of our total loan originations, or approximately \$12.9 billion, home purchase loans were 32.4% of our loans and rate and term refinancing loans were 5.5%, compared to 63.2%, 21.0% and 15.8% in the first six months of 2003. Our geographic expansion and focus on increasing our home purchase have resulted in the shift in mix of business between home purchase and rate and term refinance. We believe that if we are successful in maintaining this mix of loan originations by type, our exposure to interest rate cyclically will be reduced.

For the six months ended June 30, 2004, full documentation loans as a percentage of total originations totaled \$10.9 billion or 52.9%, limited documentation loans totaled \$978.2 million, or 4.7%, and stated documentation loans totaled \$8.8 billion, or 42.4%. Full documentation loans generally require applicants to submit two written forms of verification of stable income for at least 12 months. Limited documentation loans generally require applicants to submit 12 consecutive monthly bank statements on their individual bank accounts. Stated income documentation loans are based upon stated monthly income if the applicant meets certain criteria. For the six months ended June 30, 2003, full documentation loans as a percentage of total originations totaled \$6.1 billion, or 57.8%, limited documentation loans totaled \$559.8 million, or 5.3%, and stated documentation loans totaled \$3.9 billion, or 36.9%.

As of December 31, 2003, our Wholesale and Retail Divisions operated through 20 regional operating centers. The Wholesale Division originated or purchased \$25.2 billion in loans during the year ended December 31, 2003. As of December 31, 2003, our Retail Division originated loans through 72 sales offices, including our centralized telemarketing unit. Our Retail Division originated or purchased \$2.2 billion in loans during the year ended December 31, 2003.

Loan sales and securitizations

One of our primary sources of revenue is the recognition of gain on sale of our loans through whole loan sales and from 1997 to 2002, through off-balance sheet securitizations. In a whole loan sale, we recognize and receive a cash gain upon sale. In an off-balance sheet securitization transaction structured

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as a sale for financial reporting purposes, we typically recognize a gain on sale at the time the loans are sold, and receive cash flows over the actual life of the loans. The use of a NIMS transaction concurrent with or shortly after an off-balance sheet securitization transaction allows us to receive a substantial portion of the gain in cash at the closing of the NIMS transaction, rather than over the actual life of the loans.

Since the first quarter of 2003, we have structured our securitizations as financings rather than sales. Such structures do not result in gain on sale at the time of the transaction, but rather yield interest income as the payments on the underlying mortgages are received. The following tables set forth secondary market transactions for the periods indicated (dollars in thousands):

	Six Months Ended		
	June 30,		
	2004	2003	
Premium whole loan sales	\$ 13,713,146	\$ 8,928,265	
Off-balance sheet securitizations	337,148		
Total premium sales	14,050,294	8,928,265	
Discounted whole loan sales	90,675	108,076	
Total sales	14,140,969	9,036,341	
On-balance sheet securitizations	3,457,776	1,206,015	
Total secondary market transactions	\$ 17,598,745	\$ 10,242,356	

	For the Years Ended December 31,		
	2003	2002	2001
	Premium whole loan sales	\$ 20,587,888	12,160,303
Securitizations structured as sales		845,477	898,244
Total premium sales	20,587,888	13,005,780	5,621,594
Discounted whole loan sales	247,217	259,384	
Total sales	20,835,105	13,265,164	5,621,594
Securitizations structured as financings	4,946,781		
Total secondary market transactions	\$ 25,781,886	13,265,164	5,621,594

On-balance sheet securitizations

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During the six months ended June 30, 2004, we completed two securitizations totaling \$3.5 billion, which were structured as on-balance sheet securitizations for accounting purposes under SFAS No. 140. On August 4, 2004, we completed a \$1.7 billion securitization structured as an on-balance sheet securitization, which is included in the balance of mortgage loans held for investment at June 30, 2004. The portfolio-based accounting treatment for securitizations structured as financings and recorded on-balance sheet is designed to more closely match the recognition of income with the receipt of cash payments. Also, this on-balance sheet securitization structure is consistent with our strategy to generate primarily cash-based earnings rather than non-cash gain on sale revenue. Because we do not record gain on sale revenue in the period in which the on-balance sheet securitization occurs, the use of such portfolio-based accounting structures will result in lower income in the period in which the securitization occurs than would a traditional off-balance sheet securitization. However, the recognition of income as interest payments are received on the underlying mortgage loans is expected to result in higher income

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recognition in future periods than would an off-balance sheet securitization. During the six months ended June 30, 2003, we completed two on-balance sheet securitizations totaling \$1.2 billion. During the year ended December 31, 2003, we completed five securitizations totaling \$4.9 billion, all of which were structured as on-balance sheet securitizations for accounting purposes under generally accepted accounting principles.

Off-balance sheet securitizations

During the six months ended June 30, 2004, we completed one off-balance sheet transaction totaling \$337.1 million, related to our investment in Carrington Mortgage Credit Fund I, LP. During the six months ended June 30, 2003, we did not complete any off-balance sheet securitization transactions.

