NEW CENTURY REIT INC
Form S-3
April 22, 2004
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**As filed with the Securities and Exchange Commission on April 22, 2004**

**Registration No. 333-**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# 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** | **56-2451763** |
| **(State of other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**18400 Von Karman Avenue, Suite 1000**

**Irvine, California 92612**

**(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**

**New Century REIT, Inc.**

**18400 Von Karman, Suite 1000**

**Irvine, California 92612**

**(949) 440-7030**

*Copies to:*

| | |
|---|---|
| **Peter T. Healy, Esq.** | **Louis J. Bevilacqua, Esq.** |
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| **(415) 984-8700** | **(212) 504-6000** |

**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

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. ¨

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. ¨

**CALCULATION OF REGISTRATION FEE**

| Title of each class of shares to be registered | Proposed maximum aggregate offering price (1)(2) | Amount of registration fee (3) |
|---|---|---|
| Common Stock, par value $0.01 per share | $862,500,000.00 | $109,278.75 |

(1) Includes shares that may be purchased pursuant to an over-allotment option granted to the underwriters. Pursuant to Rule 416 of the Securities Act of 1933, as amended, this registration statement also registers such additional number of shares of common stock as may become issuable as a result of stock splits, stock dividends or similar transactions.
(2) Estimated based on a bona fide estimate of the maximum aggregate offering price solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.
(3) Calculated under Section 6(b) of the Securities Act of 1933, as amended, based upon a registration fee rate of $126.70 per $1.0 million of proposed maximum aggregate offering price.

**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 , 2004

# 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 shares of our common stock. No public market currently exists for our common stock. The common stock of New Century Financial, our predecessor, is listed on the Nasdaq National Market under the symbol NCEN. On April 21, 2004, the last reported sale price of New Century Financial s common stock was $45.38.

We anticipate that the shares of New Century REIT common stock will trade on the New York Stock Exchange, or NYSE, under the symbol or on the Nasdaq National Market under New Century Financial s current 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 12, which include the following:**

- the current price of New Century Financial common stock may not be indicative of the price of our common stock following this offering;
- 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;
- the non-prime loans we originate and hold generally have higher delinquency and default rates than prime loans, which could result in losses on our loans;

- 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 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 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.

*Joint Book-Running Managers*

**UBS Investment Bank** **Friedman Billings Ramsey**

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 FastQual® 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 forming a part of the REIT conversion.

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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 REIT conversion. New Century Financial refers to New Century TRS Holding, Inc., our wholly-owned taxable REIT subsidiary and successor to New Century Financial Corporation, and its subsidiaries.*

## OVERVIEW

We are one of the nation s largest mortgage finance companies that originates, purchases, retains, sells and services 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, which we refer to as non-prime 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 non-prime 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 securitizations. More recently, we have begun to retain a portion of our loan production to build a 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 the REIT conversion 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 by Fitch Ratings, Inc., or Fitch, which we believe will allow us to expand our servicing portfolio of loans serviced for third parties. After the REIT conversion, we expect to continue to conduct a majority of our mortgage banking operations through our taxable REIT subsidiaries and pay U.S. federal corporate income taxes on their income. We expect our taxable REIT subsidiaries will be able to retain some or all of the after-tax earnings generated by such taxable REIT subsidiaries 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 non-prime, which they refer to as subprime, loans in 2003. During that year, we originated in excess of $27 billion of mortgage loans, $8.3 billion of which were originated in the fourth quarter of 2003. We experienced a 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.

We had 3,995 full-time employees and 21 part-time employees as of March 31, 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 in our website does not constitute a part of this prospectus.

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### 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**. We plan to pursue expansion into new geographic markets. We intend to continue to expand our total loan production and increase market share and volume on the East Coast and in other metropolitan areas outside of California. We believe our Wholesale Division can expand quickly into new markets with limited additional investment in infrastructure by leveraging our proprietary FastQual® system. For retail expansion, we will continue our practice of reviewing demographic information about potential markets and opening branches in markets that we believe can support a retail branch. We also plan to continue to deploy new marketing and technology initiatives and expand our product line and sales personnel in an effort to increase our existing market penetration.