In the first quarter of 2004, we invested \$2 million in Carrington Capital Management, LLC (LLC) and \$25 million in Carrington Mortgage Credit Fund I, LP (Carrington), which is sponsored by Carrington Capital Management, LLC. Carrington acquires individual and pooled single-family residential sub-prime loans and securitizes them in transactions structured as sales. Carrington then sells certain securities to the mortgage-backed securities market and retains other securities for investment. Carrington may acquire additional assets (including regular and residual interests, whole loans, participation certificates, grantor trust and trust certificates, warehousing and servicing interests) in either the primary or secondary markets. We are currently the sole investor in Carrington until additional capital is raised. One year following our investment, we may redeem our interest in Carrington on a quarterly basis. In addition, within one year of our initial investment in Carrington, the General Partner (GP) of Carrington Capital Management, LLC will purchase not less than three loan pools from us at current market rates on behalf of Carrington, totaling not less than \$750 million. We own 35% of LLC and are entitled to 35% of the net earnings paid as a dividend annually for a total of eight years. The GP will be entitled to an annual management fee of 1.5% as well as an incentive fee of 20% of annual net profits over a 7% preferred return. We are required to exchange our Class A (voting) interest in five years for the return of our capital and a contractually designated rate of return for Class B (non-voting) interests, which are callable at the end of year eight for \$1.00. The GP has advised us that it intends to register as an Investment Advisor and a Broker/Dealer. These investments are consolidated with our financial statements for financial reporting purposes. In May 2004, Carrington executed a securitization transaction structured as a sale rather than a financing, resulting in the addition of a residual interest totaling \$35.7 million. Further, as the securitization was a sale to third parties, we recognized a gain of \$13.5 million, which represents the premium paid to us by Carrington to acquire the pool of loans to securitize. This premium was based on market rates for similar transactions at the time of execution.

At the closing of an off-balance sheet securitization, we add to our balance sheet the residual interest retained based on our calculation of the present value of estimated future cash flows to be received by us. The residual interest we record consists of the overcollateralization, or OC, account and the net interest receivable, or NIR. Combined, these are referred to as the residual interests.

On a quarterly basis, we review the underlying assumptions to value each residual interest and adjust the carrying value of the securities based on actual experience and industry trends. To determine the residual asset value, we project cash flow for each security. To project cash flow, we use base assumptions for the constant prepayment rate, or CPR, and losses for each product type based on historical performance. We update each security to reflect actual performance to date and we adjust base assumptions for CPR and losses based on historical experience to project performance of the security from that date forward. We then use the London Interbank Offered Rate, or LIBOR, forward curve to project future interest rates and compute cash flow projections for each security. We then discount the projected cash flows at a rate

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commensurate with the risk involved. At June 30, 2004, for securitizations executed prior to 2004, we used discount rates of 12% for residual interests and 14% for residual interests through NIMS transactions. For the securitization completed during the second quarter of 2004, we utilize a discount rate of 14.5% on the estimated cash flows. There is not a NIMS transaction associated with the 2004 transaction. At December 31, 2003, we used discount rates of 12% for residual interests and 14% for residual interests through NIMS transactions.

During the six months ended June 30, 2004, as a result of our quarterly evaluation of the residual interests, we recorded a \$6.8 million decrease in the fair value of the residual assets. This fair value adjustment represents the change in the estimated present value of future cash flows from the residual interests. An upward fair value adjustment of \$1.6 million was made to the residual assets during the six months ended June 30, 2003.

During the years ended December 31, 2003 and 2002, as a result of our quarterly evaluation of the residual interests, we recorded a \$19.4 million decrease and a \$12.1 million increase in the fair value of the residual assets, respectively. These fair value adjustments represent the change in the estimated present value of future cash flows from the residual interests. During 2003, the prepayment rates on the loans underlying our residual interests were higher than expected as a result of the continued low interest rate environment and because we believe that the future outlook for interest rates will cause this trend to continue, we adjusted prepayment assumptions accordingly, resulting in a reduction in fair value. During 2002, we increased the loss and prepayment speed assumptions used to determine the value of our residual interests. However, the favorable interest rate environment, the current LIBOR forward curve, the repurchase of some delinquent loans from the trusts, and a decrease in the discount rate of 1% resulted in an increase in the value of the residual interests that more than offset the loss in value related to the higher loss and prepayment assumptions, resulting in a net increase in value of \$12.1 million.

Discounted loan sales

The following table illustrates the composition of discounted loan sales for each of the periods indicated (dollars in thousands):

	For the Six Months Ended June 30,			
	2004		2003	
	Principal	Discount	Principal	Discount
Repurchases from whole loan investors and other discounted sales	\$ 90,675	(7.4)%	\$ 105,319	(12.4)%
Elective pool repurchases			2,757	(63.5)
Total discounted sales	\$ 90,675	(7.4)%	\$ 108,076	(13.7)%

For the six months ended June 30, 2004, we sold \$90.7 million in loans that had been repurchased from or rejected by whole loan investors, compared to \$108.1 million in loans for the same period in 2003. Discounted sales as a percentage of whole loans sales declined to 0.66% for the six months ended June 30, 2004 from 1.20% for the six months ended June 30, 2003, as a result of lower repurchase rates in 2004. The total loss severity was 7.37% for the six months ended June 30, 2004, a decline of 46.2% compared to 13.69% for the six months ended June 30, 2003. Loss severity decreased primarily as a result of a stronger and more active secondary market for these types of loans in 2004.

There were no sales of loans repurchased from securitized pools during the first six months of 2004, compared to \$2.8 million in 2003. Such sales in 2003 resulted from loan repurchases in 2002, which were designed to manage triggers that disrupt cash flows to us as the residual holder.

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During the year ended December 31, 2003, we sold \$247.2 million in loans at a discount to their outstanding principal balance. These loans consisted of repurchased loans, loans with documentation defects or loans that were rejected by whole loan buyers because of certain characteristics. For the year ended December 31, 2002, discounted sales totaled \$259.4 million. On a percentage basis, discounted sales decreased from 2.0% of total sales in 2002 to 1.2% in 2003.

The following table illustrates the composition of discounted loan sales for each of the periods indicated (dollars in thousands):

	For the Years Ended December 31,			
	2003		2002	
	Principal	Discount	Principal	Discount
Repurchases from whole loan investors and other sales	\$ 244,460	(7.1)%	\$ 178,400	(17.3)%
Repurchases from securitized pools	2,757	(63.5)%	80,984	(34.1)%
Total discounted sales	\$ 247,217	(7.7)%	\$ 259,384	(22.5)%

Both the percentage of discounted sales due to repurchases from whole loan investors and the severity of the discount decreased during 2003. The volume on a percentage basis decreased as a result of fewer early payment defaults. The severity of loss decreased primarily as a result of a stronger and more active secondary market for these types of loans in 2003.

There were \$2.8 million in repurchases from securitized pools during the year ended December 31, 2003, compared to \$81.0 million of repurchases in 2002. Such repurchases in 2002 were designed to manage triggers that disrupt cash flows to us as the residual holder. Where delinquency and loss rates jeopardize the release of these cash flows, we generally repurchase loans from the pools. The pooling and servicing agreements require the repurchase of the most delinquent loans first, resulting in more severe discounts. While the losses we recognized as a result of these repurchases were no less severe than if the loans had remained in the securitization trust, buying the loans from the pools allowed us to preserve cash flow and residual value, as well as control the ultimate disposition of the loans.

CRITICAL ACCOUNTING POLICIES

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Certain accounting policies require us to make significant estimates and assumptions that may have a material impact on certain assets and liabilities or our results of operations, and we consider these to be critical accounting policies. The estimates and assumptions we use are based on historical experience and other factors which we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities and our results of operations.

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We believe the following are critical accounting policies that require the most significant estimates and assumptions that are subject to significant change in the preparation of our consolidated financial statements. These estimates and assumptions include, but are not limited to, the interest rate environment, the economic environment, secondary market conditions, and the performance of the loans underlying our residual assets and mortgage loans held for investment.

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For our mortgage loans held for investment, we establish an allowance for loan losses based on our estimate of losses inherent and probable as of our balance start date. We charge off uncollectible loans at the time of liquidation. We evaluate the adequacy of this allowance each quarter, giving consideration to factors such as the current performance of the loans, credit characteristics of the portfolio, the value of the underlying collateral and the general economic environment. In order to estimate an appropriate allowance for losses on loans held for investment, we estimate losses using static pooling, which stratifies the loans held for investment into separately identified vintage pools. Using historic experience and taking into consideration the factors above, we estimate an allowance for credit losses, which we believe is adequate for known and inherent losses in the portfolio of mortgage loans held for investment. Provision for losses is charged to our consolidated statement of operations. Losses incurred on mortgage loans held for investment are charged to the allowance.

The following table presents a summary of the activity for the allowance for losses on mortgage loans held for investment for the six months ended June 30, 2004 and 2003 (dollars in thousands):

	June 30,	
	2004	2003
Beginning balance	\$ 26,251	\$
Additions	36,981	7,686
Charge-offs	(1,925)	
	<u>\$61,307</u>	<u>\$ 7,686</u>

The allowance for losses on mortgage loans held for investment as a percentage of mortgage loans held for investment as of June 30, 2004 was approximately 0.7%.

Residual interests in securitizations

Residual interests in securitizations are recorded as a result of the sale of loans through securitizations that we structure as sales rather than financings, referred to as off-balance sheet securitizations. We may also sell residual interests in securitizations through what are sometimes referred to as net interest margin securities, or NIMS.

We generally structure loan securitizations as follows: First, we sell a portfolio of mortgage loans to a special purpose entity, or SPE, that has been established for the limited purpose of buying and reselling mortgage loans. The SPE then transfers the same mortgage loans to a Real Estate Mortgage Investment Conduit or Owner Trust (the REMIC or Trust), which is a qualifying special purpose entity (QSPE) as defined under Statement of Financial Accounting Standards No. 140 (SFAS 140). The Trust, in turn, issues interest-bearing asset-backed securities (the Certificates) generally in an amount equal to the aggregate principal balance of the mortgage loans. The Certificates are typically sold at face

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value and without recourse except that we provide representations and warranties customary to the mortgage banking industry to the Trust. One or more investors purchase the Certificates for cash. The Trust uses the cash proceeds to pay us the cash portion of the purchase price for the mortgage loans. The Trust also issues a certificate to us representing a residual interest in the payments on the securitized loans. In addition, we may provide a credit enhancement for the benefit of the investors in the form of additional collateral (Over-collateralization Account or OC Account) held by the Trust. The servicing agreements typically require that the OC Account be maintained at certain levels.

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At the closing of each off-balance sheet securitization, we remove from our consolidated balance sheet the mortgage loans held for sale and add to our consolidated balance sheet (i) the cash received, (ii) the estimated fair value of the interest in the mortgage loans retained from the securitizations (Residuals), which consist of (a) the OC Account and (b) the net interest receivable (NIR), and (iii) the estimated fair value of the servicing asset. The NIR represents the discounted estimated cash flows that we will receive in the future. The excess of the cash received and the assets retained over the carrying value of the loans sold, less transaction costs, equals the net gain on sale of mortgage loans recorded by us.

The NIMS transactions are generally structured as follows: First, we sell or contribute the Residuals to a SPE that has been established for the limited purpose of receiving and selling asset-backed residual interests-in-securitization certificates. Next, the SPE transfers the Residuals to the Trust and the Trust, which is a QSPE as defined under SFAS 140, in turn issues interest-bearing asset-backed securities (the Bonds and Certificates). We sell the Residuals without recourse except that we provide representations and warranties to the Trust customary within the mortgage banking industry. One or more investors purchase the Bonds and Certificates, and the proceeds from the sale of the Bonds and Certificates, along with a residual interest certificate that is subordinate to the Bonds and Certificates, represent the consideration received by us for the sale of the Residuals.