Ø **Growing our portfolio of mortgage-related assets**. We intend to increase our portfolio by retaining self-originated loans through on-balance sheet securitizations. We believe this portfolio will continue to create an additional stream of net interest income which will diversify our earnings and reduce our reliance on our origination franchise to grow earnings. We expect that our capacity to originate loans will provide us with a significant volume of loans at a lower cost and with greater reliability than if we purchased our portfolio from a third party.

Ø **Strengthening our balance sheet**. We will seek to actively strengthen our cash position and increase availability under our lines of credit in an effort to protect our franchise and provide the ability to respond to disruptions in the market or other adverse conditions and to meet the distribution and other REIT qualification requirements. We expect to retain some or all of our earnings in our taxable REIT subsidiaries and will seek to access the capital markets to help strengthen our balance sheet. A strong balance sheet allows us to hold loans for a longer period in the event that the secondary market for our loans weakens or becomes unstable due to temporary market disruption.

Ø **Actively managing our mortgage loan portfolio**. We will seek to actively manage the interest rate and credit risks relating to holding a portfolio of mortgage-related assets in an effort to generate an attractive risk-adjusted return on our stockholders equity. We will continue to use hedge instruments to attempt to reduce the interest rate exposure that results from financing fixed-rate assets with floating-rate liabilities. We will also actively monitor our portfolio to manage our credit exposure through early detection and management of probable delinquencies.

Ø **Expanding our servicing platform**. We intend to grow our servicing portfolio, given our recent Fitch rating of RPS3. We expect to service loans owned by third parties to take advantage of our technical capabilities, capitalization and economies of scale. We believe our income from servicing will increase in a rising interest rate environment which will help to offset any decline in our origination volume.

Ø **Exploring diversification strategies**. We intend to further diversify 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 other residential mortgage lenders and REITs and will enable us to implement our business strategy:

- Ø **Leading market presence**. We are the nation s second largest non-prime mortgage finance company by market share. We provide primarily first mortgage products to borrowers nationwide. We are authorized to lend in all 50 states and have a leading market presence through our wholesale network of 21,600 approved independent mortgage brokers and our retail network of 70 branch offices in 27 states.

- Ø **Operational flexibility**. 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. We believe that this flexibility 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 **Strong institutional relationships**. We have developed strong relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS Residential Funding, all of whom regularly bid on and/or buy large loan pools from us. In addition, we have developed strong relationships with a variety of institutional lenders, including Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets (formerly Salomon Smith Barney), Greenwich Capital Financial Products, Morgan Stanley and UBS Residential Funding, all of whom have existing lending relationships with us.

- Ø **Lower-cost portfolio accumulation strategy**. Unlike mortgage REITs without origination capabilities, we intend to build our mortgage loan portfolio by relying on a strategy of originating loans through our qualified REIT subsidiaries and purchasing loans originated by our taxable REIT subsidiaries as opposed to purchasing such loans in the secondary mortgage market. We believe this strategy allows us to accumulate mortgage loans at a lower cost and with greater reliability than would be available through secondary market purchases.

- Ø **Automated credit grading capability**. We have created a proprietary automated credit grading and pricing methodology that we believe, as evidenced by our historical loan performance, gives us the ability to more effectively evaluate credit risk and more efficiently price our products. This automated credit grading system helps us construct a more consistent and predictable portfolio, which we believe enables us to generate attractive risk-adjusted returns.

- Ø **High quality customer service**. We strive to make the origination process easy for our borrowers and brokers by providing prompt responses, consistent and clear procedures, and an emphasis on ease of use through technology, including our FastQual® system.

- Ø **Management experience and depth**. 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 eligible for sale to Fannie Mae or Freddie Mac due to size and/or credit characteristics. Our loan production focuses on the non-prime 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, an industry trade publication, the subprime, or non-prime, mortgage market volume was approximately $332 billion in 2003, which represented approximately 9% of the overall residential mortgage market. In comparison, the non-prime 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, implying a lesser compounded annual growth rate of 19%. In addition to faster growth, the non-

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prime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused it to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market.