At closing of each NIMS transaction, we remove from our consolidated balance sheet the carrying value of the Residuals sold and add to our consolidated balance sheet (i) the cash received and (ii) the estimated fair value of the portion of the Residuals retained, which consists of the NIR. The excess of the cash received and assets retained over the carrying value of the Residuals sold, less transaction costs, equals the net gain or loss on the sale of Residuals recorded by us.

We allocate our basis in the mortgage loans and Residuals between the portion of the mortgage loans and Residuals sold through the Certificates and the portion retained (the Residuals and servicing assets) based on the relative fair values of those portions on the date of sale. We may recognize gains or losses attributable to the changes in the fair value of the Residuals, which are recorded at estimated fair value and accounted for as held-for-trading securities. We are not aware of an active market for the purchase or sale of Residuals and, accordingly, we determine the estimated fair value of the Residuals by discounting the expected cash flows released from the OC Account (the cash out method) using a discount rate commensurate with the risks involved. For securitizations executed prior to 2004, we utilize a discount rate of 12.0% on the estimated cash flows released from the OC Account to value the Residuals through securitization transactions and 14.0% on the estimated cash flows released from the Trust to value Residuals through NIMS transactions. For the securitization completed during the second quarter of 2004, we utilize a discount rate of 14.5% on the estimated cash flows. There is not a NIMS transaction associated with the 2004 transaction.

We are entitled to the cash flows from the Residuals that represent collections on the mortgage loans in excess of the amounts required to pay the Certificates principal and interest, the servicing fees and certain other fees, such as trustee and custodial fees. At the end of each collection period, the aggregate cash collections from the mortgage loans are allocated first to the base servicing fees and certain other fees, such as trustee and custodial fees, for the period, then to the Certificate holders for interest at the pass-through rate on the Certificates plus principal as defined in the servicing agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the OC Account. If the cash collected during the period exceeds the amount necessary for the above allocation, and there is no shortfall in the related OC Account, the excess is released to us. If the OC Account balance is not at the required credit enhancement level, the excess cash collected is retained in the OC Account until the specified level is achieved. We are restricted from using

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the cash and collateral in the OC Account. Pursuant to certain servicing agreements, we may use cash held in the OC Account to make accelerated principal paydowns on the Certificates to create additional excess collateral in the OC Account. The specified credit enhancement levels are defined in our servicing agreements as the OC Account balance expressed generally as a percentage of the current collateral principal balance. For NIMS transactions, we receive cash flows once the holders of the Bonds and Certificates created in the NIMS transaction are fully paid.

The Annual Percentage Rate, or APR, on the mortgage loans is relatively high in comparison to the pass-through rate on the Certificates. Accordingly, the Residuals described above are a significant asset. In determining the value of the Residuals, we estimate the future rates of prepayments, prepayment penalties that we will receive, delinquencies, defaults and default loss severity as they affect the amount and timing of the estimated cash flows. As of June 30, 2004, we estimate average cumulative losses as a percentage of the original principal balance of the mortgage loans of 1.35% to 4.15% for adjustable-rate securities and 2.09% to 5.23% for fixed-rate securities. These estimates are based on historical loss data for the loans, the specific characteristics of the loans, and the existence of mortgage insurance. While the range of estimated cumulative pool losses is fairly broad, the weighted average cumulative pool loss estimate for the entire portfolio of residual assets was 3.73% and 3.94% at June 30, 2004 and December 31, 2003, respectively. We estimate prepayments by evaluating historical prepayment performance of our loans and the impact of current trends. We use a prepayment curve to estimate the prepayment characteristics of the mortgage loans. The rate of increase, duration, severity, and decrease of the curve depends on the age and nature of the mortgage loans, primarily whether the mortgage loans are fixed or adjustable and the interest rate adjustment characteristics of the mortgage loans (6-month, 1-year, 2-year, 3-year, or 5-year adjustment periods). As of June 30, 2004, these prepayment curve and default estimates have resulted in weighted average lives of between 2.23 to 2.64 years for our adjustable-rate securities and 2.37 to 3.56 years for our fixed-rate securities executed prior to 2004. The estimates used in the 2004 Carrington securitization resulted in a blended weighted-average life of 5.89 years.

During the six months ended June 30, 2004, the Residuals provided \$27.5 million in cash flow to us. We perform an evaluation of the Residuals quarterly, taking into consideration trends in actual cash flow performance, industry and economic developments, as well as other relevant factors. For the six months ended June 30, 2004, we updated the models for actual performance and made some slight adjustments to the assumptions, resulting in a \$6.8 million downward fair value adjustment for the period.

The Bond and Certificate holders and their securitization trusts have no recourse to us for failure of mortgage loan borrowers to pay when due. Our Residuals are subordinate to the Bonds and Certificates until the Bond and Certificate holders are fully paid.

Allowance for repurchase losses

The allowance for repurchase losses on loans sold relates to expenses incurred due to the potential repurchase of loans or indemnification of losses based on alleged violations of representations and warranties which are customary to the mortgage banking industry. Generally, repurchases are required within 90 days from the date loans are sold. Occasionally, we may repurchase loans after 90 days have elapsed. Provisions for losses are charged to gain on sale of loans and credited to the allowance while actual losses are charged to the allowance. During 2003, the provision for repurchase losses decreased from prior periods as a result of improved historical experience, i.e., the percentage of loans repurchased and the losses resulting from such repurchases were lower than previous years and in previous years we elected to make significant repurchases of loans previously securitized. As of both June 30, 2004 and December 31, 2003, approximately \$6.8 billion of loans are subject to repurchase, representing loans sold during the second quarter of 2004 and the fourth quarter of 2003, respectively.

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Gain on sale of loans

We recognize gains or losses resulting from sales or securitizations of mortgage loans at the date of settlement based on the difference between the selling price for sales or securitizations and the carrying value of the related loans sold. Such gains and losses may be increased or decreased by the amount of any servicing-released premiums received. We defer recognition of non-refundable fees and direct costs associated with the origination of mortgage loans until the loans are sold.

We account for loan sales and securitizations as sales when we surrender control of the loans, to the extent that we receive consideration other than beneficial interests in the loans transferred in the exchange. Liabilities and derivatives incurred or obtained by the transfer of loans are required to be measured at fair value, if practicable. Also, we measure servicing assets and other retained interests in the loans by allocating the previous carrying value between the loans sold and the interest retained, if any, based on their relative fair values at the date of transfer.

Income taxes

New Century Financial and its subsidiaries file a consolidated federal income and combined state franchise tax returns. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates we expect to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred taxes of a change in tax rates in income in the period that includes the enactment date. As and when taxing authorities review our tax filings, differences may arise. The impact of such reviews will be recorded when probable and estimable.

In determining the possible realization of deferred tax assets, we consider future taxable income from the following sources: (a) the reversal of taxable temporary differences, (b) future operations exclusive of reversing temporary differences, and (c) tax planning strategies that, if necessary, we would implement to accelerate taxable income into periods in which net operating losses might otherwise expire.

Derivative instruments designated as hedges

During the six months ended June 30, 2004 and the year ended December 31, 2003, we accounted for certain Euro Dollar Futures contracts previously designated and documented as hedges pursuant to the requirements of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). Pursuant to FAS 133 these Euro Dollar Futures contracts have been designated as hedging the exposure to variability of cash flows from our financing on mortgage loans held for investment attributable to changes in interest rates. Hedge accounting requires that the effective portion of the gain or loss in the fair value of a derivative instrument designated as a hedge be reported in other comprehensive income and the ineffective portion be reported in current earnings. Additionally, in June 2004, certain Euro Dollar Futures contracts were designated as hedges of the fair values of certain fixed-rate mortgage loans held for investment and certain mortgage loans held for sale, pursuant to SFAS 133. Hedge accounting requires that for a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability attributable to the hedged risk be reported in current earnings.

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The following tables set forth our results of operations as a percentage of total revenues for the periods indicated:

	Six Months Ended June 30,	
	2004	2003
Revenues:		
Gain on sale of loans	53.7%	68.6%
Interest income	43.2	26.7
Residual interest income	1.2	3.2
Servicing income	1.8	1.5
Other income	0.1	0.0
	<hr/>	<hr/>
Total revenues	100.0	100.0
Total expenses	58.9	54.0
	<hr/>	<hr/>
Earnings before income taxes	41.1	46.0
Income taxes	16.7	19.1
	<hr/>	<hr/>
Net earnings	24.4%	26.9%

	For the Years Ended December 31,		
	2003	2002	2001
Revenues:			
Gain on sale of loans	62.6%	74.5%	62.2%
Interest income	33.8	20.2	21.4
Residual interest income	2.5	5.2	12.4
Servicing income	1.1	0.1	3.6
Other income	0.0	0.0	0.4
	<hr/>	<hr/>	<hr/>
Total revenues	100.0	100.0	100.0
Total expenses	56.6	49.5	71.5
	<hr/>	<hr/>	<hr/>
Earnings before income taxes	43.4	50.5	28.5
Income taxes	18.2	20.9	12.1
	<hr/>	<hr/>	<hr/>
Net earnings	25.2%	29.6%	16.4%

As our portfolio of on-balance sheet securitizations increases, a greater percentage of our revenues is derived from interest income.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

Originations and Purchases

We originated and purchased \$20.7 billion in loans for the six months ended June 30, 2004, compared to \$10.5 billion for the six months ended June 30, 2003. For the six months ended June 30, 2004, full documentation loans as a percentage of total originations totaled \$10.9 billion, or 52.9%, limited documentation loans totaled \$978.2 million, or 4.7%, and stated documentation loans totaled \$8.8 billion, or 42.4%. The weighted average FICO score of our borrowers for the six months ended June 30, 2004 was 628. For the six months ended June 30, 2003, full documentation loans as a percentage of total originations totaled \$6.1 billion, or 57.8%, limited documentation loans totaled

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\$559.8 million, or 5.3%, and stated documentation loans totaled \$3.9 billion, or 36.9%. The weighted average FICO score of our borrowers for the six months ended June 30, 2003 was 598. Wholesale loan originations and purchases were \$18.8 billion, representing 90.8% of total originations and purchases for the six months ended June 30, 2004. Retail loan originations and purchases were \$1.9 billion, representing 9.2% of total originations and purchases for the six months ended June 30, 2004. For the same period in 2003, wholesale and retail originations and purchases totaled \$9.6 billion and \$931.2 million, respectively, representing 91.1% and 8.9% of total originations and purchases for that period. The increase in originations in 2004 is a result of incremental volume generated by our strategy to price competitively within our market in the face of a rising interest rate environment. This strategy resulted in the origination of an incremental volume of mortgage loans with higher FICO scores and a greater percentage of fixed rate product than our historical core business. In addition, we have continued our previously announced initiative to expand geographically, and are receiving additional contributions from operating centers opened during 2003.