### OUR REIT STATUS

New Century REIT is a Maryland corporation that was formed 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 REIT CONVERSION

We will effect certain structural changes upon the completion of the merger that will enable us to qualify as a REIT for U.S. federal income tax purposes. We refer to these changes, including the merger and the related restructuring transactions and this offering, as the REIT conversion. The REIT conversion consists of the following key components:

- reorganizing New Century Financial and New Century REIT through the merger of NC Merger Sub with and into New Century Financial, resulting in New Century REIT becoming the parent company of New Century Financial;
- having New Century REIT use a portion of the net proceeds from this offering and borrowings to purchase at fair market value from New Century Financial and its subsidiaries and third parties assets that will enable New Century REIT to satisfy the asset and income tests necessary to maintain its REIT status;
- having New Century REIT use a portion of the net proceeds from this offering to acquire all of the capital stock of Worth Funding Incorporated, or Worth Funding, currently an indirect wholly-owned subsidiary of New Century Financial, which is authorized to originate mortgage loans in a majority of states and will become a qualified REIT subsidiary following the REIT conversion; and
- having New Century REIT elect to be taxed as a REIT for U.S. federal income tax purposes, which we currently expect to occur commencing with its taxable year ending December 31, 2004.

On , 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 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.

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We 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, New Century REIT or NC Merger Sub as a result of the merger.

Immediately following the merger, we expect that we will continue to originate loans for sale and conduct all of our servicing activities through one or more taxable REIT subsidiaries. In addition, we expect to be able to originate mortgage loans in a majority of states ourselves or through one or more of our qualified REIT subsidiaries. We expect to use these loan originations, together with mortgage loans that we and our qualified REIT subsidiaries purchase at fair market value from our taxable REIT subsidiaries, to build our portfolio of mortgage loans. Over time, we expect that we will gradually increase the percentage of our mortgage loans held through on-balance sheet securitizations in order to increase the portion of our net income generated from this mortgage loan portfolio. In addition, we expect that New Century REIT and/or one or more of its qualified REIT subsidiaries will seek to become authorized to originate mortgage loans in the states in which they are not currently authorized.

After the REIT conversion, we expect that a significant source of our revenue will be interest income generated from our portfolio of mortgage loans held by our taxable REIT subsidiaries and, over time, a growing portion by New Century REIT and its qualified REIT subsidiaries. We also expect to generate revenues from the sale of loans, servicing income and loan origination fees, all of which we expect to be generated by our taxable REIT subsidiaries. The primary components of our expenses are expected to be interest expense on our warehouse lines and other borrowings and our securitizations, general and administrative expenses, and payroll and related expenses arising from our origination and servicing businesses.

## 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 12 contains a detailed discussion of our most important risks, including, but not limited to, the risks summarized below.

- the current price of New Century Financial common stock may not be indicative of the price of our common stock following this offering;
- 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;
- the non-prime loans we originate and hold generally have higher delinquency and default rates than prime loans, which could result in losses on our loans;
- the geographic concentration of our mortgage loan originations increases our exposure to risks in those areas, especially California;
- adverse economic conditions or declining real estate values could harm our operations;
- 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.

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## 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 make regular quarterly distributions to our stockholders.

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.

In addition, in connection with the REIT conversion, we may, if necessary, declare a small one-time special distribution of the current and accumulated earnings and profits of Worth Funding to our stockholders payable in cash, or the special E&P distribution, in December 2004 and, if required, make this one-time distribution in January 2005 to our stockholders on the record date for such distribution.