During the first six months of 2004, our wholesale loan originations and purchases totaled \$18.8 billion, or 90.8% of our total loan production, compared to \$9.6 billion, or 91.1%, of our total loan production during the first six months of 2003. Of this production, cash-out refinance loans were 60.1%, home purchase loans were 35.3% and rate and term refinance loans were 4.6%, compared to 61.3%, 22.8% and 15.9% in the first six months of 2003. Further, total wholesale production for the six months ended June 30, 2004 consisted of \$13.1 billion, or 69.7%, of adjustable-rate loans, and \$5.7 billion, or 30.3%, of fixed rate loans. For the six months ended June 30, 2003, wholesale production consisted of \$7.2 billion, or 75.7%, of adjustable-rate loans, and \$2.3 billion, or 24.3%, of fixed rate loans. Our geographic expansion and focus on increasing our home purchase business have resulted in the shift in mix between home purchase and rate and term refinancings. We believe that our current mix of business is sustainable and that our origination strategies and initiatives are consistent with that belief. If we are successful in maintaining this mix, our exposure to interest rate cyclicity will be reduced.

For the six months ended June 30, 2004, full documentation loans as a percentage of wholesale originations totaled \$9.5 billion, or 50.7%, limited documentation loans totaled \$877.1 million, or 4.7%, and stated documentation loans totaled \$8.4 billion, or 44.6%. For the six months ended June 30, 2003, full documentation loans as a percentage of wholesale originations totaled \$5.4 billion, or 56.0%, limited documentation loans totaled \$503.5 million, or 5.2%, and stated documentation loans totaled \$3.7 billion, or 38.8%.

During the first six months of 2004, our Retail Division originated \$1.9 billion, or 9.2%, of our total loan production, compared to \$931.2 million, or 8.9%, of our total loan production during the first six months of 2003. This production consisted of \$1.6 billion, or 81.9%, of cash-out refinancings, \$80.7 million, or 4.2%, of home purchase financing, and \$264.4 million, or 13.9%, of rate and term refinancings. During the six months ended June 30, 2003, retail production consisted of \$774.9 million, or 83.2% of cash-out refinancings, \$20.1 million, or 2.2%, of home purchase financing, and \$136.2 million, or 14.6%, rate and term refinancings. Further, total retail production for the six months ended June 30, 2004 consisted of \$950.8 million, or 49.8%, of adjustable-rate loans, and \$960.2 million, or 50.2%, of fixed rate loans. For the six months ended June 30, 2003, retail production consisted of \$639.2 million, or 68.6%, of adjustable-rate loans, and \$292.0 million, or 31.4%, of fixed rate loans.

For the six months ended June 30, 2004, full documentation loans as a percentage of retail originations totaled \$1.4 billion, or 74.5%, limited documentation loans totaled \$101.1 million, or 5.3%, and stated documentation loans totaled \$386.1 million, or 20.2%. For the six months ended June 30, 2003, full documentation loans as a percentage of retail originations totaled \$712.5 million, or 76.5%, limited documentation loans totaled \$56.3 million, or 6.1%, and stated documentation loans totaled \$162.4 million, or 17.4%.

Table of Contents**Management's discussion and analysis of financial condition and results of operations****Loan Sales and Mortgage Loans Held for Investment**

Whole loan sales increased to \$14.1 billion for the six months ended June 30, 2004, from \$9.0 billion for the corresponding period in 2003, an increase of 56.5%. This increase is the result of an increased inventory of mortgage loans available for sale due to higher production volume, as well as favorable conditions in the whole loan sale market. In addition, we added approximately \$5.1 billion to our portfolio of mortgage loans held for investment during the first six months of 2004, compared to the addition of \$1.2 billion in mortgage loans held for investment in 2003, which is consistent with our goal of securitizing approximately 20% of our production through sales structured as financings and recorded on-balance sheet.

Revenues

Total revenues for the six months ended June 30, 2004, increased by 95.7% to \$775.8 million, from \$396.5 million for the same period a year ago. This increase was primarily due to a 53.3% increase in gain on sale of loans, a 216.4% increase in interest income and a 148.7% increase in servicing income, partially offset by a 26.2% decrease in residual interest income.

Gain on Sale

Gain on sale of loans increased to \$417.0 million, a 53.3% increase for the six months ended June 30, 2004, compared to the same period in 2003. The increase in gain on sale of loans was the result of loan sale volume increasing to \$14.1 billion in 2004 from \$9.0 billion in 2003, and lower losses on discounted sales, partially offset by a reduction in the net execution to 4.04% in 2004 from 4.28% in 2003. We anticipate prices in the second half of 2004 to be lower than recent levels, and for all of 2004 we expect our net execution to be between 3.50% and 3.75%. Net execution represents the premium paid to us by third party investors in whole loans sale transactions. It does not include premiums we pay to originate the loans, hedging gains or losses, fair value adjustments or net deferred origination fees. The components of the gain on sale of loans are illustrated in the following table (dollars in thousands):

	Six Months Ended	
	June 30,	
	2004	2003
Cash gain from loan sale transactions	\$ 554,061	\$356,034
Gain from securitization of loans (1)	13,452	
Non-cash gain from servicing asset		7,777
Cash gain on sale of servicing rights		24,110
Provision for repurchase losses	(3,184)	(4,413)
Fair value adjustment of residual securities	(6,770)	1,606
Non-refundable loan fees (2)	104,591	61,836
Premiums paid (3)	(131,460)	(84,262)
Origination costs	(114,700)	(83,900)
Hedging gains (losses)	1,037	(6,704)

Gain on sale of loans	\$ 417,027	\$ 272,084
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- (1) Gain from Carrington securitization transaction, which was structured as a sale.
 - (2) Non-refundable loan fees represent points and fees collected from borrowers.
 - (3) Premiums paid represent fees paid to brokers for wholesale loan originations and purchases.
-

Table of Contents**Management's discussion and analysis of financial condition and results of operations****Interest Income**

Interest income increased by 216.4% to \$334.9 million for the six months ended June 30, 2004, compared to \$105.9 million for the same period in 2003, primarily as a result of higher average balances of mortgage loans held for sale and mortgage loans held for investment.

Interest income on mortgage loans held for sale increased 75.8% to \$158.1 million for the six months ended June 30, 2004 versus \$89.9 million for the six months ended June 30, 2003, due mainly to higher average outstanding balances of unsold inventory, which resulted from higher production volume during the six months ended June 30, 2004. Interest income from mortgage loans held for investment from our on-balance sheet portfolio was \$176.8 million versus \$15.9 million, due to an increase in average balance to approximately \$5.1 billion for the six months ended June 30, 2004 versus approximately \$410 million for the six months ended June 30, 2003.

Changes in our net interest income are a function of changes in both interest rates and volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in our interest income and expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, we have provided information on changes attributable to:

∅ changes in volume changes in volume multiplied by comparative period rate;

∅ changes in rate changes in rate multiplied by comparative period volume; and

∅ changes in rate/volume changes in rate multiplied by changes in volume.

Interest-earning asset and interest-bearing liability balances used in the calculation represent quarterly average balances computed using the average of each month's daily average balance during the period indicated (dollars in thousands).

	Six Months Ended June 30, 2004 Versus			
	June 30, 2003 Changes Due To			
	Volume	Rate	Rate/ Volume	Net
Interest income:				
Mortgage loans held for sale	\$ 80,285	(6,408)	(5,723)	68,154
Mortgage loans held for investment	182,643	(1,740)	(19,989)	160,914
Cash and investments	203	(52)	(177)	(26)
	<u>263,131</u>	<u>(8,200)</u>	<u>(25,889)</u>	<u>229,042</u>
Change in interest income	263,131	(8,200)	(25,889)	229,042

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Interest expense:				
Credit facilities	31,424	(7,100)	(6,912)	17,412
Financing on mortgage loans held for investment	52,744	718	8,500	61,962
Convertible notes			4,250	4,250
Other borrowings	450	1,062	834	2,346
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Change in interest expense	84,618	(5,320)	6,672	85,970
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Change in net interest income	\$ 178,513	\$ (2,880)	\$ (32,561)	\$ 143,072
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Residual Interest Income

Residual interest income decreased 26.2% to \$9.4 million for the six months ended June 30, 2004, compared to \$12.7 million for the corresponding period in 2003, primarily as a result of the decrease in the average balance of residual interests in securitizations excluding the residual interest in securitization resulting from the Carrington securitization transaction.

Servicing Income

Servicing income increased to \$13.6 million for the six months ended June 30, 2004, from \$5.8 million for the six months ended June 30, 2003. This increase was due to a larger mortgage loan servicing portfolio during the six months ending June 30, 2004. While the total portfolio grew to \$20.9 billion as of June 30, 2004, the portion of the portfolio which contributes to servicing income was \$7.0 billion, consisting of \$0.6 billion of loans sold servicing retained, and \$6.4 billion of loans serviced for others on an interim basis pending transfer to investors. As of June 30, 2003, the total portfolio of loans serviced by us included \$0.5 billion of loans sold servicing retained and \$1.8 billion of loans serviced for others on an interim basis pending transfer to investors. We received an initial rating of RPS3, or average, from Fitch, in April 2004, and a rating of average from S&P in June 2004, which we believe will enable us to grow our servicing portfolio in the future through increased sales of loans on a servicing retained basis. We expect to service loans owned by third parties to take advantage of our technical capabilities, capitalization and economies of scale.

Expenses

Expenses increased 113.3% to \$456.9 million for the six months ended June 30, 2004, compared to \$214.3 million for the same period in 2003, due primarily to increases in personnel expenses, provision for losses on mortgage loans held for investment, and interest expense. Personnel expenses increased to \$190.0 million for the six months ended June 30, 2004, from \$99.6 million for the same period in 2003, an increase of 90.7%. The increase was due to growth in the number of employees, as well as higher commission and bonus expenses that are variable expenses dependent upon loan production volume and profits. Total staffing was 4,624 on June 30, 2004, compared to 2,973 on June 30, 2003, an increase of 55.5%. Provision for losses on mortgage loans held for investment increased to \$37.0 million for the six months ended June 30, 2004, from \$7.7 million for the same period in 2003, due to the increase in the portfolio of mortgage loans held for investment and related allowance for loan losses. We establish an allowance for loan losses based on our estimate of losses inherent and probable as of our balance sheet date. Mortgage loans held for investment grew from \$1.2 billion at June 30, 2003 to \$9.1 billion at June 30, 2004. Interest expense increased to \$123.3 million for the six months ended June 30, 2004, from \$37.3 million for the same period in 2003, primarily due to an increase in average outstanding balances on credit facilities due to higher production volume, the convertible debt, as well as interest expense on the increased financing of securitized mortgage loans. The average balance of our credit facilities increased from \$2.3 billion to \$4.5 billion; while our average borrowing rate on the credit facilities decreased from 2.85% for the six months ended June 30, 2003 to 2.22% for the comparable period in 2004. Our average balance of securitization bond financing increased from \$399 million for the six months ended June 30, 2003 to \$5.1 billion for the comparable period in 2004; and our average borrowing rate on the securitization bond financing grew slightly from 2.23% for the six months ended June 30, 2003 to 2.59% for the comparable period in 2004. The convertible debt balance at June 30, 2004 was \$210 million compared to zero at June 30, 2003.