## 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 | shares[1] |
| Common stock to be outstanding after this offering | shares[1][2] |
| Use of proceeds | We intend to use the net proceeds of this offering, which are estimated to be approximately $ , based on the last reported sale price of New Century Financial common stock of $ per share on April 21, 2004, and after deducting the underwriting discount and estimated offering expenses payable by us, primarily:<br>Ø to build a portfolio of self-originated mortgage loans;<br>Ø to purchase a portion of our portfolio of mortgage loans and other assets from New Century Financial;<br>Ø to purchase all of the capital stock of one of our wholly-owned subsidiaries, Worth Funding;<br>Ø if required in order to qualify as a REIT, to pay in cash the one-time special cash E&P distribution of the current and accumulated earnings and profits of Worth Funding to our stockholders; and<br>Ø for general working capital purposes. |
| 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 | We intend to apply to have our common stock listed on the NYSE under the symbol or quoted on the Nasdaq National Market under the symbol NCEN. |

(1) Assumes that the underwriters over-allotment option to purchase up to an additional shares will not be exercised.
(2) The common stock to be outstanding after this offering is based on 33,881,673 shares of New Century Financial issuable in connection with the merger as of April 19, 2004 and excludes:

- Ø a total of 5,135,447 shares of our common stock issuable upon the exercise of stock options outstanding on April 19, 2004 with a weighted-average exercise price of $15.60 per share;

- Ø a total of 977,636 shares of our common stock available for awards under our stock incentive plans as of April 19, 2004;
- Ø up to 6,034,686 shares of common stock issuable as of April 19, 2004 upon the conversion of our 3.50% convertible senior notes due 2008 (subject to adjustments under the terms of the notes); and
- Ø up to 6,034,668 shares of common stock issuable as of April 19, 2004 upon the exercise of a warrant issued in connection with the issuance of the 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 completion of the REIT conversion. 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 we were formed on April 12, 2004 and, consequently, had no operations through the period ended December 31, 2003.

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 auditors, whose report with respect thereto is included elsewhere in this prospectus.

| | For the Years Ended December 31 | | |
|---|---|---|---|
| **Statement of operations data:** | **2003** | **2002** | **2001** |
| | **(dollars in thousands, except per share data)** | | |
| Revenues: | | | |
| Gain on sales of loans | $ 611,136 | $ 451,744 | $ 182,612 |
| Interest income(1) | 329,463 | 122,331 | 62,706 |
| Residual interest income | 24,228 | 31,723 | 36,356 |
| Servicing income | 11,139 | 432 | 10,616 |
| Other income | | 16 | 1,046 |
| Total revenues | 975,966 | 606,246 | 293,336 |
| Expenses(1) | 552,714 | 299,910 | 209,852 |
| Earnings before income taxes | 423,252 | 306,336 | 83,484 |
| Income taxes | 177,769 | 126,636 | 35,464 |
| Net earnings | $ 245,483 | $ 179,700 | $ 48,020 |
| Basic earnings per share | $ 7.26 | $ 5.19 | $ 1.83 |
| Diluted earnings per share | $ 6.56 | $ 4.62 | $ 1.52 |

(1) Interest income includes $104.7 million in 2003 related to interest earned on mortgage loans receivable held for investment. Expenses include $36.7 million in 2003 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.