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Income Taxes

Income taxes increased to \$129.2 million for the six months ended June 30, 2004, from \$75.6 million for the comparable period in 2003. This increase was due to a \$136.7 million increase in pretax income resulting from higher production volume and an additional provision of \$3.5 million related to the reversal of the 2002 California tax benefit from NC Residual II Corporation, our existing real estate investment trust, which holds our residual interests and certain mortgage loans held for investment, offset by the reversal of \$5.0 million of income tax expense previously provided and a decrease in the effective tax rate. During the second quarter of 2004, we resolved an Internal Revenue Service examination of our consolidated tax returns for the years 1998 through 2001. The conclusion of the examination resulted in the reversal of \$5.0 million of income tax expense previously provided. Further, the outcome of the examination allowed us to reduce our expected income tax rate to 41 percent from 42 percent. The combined impact of these adjustments in the second quarter of 2004 was \$8.2 million.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

Originations and purchases

We originated and purchased \$27.4 billion in loans for the year ended December 31, 2003, compared to \$14.2 billion for the year ended December 31, 2002, an increase of 92.8%. Wholesale loan originations and purchases were \$25.2 billion, or 92.0%, of total originations and purchases for the year ended December 31, 2003. Retail loan originations and purchases were \$2.2 billion, or 8.0%, of total originations and purchases for the year ended December 31, 2003. For the same period in 2002, wholesale and retail originations and purchases totaled \$12.4 billion, or 87.3%, and \$1.8 billion, or 12.7%, respectively, of total originations and purchases. The increase in volume is a result of our geographic expansion efforts, an increase in our market share, and a favorable interest rate environment. Wholesale volume grew more rapidly in 2003 than retail volume as a result of our focus on wholesale growth initiatives, resulting in a higher percentage of wholesale volume in 2003 than 2002.

Loan sales and securitizations

Whole loan sales increased to \$20.8 billion for the year ended December 31, 2003, from \$12.4 billion for the corresponding period in 2002, an increase of 67.7%. This increase is the result of higher production volume in 2003. In addition, we completed five on-balance sheet securitization transactions totaling \$4.9 billion during the year ended December 31, 2003, compared to one off-balance sheet securitization transaction totaling \$845.5 million in 2002.

Revenues

Total revenues for the year ended December 31, 2003 increased by 61.0% to \$976.0 million, from \$606.2 million for the year ended December 31, 2002. This increase resulted primarily from higher gain on sale of loans, interest income and servicing income in 2003, partially offset by

lower residual interest income in 2003. Each of these revenue categories is discussed below.

Gain on sale. Gain on sale of loans increased to \$611.1 million, a 35.3% increase for the year ended December 31, 2003, compared to the same period last year. The increase in gain on sale of loans was the result of higher loan sale volume as well as significantly lower losses on discounted sales.

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As indicated in the table below, gain from whole loan sales, non-refundable fees, premiums paid and origination costs increased in 2003 primarily as a result of the higher volume of production and loan sales in 2003 and lower losses on discounted sales, partially offset by lower average premiums in 2003. Discounted sales decreased on a percentage basis from 2.0% of total sales in 2002 to 1.2% in 2003. The severity of loss on discounted sales also decreased from 22.5% in 2002 to 7.7% in 2003. The trend in discounted sales reflects lower early payment default rates in 2003, as well as a stronger secondary market for discounted loans.

Provision for losses decreased from 2002 to 2003, partially as a result of lower discounted sale losses described above, as well as a sharp decrease in repurchases from securitized pools in 2003. See Discussed loan sales.

	For the Years Ended December 31,	
	2003	2002
	(In thousands)	
Gain from whole loan sale transactions	\$ 861,310	562,049
Non-cash premium (discount) from securitization of loans		(12,051)
Cash gain from securitization of loans		57,081
Non-cash gain from servicing asset	7,777	14,882
Cash gain on sale of servicing rights		12,574
Securitization expenses		(2,706)
Accrued interest		(5,226)
Provision for losses	(5,868)	(50,654)
Fair value adjustment of residual interests	(19,363)	12,067
Non-refundable loan fees(1)	142,745	111,601
Premiums paid(2)	(182,765)	(101,816)
Origination costs	(182,100)	(118,050)
Hedging losses	(10,600)	(28,007)
	<u> </u>	<u> </u>
Gain on sales of loans	<u>\$ 611,136</u>	<u>451,744</u>

(1) Non-refundable loan fees represent points and fees collected from borrowers.

(2) Premiums paid represent fees paid to brokers for wholesale loan originations and purchases.

Interest income. Interest income increased by 169.4% to \$329.5 million for the year ended December 31, 2003, compared to \$122.3 million for the same period in 2002, primarily as a result of higher average mortgage loans held for sale and the addition of a portfolio of mortgage loans held for investment. Interest income on mortgage loans held for sale accounted for \$102.5 million of the increase due to higher average outstanding balances of unsold inventory, which resulted from higher production volume in 2003. During 2003, interest income from mortgage loans held for investment from our on-balance sheet securitizations generated an additional \$104.7 million in interest income.

Residual interest income. Residual interest income decreased to \$24.2 million for the year ended December 31, 2003 from \$31.7 million for the corresponding period in 2002, a decrease of 23.7%, primarily as a result of a decrease in the average balance of residual interests in securitizations.