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| Other data: | Years Ended December 31, 2003 | 2002 | 2001 |
| --- | --- | --- | --- |
| | (dollars in thousands, unless otherwise stated) | | |
| Purchases | $ 6,815,682 | $ 2,535,023 | $ 1,070,716 |
| Refinances: | | | |
| Cash out refinances | 17,622,898 | 9,397,259 | 4,144,835 |
| Rate/term refinances | 2,944,258 | 2,269,214 | 1,029,420 |
| Total originations | 27,382,838 | 14,201,496 | 6,244,971 |
| Fixed-rate mortgages | 8,197,321 | 3,708,938 | 1,143,188 |
| Adjustable-rate mortgages | 19,185,517 | 10,492,558 | 5,101,783 |
| Total originations | 27,382,838 | 14,201,496 | 6,244,971 |
| Wholesale | 25,127,613 | 12,392,562 | 5,068,466 |
| Retail | 2,255,225 | 1,808,934 | 1,176,505 |
| Total originations | 27,382,838 | 14,201,496 | 6,244,971 |
| Weighted average FICO score of loans originated | 612 | 597 | 587 |
| Average principal balance of loans originated | $ 167 | $ 151 | $ 138 |
| Weighted average interest rates: | | | |
| Fixed-rate mortgages | 7.3% | 8.2% | 9.5% |
| Adjustable-rate mortgages initial rate | 7.3% | 8.3% | 9.4% |
| Adjustable-rate mortgages margin over index | 5.8% | 6.6% | 6.6% |
| Percentage of loans originated in top two credit grades | 81.1% | 58.7% | 48.4% |
| Percentage of loans originated in bottom two credit grades | 3.3% | 4.8% | 8.1% |
| Number of retail branch offices at period end | 72 | 66 | 65 |
| Number of regional operating centers at period end | 20 | 19 | 5 |
| Number of employees at period end | 3,752 | 2,487 | 1,531 |
| Total whole loan sales | $ 20,835,105 | $ 12,419,687 | $ 4,723,350 |
| Total securitizations structured as sales | | 845,477 | 898,244 |
| Total securitizations structured as financings | 4,946,781 | | |
| Total secondary market transactions | 25,781,886 | 13,265,164 | 5,621,594 |
| Weighted average premium on whole loan sales | 4.18% | 4.37% | 4.40% |

| Balance sheet data: | As of December 31, 2003 | 2002 | 2001 |
| --- | --- | --- | --- |
| | (dollars in thousands) | | |
| Cash and equivalents | $ 269,540 | $ 176,669 | $ 100,263 |
| Restricted cash | 116,883 | 6,255 | 6,416 |
| Mortgage loans held for sale, net | 3,422,211 | 1,920,396 | 1,011,122 |
| Mortgage loans held for investment, net | 4,745,937 | | |
| Residual interests in securitizations | 179,498 | 246,964 | 306,908 |
| Other assets | 200,811 | 52,644 | 26,609 |
| Total assets | 8,934,880 | 2,402,928 | 1,451,318 |
| Credit facilities | 3,311,837 | 1,885,498 | 987,568 |
| Financing on mortgage loans held for investment, net | 4,686,323 | | |

| | | | |
|---|---|---|---|
| Convertible notes, net | 204,858 | | |
| Residual financing | | | 79,941 |
| Subordinated debt | | | 40,000 |
| Other liabilities | 189,851 | 130,880 | 96,048 |
| Total liabilities | 8,392,869 | 2,016,378 | 1,203,557 |
| Total stockholders equity | 542,011 | 386,550 | 247,761 |

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# Risk factors

*You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing us. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. Our results of operations, financial condition and business prospects could be materially adversely affected 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, 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 using net interest margin, or NIM, structures; however, we have not recently relied on NIM financing as much as we have in prior years. As of December 31, 2003, we had nine short-term warehouse and aggregation credit facilities and our asset-backed commercial paper facility providing us with approximately $6.7 billion of committed and $650 million 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

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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 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, our completion of the merger will require us to obtain the consent of various parties to several of the financing agreements. As of yet, we have not requested or received such consents. 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. 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:

- Ø we may not have enough capital, including net proceeds from the public offering and borrowings under our credit facilities, to acquire REIT qualifying assets;
- Ø the value of our taxable REIT subsidiaries may be greater than our current expectations; or
- Ø 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 was 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.

**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

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estate values. Declining real estate values reduce the ability of borrowers to use home equity to support borrowings because they negatively affect 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:

- 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.
- A substantial and sustained increase in interest rates could harm our loan origination volume because refinancing an existing loan 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.
- 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.
- 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.
- 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.

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.

**The non-prime loans we originate and hold generally have delinquency and default rates higher than prime loans, which could result in higher loan losses.**

Non-prime 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

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**Risk factors**

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. 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 2003, approximately 41% of the mortgage loans we originated or purchased were secured by property 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, 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 mortgage 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. Any such acquisitions that are material to us would generally require the prior approval of our stockholders. If we pursue any such transaction, the process of negotiating the acquisition and

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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 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 mortgage-backed 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.**

From time to time, we may purchase mortgage-backed 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 we hold will be affected by changes in the marketplace for mortgage-backed securities and debt securities in general, as well as prepayment speeds, and may be volatile and significantly different than projected. The mortgage-backed securities that we hold may produce large losses instead of the income incorporated into our projections. The impact of changes in the marketplace for mortgage-backed securities and debt securities on our results may be magnified because our mortgage-backed securities holdings could be highly leveraged. Additionally, much of the financing we will use to hold our mortgage-backed securities may be cancelable by our lenders on short notice. If our lenders ceased providing financing to us on favorable terms, we would be forced to liquidate some or all of our mortgage-backed 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 December 31, 2003, the value on our balance sheet of our residual interests from securitization transactions was $179.5 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 48. We may incur certain restructuring charges and adjustments. These charges may be higher or lower than we have estimated, depending upon how costly or difficult it is to complete the REIT conversion. Furthermore, these charges may decrease our capital that could be used for profitable, income-earning investments in the future.

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**Risk factors**

**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 his or her 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 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

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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 be 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 has increased in recent years, and individual cities and counties have begun to enact laws that restrict non-prime 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:

Ø civil and criminal liability;

Ø loss of licensure;

Ø damage to our reputation in the industry;

Ø inability to sell or securitize our loans;

Ø demands for indemnification or loan repurchases from purchasers of our loans;

Ø 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

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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, plaintiffs may file actions seeking various forms of relief as a result of any fees we have 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

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**Risk factors**

mortgage loans or mortgage-backed securities that represent the entire ownership in a pool of mortgage loans and at least an additional 25% of our assets in mortgages, mortgage-backed securities, 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-backed securities 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.**

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 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 non-prime 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 non-prime loans, they do have the authority to buy loans. A material expansion of their involvement in the market to purchase non-prime 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 non-prime mortgage industry.

Certain large finance companies and conforming mortgage originators also originate non-prime 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 non-prime 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.

In addition, to the extent we must purchase mortgage loans or mortgage-backed securities 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-backed securities with favorable yields over our borrowing costs, which could harm our results of operations, financial condition and business prospects.

The intense competition in the non-prime 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 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, however, 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

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**Risk factors**

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 in our Annual Report on Form 10-K for the year ended December 31, 2003, as amended, which is incorporated by reference herein.

### 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 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 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 was comprised 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 December 31, 2003, loans serviced on our platform totaled $11.6 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 also 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

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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 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 non-prime 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.

### Our business could be harmed if courts rule that the OTS exceeded its statutory authority in adopting regulations in 1996 that allowed lenders like us to rely on the Parity Act to preempt state restrictions on prepayment penalties for adjustable-rate mortgages.

In 2003, a New Jersey state appellate court departed from prior decisions in other jurisdictions to hold that the OTS did not have the authority to adopt regulations in 1996 that allowed state housing creditors

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**Risk factors**

like us to rely on the Parity Act to preempt state limitations on prepayment penalties with respect to adjustable-rate mortgages. If that decision is not reversed on appeal, and if courts in other jurisdictions reach similar conclusions, we and other lenders could face litigation challenging the enforceability of prepayment penalties on our outstanding adjustable-rate loans and regarding charges that were imposed on our customers who paid prepayment penalties at the time they refinanced their adjustable-rate loans. We could also face contractual claims from our loan buyers and securitization trusts stemming from representations we made regarding the enforceability of our prepayment penalties. Such litigation and claims could harm our business, financial condition and results of operations.

**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 Soldiers and Sailors Civil Relief Act of 1940, as amended, our cash flows from our residual securities and our securitizations structured as financings may be harmed.**

Under the Soldiers and Sailors Civil Relief Act of 1940, a borrower who enters military service after the origination of his or her 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 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 this Act and thereby reduce the interest payments collected from those borrowers. To the extent the number of borrowers who are subject to this 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 Soldiers and Sailors Civil Relief Act of 1940 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 accoun